

TYNAGH ENERGY
L I M I T E D

Conor Kavanagh
The Oval
160 Shelbourne Road
Ballsbridge
Dublin 4

Ref: TEL/EOD/08/181

28th October 2008

**RE: Harmonised Ancillary Services, Other System Payments & System Charges
(AIP-SEM-08-128)**

Dear Conor & Leslie,

Tynagh Energy Limited (TEL) welcomes the opportunity to provide its comments regarding the above consultation document.

Our comments on each of the proposals contained within this consultation are outlined separately below.

Existing Ancillary Services

Operating Reserve:

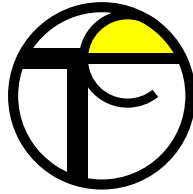
The introduction of fixed minimum rates for the provision of both Operating Reserve (OR) and Reactive Power (RP) is broadly welcomed. The current methodology of scaling rates according to real time system requirements lacks transparency and prohibits generators from accurately forecasting future AS payments. Fixed rates allow for a stable and predictable revenue stream which is a desirable outcome for any prudent service provider.

However it is unreasonable to expect generators to sacrifice their current level of income in favour of a scheme that allows for predictability of income. The proposed OR and RP rates presented within the consultation paper are very concerning as they indicate a move towards such a scheme. Introducing these proposed rates would result in significant reduction in the amounts paid to generators in the Republic of Ireland for provision of these services.

Table 1 below displays the average rates paid each month by Eirgrid for each category of OR since the introduction of the SEM.

**The Crescent Building, Northwood Park, Santry
Dublin 9
IRELAND**
TEL: +353 (0) 1 857 8700
FAX: +353 (0) 1 857 8701

DIRECTORS
Mr Bran Keogh (IRE),
Mr Arif Ozozan (BE), Mr Randall Hornick (USA),
Mr Robert Hadden (USA), Ramzi Nassar (USA)
REGISTERED NUMBER: 378735



Month	Average Primary Operating Reserve Rate	Average Secondary Operating Reserve Rate	Average Tertiary 1 Operating Reserve Rate	Average Tertiary 2 Operating Reserve Rate	Average Replacement Reserve Rate
Nov-07	€ 1.72	€ 1.58	€ 1.42	€ 1.19	€ 0.59
Dec-07	€ 1.53	€ 1.41	€ 1.31	€ 1.23	€ 0.53
Jan-08	€ 1.65	€ 1.48	€ 1.40	€ 1.37	€ 0.68
Feb-08	€ 1.80	€ 1.25	€ 1.39	€ 1.36	€ 0.71
Mar-08	€ 1.79	€ 1.23	€ 1.41	€ 1.29	€ 0.60
Apr-08	€ 1.81	€ 1.14	€ 1.30	€ 1.17	€ 0.60
May-08	€ 1.80	€ 1.26	€ 1.31	€ 1.14	€ 0.62
Jun-08	€ 1.78	€ 1.13	€ 1.18	€ 1.02	€ 0.62
Jul-08	€ 1.66	€ 0.98	€ 1.10	€ 0.98	€ 0.61
Aug-08	€ 1.67	€ 1.00	€ 1.13	€ 1.09	€ 0.68
	€ 1.72	€ 1.24	€ 1.29	€ 1.18	€ 0.63

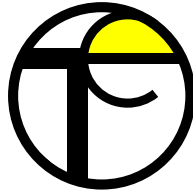
Table 1: Average Outturn Operating Reserve Rates Nov 07 – Aug 08

The overall year to date average of the current rates displayed in Table 1 above is compared against the proposed new rates in Table 2 below. It can be seen that there are very significant reductions proposed, with each operating reserve category seeing an expected decrease. This is unacceptable and indicates that the main design criteria of keeping the total AS allowance broadly unchanged has not been met.

	Primary Operating Reserve	Secondary Operating Reserve	Tertiary 1 Operating Reserve	Tertiary 2 Operating Reserve	Replacement Reserve
Average Current Rates	€ 1.72	€ 1.24	€ 1.29	€ 1.18	€ 0.63
Indicative New Rates	€ 1.00	€ 0.90	€ 0.80	€ 0.70	€ 0.60
% Change	-42%	-28%	-38%	-41%	-4%

Table 2: Current Average Operating Reserve Rates vs. Proposed Operating Reserve Rates

It is also proposed that the “fixed” OR rates are scaled down according to the percentage difference between generators declared availability and the contracted capability. This proposal not only negates the benefit of introducing fixed rates, as it would mean generators would have to forecast future constrained dispatch levels in order to forecast future ancillary services revenue, it also undervalues the worth of providing operating reserve to the system. Scaling payments down according contracted capability will only encourage participants to under contract and also discourage new providers which will ultimately deprive the system of additional reserve.



