



Jean-Pierre Miura
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Emma Tinker
Director, HgCapital
2 More London Riverside
London
SE1 2AP
UK
E-mail:emma.tinker@hgcapital.com
Direct: +44(0)2070897955

Philip Newsome
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

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Dear Mr. Miura and Mr. Newsome;

HgCapital is Europe's largest institutional investment fund solely dedicated to investing in EU renewable energy projects. Since 2004 we have raised over €900 million in equity capital from over 30 leading global institutional investors. Working with the Craydel Group we have built a 44MW wind farm in Kerry, a 42MW wind farm in Galway, are in the process of beginning construction of 50-100MW during 2014 and have a project pipeline supporting the development of an additional 300MW of onshore wind.

We have a strong interest in a stable effective electricity market in Ireland that is aligned with the Irish Government's intended transition to 40% of electricity being generated from renewable energy. We are committed to a liquid transparent market that provides ease of access and a level playing field for all participants. Such a market promotes competition and innovation to the benefit of the end consumer.

HgCapital welcomes the proposals based on Option 3 and are happy with the direction that the design has taken so far. The following are the areas that we consider require attention during the next phase.

Stability and certainty around maintenance of full REFIT revenues

It is critical for Ireland to ensure the long-term stability and certainty of its investment incentive regimes if it is to attract the funding needed for its stated renewable energy targets. The current REFIT regime interacts closely with the SEM where total market revenues are compared to total REFIT entitlements to determine the level of PSO support. It is possible that the market revenues in I-SEM will no longer originate from the combination of SMP and capacity prices, but instead comprise revenues from the futures/forwards, day-ahead, intra-day, balancing and CRM markets. Wind may also face a balancing risk in I-SEM which does not exist today. These factors will change the interaction of the market and REFIT compared to today.

2 More London Riverside T +44 (0)20 7089 7888
London SE1 2AP F +44 (0)20 7089 7999
United Kingdom www.hgcapital.com

It is absolutely critical that the operation of REFIT in I-SEM provides exactly equivalent revenues for REFIT projects as would be experienced in the SEM market. The Governmental initiatives and regulatory approach to date in Ireland has resulted in Ireland being viewed quite favourably within the investment community. The ongoing stability of revenues during the transition of REFIT from SEM to I-SEM is a priority if the Irish Government wishes to hit its 40% renewable generation targets.

Any erosion in total revenue for existing projects and projects with REFIT contracts during this time would be viewed as retroactive intervention on firm commitments that were provided to the investment community. This would consequently destroy confidence in the Irish market among the investment community. The investment community is particularly concerned about the balancing risk that wind units may face in I-SEM. We believe that the RA's jointly with the DCENR should move immediately to assure the investment community of its intention to firmly fulfil their exiting stated commitments to the sector and clarify that revenues for projects with REFIT contracts will not be affected in any way by I-SEM.

The design of new arrangements for renewables to take effect from 2018 for projects built after the closing date for the existing REFIT mechanism is underway. We understand that the interaction of the new SEM and the future renewables arrangements will vary from the current REFIT and we see this as the appropriate point at which any changes should apply.

Liquidity promoting measures

Delivering sufficient liquidity in the futures/forwards, day-ahead, intra-day and balancing markets has been identified as a core objective in the I-SEM HLD Draft Decision paper and we strongly agree with this design principle. The draft decision to implement exclusive centralised markets is a clear liquidity promoting measure but it by no means guarantees sufficient liquidity in each of the I-SEM timeframes. Permitting non-mandatory participation in the day-ahead and intra-day timeframes may result in participants waiting until the imbalance market to trade, causing very illiquid day-ahead and intra-day markets.

We believe that sufficient liquidity in the day-ahead market in particular is a priority. It is vital that the RAs put in place measures, for example permitting trading between market time frames, to ensure that there is sufficient day-ahead market liquidity. If day-ahead liquidity promoting measures are not included then we would consider it acceptable to have mandatory day-ahead participation for all units with a transition period for wind generators.

Fair and equal participation in the capacity remuneration mechanism

We support the presence of a CRM as an instrument to ensure adequate generation capacity in the I-SEM but we note that the proposed CRM it is a potentially distortive change in the mechanism adopted today. The CRM in the I-SEM HLD Draft Decision paper is a move from the effective energy linked instrument we have today to an instrument where the RAs can choose to apportion different value to different generators. This design needs to be carefully considered for it not to be distortive. Wind units in particular who may already be facing increased balancing risk in the I-SEM will require certainty that their CRM revenues will be wholly reflective of their valuable contribution to the system. The centralised reliability option has been presented with insufficient detail for us to determine that this will be the outcome. Some of the key outstanding questions are; how will wind units be treated in the CRM? How will the strike prices for wind units be determined? How will the reference prices be determined? Will there be different auctions and strike prices for different technologies?

It is imperative that the RAs move swiftly to clarify the treatment of wind units in the CRM and provide certainty that their CRM revenues will be wholly reflective of their valuable contribution to the system.

Alignment of the financial and physical markets

HgCapital raised concerns to the RAs about the levels of re-dispatch that will be required in the I-SEM because the EUPHEMIA algorithm cannot account for the operational constraints that exist on the island. We stated that the design has not acknowledged the level of re-dispatch that will be carried out by the TSO under I-SEM and that the RAs should carry out a full assessment of this impact on the proper functioning of the I-SEM. We note that TSO expressed similar views where it considered that "use of the EUPHEMIA algorithm for the starting point for system dispatch will lead to unit positions further from physical dispatch than today". It is imperative that the RAs clarify the expected levels of re-dispatch and dispatch adjustment that will exist in the I-SEM, detail the rules concerning how these adjustments will be settled and detail the prevention measures for any gaming opportunities that might arise from such dispatch adjustments.

HgCapital look forward to further engagement with the RA's throughout the development of the I-SEM design.

Respectfully yours,

A handwritten signature in cursive script, appearing to read "E. Tinker".

Emma Tinker
Director