

**Viridian Power & Energy Limited**

**Preferred Options to be considered for the  
Implementation of Locational Signals on the Island  
of Ireland**

**Reference SEM-09-107**

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**Response by Viridian Power & Energy**

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8 January 2010

Dear Mark, Raymond, Juliet and Andrew

## **TRANSMISSION LOCATIONAL SIGNALS PREFERRED OPTIONS PAPER**

Thank you for the opportunity to respond to the above document.

The proposed change in the calculation of transmission loss adjustment factor (TLAF) and the change in transmission use of system (TUoS) charging methodology constitute the largest change in the Irish wholesale market since the introduction of the SEM.

We should point out that Viridian Power & Energy (VP&E) has serious concerns about the nature of the consultation being run by Eirgrid/SONI. We have summarised a number of these concerns below. We will also be contacting the SEM committee directly with our concerns and have addressed this response directly to both NIAUR and CER.

Taking that into account we have replied to the Eirgrid/SONI document in good faith but do not see this as replying to a formal consultation document as published by the Regulatory Authorities (RAs).

## **Concerns with the nature of the consultation**

### **1. Timetable**

VP&E have two major concerns with the timetable.

The first concern is that given the complexity, length (193 pages) and importance of the issues raised in this paper the timetable for response is inadequate. The seven weeks given to respond from the publication of the paper (spanning the Christmas and New Year holiday period) is far too short to allow a thorough analysis of the different options and therefore to allow any comment upon them in a meaningful and constructive manner. The current paper includes two new options never considered before and quite simply we need more information in the form of a detailed cost benefit analysis and more time to analyse them in the context of the other options considered. We would also like it noted that a request by VP&E for a short extension was refused and that only three weeks was available, taking into account the seasonal holidays, for responding following the workshop on this paper on the 9<sup>th</sup> December 2009.

The second concern is that the issue of TLAFs as a locational signal has been debated since VP&E entered the generation market with Huntstown phase I in 2002. In the Republic of Ireland (ROI) the TLAF methodology has remained unchanged over the last ten years. The accelerated timetable for the consultation appears to be predicated on achieving changes to the current process by mid 2010 or sooner<sup>1</sup>. Urgent change is difficult to understand in light of the substantial surplus of generation capacity over peak demand as forecast in the latest Generation Adequacy Report (GAR) together with the very healthy project pipeline for new generation capacity.

It should be noted that during the last ten years many generation and consumer groups have been penalised by the current TLAF methodology, including VP&E at Huntstown. And as the RAs have correctly pointed out in their recent decision paper

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<sup>1</sup> The options paper published 26th May 2009 gave an expected completion date of Q4 2010 and this was optimistic given that the remaining phases of the project were estimated to take 15-18 months at the time. This timeline was also estimated before the addition of new options which have since been developed and flagged as the preferred options.

on 2010 TLAFs, *'[t]he impact on generators disadvantaged by the 2010 TLAFs is in proportion with that experienced in previous years by other generators located in relatively unfavourable locations'* (p.13). Given that we have waited ten years the emphasis should be on getting the correct solution not a quick solution.

As we have argued before TLAFs are an important input to the Directed Contract (DC) process. This begins February each year for the following tariff year. Changing TLAFs mid 2010 would mean that forecast dispatch runs for the 2010/11 tariff year would be incorrect. The correct derivation of DC prices and volumes requires the calculation of TLAFs for 2010/2011 by February 2010. Given these timelines there is considerable merit in using the current methodology to calculate TLAFs until October 2011.

## **2. The legitimacy of Eirgrid and SONI holding this consultation**

In the cover note in relation to the "Preferred Options to be considered for the Implementation of Locational Signals on the Island of Ireland, Consultation Paper", SEM-09-107, the RAs commented:

*'It should be noted that the preferred options advanced by the TSOs in this paper do not necessarily represent the RAs views, in particular with respect to the preference for TSO purchase of losses as a long term approach to treatment of losses. Indeed they may not be the final options decided upon by the RAs in a future decision paper. Responses to this paper will be reviewed and carefully considered by the TSOs. These comments and TSO recommendations made to the RAs will be considered by the RAs when they formulate their final decision on all-island TUoS and TLAFs. It is anticipated that this final decision will be published in March 2010.'*

This qualification makes it very difficult for stakeholders to respond meaningfully in this consultation process. We have noted Eirgrid/SONI increasingly refer to CER and NIAUR as "our regulatory partners". We consider that only CER and NIAUR are mandated by legislation to make regulatory decisions and that Eirgrid and SONI are incorrect in referring to them as "partners". In truth Eirgrid and SONI are system operators and are not qualified either under law or through experience to carry out regulatory duties. We also note the potential for conflict of interest given Eirgrid's ownership of the East-West interconnector. Accordingly their views should carry no more weight than any other participant.

