



TYNAGH ENERGY
L I M I T E D

Kenny Dane
Utility Regulator
Queens House
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Ref: TEL/CJD/19/061

2nd April 2019

RE: Response to T-1 and T-2 Parameters Consultation (SEM-19-010)

Dear Kenny,

Tynagh Energy Limited (TEL) welcomes the opportunity to respond to this Capacity Remuneration Mechanism T-1 and T-2 Parameters Consultation (SEM-19-010).

TEL supports the EAI response to this consultation.

Consultation Timeline

TEL are disappointed that the SEMC decided that this consultation would be only 4 weeks in duration, and that when the EAI contacted UREGNI regarding an extension that this was rejected. This is a significant consultation and participants should be allowed to have the time to submit a considered response. Furthermore, this response overlapped with the T-4 auction, which would have consumed resources from each of the participants.

Capacity Requirement

One area which the consultation has not invited comment on is the capacity requirement. The capacity requirement for 2022/23 was 7,524MW, but the peak demand in the Generation Capacity Statement was close to 8,000MW under the median demand analysis. Allowing for wind generation to meet this requirement makes little sense, as we know from past history that very cold and very calm days are not uncommon in Ireland, a cold day in Ireland is likely to be a cold day in GB, the interconnectors are unlikely to help us. The SEMC appear to be significantly increasing the exposure to multiple loss of load events for a significant period of time. It is only once these events begin to occur frequently that the methodology will change, leading to an increase in capacity. This will be too late; if we have multiple Loss of Load events, we may quickly see a loss of demand as new data centres locate in countries with more reliable systems.

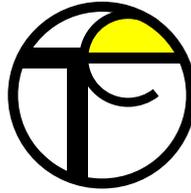
ECPC Proposal

TEL do not agree with the SEM Committee's proposal to reduce the Existing Capacity Price Cap ("ECPC") for the 2020/21 T-1 and 2021/22 T-2 capacity auctions.

In response to SEM-16-073, TEL made the point to the SEM Committee that the ECPC was not sufficiently high to allow the recovery of fixed costs – this assessment is still valid

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today. Capacity payments are not sufficient to meet fixed costs, and if anything, the ECPC should be set at a higher level.

It could be seen that this proposed ECPC reduction is an attempt to align the revenue that generators make from all market revenue streams to with International norms, but this ignores a number of areas. Capacity payments do not cover fixed costs, while Energy markets (after an initial period of volatility at the start of I-SEM) are now settling at the SRMC of the marginal plant. The third revenue source, DS3, is to encourage generators to provide more flexible plant to reduce Ireland's climate emissions. The SEMC have used tariffs to encourage generators to invest in the plants. Participants have invested in their plant in expectation of DS3 revenue. However, now the SEMC use this same revenue to discount against the BNE. This means that plants are not recovering their investment and will also see plants less inclined to invest for future DS3 revenues. Revenue is being discounted by the RA's in determination of NET CONE/BNE, but, DS3 revenue should be allocated towards recovering the costs of plant upgrades that resulted in the DS3 capability.

These three areas are detailed further below:

a. Fixed Costs are not recovered in the ECPC

The SEMC needs to examine why consumer costs are higher in Ireland compared to other countries. We have in the past outlined that significant annual fixed costs for a hypothetical high merit 420MW Irish CCGT would approximately be:

Annual Gas Capacity (assuming 18 million KWh Entry and Exit)	€14 Million
TUoS Charges	€3.5 Million
Insurance	€2 Million
Fixed O&M	€5 Million
Rates	€2 Million

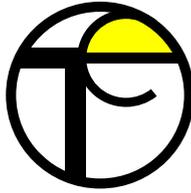
That is €26.5 million in fixed costs before looking at other significant non-fuel related costs that vary across Ireland's CCGT fleet (e.g. staffing). While this hypothetical generator may have fixed costs of €26.5 Million, they would only receive approximately €15.1 million from the auction if the price cleared at the ECPC for CY 2019/20 of €41,060/MW per year, leaving this generator short €11.4 million in covering its fixed costs.

Therefore, TEL would suggest that the Existing Capacity Price Cap should be increased to a minimum of 0.75 x Net CONE.

b. Irish Costs v International Norms

It appears that the RA's are looking to align Irish generator revenues with the revenues of generators across Europe. This sounds fair, however, the costs in Ireland are largely outside of a generators control. The extremely high costs that the network operators charge for gas transportation and for system charges are set by the RAs and are beyond the generators control and need to be recovered.

The only significant cost that generators could potentially reduce is O&M contracts. O&M contracts in Ireland are based on European model staffing levels. We believe that the costs for these will be reasonably consistent across similar plants in Europe. However, the issue is that plants in Ireland are on smaller sites with less MW capacity than standard international systems. Therefore, O&M contracts are generally higher in Ireland per MW due to the small MW magnitude of the generating sites.



c. DS3 revenue

In the BNE/NET CONE determination, a new generator's revenue from DS3 and their IMR is offset against their proposed revenue. But, the SEMC has encouraged generators to invest in their plants to maximise DS3. If this revenue continues to be offset against capacity revenue then there will be a shortfall for generators. The DS3 revenue is being counted twice, once against a payback on upgrades and once against capacity.

Summary

The current ECPC is not sufficient to meet the needs of participants and there will be more participants looking to close as they will not be able to meet their costs. As expected, there were very volatile prices at the start of I-SEM. This has started to settle down, and the DAM price is frequently set at the SRMC of a mid-merit plant. If this continues into next winter, then we will have more plants seeking LRSA's. The current capacity requirement is insufficient and the methodology behind its calculation needs to be re-evaluated.

Should you have any queries, please do not hesitate to contact me.

Yours sincerely,

Cormac Daly
Risk and Regulatory Manager