Reactive Power:

A simple price structure with weighting in favour of availability over utilisation was a common request by providers of RP at the industry workshops. Such a move would place more control in the hands of the service provider. The consultation paper has attempted to address this request by indicating the removal of the utilisation payment present within the current RoI mechanism, however the availability payment rate is proposed to remain relatively unchanged (see Table 3 below) which would result in a significant reduction in overall RP payments for providers. If utilisation payments are to be removed there must be an equivalent increase in availability payments. As with OR any move to significantly decrease the payments that providers receive under the current mechanism is unacceptable.

	Reactive Power Lagging Availability Payment	Reactive Power Lagging Utilisation Payment	Reactive Power Leading Availability Payment	Reactive Power Leading Utilisation Payment
Current Rates	€ 0.161	€ 1.35	€ 0.161	€ 1.35
Indicative New Rates	€ 0.15	€ -	€ 0.15	€ -
% Change	-7%	-100%	-7%	-100%

Table 3: Current Reactive Power Rates vs. Proposed Reactive Power Rates

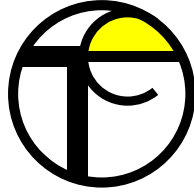
Operating Reserve & Reactive Power Underperformance Charges:

TEL agrees that the goal of a harmonised ancillary services policy is providing a mechanism that ensures a reliable pool of services is offered to the system operator. This objective can be achieved in two ways, by incentivising over performance and by punishing under performance. It is clear that the emphasis within this process is on punishing generators that underperform. While it is entirely reasonable to adopt the “polluter pays” approach this needs to be balanced by encouraging providers to provide over and above the minimum levels expected. A simple way of doing this is to redistribute penalty payments amongst those providers that consistently provide a reliable service. The difficulties presented in attempting to assess reliability could be overcome; indeed this paper suggests overcoming the difficulties associated with assessing reactive power underperformance by introducing a reasonable tolerance level.

Focusing solely on punishing underperformance will result in a culture that does not leave room for technological or commercial innovation and as a result more efficient ways of providing a service are unlikely to be developed.

This harmonised ancillary services policy fulfils the regulatory directive that procurement of services be based on the ability to provide the service and be independent of the technology used. This is undoubtedly a fair and unbiased approach. However, given the diverse nature of the plant available to the system operator, the task of implementing a single set of rules that treats each plant equally will be difficult.

TEL agrees that the service offered by each technology should be reviewed and resulting payments should be appropriate to the value of the service. Currently minimum AS contract levels are determined as a percentage of plant rated capacity. Adopting rated capacity as a benchmark does not allow for adjustments caused by changing ambient conditions. Where ambient conditions cause plant availability to drop below its rated capacity a service provider should not be penalised for any resultant inability to provide minimum contract levels.



Providers should not be remunerated for a service they cannot provide; likewise providers should not be punished for operating within the technical boundaries set by their technology.

Black Start:

TEL has no strong views on this topic but supports the move to a more transparent process as is suggested by this paper.

New Ancillary Services

TEL welcomes the proactive proposal to introduce a number of new AS. TEL is currently not in a position to provide any of the new services proposed.

Other System Charges

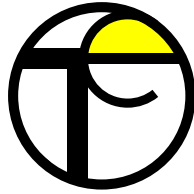
Short Notice Declarations:

The Short Notice Declaration charge is overly restrictive and does not properly take into account the realities of operating a CCGT plant. While a 10MW threshold has been proposed to allow for small fluctuations this threshold is not of sufficient size. Large and sudden movements in availability can occur over which a plant operator has little control.

A Gas Turbine Anti-Icing system is one such example of this. Sudden movements of up to 15MW can occur when air from the compressor is automatically re-circulated to the air inlet during low ambient temperature conditions to prevent ice formation on turbine blades.

Another example where the proposed 10 MW threshold would be insufficient is the fluctuations in output caused by the effect of ambient conditions on an air cooled condenser. Ambient conditions such as temperature, wind speed and air pressure effect the cooling efficiency of an air cooled condenser which can have a negative impact on the output of a steam turbine. A sudden change in these conditions can cause a sudden and significant drop in plant availability.

TEL requests that this SND threshold be raised to at least 20 MW to allow for necessary fluctuations in availability such as this.



TEL is, as always, available to further discuss any of the issues raised within this response and looks forward to working closely with both Eirgrid and SONI on this project in the future.

Kind regards

Yours sincerely,

Eamonn O'Donoghue
Risk & Regulatory Manager

cc: Leslie Burns
SONI