In our view a consultation process run by Eirgrid and SONI does not constitute a regulatory consultation. Given that the RAs have to run a consultation anyway, in our view the Eirgrid/SONI process slows and potentially subverts the normal statutory regulatory consultation process.

We look forward to the initiation of a RA consultation which will thus protect the process from any challenge.

### **3. The consultation document itself is not fit for purpose**

In our view the document we are being asked to respond to is not fit for purpose as it does not have completed analysis for the options it is recommending, makes claims for the benefits of proposed options without any substantiation, and does not contain any cost benefit analysis so that options can be properly evaluated.

For example one of the core proposals in the paper is the compression factor approach to TLAFs. The indicative TLAFs using the compression factor approach (in appendix I, pp. 156-169) are normalised around 1 for illustrative purposes. Given that compressed TLAFs are unlikely to be normalised around 1 if implemented it is questionable what this illustrates. It only adds to uncertainty and the impression that the compression factor approach is inadequately understood to be consulted upon or implemented without further analysis.

We have included a more detailed section in our response listing a number of examples from the consultation regarding the quality of the document and the analysis it contains.

In summary we are of the opinion that:

1. The timetable for this consultation is too tight;
2. Eirgrid/SONI do not have the legal right or regulatory experience to carry out such an important consultation;
3. The quality of the paper itself does not form a sound basis for making any decision.

The proposed change in the calculation of TLAFs and the changes in TUoS charging methodology constitute the largest change in the Irish wholesale market since the introduction of the SEM. It should therefore be consulted upon by the RAs and the industry should take its time over this decision and get it right. There is no way that based upon what we have seen in the Eirgrid/SONI paper that the decision timeline of March 2010 outlined in the 2010 TLAF decision paper could possibly be met with any confidence that the decision being made was a correct one.

### **Summary of VP&E points on the Eirgrid/SONI proposals**

VP&E is not in favour of implementing the preferred compression factor methodology at an early stage, if at all. Compressing TLAFs will dilute current locational signals and distort the merit order and this will reduce the efficiency of dispatch possibly resulting in more losses on the system, ultimately recoverable from the consumer.

It also has the potential to raise the cost of capital rather than reduce it as the compression factor proposal would be a substantial change to the operation of the market and would strengthen a view of increased regulatory risk, unless a fully appraised and adequate consultation has been carried out by the RAs. It is therefore important to understand the magnitude of the above effects before any decision is taken. We note from discussions with the TSOs, and as confirmed at the Workshop on 9<sup>th</sup> December 2009, that further studies along these lines are required and will be carried out in the coming months<sup>2</sup>. We strongly suggest that all parties affected should have visibility of these results and further opportunity to comment via a RA consultation before a final decision is taken by the RAs.

VP&E consider a three-step strategy overly complex and unnecessary. Five years of substantial regulatory uncertainty for the treatment of losses is unacceptable. The suggested approach will not resolve investment concerns over volatility with short-term, medium-term, and long-term methodologies for the treatment of losses planned over the next five years. The apparent necessity for urgent change is difficult to understand in light of the substantial surplus of generation capacity over peak demand as forecast in the latest Generation Adequacy Report (GAR) together with

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<sup>2</sup> It also states in the consultation paper that further analysis is required (see figure 6, page 83 for details of issues remaining).

the very healthy project pipeline for new generation capacity. Instead the focus should be on achieving the enduring solution sooner, following comprehensive analysis and interaction with industry.

VP&E is a strong advocate of clear, transparent and predictable locational signals. We would not support a change to the current TLAF arrangements until a full cost/benefit analysis has been carried out and made available in a formal RA consultation. The design of a stable locational signal is needed to ensure that new generation capacity locates in areas with low losses and low network congestion. To do otherwise would impose a significant burden on consumers in terms of increased losses in the system and higher imperfection charges and could result in building stranded network assets.

VP&E is keen that any transition proposed from the current arrangements also treats existing generators (i.e. those who have committed to connection agreements) in a manner that does not penalise generators in good locations or nullify the commercial exposure to generators located in poor loss locations. VP&E remains concerned about the volatility of TLAFs in the longer term as more wind generation connects. We suggest that the TSOs should concentrate on real improvements to the current approach, addressing known weaknesses, whilst working towards a long term solution sooner.

