



IWEA response to the SEM Committee Consultation on the Treatment of Losses in the SEM

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The Irish Wind Energy Association (IWEA) welcomes the opportunity to respond to the SEM Committee Consultation on the Treatment of Losses in the SEM and, in particular, on the results of the TLAF splitting impact analysis.

Introduction

As indicated in responses to previous consultations on this matter, the volatility and lack of transparency of the current methodology of the All-Island Transmission Use of System Tariffs and Losses are a matter of serious concern to IWEA members. The volatility of the TLAF mechanism is disrupting proper investment decisions and risk analysis processes. In particular the current methodology of transmission charging contains a set of volatile and arbitrary tariffs that seem to unduly discriminate against wind generators. It is unclear how these signals are linked to the objective of efficient development of the energy infrastructure on the island.

The lack of predictability adds costs to investment in the industry. This in turn has a material effect on the competitiveness of the industry on the island. Most renewable generators use project finance, and the volatility of TLAFs could trigger project default. This would undermine broader investor confidence.

It is important to note that the overall policy framework is very complex and interlinked. With the industry on the cusp of significant investment over the next eight years there is significant benefit in having a joined up approach to network planning and generation development. The issue of transmission losses is just one of many areas that need to be tackled to provide a stable investment framework. The level of risk it is introducing is disproportionate to its importance.

IWEA has argued to date that the cost of losses should be socialised for wind generators as the TLAF does not achieve its purpose as a locational signal and generator sites have already been decided through the Gate process in Ireland and significantly determined by the planning process in Northern Ireland. By the time a generator has completed these processes, the TLAF may have changed significantly. As such, the relevance of cost reflectiveness as a primary objective is diminished and should not be a deciding factor in terms of methodology selection as it would be unfair to discriminate between adjustment factors for generator losses when developers were unable to take this consideration into their investment decision.

Comments on the TLAFs Splitting Impact Analysis

The impact analysis does not present any clear direction on the approach that should be taken for the treatment of losses in the SEM. IWEA believes that the costs of implementation would most likely outweigh any benefits that may arise and that the most appropriate way forward is to choose the simplest option which is easiest to implement, while at the same time being transparent and removing volatility. IWEA believes that the most suitable option is to move towards a uniform TLAF as this will address concerns about the volatility and unpredictability of the current methodology.

We believe that this needs to be a permanent and enduring solution to provide stability and predictability to investors going forward.

Our previous submission to this consultation process outlined some of the following important considerations:

- The potential savings associated with creating more efficient use of the system would only realistically be in the region of approximately €1.7 – €2.5 million per annum. It is worth noting that this is probably less than the margin of error in current estimates of the volume of losses. It would be difficult to measure the actual savings associated with improved efficiencies due to the fact that the losses are not currently robustly measured. It is likely that the cost associated with developing and administering any methodology would be more than the potential savings that could be made.
- The volatility of the existing methodology was outlined showing an example where the change in TLAFs for a wind farm between 2005 and 2010 was approximately 10%. This is a very significant change in charges and has serious impacts on the cost of finance for projects. While the impact of this volatility is most noticeable for wind farms that have experienced large changes in TLAFs, it is important to note that this volatility imposes a cost on everyone. These locational signals are unpredictable and this adds to the difficulty of financing projects.
- A uniform TLAF of 1 adds greater transparency and simplicity to the SEM with the potential to reduce system costs, and to ensure appropriate revenue for wind generators as REFIT support is based on a TLAF of 1.0. Our submission also outlined how the impact to the consumer is minimal in this instance as the SMP will decrease in line with the increase in traded volumes.

IWEA has concerns over the splitting of the treatment of losses on the market schedule and in dispatch, with losses taken into consideration in dispatch. This does not remove the volatility and could cause divergence between the market schedule and the dispatch schedule. There appears to be no benefit associated with this option.

Conclusions

There is strong agreement within the industry that there is a need to remove the existing methodology of TLAFs as the values are volatile and unpredictable. This lack of predictability is of significant material impact as it increases the cost of finance for all generators. The TLAF is no longer effective as a

locational signal as the location of new generation is restricted according to the offer process in Gate 3 and the planning process in NI.

IWEA believes the both stability and predictably are vital and a move to a uniform TLAF will provide this. Removing the volatility of TLAFs is essential to ensure proper investment decisions and risk analysis processes can be carried out.

IWEA believes that the locational factors should be fixed at a minimum until the introduction of the EU target model and that they should also be applicable to any new entrants.

It is also important to note that divergent treatment of losses between Ireland and the UK could act as a barrier to trade which is contrary to EU Regulations.

In conclusion, it is important to stress that a lot of time has already been spent on this process so it is important that an enduring decision is reached and that the volatility and unpredictability of TLAFs are removed. This needs to be done in a timely manner so that investment decisions can be made sooner rather than later.