

**Proposed RA's option for
All-island harmonised
Transmission Loss Adjustment
Factors (TLAFs) (SEM-10-039)**

NIE Energy Supply's Response

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Introduction

NIE Energy Supply (NIEES) welcomes the opportunity to respond to the Regulatory Authorities (RAs) proposed decision paper SEM-10-039 on harmonised Transmission Loss Adjustment Factors (TLAFs).

NIEES as the participant currently responsible for the registration of the Northern Ireland Error Supplier Unit (ESU) is acutely sensitive to the issue of TLAFs. The Error Units in both jurisdictions are settled by difference, via a calculation which has as a primary element, total loss adjusted generation. Any change to TLAFs and the methodology by which they are calculated directly impacts this formula and the volumes which the ESU is required to settle through the pool. Until global aggregation is implemented this will remain the case with both ESU registrants being treated differently to other suppliers in the market.

Throughout this review various generator participants have articulated the inherent difficulties with the current TLAF methodology. NIEES has reviewed this material and can appreciate the impact volatile TLAFs have on investment returns, financing, predictability and certainty. In addition, the ex-ante nature of the TLAF setting methodology does inhibit real time efficient dispatch and therefore we support the principle of review and amendment.

This process should not however lose sight of the effect on the end consumer and the SEM objective of lowering costs when attempting to mitigate volatility and uncertainty experienced by Generating Participants.

Regulatory Review Process

The review of TLAFs was initiated in January 2009 and has included several consultations and workshops considering various options. Given this project has been ongoing for such a protracted period NIEES is concerned by the method in which the RAs proposed decision was communicated and the timing of such an announcement.

The CfD contracting window is a vital period in the Suppliers tariff setting process. An announcement of such significance during the hedging period leads to Generator uncertainty and in this instance to the postponement of auctions while reserve prices and volumes were re-modelled. It may also delay the PSO setting procedure which in turn impacts pricing by Suppliers.

NIEES would urge the RAs to be cognisant of wider industry events and in particular the tariff setting timetable when issuing future decisions on TLAFs or other factors which potentially impact retail tariffs.

In addition, NIEES is concerned that despite the significant lead in time, detailed modelling has not been completed and made available by the RAs into the impact of both the interim or enduring proposal. This lack of information

may create uncertainty within the marketplace and given that subsequent analysis may alter the final decision, raises questions as to whether the interim fix does provide a step towards the enduring solution.

Regulatory Interim Decision

The RAs proposed decision implements a one year uniform TLAF of 0.98. NIEES accepts that a uniform approach does mitigate some of the deficiencies with the current methodology. We are however fundamentally opposed to setting the TLAF to 1, which is essentially a demand TLAF, as advocated by some Generating Participants. Generator location and flows contribute to losses and we believe it is inequitable to place these costs on Suppliers who already account for distribution losses. This position is further reinforced by the ESU formula which would in fact push all jurisdictional transmission losses to the ESU registrant and their customers alone. This further increases the materiality of the discriminatory outcome of the ESU formula. We urge the RAs to consider this important issue.

Given the assessment of 2% losses by the Transmission System Operators NIEES believes that should the RAs direct a uniform approach, 0.98 is the appropriate value.

Long term view

The long term option of adopting a splitting approach remains unclear. NIEES would like to take this opportunity to impress upon the RAs the need for detailed analysis to ensure this is the correct and enduring solution. The perception of Regulatory Risk within the market will be undermined should there be a series of changes to this important process. Timely due diligence in this regard will provide the necessary assurance and certainty which the industry seeks.

Conclusion

Analysis and examples presented have indicated that the current methodology for determining TLAFs is flawed. NIEES therefore supports the principle of change. This review however has raised a number of areas of concern with regard to the process and consideration or lack thereof of the ESU impact.

As NIEES is one of only two industry participants settled by difference it is our expectation that other parties would not have visibility of or refer to potential ESU impact. It is of material importance to NIEES and is concerning therefore that the RAs appear to summarily dismiss this as a factor for consideration. Until the implementation of global aggregation the ESU is affected by all potential TLAF methodology changes and therefore should be factored into considerations of short and long term TLAF solutions.