## Detailed response

### Quality of document

1. The preferred transmission losses methodology (compression factor) dilutes incentives to locate in the right place and potentially diminishes efficient dispatch. There is a need to strengthen, not weaken, locational signals as evidenced by the poor locational decision of new generation capacity in the Cork region. VP&E hence challenges the assertion in the consultation paper that '*[t]he Compression Factor would provide an encouraging signal to future generation to locate in efficient areas of the network and thereby ensure long-term security of supply*' (p.29). What is being proposed will clearly dilute locational signals (by at least 50%) rather than strengthen them.
2. Page 29 of the paper claims that in compressing TLAFs '*[t]he generator would still be ranked appropriately in the merit order...*'. This is incorrect because compressing TLAFs significantly distorts the merit order and potentially reverses it. This can be easily explained by means of an example. Consider two generators: Plant A, located unfavourably, with a TLAF of 0.92 and efficiency of 53% (resulting in an efficiency at trading point of 48.76%); and Plant B, located more favourably, with a TLAF of 0.98 and efficiency of 51% (resulting in an efficiency at trading point of 49.98%). If everything else is the same Plant B is cheaper than Plant A, and the merit order will be B, A. Compressing their TLAFs using the algorithm in the consultation paper, normalised around 0.98<sup>3</sup>, will result in new a TLAFs of 0.95 for Plant A (resulting in an efficiency at trading point of 50.35%) and no change for Plant B as it is already at the normalised point. If everything else is the same Plant A is now cheaper than Plant B and the merit order is clearly reversed to A, B. Changing TLAFs in this way therefore has the potential to distort efficient dispatch and therefore increase overall losses on the system at the expense of the consumer and the environment<sup>4</sup>. In addition,

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<sup>3</sup> The compression factor algorithm was normalised around 1 in the consultation paper (see page 87). VP&E have since clarified with the TSOs that this was for illustration purposes only. It is more likely that the compression factor algorithm would be normalised around some measure of average transmission losses which is yet to be determined but in our view would almost certainly be closer to 0.98 than 1.

<sup>4</sup> Page 15 of the consultation paper explains that '*[a]n efficient dispatch of generators will ultimately lead to a reduction in overall transmission losses on the system*'.

generators with the worst TLAFs see the greatest benefit from the compression factor approach and vice versa. For example, a generator with a TLAF of 0.94 will be compressed to 0.96 (an improvement of 0.02) whereas a generator with a TLAF of 0.97 will be compressed to 0.975 (a lesser improvement of 0.005). This seems perverse and is difficult to rationalise from an economic efficiency point of view.

3. Contradicting its earlier claim page 85 of the paper seems to recognise the point we make above as follows: '*The short term dispatch efficiency is reduced slightly under this methodology [compression factor] as the TLAFs have been manipulated to reduce the data spread*'. However, it is not known without further analysis what the magnitude of this effect is and therefore we question how the TSOs can claim that dispatch efficiency will only be reduced slightly.
4. Page 85 states that '*[m]arket participants currently allocated very high TLAFs who may only export on an occasional basis will be impacted negatively by this [compression factor] methodology*'. This misleadingly gives the impression that only participants who export occasionally will be adversely affected by compressing TLAFs and only then if their TLAFs are very high. The reality is that all generators whose TLAFs are greater than the, as yet unknown, normalisation value will be worse off. By changing the merit order it is also possible for generators with TLAFs less than the normalised value to be worse off. This and other effects are unknown without further analysis which should be carried out before participants can be expected to meaningfully respond to this consultation.
5. Page 118 emphasises that '*[t]he Compression Factor Methodology results in a small increase in predictability and a large jump in reduction of volatility whilst maintaining an efficient dispatch. All these factors lead to an increase in efficiency*'. VP&E does not accept that this will always maintain efficient dispatch for reasons explained under point 2 above. At the same time there is a tenuous link between the claimed reduction in volatility and increased efficiency which is discussed further under point 6 below.
6. Page 29 presumes that 'limits applied by the algorithm should increase overall efficiency by reducing investment risks and, as a result, reduce the cost of capital for a generator'. This claim is entirely unsubstantiated and is unlikely to be true.

We believe it is more likely that a significant change in the short term methodology without a full impact assessment and proper engagement with industry, and with absolute uncertainty about the enduring solution, such as is being proposed, would substantially increase the perception of regulatory risk in Ireland and consequently increase the cost of capital to Irish developers. In addition, compressing TLAFs could raise consumer costs by increasing overall losses on the system and by diluting efficient long term investment signals.

