

TYNAGH ENERGY
L I M I T E D

Kevin Hagan
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Kenny Dane
Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED

Ref: TEL/DV/15/059

25th March 2015

RE: Building Blocks Consultation Paper (SEM-15-011)

Dear Sirs,

Tynagh Energy Limited (TEL) welcomes the opportunity to respond to the Energy Trading Arrangements Detailed Design Building Blocks Consultation Paper (SEM-15-011). TEL believes that the Rules Liaison Group workshops have been beneficial in discussing the issues contained within the paper. They have assisted in the broadening of the knowledge base of all market participants.

It is clear that the design of the balancing market and the TSO dispatch process will have a significant impact on many of the issues within the consultation. Without understanding the implication of these design decisions it is difficult at this stage to provide detailed comments on all the issues being discussed.

TEL would however stress that all decisions that are made must be consistent with the I-SEM HLD decision (SEM-14-085a). The SEM is an unconstrained market and the I-SEM should also be unconstrained. TEL welcomes the restatement by the SEM Committee (SEMC) that the HLD did not signal a change to this policy. All generators must continue to be free to trade the full output of their generation assets through the ex-ante markets. Where the generator are unable to generate to meet traded volumes due to a constraint they must be compensated for any lost profits. This should be a fundamental principle that underscores all future decisions in the design of the balancing market and the TSO dispatch process.

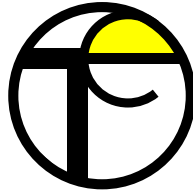
Further clarity is also required on the interaction between the I-SEM and the renewable support mechanisms in both ROI and NI. This is essential as the incentives that are placed on renewable generators will determine the success of the Energy Trading Arrangements.

TEL wishes to comment on the following specific topics:

- Treatment of Losses
- Constraints
- Market Information

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

DIRECTORS
Gerald Friel (US), Catherine Kelly (US)
Bran Keogh (IRE), Diarmuid Hyde (IRE)
Arif Ozozan (BE)
REGISTERED NUMBER: 378735



1. Treatment of Losses

TEL is strongly of the view that the existing policy on losses is not appropriate within the context of the I-SEM. The current policy is designed to provide locational signals for generation to build where it is needed. These signals are weak at best and have very little bearing on the location of generation assets on the island of Ireland.

The decision to locate wind generators is determined by where the wind resource is located. This is often in locations with poor TLAFs. For tariff year 2014/15 the average losses for wind farms connected to the transmission system are 1.4 times the average losses of thermal plant. The primary decision in locating a thermal plant is the access to fuel. In the case of coal and oil fired plant this means access to a deep water jetty whereas for gas it means access to the gas transportation system. Transmission losses do not factor in this decision.

In fact as TLAFs are not fixed for new build plant, the very fact that a plant has commenced construction will undermine the original locational signal. This was demonstrated when ESB built Aghada CCGT. In the year prior to the plant being built the average TLAF at Aghada generation station was 1.03¹. Once the decision had been made to locate the plant, and a second CCGT was constructed in the Cork area, the average TLAF had disimproved to 0.958²; this represents a 7.5% increase in the SRMC of the generator in question.

There is a high level of competition amongst CCGTs on the island with less than 3% efficiency between all the efficiency values quoted in the OEM literature. This 7.5% increase in costs would represent more than a 4% decrease in efficiency. This had a significant impact on the merit order and ultimately led the SEMC in 2012 to change the policy to compress the losses.

The current policy also relies on a PLEXOS based model to forecast the dispatch. This PLEXOS model constructs the merit order based on the relative efficiency of generation assets. It does not take account of commercial decisions that individual generators make. For example it does not currently consider how generators price gas capacity costs within commercial offer data. In the I-SEM the merit order will be further complicated by the relaxation of SRMC bidding principles³, generator decisions regarding the representation of DS3 revenue and start costs within generation offers.

Likewise the increase in wind generation and the variability that is inherent in this type of generation will mean that the forecasted dispatch on which TLAF calculations are based will not be accurate. This is further exacerbated by unplanned outages and the TSO's monthly updates to list of Operational Constraints, which would not have been factored into the original forecast. This will result in generators being unfairly penalised because the forecast dispatch is inaccurate and place them at a disadvantage compared to generators in our nearest neighbour. It will also result in suppliers being exposed to imbalance energy where the forecast losses are different from actual losses. Suppliers would have no ability to forecast or mitigate against this risk. It is therefore more appropriate that the cost of transmission losses on the island are socialised.

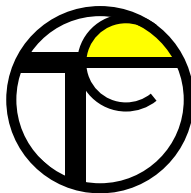
However losses that result from cross-border flows should be represented by the true losses that these flows impose. TEL supports the representation of EWIC and Moyle as two separate ICs with separate loss factors.

Whether the SEMC decide to address the inequity in the TLAFs or not, TEL would argue that generators should only be required to offer generation with reference to a single point. If losses are socialised the volume at the station gate and the trading site boundary will be the same.

¹2009 Single Electricity Market Transmission Loss Adjustment Factors – ROI Participants

² 2010 Single Electricity Market Transmission Loss Adjustment Factors – ROI Participants

³ Forward and Liquidity Discussion Paper SEM-15-010



However which ever point is chosen this should be the same point for generation offers and physical notifications across all timeframes.

2. Constraints

As previously stated TEL welcomes the restatement by the SEMC of the principle that a generator is entitled to receive the Day Ahead (or Intraday) price or be compensated for lost profits, as revealed through their offer prices, if they obtain a matched trade in these markets and are unable to generate due to a constraint. The ability to match trades in these markets should only be limited by the liquidity in the market and the generators technical capability.

TEL agrees with the SEMC that the detail design of the balancing market should address the outstanding issues of pricing and identification of energy and non-energy action. TEL requests that the SEMC clearly state that access to the ex-ante markets should not be influenced in any way by action taken by the TSO.

3. Market Information

TEL welcomes the SEMC's statement that additional publications from the TSOs and market operator would be useful. TEL would also request that the SEMC consider the applicability of REMIT to non-energy balancing action taken by the TSO. Energy and non-energy balancing actions in the SEM will be difficult to separate i.e. a generator who is constrained on out of merit may ultimately provide balancing energy above their min stable generation. If non-energy balancing action are not made public they could be classed as "inside information" under REMIT as they are likely to significantly affect the price of balancing energy.

I trust that these comments will prove helpful and should you have any queries, please do not hesitate to contact me.

Yours sincerely,

David Vaughan
Commercial Risk and Regulatory Manager