

Your ref: IRL002-2010

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Dear Raymond and Mark,

Transmission Locational Signals Preferred Options Paper

AES Kilroot (AES) welcomes this opportunity to respond to the above consultation paper.

General Comments

Potential amendments to both the calculation of TLAf's and also the charging methodology for TUoS will represent a significant change within the SEM and have a substantive impact on generator participants. At a previous workshop on these 'locational' signals, AES made a presentation highlighting the key issues associated with such signals.

- In relation to TUoS charging, such charges represented a flawed and redundant signal for the vast majority of generators and unnecessarily increased investment risks. It would be more effective in terms of predictability, volatility and transparency to socialise such charges on a jurisdictional basis.
- In relation to TLAf's, whilst as an economic concept it may be rational, the application of inaccurate TLAf's results in inefficient dispatch and unfair allocation of costs. Furthermore, the volatility, subjectivity and lack of transparency increase investment risks and costs. A more equitable and efficient approach would be to socialize losses across all demand on a jurisdictional basis.

These issues seemed to reflect the consensus of the concerns from the majority of the generator participants at the workshop.

Whilst we welcome the effort and energy the TSO's have expended in undertaking this current review, we continue to have substantial concerns (as detailed above) that the TSOs are continuing to ignore the representations from the bulk of generator participants

that locational signals provided by TUoS charges and TLAF's have minimal influence on a generators investment decision. Indeed we do not believe in terms of impartiality or objectivity, that the TSO's should be specifying their 'preferred' options in a review which is essentially being undertaken on behalf to the Regulating Authorities (RAs). We are also concerned that, whilst the paper does provide substantive volumes of data in the Appendices, there insufficient detail cost benefit analysis across all the specified options to allow us to sufficiently assess and appraise the merits of each option.

Comments on the TSO Preferred Options

TUoS

As stated above (and presented at a previous workshop), AES does not believe that locational TUoS charges are an appropriate or effective way to address the main strategic objective of minimising overall generation and transmission investment costs, thereby minimising costs to customers.

We do not share the TSO's opinion that Option 4 is best placed to meet the project objectives. It is not obvious to us how the proposed model sends an appropriate signal to participants, as the model is based on future investment costs to determine the locational element. The model and the subsequent signals rely on a generator committing to connect. In the absence of such commitment the model will not capture the impact of such investment proposals and a meaningful ex-ante signal is not therefore available to prospective generators.

Furthermore, it is claimed that the model will reduce volatility, however given that the analysis presented is for a single year, it is difficult to verify this claim. We believe significantly more analysis is required over a longer time horizon to assess the trends in potential tariff volatility. This analysis should be undertaken for all options in order to assess the merits of each.

We note that the TSO's have not considered the impact of their preferred option (or indeed any options) on the Capacity Payment Mechanism (CPM). TUoS forms part of the cost elements in determining the cost of the BNE Peaking Unit, and it would be helpful if the TSOs could provide clarity as to basis of how TUoS charges would be submitted to the RA's as part of the annual CPM review.

We were surprised that the TSOs are proposing to reduce the TUoS threshold to from 10MW to 5MW. The Trading and Settlement Code provides a di-minimus level of 10MW and it would seem consistent to continue to apply this 10MW threshold to TUoS. Notwithstanding the fact that many renewable generators will now be exposed to TUoS charges which will have not formed any part of their investment decision or business planning processes. It seems unreasonable to apply this threshold to existing generators or to those who have secured financing and are in the process of delivering projects to the grid.

TLAF's

Market participants have indicated strongly their concern in relation to the volatility, unpredictability, and transparency with respect to the determination of TLAF's. However, the TSOs proposed 3stage approach (Compression-Splitting-Purchasing) does little to address these issues in the near or medium term. We believe that the

focus should be to identify, develop and implement a sustainable solution (which may be the purchase of losses and/or socialization on a jurisdictional basis) in as timely a manner as possible. In the meantime, the existing arrangements and TLAF's could remain.

With regards to compression, we do not believe that this adds any value. Whilst compression would reduce the swing in movement of TLAF's, volatility and unpredictability would still remain as significant issues, and consequently offer little in the way of a meaningful locational signal to new investors. With regards to the TSO claim that the option is cost reflective, we do not see how this can be the case. By manipulating the figures under the compression model, any cost reflectivity is lost and instead a potential cross-subsidy from generators in a good location to those in a poorer location could be established.

With regards to splitting, the TSO's provide little in the way of detailed analysis or informed rationale and we find it difficult to assess their assertion that this option is a viable medium term option. As noted above, we would suggest that this option should be set aside and effort should be focused on finding a viable and sustainable long term solution.

With regards to the purchasing options, the TSOs have provided insufficient detail to meaningfully comment on the option. We believe that this option does have merit but we would need further detail on policy decisions with respect to how loss costs would be passed back to customers and/or generators.

Overall we are concerned that there is an apparent desire on behalf of the TSO's to implement the compression option as soon as possible, despite the flaws in the approach. From discussions at the workshop on the 9th December, this rush seems primarily aimed at addressing the impact of low TLAFs which will apply to new generation commissioning in the next quarter. Adopting this approach is likely to reduce TLAF's elsewhere, for no good locational reason and could result in a cross-subsidy across jurisdictions.

As a final point, TLAF form an important part of the Directed Contract process and a mid-year changes to TLAF's could have a significant impact on the integrity of that process.

Please do not hesitate to contact me if you would require any clarification of would like to discuss any elements of our submission.

Yours sincerely,

Ian Luney
Commercial Manager