



Response to

All-Island Generator Transmission Use of System (TUoS)

Charging

(Draft Decision)

(SEM-12-039)

16 July 2012

Introduction

The publication of indicative tariffs accompanying the RAs draft decision on All-Island Generator Transmission Use of System (TUoS) Charging proves quite useful to help understand the impact of the decision to introduce a locational element to the GTUoS methodology. Such an understanding of the impacts of the original proposal would have been helpful prior to that decision, as what is clear from analysis of the indicative tariffs is a split into two camps of primarily wind farms and conventional generation.

The rubric under which this workstream has been carried out – the review of locational signals – continue to perpetuate the fallacy that these indicators actual signal anything. The indicative tariffs offer 3 sets, under which the rule-sets are slightly different but the outcomes vary widely. Essentially they represent the same redistributive logic present in the TLAF workstream.

At a time when policy direction is geared towards the facilitation of renewable forms of electricity generation as a means of securing supply, the entirety of the electricity regulatory framework should at the very least minimise the obstacles posed to developing such generation. However in a number of regulatory decisions, such as on TLAFs and Dispatch, which procured under various workstream heading give the appearance of being independent non-interacting decisions but which taken within the entirety of the system have a collective effect, the consistent theme conveyed ‘pits’ wind generation against conventional generation.

While the methodologies may all been conducted with due intellectual rigour, it is difficult to objectively select from either option primarily because the criteria to be adopted in such selection, for instance demonstrating the relationship of demands made on the system by any plant to the charges levied, cannot be extracted from the proposals as presented. Perhaps such cannot be extracted at all. But without such a clear linkage between the demands a plant makes on the system and the costs imposed on it for such demands (in comparison to the case for other plants), it is hard to reconcile the broad statement that the rule-set 2b provides for a “fairer allocation of costs”.

In the next section we present in specific a number of difficulties with the proposed methodologies.

Detailed Comments

MW vs. MWh charging for non-firm generators

Given the modification introduced in the SEM regarding treatment of non-firm generation quantities, it can in no way be described as ‘fair allocation of costs’ for a generator to pay for capacity to which it has no guaranteed access. We recommend a reversal to the situation in ROI whereby GTUoS was based on MWh for non-firm generators.

Scenario planning vs. actual outcome

While modelling may be helpful in determining methodologies such as the GTUoS, they are no use if they use assumptions that may have no bearing on actual outcomes. The use of 80% wind capacity seems absurd, especially for rule-set 2b where the maximum tariff is averaged across all the chosen scenarios (including the ones that are highly unlikely). For this assumption to make sense it would be necessary to compare it against historical outcomes. Alternatively any tariff methodology adopted should include an annual reconciliation mechanism to align the ‘planned’ tariffs with the system outcome.

7-year historic costs inclusion

The inclusion of assets built up to years prior to the relevant year has been justified on the basis of avoiding free-rider situations. It is however not sufficient to base decisions on assertions; it must also be demonstrable that such situations are plausible. Given the prevailing grid connection situation which includes uncertainties at every juncture – planning, offer, build, firmness – it is implausible to see how any particular prospective generator could orchestrate a scheduled delay just to avoid the costs of new network build. However against the grain of experience, such an amendment is proposed, potential modifying mid-way the principle of “a dynamic forward looking locational signal model”. Surely such a modification is inconsistent with the proposed amendment.

30% locational signalling element

While not contained within the scope of the Draft Decision we would still point out that the effect of this decision, with the illumination provided by the indicative tariffs, serves again only to create a split between wind generators and conventional generators. Within the relatively compact bounds of the island, it could be argued in the extreme that the SMP

provides all the signalling that a generator requires within the electricity system with the charges arising from mechanisms such as TLAF and TUoS socialised across demand. While this is not the case, with contributions required from both demand and generation, it is difficult to see validity in further demarcations within generation.

Summary

GTUoS interacts with all other aspects of the electricity regulatory framework to the effect that the collective impact on generating plant, particularly on wind farms as the consistent theme reveals a dichotomy with conventional plant, creates an increasing impediment that potentially serves to frustrate the policy of facilitating more renewable generation on the system. We would caution against considering the proposals to amend the GTUoS methodology as elegant, standalone mechanisms yielding robust 'fair allocation of costs'. Rather the contribution to the entirety of the regulatory framework should be considered before a final decision is made.