Given the above VP&E cannot support the RA's suggestion in the 2010 TLAFs decision paper that customers would benefit from the compression factor methodology by effectively lowering the weighted average cost of capital (WACC) of the Best New Entrant (BNE) Peaker<sup>5</sup>. TLAFs do not feed into the BNE calculation and hence have no bearing on the WACC methodology as applied in the capacity revenue calculation. Changing the methodology as proposed is more likely to raise the cost of capital and could increase overall losses on the system and dilute efficient investment signals to the detriment of customers.

7. It is stated on page 30 of the paper in relation to the compression factor approach that '*[f]urther study is required to determine the full effects of this methodology on the Market and Dispatch Schedules and also on the full recovery of costs*'. VP&E consider this essential analysis that should be carried out before concluding a consultation or taking a decision. The need for further analysis is also highlighted on page 83 as discussed further under point 8 below.
8. A flow chart on page 83 of the paper identifies several issues still to be addressed regarding the short, medium and long-term treatment of losses options, detailed as follows.

#### **Compression Factor issues (short term preferred option)**

- Decide algorithm normalisation figure

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<sup>5</sup> In the above referenced paper, the RAs '*...note that, in the Locational Signals workstream, the System Operators' preferred option (see Locational Signals consultation paper; SEM-09-107) for the future treatment of TLAFs would significantly reduce the risk that generators are exposed to, with customers benefiting from this via a lower risk weighting applied to the rate of return required by the BNE Peaker used in the calculation of capacity payments to generators*'. (p. 13).

- Determine limits to apply for cost recovery
- Sensitivity analysis
- Study possible implications (e.g. constraints)

### **Splitting Concept (medium term preferred option)**

- Method to determine uniform loss factor
- Method to locationally charge for losses outside market
- Allocate uniform loss factor to generation or demand
- Study possible implications (e.g. constraints)
- Method to optimise losses in dispatch

### **Purchase of Losses (long term preferred option)**

- Ex-ante or ex-post charging
- Study possible implications (e.g. constraints)
- Method to accurately measure losses (metering infrastructure)

The above issues are classified as minor, moderate, or difficult to address and those associated with the compression factor option are all minor except for the study of its implications which is considered moderately difficult. Given that it is relatively easy to decide upon the normalisation algorithm figure, determine limits to apply for cost recovery, carry out sensitivity analysis and understand the implications of the compression factor approach, VP&E see no reason why this cannot be done before concluding the consultation. And given its importance it should be communicated to stakeholders in a timely manner as part of a RA led consultation process before a final decision is taken by the RAs.

9. Page 90 discusses the economic implications of the splitting concept and correctly recognises that '*[c]areful consideration is required of the implications of implementing a uniform loss factor into the market. Any such change could damage the competitive advantage of some generators while others would benefit*'. It then highlights a number of key areas to consider including SMP, infra-marginal rent, changes in volume of losses and economic signals. By changing the merit order as highlighted under point 2 above VP&E contends that

all of these issues are equally pertinent to the compression factor methodology and that equally careful consideration is required of its implications.

10. VP&E suggests that the weightings applied in arriving at a preferred option are highly subjective. For example it could be argued that two factors, volatility and predictability, are given inappropriate weightings of 15% each (30% combined) in the scoring of options. Predictability is paramount and volatility is only important when there are difficulties with predictability. We therefore suggest these factors have been double-counted and this has skewed the scoring of options away from the current methodology and in favour of the compression factor approach.
11. The medium and long term preferred options for the treatment of losses are presented in a very sketchy way, leaving many fundamental questions about how they would work unanswered. Rather than inform participants about their design and effect the description of these options is more focused on what is not known and why they cannot be implemented for at least another 2-5 years. Having effectively eliminated these options as feasible the concluding emphasis is on the early adoption of the compression factor approach, the implications of which are unknown but potentially significant for SMP, infra-marginal rent, the volume of losses and economic signals.
12. Page 53 of the paper clearly indicates as follows that the analysis of TUoS is incomplete: '*...it would be the SOs intention to continue to recover the cost of new assets for a number of years after these are built to ensure that new units also pay towards these assets. It was not possible to calculate the indicative tariffs on this basis in the timeframe*'. As with TLAFs the consultation is being carried out with undue haste and fundamentally lacks all relevant information for consultees to make an informed response. It also covers policy issues (e.g. option 5) and therefore VP&E do not see how a change in methodology can be consulted upon by the system operators. An RA led consultation is required which includes all relevant information and a full impact analysis.
13. The maps in Appendix E (pp. 131-133) are difficult to read if not illegible.

