TYNAGH ENERGY
LIMITED

EirGrid Plc
DS3
The Oval
160 Shelbourne Road
Dublin 4

REF: TEL/DV/13/033

13th February 2013

Re: Tynagh Energy Limited Response to DS3 System Service Consultation Finance Arrangements

Dear Sirs,

Tynagh Energy Ltd (TEL) welcomes the opportunity to respond to the DS3 System services Consultation on Finance Arrangements. As a member of the Electricity Association of Ireland, TEL supports the collective response of the association. TEL would like to make the following comments:

1. Approach

The current arrangement for payment for Ancillary Services (AS) was designed to incentivise performance from the existing generation fleet in line with Grid Code requirements. It is not designed to incentivise service providers to invest in technology with the capability of providing system services in excess of Grid Code requirements. It is clear that this investment is needed to allow the TSOs to raise the System Non-Synchronous Penetration (SNSP) limit above 50%. If this limit is not raised above 50%, curtailment will continue to increase and the RSE-E Target of 40% for the island will not be met and the associated benefits to the consumer will be forgone. TEL welcomes this consultation from the TSOs and its objective to creating a clear incentive to facilitate this investment.

Increased levels of RES-E will reduce generators revenues from the pool (through reduced SMPs) and dilute revenues from capacity payments through lower payments per MW installed. It is therefore critical that the additional costs of investing in flexibility are properly remunerated through enhanced AS payments, but the required investment in flexibility will not occur without the decoupling of AS from the Capacity Payment Mechanism (CPM).

These two payments are for two distinct services which have value to the system. CPM remunerates for generation adequacy, ensuring that generation is available at time of high demand, and AS remunerates for flexibility. The scarcity of one service should not determine the value of the other or the distinct objectives of these two mechanisms will be compromised in the medium to long term. To maintain this link increases the risk of regulatory intervention where the availability of either service changes. This possibility of regulatory intervention increases the perceived risk to investments.

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

DIRECTORS
Mr Gerald Friel (USA), Mr John Cote (USA)
Mr Bran Keogh (IRE), Mr Diarmuid Hyde (IRE)
Mr Arif Ozozan (TR)
REGISTERED NUMBER: 378735

The TSOs have neglected to consider the actual likelihood of investment under each remuneration approach. Service providers can only provide a capability but the TSOs control whether a service is called or not, thus making dispatch-based payments excessively risky for investment. This creates a risk to adequate service provision. TEL favours capability-based payments provided the link between CPM payments and AS payments is broken.

Bilateral Contract with a longer duration may on the face of it appear to provide the confidence to influence investment decisions, but it is clear that if these contracts can be reviewed after 3 or 5 years they are, in effect, the same as 3 or 5 year contracts. Generators who make investments to provide system service need to have confidence that they will recover the capital cost at an attractive rate of return over the life of the contract otherwise investment will not take place. If the review period of the contract is 5 years this would necessitate sufficient additional revenue over these 5 years to justify the investment.

TEL is broadly supportive of the value based approach to incentivise investment in flexibility but this must be sufficient to enable service providers to recover the capital, operating and maintenance costs of providing these services. There are a range of external factors in determining the value which are acknowledged by the TSOs as outside their remit. It is important that these factors are considered when the final valuation of the future system services is determined.

TEL welcomes the KEMA cost analysis but has been unable as yet to confirm with our OEM what investment would be required to provide these services and so cannot comment of the true costs of enhancing an existing CCGT. It should be noted that some of the required technical upgrades to deliver the new services may not have been developed as yet. The TSOs and Regulatory Authorities (RAs) must be cognisant of the potential lead time to develop and implement technical solutions for existing CCGT if these new system services are to be delivered in time to meet the RES-E Targets.

Manufacture, delivery and installation of existing technical upgrades will take at least 12 months. Where a technical solution does not yet exist it will take far in excess of this and may require a commitment from TEL before this development will occur. This commitment could not be made until certainty exists on the mechanism for payment of AS and that a contract has been entered into with the TSOs. TEL cannot make a preliminary assessment of the ability to contract for these services as the consultation paper does indicate where on the electrical system sources of ancillary services need to be connected or the process the TSOs will undertake to allocate contracts.

2. Products

Rate of Change of Frequency (ROCOF)

This issue remains unresolved and the costs of resolving the issue have not been quantified. TEL strongly contends that cost recovery for both the capability analysis and any costs identified to improve the capability should be recoverable.

Synchronous Inertial Response (SIR)

All inertia has value and all plant that provide this service should be remunerated. The arbitrary threshold of 15s should be removed.

Ramping

TEL seeks confirmation that generators that are not synchronised but can deliver this service in the required timeframe are eligible for payment. The additional flexibility provided by Dual Fuel and Multi-mode plant should be remunerated. Under current market rules it is only

possible to have one set of Technical Offer Data (TOD) accepted per trading day. This TOD may not reflect the full capability that this type of plant can deliver. For this reason it may not be appropriate to calculate payments purely based on TOD.

The current payment design may also create a perverse incentive to reduce flexibility. This happens because where a generator offers offer for this service in attractive they increase the likelihood of being constrained on. When a generator is constrained on they may no longer eligible for this payment and will only be paid the fuel costs that they have incurred while generating. This may defeat the objective of the service.

TEL remains available to engage with and assist the TSOs wherever possible and look forward to further discussion on this matter.

Yours sincerely,

David Vaughan
Business Analyst

TYNAGH ENERGY LIMITED

The Crescent Building, Northwood Park, Santry, Dublin 9, IRELAND

TEL: +353 (0) 1 8578700 • **FAX:** +353 (0) 1 8578701