TYNAGH ENERGY
L I M I T E D

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18th September 2009

RE: Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code

The views of Tynagh Energy Limited (TEL) in relation to the Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code are outlined below. Where possible, comments have been aligned with the appropriate sections outlined within the consultation paper.

TEL welcomes the opportunity to respond to this consultation, it has been brought forward at an opportune time when market participants are already experiencing significant divergence between the market and dispatch schedules.

3.0 Principles of the Single Electricity Market Design

In making a decision as to whether or not to invest in an electricity production plant an investor must decide if the investment will earn a satisfactory return over the duration of the project. In its simplest sense, a sound investment will be one where the revenues earned by the plant exceed both the cost of building and operating the plant.

Currently in the SEM, a CCGT plant (and indeed any plant other than the BNE Peaker) will only receive a contribution towards its fixed costs from the Capacity Payments Mechanism and is therefore reliant on infra-marginal rent collected within the energy market. Providing consistent access to this infra-marginal rent in manner that is both transparent and predictable is vital to insuring past investments remain profitable and new investments are forthcoming.

As outlined within this paper, a scenario in which infra-marginal rents are allocated to plants that are never physically dispatched is both unacceptable and unsustainable. This scenario only serves to undermine existing sound investment decisions and encourages the growth of an inefficient and unsuitable generation portfolio.

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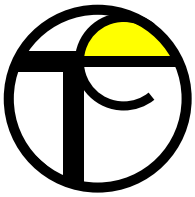

If the SEM continues down a path whereby the economic market schedule bears no resemblance to the physical dispatch schedule, the objective of delivering electricity to the consumer at least cost will not have been achieved.

4.0 Options for SEM Changes

4.2.2 Issues and Proposals

TEL is reassured by the RAs stated commitment to the continuous monitoring of the relationship between the market schedule and the dispatch schedule. As stated above and as outlined within the consultation paper, maintaining a consistency between the economic ideal represented by the market schedule and the physical realities of the dispatch schedule is key to ensuring that infra-marginal rents are properly allocated.

4.4 Technical Constraints

The challenge of encouraging investment that is technically compatible with the increasing levels of wind generation plant is vitally important. It could be argued that by not modelling plant technical capabilities within the market schedule the role of additional plant flexibility will be undervalued.

If the technical benefits of fast reacting flexible peaking plant is not properly modelled in the market schedule, these plants are likely to be only constrained on in the dispatch schedule and not receive any infra-marginal rent allocation.

TEL is mindful of the complexities involved with modelling all plant technical parameters within the market schedule and feels such an objective is unobtainable. This suggests that some other means of remunerating suitable flexible plant must be progressed and proposals should be brought forward by the RAs as part of their decision on this consultation process.

4.4.3 Other Technical Issues

The proposal put forward in relation to the Grid Code ignores the fact that there are two separate Grid Codes in operation. If generators are operating in a market where participants both north and south compete on price, there must be moves made to streamline both Grid Code standards. Enforcing two separate sets of Grid Code standards could result in generators in one jurisdiction having an unfair competitive advantage.

4.5 Allocation of Access Rights

Option 1 is unacceptable. It completely dispels the value of having secured firm grid access and actively encourages investment in areas that are unsuitable. An environment where generators with firm and non firm access compete equally would only serve to erode investor confidence.

Option 2 will result in infra-marginal rents being properly allocated to those that contribute to serving customer demand. However given that the transmission system infrastructure is generally weakest in areas where renewable generation is most likely to locate, renewable investors faced with the prospect of non-firm access are unlikely to invest.

Option 3 will reward firm access by allowing it to be allocated infra-marginal rent preferentially. It also does not exclude completely non firm access and would therefore appear to be the best compromise.

TEL therefore supports the proposals put forward in Option 3.

4.6 Deemed Firm Access

The concept of deemed firm access cannot be ignored. In the absence of the guarantees that a deemed firm access agreement could provide, there is no sharing of risk between the transmission system operator and the investor as the costs of delay are borne solely by the investor.

The market price distortion caused by deeming some connections firm is indeed undesirable, however some method of incentivising the transmission system operator to deliver firm grid connections on time is necessary.

4.7 Dispatch Principles

It is indeed desirable that the dispatch process should be driven by the objective of making the most efficient use of all available resources. It is also desirable that this objective is achieved in a manner that is transparent, predictable and repeatable.

The Trading & Settlement Code sets out, in detail, the principles and calculations used by the market scheduling software in generating the market schedule. Notwithstanding the difficulties presented by the real time nature of the process, a similar document should be set out that details the rules of the dispatch schedule.

A public document, outlining the steps followed by the system operator in dispatching plant would not only help future investors make more informed decisions but also greatly decrease the fuel purchasing risk faced each day by existing generators.

TEL are, as ever, available to discuss these issues in more detail if required and looks forward to contributing further to this consultation process in the future.

Yours sincerely

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