## **Treatment of losses**

VP&E's position regarding the preferred option for the treatment of losses should be clear from the above. In summary, VP&E has serious concerns that the true effects of compressing TLAFs have not been fully captured, appreciated or quantified in the consultation paper. Contrary to what is claimed in the paper compressing TLAFs is likely to distort the merit order with implications for SMP, infra-marginal rent, the volume of actual losses and economic signals and these effects need to be understood and communicated to industry before changing the current methodology.

Changing the methodology as proposed creates *unavoidable* winners and losers (in terms of merit order, energy payments and capacity payments) and this markedly increases the perception of regulatory risk which is likely to raise the cost of capital. This is not recognised in the consultation paper and is an important omission. In contrast the current methodology gives new entrants, especially thermal plant, a choice of locating favourably or unfavourably from a TLAF perspective. For example it was reasonable to assume based on historical experience that 800MW of new capacity in the Cork region would have had an adverse impact on TLAFs. This is evidently recognised by the RAs in their recent decision paper<sup>6</sup>. Furthermore, there can be no justification for an early change in the standard methodology that has been used for a decade, with no immediate shortage in generation capacity, before the full costs and benefits are understood, including the net impact on consumers.

The medium and long term preferred options for the treatment of losses are presented in a very sketchy way, leaving many fundamental questions about how they would work unanswered. Rather than inform participants about their design and effect the description of these options is more focused on what is not known and why they cannot be implemented for at least another 2-5 years. Having effectively eliminated these options as infeasible in the near-to-medium term the concluding emphasis is on the early adoption of the compression factor approach, the implications of which are unknown but potentially significant for market participants, consumers and the environment.

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<sup>6</sup> Page 8 of the 2010 TLAFs Decision Paper acknowledges that "general trends [in TLAFs] can be explained and identified in advance".

No reference is made to the issue of stranded network assets, either existing or future assets, and the importance of strong locational signals to avoid stranded costs. Perhaps if Eirgrid and SONI were unable to fully socialise these stranded costs then they would be more concerned about ensuring that locational signals were enhanced rather than diluted. With full socialisation of stranded costs, the cost of a poor locational signal for thermal generators is fully borne by electricity consumers.

Furthermore, there can be no justification for an early change in the standard methodology that has been used for a decade, particularly as there is no immediate shortage in generation capacity, before the full costs and benefits are understood, including the net impact on consumers. We also note that an early change in methodology without a cost/benefit analysis and a formal RA consultation would create the distinct perception that the consultation objective is to reduce the commercial exposure for poor investment decisions in Cork by semi state companies who share the same shareholder as Eirgrid and SONI.

VP&E strongly suggest that further analysis be carried out and concerted efforts made to reach an enduring solution sooner rather than rushing to perversely tweak the existing methodology without understanding its full effects.

### **TUoS Charges**

VP&E finds the analysis of different generator TuoS charging approached to be inadequately assessed. The indicative charge basis shown for each of the options is described as indicative 2008/2009 all-island capacity based generator TUOS charges which do not take into account the significant generator capacity changes that are occurring in 2009/2010 and therefore do not provide an adequate basis to assess the impact that would occur if the options were adopted going forward. In addition, while the appendices show the projected impact in 2013/14 for options 1 and 3, no projected years are shown for the preferred option 4 or option 2. It is also not clear what degree of volatility there would be for each option if future network scenarios used turn out differently from the assumptions. There is insufficient information provided to be able to assess the proposed options.

The weighting applied for the various objectives is subjective. It also seems strange that TuoS charges would be used to provide a second locational signal to generators when this is also what TLAfs are doing.

We are not convinced that there is any urgent need to amend TuoS charging at this point, and again would require that any proposals be consulted upon by the RAs with full impact analysis to ensure that an appropriate long term solution is arrived at after due consideration.

We would also like to take this opportunity to query the application of Generator TUoS charges to demand side connected generating capacity. TUoS charges must be levied in a fair, cost reflective, proportionate and non-discriminatory manner. We would draw attention to the current referral by SONI to NIAUR on the application of TUoS charges to aggregated generator units (AGUs) and the associated response by Energia in which Energia sets out its position on this matter.

