

Raymond Skillen, SONI
Mark Needham, Eirgrid

Cc: Michael Tutty, Chairperson, CER

Re: SEM-09-107, Preferred Options to be considered for the Implementation of Locational Signals on the Island of Ireland.

11 January 2009

Dear Mark/Raymond,

The IBEC Energy Providers Working Group (EPWG) welcomes the opportunity to respond to the aforementioned consultation. Please find attached comments that we hope prove constructive to the consultative process:

As previously stated by our Group on the 11 July 2009, the industry feeling is that the TLAf/TUoS needs to be predictable, stable and cost reflective. Existing and new investors have concerns about the current regime (TLAf in particular) and feel that action is required.

The EPWG acknowledges the work undertaken by the System Operators (SOs) with a view to addressing the optimal approach to managing system losses. However as essentially a policy initiative, the industry believes the Regulatory Authorities (RAs) should take the lead in this consultation process not the SOs.

The consultation and preferred options of the SOs are not based on any impact assessment or cost-benefit analysis. It is therefore difficult to understand and justify the SOs preferred options. There is no evidence that the preferred options will deliver the desired benefits to the market.

There are a number of concerns that arise out of the proposed three stage strategy of managing losses:

- i. The proposed methodologies for the short, medium and long-term do not address the issues of transparency and predictability which are key in a competitive market. The preferred solution is only a short-term measure, while the other stages are currently only developed to concept stage.
- ii. As stated on the 11 July 2009, the EPWG expressed concerns around the current methodology of calculating TLAfs. It is therefore unreasonable and inappropriate to implement a short-term solution which is mainly based on what the industry see as a flawed methodology.

- iii. Prolonging the introduction of a new TLAF methodology over three stages only protracts the uncertainty for the market. Adjusting to three iterations of a loss management system in a relatively short period of time will lead to excessive cost and disruption to market participants. Considering the level of consultation that has already been carried out on this topic and given that it took 2 years to introduce a new market and associated systems, it should be plausible to implement a new uniform long-term TLAF methodology within a shorter timeframe.

The current regime allocates losses to generators alone. Any new methodology should include an SO incentivisation mechanism to maximise efforts in minimising losses and maximising the efficient use and development of the network.

The Group strongly supports a stable TUoS charge and uniform TLAFs. Signals are meant to incentivise behaviour. As generators are unable to respond to locational signals once the investment decision has been taken, the signal has no value. The only time that generators can respond to locational signals is when making the investment decision. Thus, the most efficient locational signal is provided as part of the connection offer where it should provide a stable long-term signal that can be relied upon in financing the generator investment.

As always, the IBEC EPWG is committed to working alongside the Regulators and Transmission Operators to deliver a stable and competitive electricity market in Ireland. We would welcome the opportunity to further explore the contents of this letter and invite you to contact Erik.ODonovan@ibec.ie tel. 01-605 1672 to organise a meeting.

Kind regards

A handwritten signature in black ink that reads 'Erik O'Donovan'.

Erik O'Donovan
Secretary
Energy Providers Working Group, IBEC