



Mark Needham/Raymond Skillen
Eirgrid
The Oval
160 Shelbourne Road
Dublin 4

Thursday, 07 January 2010

Re: Preferred Options to be considered for the Implementation of Locational Signals on the Island of Ireland SEM-09-170.

Dear Mark/Raymond,

While we do appreciate your allowing us the opportunity to be involved in this consultation process on TLAf and TUoS, we are losing faith that our voice is being heard. In every response to date, as well as in the initial lobbying that triggered this review, and both directly from ourselves, from other developers and via a consolidated industry view in the IWEA responses, we have posed the following fundamental questions. It is our view that these must be answered before any detailed work is completed. We are now over 1 year into this work, and significant man hours expended, but as far as we can see, without these questions being addressed, there is a good chance that this work will be wasted. The questions are specifically:

1. Are you going to treat transitional projects (i.e. those with connection agreements, those with connection offers and those in Gate 3 both conventional and wind) any differently from future projects?
2. Is it your intention to apply new locational charging to transitional projects with sufficient potency in the signal that a large proportion of projects will become financially unviable so that they will not take up connection offers?
3. Have you completed a cost benefit analysis, even at a high level, so that you understand the overall business case having a locational charging methodology at all in such a geographically small island as Ireland with a relatively low value market.

Frankly, we are disappointed that of the 190 pages of this document, only 2 pages were spent assessing the industry's responses, and giving what could only be described as a cursory assessment of a small set of the generators responses.

We feel that it is important to review this paper from the point of view of the individuals and companies which that will rely on the new locational charging methods prior to accepting their offers. Specifically there will be 168 Gate 3 wind grid connection offers, totalling around 3900MW of generation. A further 1500MW of conventional generation offers will also be issued. This tranche of connections represents investment decisions committing capital in the range of €6-8bn. Following a number of high profile project failures due to wild swings in locational charging and losses, the spotlight is now well and truly on this issue, not just for

the generators and developers, but for the entities who supply both equity and debt finance to these projects. With the scale of the impending investment, your preferred options paper has been keenly anticipated.

None of these generators (nor their investors or bankers) reading this consultation will be particularly bothered about your plans for compressing TLAF's, since they are short term in nature. Neither will they bother reading section about splitting of losses. Since the lifetime of their plant will be between 20 and 30 years, and most will only be commissioned in the period from 2015 to 2020, they will skip straight to the proposed long term solution, namely the purchase of losses. They will turn straight to page 97 (Section 9.2.3 Long-term Purchase of losses) to find the long term plans, since these are the plans that will make or break their projects.

Unfortunately this section 9.2.3 describing the long term purchase of losses is entirely undeveloped and without substance. It appears that the wind and thermal generator business, finding itself on the cusp of the biggest investment in Irish generation to date, is being asked to give its views on the statement that *"Further alternative locational charging methods would also be possible"*. Are you really saying that following 18 months work, *"An in depth study will be needed to identify the risks, costs and benefits for all stakeholders of introducing purchasing of losses"*?

The lack of predictability, the volatility and the ineffectiveness of the existing TLAF and TUoS system has been more and more damaging for projects seeking finance in the last number of years. Onto this simmering fire is now thrown a can of very flammable regulatory risk. Effectively what this paper is saying is that you don't know what the long term locational charging approach will be, and not only that but it will be at least 5 years until there is any clarity. With regulatory decisions, once the question has been opened, it is important that it is assessed and closed again as quickly as possible. This long dithering period for TLAF's and TUoS flies in the face of good regulatory practice, and we would urge the regulator to plug the gap as soon as possible.

SWS has consistently argued that there is a strong case for the simplest solution of all, namely to postalise the TUoS and set the TLAF to 1.000 across the board. This is even more true when you look at how to manage the transition from the old (broken) system to any new system. At the risk of repeating myself, if you are not going to set the TLAF to be strong enough to force 30-50% of Gate 3 offers to be rejected, then you aren't going to see any benefit of redesigning the grid, and so the whole exercise is pointless. I believe that to implement such a strong signal at this point would be devastating for the industry and probably cause Eirgrid to lose 3-5 years on their Grid 25 plan, hence also causing Ireland to miss its 2020 targets by a similar timeframe. And all in the search of an apparent cost benefit which you haven't tried to quantify?

We therefore call on the regulator to answer the 3 questions posed at the start of this letter before any more time and effort is expended, and before the level of regulatory risk on this issue becomes disproportionate to any possible benefits.

Yours truly,

Peter Harte
On behalf of SWS Energy