### **Reduction in TUoS threshold to 5MW**

Like most of the industry we were surprised to see this proposal included within the document. Section 6.1.8 which covers the rationale for the reduction includes no hard facts on why the change is needed, no financial information on the impact of the change on TUoS charges and includes no analysis of the impact it may have on current generation projects between 5MW and 10MW.

We were also somewhat entertained by the use of a quote from IWEA response to the July 2008 TUoS paper to justify the Eirgrid/SONI proposal. We would suggest it is rather less than honest in its use of a quote from the IWEA as they clearly do not support any reduction in the threshold to 5MW. The IWEA comment clearly related to above 10MW only.

As Eirgrid /SONI have used the July 2008 IWEA response we have included the first paragraph from it below. It provides a good summary of what many participants thought of the July 2008 TUoS proposals and indeed the current proposals.

*'The IWEA is very concerned at the proposals included in the consultation paper on transmission use of system charging. We believe that there are many fundamental flaws in the theoretical arguments underpinning the approach and that this has created a need for a series of manual tweaks. The end result is a volatile and arbitrary set of tariffs that seem to unduly discriminate against wind generators. It is*

*unclear how these signals are linked to the objective of efficient development of the energy infrastructure on the island. We believe that the proposal should be shelved and a more comprehensive analysis of strategic development and signals undertaken. This should incorporate the Grid Development Strategy envisaged by EirGrid and a similar study for NI. As the industry is on the cusp of significant investment over the next ten years there is significant benefit in having a joined up approach to planning and development’.*

To justify the proposal to reduce the threshold to 5MW Eirgrid/SONI argument uses language such as:

*‘The aggregate effect of these small generators exporting onto the transmission system is believed to have a significant impact and one which is growing year on year.’*

We would argue that the word ‘believed’ in this context means that Eirgrid/SONI has no factual information on which to base this proposal.

The transmission use of system charges should only be charged on the basis of physical use of the transmission system. Wind farms with a Maximum Export Capacity (MEC) less than 10MW will not use the transmission system. In fact we would go further to suggest that wind farms with a MEC greater than 10MW use the transmission system to a very minimal extent, if at all. Therefore the justification of the present application of the full TUoS tariff charges is questioned.

All wind farms between 5-10MW are connected to the distribution network and will ultimately be connected to a 33/38kV substation which may or may not be a transmission node. Considering the capacity factor and the relevant load demand at these substations, export to the transmission network is unlikely.

This is recognised by SONI in the SONI “Statement of Charges- Generator TUoS Charges” paragraph 3 as quoted below:

*‘Where a Generator with contracted capacity less than 10MW, embedded in the distribution system and under contract to a Supplier, exports electricity over the distribution system to exit points, a transmission rebate may be payable to the Supplier to reflect the likelihood that the exported energy will be absorbed by the*

*local distribution system and no use of the Transmission System will be required. The credits applicable are described in Schedule B.*

## **SCHEDULE B**

### **TRANSMISSION REBATES**

*A transmission rebate is payable to Suppliers in respect of energy exported from contracted Generators embedded in the NIE distribution system. This reflects the likelihood that all exported energy onto the NIE distribution system will be absorbed by the local distribution system and no use of the Transmission System will be required. Transmission rebates are credited to Suppliers who purchase the export from eligible embedded Generators to offset their use of the Transmission System. Suppliers must apply to SONI for transmission rebates providing the necessary information in relation to nominated distribution Generator sites. The Generator connection must be below 10MW to be eligible for transmission rebate payment and the Generator must not export onto the Transmission System'.*

The Eirgrid/SONI proposal cannot be accepted given the paper offers no factual evidence of the impact of generators below 10MW impacting upon the transmission network and indeed SONI itself in its statement of charges says it is unlikely that any power will reach the transmission system.

If the proposal is implemented it will have serious consequences for generators who have in place project financings for their projects, which is the case for the majority of windfarms in the 5MW-10MW category. It is highly likely that the proposed changes would lead to a breach of financing covenants, and in some cases could even lead to defaulting on the project debt.

This proposal has been buried in a complex and lengthy paper as a peripheral issue, and it would be completely unacceptable for this to be implemented as proposed. Several participants at the workshop in Dundalk on 9<sup>th</sup> December 2009 made the same point and requested a separate consultation on this issue. We note that the system operators agreed in principle to consider this.

At the very least we suggest that legacy plant (who have not factored this charge into their financing) should be exempt from any change and that a separate consultation be carried out by the RAs, including a full impact assessment of bringing 5MW-10MW into the charging mechanism.