

TYNAGH ENERGY
L I M I T E D

Mr Kevin Baron
Utility Regulator
Queens House
14 Queen Street
Belfast BT1 6ED
United Kingdom

17th June 2016

TEL/CJD/16/100

RE: Fixed Cost of a Best New Entrant Peaking Plant, Capacity Requirement and Annual Capacity Payment Sum for Trading Year 2017.

Dear Kevin,

TEL welcome the opportunity to respond to this consultation and would like to raise the following concerns over the calculation of the payment of €70.99/kW/year for 2017.

Everything else being equal, the annual capacity payment sum (ACPS) should have increased with the increase in capacity requirement. The reason for not increasing the ACPS is the assumption that revenues from DS3 will increase therefore lessening the capacity payment requirement. The basis for this assumption is the Interim Tariffs Consultation. These figures have not been decided and the values themselves have limited foundation.

There are three key reasons why these values should not be used in this model:

- 1) The application of those figures for the BNE are questionable,
- 2) The values in the Interim Tariffs Consultation are inappropriate,
- 3) Inconsistency within the Interim Tariffs consultation as to how these figures are applied.

1. Application of the DS3 Interim Tariffs for the BNE

The assumption that a BNE will earn revenue from 14 services is incorrect as it is only possible to earn revenue from 11 services. This has the effect of over estimating the DS3 revenues for the BNE. Secondly the model should appreciate the effect of the performance scalar to the DS3 revenues. No decision has been made on the scalar design consultation which showed a performance scalar that could range from 0 to 1 with respect to the performance reliability. This scalar could have a significant reducing impact on the revenues of the BNE.

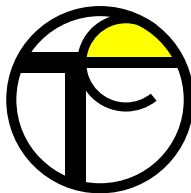
2. Values used in the Interim Tariffs are inappropriate

The 2014 DS3 Operational Capability Outlook identified that DS3 System Services were only to support a 5% increase in SNSP with the rest of the increase being supported by RoCoF and additional tools and controls. The DS3 Programme Operational Capability Outlook 2016 highlights that once the proposed System Services Interim Arrangements are operational the SNSP limit should increase from 55% to 60%. The sole driver for this move is detailed as the DS3 Interim Arrangements.

The interim tariffs are seen as the initial step in the process towards the full budget DS3 spend of €235 million. However the 2014 DS3 Procurement Decision stated that payments should be in-line with the increase in volumes required to support the move to 75% SNSP. Following on

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from this statement, and the prediction that the full benefit of DS3 System Services will be met by Q1 2017, the Interim Tariffs should be considerably higher than consulted upon.

3. Inconsistencies within the Interim Tariffs Consultation:

The DS3 Interim Tariffs have not been decided. The DS3 Interim Tariffs Consultation appears to allocate €9 million out of the €70 million to the three fast acting reserves through the tariffs, yet the consultation states that only €3 million will be spent on these services. The under allocation of €6 million will impact on the tariffs of the other 11 system services.

A further issue with the BNE consultation using the DS3 revenue approach is that the 2014 Procurement Decision Paper states that generators will be paid irrespective of constraints on the better of a generators market or dispatch position. However, the Interim Tariffs Consultation indicates that payments will only be paid for dispatch. If the payments are made on market as well as dispatch basis, then the rates will be lower and the BNE Peaker will not receive the same revenue.

TEL do not agree with the use of DS3 tariffs, which are still in a consultation phase, for the calculating of the ACPS. Such calculations should only be performed when all the necessary DS3 Tariff decisions have been made.

We would recommend that the same model that was used for the BNE 2016 would be used for 2017, i.e. that the HAS payments are indexed.

If you have any questions please do not hesitate to contact me.
Yours sincerely,

Cormac Daly
Risk and Regulatory Manager