



Re: SEM-12-039 – All-Island Generator Transmission Use of System (TUoS) Charging

Endesa Ireland welcomes the opportunity to respond to SEM Committee Consultation SEM-12-039 – *All-Island Generator Transmission Use of System (TUoS) charging*. At the outset, Endesa Ireland points to the huge volatility in TUoS tariffs proposed compared to last year and between the different variations of tariff methodology (which are described as ‘tweaks’); this represents a risk to generators and undermines the objectives set for the Locational Signals Project.

As stated in Decision Paper SEM-11-078 – Generator Transmission Use of System Charging:

On the basis of these signals, users can make informed decisions concerning their use of the transmission system. This should, other things being equal, lead to more efficient development and use of the transmission system.

...

In response to signals provided via cost-reflective charges, Generators are able to make informed decisions concerning their own system usage. This should promote efficient use of the system by Generators, which should, in turn, facilitate efficient investment in the transmission system overall.

It is stated in SEM-11-037 that this methodology should give ‘appropriate entry and exit locational signals to generators’. In SEM-10-081 it was decided that TUoS tariffs would be fixed for 5 years in order to protect against volatility. This decision was reversed in SEM-11-078 and Generators now face a change to methodology as well as year-on-year volatility. It was stated in SEM-11-078 that the issue of fixing tariffs would be revisited when setting the tariffs for 2012/13 but this has not happened. Endesa Ireland considers that if the TUoS charge is to be locational that it should be fixed for 5 years or more, as a station, once built, cannot move, it is not enabled to respond to an annually-changing locational signal.

Thus, for existing stations, Endesa Ireland points out that the volatility of the proposed tariffs compared to last year means that the tariffs are not providing a reliable signal, and a Generator could not be said to have information on which to base an ‘informed decision’. For example, Endesa Ireland’s Tawnaghmore station would see an increase of 47% compared to 2011/12 under the RAs’ favoured set 2b; until 2011/12 this station paid TUoS charges on a MWh



exported basis due to its non-firm status. This magnitude of a step change is unjustified and absolutely does not provide Generators with a reliable signal.

Furthermore, there are no published TUoS charges for preferred locations for a new generator. Therefore, the charge does not give a locational signal to a developer. Endesa Ireland requests that the TSOs include tariffs for sites where an Authorisation to Construct has been granted by the relevant RA in the final TUoS Charging decision paper. In future, the proposed tariffs for locations where there is an Authorisation to Construct should be included in the annual consultations, along with TUoS tariffs for other points on the system where generation is desirable.

The rationale for locational TUoS is not being delivered in reality and Endesa Ireland would note that Generator risk has not been reduced.

Refinements of methodology

In SEM 11 078, the RAs decided that non-firm generators would be charged TUoS on the same basis as firm generators. Endesa Ireland can accept the argument that all generators should be treated in the same manner and the associated TUoS charges should be reflective of their use of the transmission network. However, we consider that it is more appropriate for all generators to pay on a per MWh exported basis than on a fixed tariff basis.

This should be calculated on forecast export and generators would thus pay for the costs that they impose on the system at the times they are dispatched and are benefitting from access to the system. There would be no difference in treatment of firm and non-firm generation. The advantages of this approach are that there will be greater transparency in the TUoS charges assessed, the charges will more accurately reflect a generator's use of the network, it will provide a stronger locational signal and the charge would be incurred in parallel with a generator's market payments, which has a significant benefit in respect of a generator's cashflow. Endesa Ireland does not expect that this will result in a more volatile under/over-recovery of costs and requests that the regulators consider revising the charging methodology.

Of the refinements to the methodology proposed in the Draft Decision Paper, Endesa Ireland favours set 2a for the reasons set out below:

Modified rule set for plants not in merit

As regards the treatment of plants that are found to be out of merit in modeling of the four scenarios we consider that the methodology proposed in set 2a is preferable, that if modelling

shows that a generator is not dispatched in all of the four scenarios then, rather than using the 1MW dispatch function to determine a tariff for all non-exporting scenarios, thermal generator should receive a tariff based on a low wind scenario and wind generators would receive a tariff based on high wind scenarios. Endesa Ireland considers that this approach is preferable as it is closer to the general system planning approach, and thus the reality of costs imposed on the system by a generator. In this way it is a more realistic option.

Inclusion of assets built before year Y

Endesa Ireland agrees with the inclusion of assets built up to seven years before the year in question, as per set 2a, so as to minimise the free rider problem but proposes that where a generator has made payments towards an asset in advance, and the commissioning of the asset is delayed, that generator should receive a rebate on the contribution made towards the asset. Otherwise the generator over-pays for the asset. A list of the assets so included should be published so that generators are aware what their TUoS charges are contributing towards.

Inclusion of intermediate years

As regards the inclusion of assets for intermediate years, as included in Set 2a and 2b, Endesa Ireland can see in principle that this approach can be justified but considers that insufficient information is presented in the draft decision paper on which to make informed comment. In particular, the assets assumed for each of the intermediate years should be included as this would allow generators to know what they are paying for and whether the assets are delivered as forecast.

We note the statement by the TSOs that using the intermediate years' approach 'could potentially vary the type of locational signal that is provided to a generator but that this signal could nevertheless be robust.' Endesa Ireland would welcome elaboration of what is meant by this 'different type' of location signal and how the robustness of the signal would be maintained.

Areas for further examination – SEM-11-078

Endesa Ireland notes that the RAs stated in SEM-11-078 that a list of elements of the methodology should be examined in 2012/13. However, we note that not all of these elements have been incorporated into this Draft Decision paper, these are:

- Expansion of or refinement of the four scenarios in discussion with and consistent with transmission planning, including consideration of the use of plant not dispatched setting tariffs.
- Complete report of advantages average participation versus marginal participation.
- The SEMC to reconsider fixing of G-TUoS tariffs for 5 years or longer, i.e. fix tariffs in 1 October 2012 for the next five years or more
- In the absence of fixing G-TUoS tariffs, the appropriateness and rationale of including future network costs (either approved or unapproved) in the computation of present charges; and
- Further consideration of the transmission planning criteria/methodology in use within both jurisdictions to ensure consistency in the G-TUoS model in the development of the all-island network cost file.

Endesa Ireland considers that all of the above points merit discussion and requests that the RAs explore these points prior to issuing a final decision. In particular, Endesa Ireland is in favour of the fixing of tariffs for 5 years or longer and requests that the RAs address this and set out their decision (for or against) and the rationale for that decision.

BNE TUoS costs

Endesa Ireland requests that the final TUoS charge for 2012/13 will be used in the calculation of the BNE and capacity payment for 2013.