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Ref: TEL/CJD/16/069

28th April 2016

RE: Consultation on DS3 System Services Scalar Design

Dear Sirs,

Alongside the answers to the questions raised in this consultation TEL would like to take the opportunity to highlight some concerns in response to the overall DS3 consultation to date.

TEL considers that DS3 is of greater importance to the Irish electricity system than the I-SEM market changes. There is a need to get DS3 right first time. The proposals presented throughout this consultation process are overly complex, both for generators and TSOs. The process that is implemented for DS3 System Services must provide the greatest opportunity for this timely investment. The proposals will not ensure security and sustainability and will frustrate renewable policy delivery. The fundamental point of DS3 is to maximise the benefit for consumers of the high levels of wind capacity on the island, which requires significant and timely investment primarily from thermal generators.

TEL would like to raise the following points in response to the DS3 system services consultations to date:

1. Investment clarity is paramount
2. Commitment model
3. Interim Tariffs

1. Investment clarity is paramount

In order to get sufficient investment to meet the demand for System Services there has to be clarity throughout the process. The process should be as simple as it can be (bearing in mind the extensive changes for capacity and energy revenue streams in I-SEM). There must be sufficient revenue certainty to entice new investment to provide system services. Without this new investment the DS3 project will not succeed and it will not be possible to reach the 75% SNSP level. The system will have significant wind curtailment (greater than 5%) and Ireland will not meet its carbon targets.

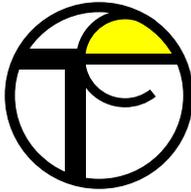
Revenue certainty for new investment involves four aspects:

a) Guaranteed length of tenure (Long Term Contracts)

It has previously been outlined in both the Procurement Decision and the Competition Consultation, that annual and long term auctions will take place together but only for those services where there will be sufficient competition. This has a significant flaw as

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some services may be deemed competitive prior to others and the auctions will then take place in different years. Investors who need to have a return across a number of services will be commercially constrained from participating in these limited auctions. Therefore, they will not be able to avail of long term contracts.

The DotEcon paper suggests packaged bids and separating the short and long term auctions. This is a good starting point but we would suggest going further. The short term auctions should only occur when there is deemed to be sufficient competition. Long term auctions should commence in 2017.

All long term contracts should be offered on all of the services that can be provided by that participant. This is in line with what was originally described in the Procurement Consultation for the Multiple Bid Multiple Timeframe Option 5. This would lead to greater investment and the investment would occur sooner. This is exactly what is required in order to meet the 2020 targets.

b) Guaranteed minimum price that is sufficient to justify investment

The cost-plus regulated tariff that has been proposed will not be sufficient to encourage investment. The price must be set at a level that will attract new entry. If it is not, investment will not occur. Unfortunately the RA's are in a position where they have only one opportunity to set the regulated tariffs at a level to encourage investment. If the prices are set too low, there will be no investment in time for 2020.

TEL would recommend that prices are not based on cost but based on a combination of the inherent value of the service, and the scarcity at the time, and that this regulated tariffs should be changed on an annual basis. But that new investment would be able to get long term contracts based on these regulated tariffs.

c) Package Based Bidding

TEL sees considerable merit in package based bidding, particularly allowing participants to bid for all of the services at one time. However with the formula proposed for the packaged bids, the use of setting the quantities at the "maximum amount" in the bid parameters could result in providers not being able to cover their costs.

We are concerned that due to the proposed formula and bid structure, the single price for the package of services could result in perverse pricing for some system services. For example, it may see a higher price for SOR than for POR.

In the Portfolio and Volumes consultation which outlined potential investment portfolio scenarios for 2020, it was suggested that there would be new OCGT's on the market and that CCGT's would be enhanced, both of these will only be possible if investors can win a contract for all services that they can provide.

Finally new investors will find it extremely difficult to estimate technical availability to provide services fifteen years out considering the potential divergence in the quantity of wind generation.

d) Payment Basis

Payments for flexibility need to be based on the delivery of these services either through dispatch or through the market. If plants are paid purely on their capability, there will not be the required exit signal, and some older plant may be paid for services than they fundamentally cannot provide.

Equally, if payments are based on capability there will be less investment as less of the overall budget will be paid to those plants who will provide the service.



TEL urges the RA's to ensure that investors see clarity and certainty in the DS3 System Services process, otherwise the success of the project is at risk.

2. Commitment Model

The commitment model has the potential to be counterproductive. If plants are forced to provide services at times of low volume there will be an increase in SMP at these times. If for example there are only 6 CCGT's to meet the system, each CCGT has a max output of 400MW, and a minimum generation of 200MW. At times of low wind and a net thermal demand of 1200MW, we would expect the SMP to be set by the third cheapest CCGT. However, if there is a requirement for all plants to provide system services at the time, they may all be forced to run at minimum generation, at which stage the most expensive plant will set the market price.

3. Interim Tariffs

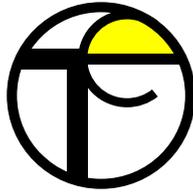
While TEL accepts that there is an outstanding consultation on Interim Tariffs, it is important that these points are stated as soon as possible.

Interim tariffs have to be set at a level that will encourage those that are considering investing to deem the investment worthwhile. Investors look at these rates as indicative of income from the system. If these rates are too low, investors will not come back for a second look at DS3 but will invest elsewhere.

Furthermore the published Interim Tariffs will actual see a loss of revenue for generators. Of the fourteen services, three fast acting services have been placed into an experimental pot of €3 million. The remaining four new services which appear to have been budgeted to receive more than €20 million will see a matching reduction (as outlined in the consultation) for generators in their capacity revenue. While the initial seven services will actual see a drop of 24% in generator revenue for these services.

The following table outlines the current and proposed rates and shows the volume that will be provided by a 400MW CCGT with AVR.

Revenue per hour	Volume	Proposed Rate	Current Rate	Better rate?
Primary Operating Reserve (POR)	20	49.40	47.20	Proposed
Secondary Operating Reserve (SOR)	20	27.40	45.40	Current
Tertiary Operating Reserve (TOR1)	32	38.08	60.48	Current
Tertiary Operating Reserve (TOR2)	40	39.60	37.60	Proposed
Replacement Reserve – Synchronised (RRS)	200	26.00	42.00	Current
Steady State Reactive Power - Leading	158	31.60	44.24	Current
Steady State Reactive Power - Lagging	248	49.60	69.44	Current



Furthermore the Decision Paper continually refers to DS3 commencing in 2016, however the statement at the Scalars Workshop that the Interim Tariffs will only be paid for Dispatch suggests that HAS is being extended and that DS3 will only start after the Interim Tariffs are finished. There is nothing in the decision paper to suggest a different payment basis for the Interim Tariffs and for the enduring solution.

If you have any questions regarding any of these comments or our answers to the specific questions please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads 'Cormac Daly'. The signature is written in a cursive style and is positioned above a solid horizontal line.

Cormac Daly
Risk and Regulatory Manager