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Date: 21 December 2012

Mr. Philip Newsome,
Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

Mr. Jody O'Boyle,
Utility Regulator,
Queens House,
10-18 Queen Street
Belfast BT1 6ED.

RE: Next Steps Proposed Decision Paper - Implementation of the European Target Model for the Single Electricity Market. Consultation Paper (SEM-12-105a).

Dear Philip & Jody,

Shannon LNG is responding to the above referenced consultation paper which was published by the SEM Committee on the 9th of November 2012.

Shannon LNG is responding to this consultation as the developer of a 500 MW gas fired CHP plant on the site of our proposed LNG terminal in Co. Kerry.

Shannon LNG generally supports the High Level Principles for the Market set out on page 11 of the Paper. We have the following specific comments on the proposed principles:

- (i) Shannon LNG supports the principle that "*Market design should, in so far as it is practical to do so, result in the most economic (i.e., least cost) dispatch of available plant.*" This approach should maximise the consumer welfare benefits of the new market design.
- (ii) The *Environmental* principle should be expanded to include the requirement that the selected market design should include support for energy efficiency measures, particularly the requirements of the new Energy Efficiency Directive 2012/27/EU.

Shannon LNG would like to make the following observations on the "considerations" set out by the SEM Committee on page 20 of the Proposed Next Steps Decision Paper:

- the findings of the TSOs report and the RA's consultant's review of the dispatch model for the island of Ireland that central dispatch is the optimal means of dispatching the All Island system¹². In addition Target Model implementation does not require a BETTA style market in SEM.

Shannon LNG agrees that central dispatch is the optimal means of dispatching the All Island system.

- a physical bilateral contracts market would potentially encourage vertical integration in a small island system leading to market power concerns.

Shannon LNG agrees that a physical bilateral contracts market, of whatever form, would lead to serious market power concerns given the nature of the all-island market.

As a potential power generation entrant to the SEM, Shannon LNG welcomes the SEM Committee Decision on page 21 of the paper that *"There will continue to be market power mitigation measures in the SEM"*

Shannon LNG would like to endorse the following findings of the consultant's report on page 24 of the paper:

- There is no compelling reason to change the method of electricity system operation on the island of Ireland from a central dispatch to a self dispatch model.
- Central dispatch was evaluated five years ago as being the best choice for the island of Ireland and nothing appears in the meantime to have changed that conclusion.
- Market power mitigation would be problematic under self dispatch.

Shannon LNG completely supports the SEM Committee's Decision that the working assumption is that changes to the SEM high level design will be based on central dispatch.

Shannon LNG believes that the SEM Committee must include a section in the final decision paper on how the obligations on member states, national regulatory authorities and TSOs in the new Energy Efficiency Directive will be addressed. For instance the SEM Committee must set out how the requirements of Article 15(5) of the new Energy Efficiency Directive concerning priority of dispatch for high efficiency CHP will be maintained under any changes to the SEM.

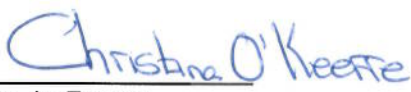
Shannon LNG support's the SEM Committee Decision to continue a capacity payments regime.

With respect to the SONI/EirGrid paper entitled "Dispatch Model for the All Island Market / Transmission System, November 2012" that was published as part of this consultation; Shannon LNG would like to make the following point:

Shannon LNG supports the current market option where both scheduling and dispatch are centrally decided based on producing the overall lowest cost of electricity production. Shannon LNG believes that Options 2 and 3 on page 7 of the SONI / EirGrid consultation paper raise significant concerns with respect to market power and should be ruled out at an early stage of the process. Both options 2 and 3 are effectively bilateral markets and raise significant concerns for potential new entrant generation such as Shannon LNG.

Shannon LNG would like to thank you for the opportunity to respond to this Consultation.

Sincerely,


pp Martin Regan.