15 Windsor Terrace,
Sandycove,
Co. Dublin.

Telephone: 01- 2303666

13th February 2013

By email to: DS3@eirgrid.com

Re: DS3 System Services Third Consultation

Dear Sir,

Shannon LNG Ltd is responding to the above referenced consultation issued by the SEM Committee on 19th Dec 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.

As a potential developer in the Irish Energy market, the important issues to us are the stability of market rules and understanding the obligations in terms of the technical ability of generating plant to meet the challenges imposed by market rules.

The Consultation document issued with the cover note lists a range of services which the TSO's are considering. It is not yet clear how challenging it is going to be to provide the additional services which the consultation paper suggests are required to achieve a very high Synchronous Non-Synchronous Penetration (SNSP) target of 75%.
We make the following responses to the questions in the Joint TSO's paper.

Questions being asked:

1) Do you agree with the proposed value based approach to informing the amount of funding available for System Services is necessary and appropriate to deliver the required services to achieve the renewable targets?

   Response 1) No. The achievement of a SNSP target of 75% appears highly questionable in Ireland where high CO_2 emitting coal and peat generation are being dispatched in advance of lower CO_2 producing gas fired generation. This consultation appears to be advocating the introduction of measures to support higher renewable generation to reduce CO_2 emissions while at the same time the electricity market in Ireland is dispatching the highest CO_2 producing generation. It appears pointless taking measures to encourage further renewable generation before this fundamental policy matter is addressed.

   The SEM cover note refers to a calculated benefit of the new system services of €295 million per annum. From the Plexos study outputs, (Table 8 in Appendix A) we note that this represents a 2% reduction in production costs from the starting point of today's power generation (production) costs. Past experience demonstrates that the cost of new systems can be very much understated. We would urge the regulatory authorities to closely engage with generators to ensure the costs of the new system are not understated.

2) To what extent, if any, should capital costs inform the decision regarding future system services?

Response 2) We believe that capital costs incurred by existing and potentially new thermal generators should be included in the decision making process as to whether it is justified to move to a target of 75% SNSP. Also any increased operating costs to thermal generators also need to be taken into account. We believe a Net Present Value type approach should be adopted and that the process should not be driven by a pure 'must achieve 75% SNSP at any cost' driver.

3) Do you agree with the proposed methodology for determining the aggregate available pot for system services?

Response 3) No, because a rigorous and transparent cost-benefit analysis has not been performed. The TSOs have prepared the estimates but point out that the appropriate annualised cost is a regulatory matter for the SEM Committee. Shannon LNG believes that the SEM Committee should consider the financial risks to investors associated with future uncertainty regarding the level and duration of their return (as the TSOs suggest).

4) Which of the four methods outlined to allocate the funds between the System Services products would you prefer or is there an alternative allocation method that should be considered?

Response 4) We believe option 3 is the most sensible approach. Option 1 (equal division) is too simplistic; Option 4 (developing different generation portfolios) too complex; As between Options 3 and 4, it seems to us that using a Plexos model study to weight the allocation between the products is the better approach.

5) Is the rationale for proposing dispatch-dependent payments clear or is there further justification for a more capability-based approach.

Response 5) We believe the rationale is clear. We also believe that a dispatch dependent approach is better than a pure capability-based approach.

6) Are the proposed general contractual and payment arrangements clear?

Response 6) The TSOs are proposing static rates for system services rather than targeting the payment to times of scarcity. We believe the payments should be tailored to be weighted towards when they are most required.

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

Sincerely,

Martin Regan