

20th January 2012

Re: Treatment of Losses in the SEM – SEM-11-098

Endesa Ireland welcomes the opportunity to respond to the Consultation *Treatment of Losses in the SEM*.

Endesa Ireland has found it difficult to form an opinion on the desirability of splitting TLAFs on the basis of the paper published. We have tried to source background data from SONI but have not been successful in this, which leaves us unable to carry out our own modelling.

The conclusions reached in the consultation paper are not conclusive. Endesa Ireland highlights that uncertainty as regards TLAFs increases the costs of investment for generators and considers that introducing a new TLAF methodology with knowingly uncertain results will create a disincentive to investors.

On this basis, Endesa Ireland does not see a justification for proceeding with splitting the treatment of losses in the market schedule and dispatch. In particular, the consultation paper shows savings in the region of €1.7-2.5m per annum for overall production costs, which is less than the margin of error in current estimates of losses. We consider that a Cost Benefit Analysis would show that a uniform TLAF would be preferable. This is on the basis that the costs of developing and implementing a new methodology are significant and due to the fact that in reality it is difficult to measure savings associated with any changes to the methodology as losses are not currently accurately measured. With the introduction of smart grids and smart metering it will become possible to measure losses in a more precise way and attribute the associated costs.

If splitting is to be pursued further Endesa Ireland considers that further modelling must be carried out and clear benefits must be shown before implementing such a policy. A cost benefit analysis assessing split, compressed and uniform TLAFs should be prepared to inform such a decision. In addition, we request that sufficient information is provided to market participants to conduct their own modelling, which would enable participants to provide constructive, informed view on the proposals in the consultation paper. Specifically, we would require the network model that is utilised by the TSOs when modelling losses and the scenarios that are being modelled.

Until such time as a clear benefit for splitting can be shown, Endesa Ireland considers that a uniform TLAF should be used for the market schedule and dispatch.