Response to SEM Consultation Paper SEM-11-018

Consultation on Locational Signals Project: All-Island Generator TUoS

on behalf of

AES Kilroot Power Ltd and AES Ballylumford Ltd

13 April 2011

1. Introduction

AES Kilroot Power Limited ("AES Kilroot") and AES Ballylumford Limited ("AES Ballylumford") (collectively "AES") welcome the opportunity to comment on the Consultation on All-Island Generator TUoS.

2. Calculation Methods for All-Island Generator TUoS Tariffs

AES understood from the previous decision paper (SEM/010/081) that the SEM Committee endorsed the proposals of the TSOs to proceed with a dynamic forward looking locational signal model of tariffing, however we did not fully appreciate the it was proposed that Generator TUoS charges should be levied on the basis of recovering 25% of the allowed revenue network costs aggregated across both jurisdictions.

Given the current different transmission charging methodologies in each jurisdiction, AES agrees that it is appropriate to harmonise the charging methodologies so that it is consistent between both NI and ROI. However, we do not believe that it is reasonable or prudent to aggregate the allowed revenue on an all island basis, particularly given the explicit need for cross-border financial flows. We believe such cross border financial flows will give rise to cross subsidies between one jurisdiction and other – something which the SEM Committee has been careful to avoid since the conception, design and implementation of SEM. In addition, under the current proposals such cross-subsidies will be directly borne by Generators, as the costs cannot be captured within Commercial Offer Data. It would seem perverse for generators in one jurisdiction to subsidise generators in the other.

Allowed revenue in each jurisdiction will be determined by separate and distinct Government energy and renewable policy. Such policy will underpin the infrastructure investment requirement and it should not be assumed that similar policies will be adopted in each jurisdiction. Consequently the energy policy of one jurisdiction may result in substantive/aggressive infrastructure investment whilst the other jurisdiction may choose a more prudent/cautious approach. Either way aggregating the allowed revenue on an all island basis will result in one set of generators subsidising another.

Furthermore, allowed revenue is determined by each Regulatory Authority (RA) on an autonomous, jurisdictional specific basis. Again, depending on how each RA chooses to best meet each statutory duties, each RA may adopt an different regulatory approach which may have an impact on allowed revenue which is inconsistent or divergent with the trajectory of the allowed revenue in the other jurisdiction. Again, under this charging method a cross-subsidy will be established.

AES believes that the explicit and necessary subsidy which is required under option 1 is not consistent with established precedent within SEM, and should be discounted.

AES supports the development of a consistent methodology applied to both jurisdictions but this dynamic methodology with a ratio split between suppliers and generators of 75:25 should be applied separately to the allowed revenue for each jurisdiction. In terms of the satisfying the objectives of this workstream, we believe this approach meets all the objectives set out in the May 2009 (SEM/09/049) consultation paper, and until the new N-S transmission line is commissioned, is the most appropriate way of calculating Generator TUoS tariffs. Adopting this approach also removes risks associated with 'timing of transfer', 'cross-border flow risks' and exchange rate risks.

3. Fixed Tariff Option

AES welcomes fixing the base tariff for a period of five years.

It is difficult to comment meaningfully on each option without more detailed analysis however we do agree that option 1 would be the simplest approach to implement and does offer a high degree of predictability and minimises volatility. It does however run the risk of locking in Generator TUoS at rates which may not be cost reflective over the five year period. The RA's may wish to consider a refinement to option 1 whereby, the tariff is determined on a five year rolling average basis as this would reduce volatility, improve stability and predictability and be more cost reflective.

AES has some concern in relation to how the proposed option 3 will work in practice. Generators do require predictability and transparency in order to facilitate effective business planning. Consequently, TSOs would need to provide the analysis of any required tariff adjustment in a timely and transparent manner well in advance of the tariff year.

4. Non-Firm Generator TUoS

AES supports the TSO proposal that TUoS charging arrangements should ensure that a fixed locational MW charge is levied on all generators regardless of their access rights status.

5. Distribution Connected Generators TUoS – Threshold Level

AES supports the proposal to lower the threshold level from 10MW to 5MW. We are however concerned about the proposed incremental charging methodology particularly in relation to the suggested exclusion of existing generators with an installed capacity of 10MW. We believe that all generation with installed capacity greater than 10MW should pay full TUoS rates as is currently the case. Those generators with an installed capacity in the range 5 to 9.9MW would pay the incremental cost for each MW above 5MW.