



13<sup>th</sup> August 2010

Mr. Jamie Burke  
CER  
The Exchange  
Tallaght  
Dublin 24

Mr. Billie Walker  
NIAUR  
Queens House  
10-18 Queen Street  
Belfast  
BT1 6ED

Via Email

**Re: Proposed RA's option for all-island harmonised  
Transmission Loss Adjustment Factors (TLAFs)**

Dear Jamie/Billy,

Endesa Ireland welcomes the opportunity to respond to the proposed decision paper outlining the RA's preferred options for all-island harmonised TLAFs in which the RAs present both short- and long-term options in order to address difficulties of effective dispatch and year-on-year volatility for generators associated with the current methodology.

In the long-term the RA's preferred option is the concept of "splitting" in which delivering optimal dispatch and reducing financial volatility are no longer interdependent. Endesa Ireland is supportive of the objective of this option as we view dispatch and provision of long-term signals to incentivise investment to be mutually exclusive objectives. We agree with the RA's proposal for a detailed impact study to further investigate the issues and costs associated with splitting. However, Endesa Ireland considers that the option of the TSO purchasing losses has been dismissed without sufficient investigation into the timelines, costs and benefits. There is no evidence presented showing that this option, which in Endesa Ireland's opinion would be the most appropriate solution, would take longer to implement than the splitting option. Endesa Ireland considers that the even if this option will take longer to implement, it may be worthwhile. Endesa Ireland considers that the RAs should look to implement an enduring solution as a next step and suggests that an analysis of the implementation of the TSOs purchase of losses is included in the TSO's impact study.

We are also supportive of the RA's proposal to remove the year-on-year volatility associated with the current methodology. We share the RA's view that the current methodology for TLAFs may not be representative of real-time values. One of the possible approaches considered by the RAs was to apply individual loss factors that would be fixed for a number of years, which the RAs have indicated would be accurate



in the short-term. Endesa Ireland considers that this would be the most appropriate short-term solution, provided the loss factors were based on each generator's contribution to actual losses over the prior year. This would meet all objectives of the RAs, as it would deliver efficient dispatch, and would be predictable, transparent, cost-reflective and non-volatile.

As a second-best solution, Endesa Ireland would not object to the implementation of uniform loss factors. If actual individual loss factors cannot be applied, we would consider spreading the losses uniformly to be the fairest option, as TLAFs are beyond the control of generators once the initial investment decision has been taken.

Endesa Ireland has concerns that the Regulatory Authorities may move away from their proposed decision and reconsider the compression option. At the recent TLAF workshop held in Dundalk on July 26<sup>th</sup>, one participant expressed the view that uniform loss factors can be seen as the most extreme method of compression. Endesa Ireland disagrees with this view. We consider that compression as outlined in SEM 09-107 is merely a slight extension of the existing methodology, as it simply "squeezes" TLAFs derived as per the current methodology closer to 1. Given its strong dependence on the current TLAF methodology and the fact that this current methodology was widely acknowledged at this workshop as being "broken", Endesa Ireland would not consider compression to be a suitable solution. Endesa Ireland also notes that the system operators outlined in their presentation at the workshop that that the concept of compression was unpopular with market participants, citing the understood disadvantages of cross subsidisation; increased regulatory risk; inefficient dispatch and diluted locational signals; disadvantages which also exist with the current methodology.

Endesa Ireland also shares market participants' concerns regarding the need for clear regulatory signals and the implementation of a durable solution to bring closure to the past 19 months of consultations and workshops; only this will allow for much needed improved financial certainty for generators. We do not consider that short, medium and long-term options should be considered and encourage the RAs to progress the long-term solution, the purchase of losses by the TSO, rather than the splitting option. In the short-term, we consider that uniform TLAFs should be implemented. Uniform TLAFs has been presented as the RAs preferred short-term solution (and no strong counter arguments have been presented). We would consider that a significant deviation from this proposal would require further consultation with market participants.

The RAs have noted that the application of Demand TLAFs was outside of the scope of this workstream. Endesa Ireland would ask the RAs to advise when this issue will be addressed, as Endesa Ireland considers that losses should also be attributed to Demand.

Regards,

A handwritten signature in blue ink that reads 'Deirdre Powers'.

Deirdre Powers  
Director, Energy Management

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