

TYNAGH ENERGY
L I M I T E D

James Curtin
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Joe Craig
Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED

Ref: TEL/CJD/15/192

19th October 2015

RE: Financial Transmission Rights Consultation Paper (SEM-15-061)

Dear Sirs,

Tynagh Energy Limited (TEL) welcomes the opportunity to respond to the Integrated Single Electricity Market Financial Transmission Rights Consultation Paper (SEM-15-061).

TEL commends the RAs for setting out clear objectives that the Financial Transmission Rights (FTRs) must fulfil. TEL would like to draw particular attention to the first objective of facilitating effective risk management. TEL fully agrees with the expansion under this point explaining why facilitating risk management is required. In particular TEL is encouraged by the stated objective "facilitate management of price and volume risk associated with variable spot market prices". TEL understands this to mean that FTRs must equally facilitate the interests of generators wishing to export from the I-SEM as much as suppliers wishing to import into the I-SEM.

TEL however is disappointed that all the worked examples contained within the paper are shown from the perspective of an I-SEM supplier. TEL would urge the RAs to ensure that worked examples from an I-SEM generator's perspective are considered as part of the decision making process to ensure that FTRs meet all stated objectives.

Q1. Which offers the greater benefit to the I-SEM/GB market: FTR Options or FTR Obligations?

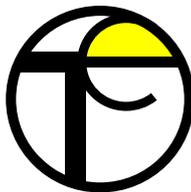
One of the failings of the current SEM is that there is a bias towards imports on the interconnectors. This is due to the fact that generators are unable to self-schedule and are therefore exposed to an unknown ex-post price to purchase power in the SEM for export. The generator cannot hedge their exposure to this price as they are not guaranteed that they will be generating i.e. the generator is exposed to volume risk.

A supplier however does not have this risk when importing. If a supplier has customers then the supplier is guaranteed to have a physical demand position in the SEM. When importing, the supplier will receive the SMP for the imported electricity and can offset this against the SMP paid for the demand.

The SEMC I-SEM HLD Decision was to only allow financial trading in the forward time frame and to make EUPHEMIA the exclusive route to physical contracting. The result of this is that if FTR Obligations are implemented in the I-SEM generators will be exposed to an unacceptable

**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



level of volume risk when attempting to export. This will result in the I-SEM continuing to favour imports. This is against the RAs stated objectives for FTRs.

To demonstrate this consider the example of two different I-SEM generator participants. The first is a large wind participant/aggregator. This participant has forecast that when the wind is blowing, price in the I-SEM will be lower than GB. This participant would like to take advantage of this forecast and implement a trading strategy incorporating FTRs.

However in periods of low wind on the island this participant has forecast that prices in the I-SEM will be higher than GB and the wind participant will not be guaranteed that they will have any physical position in the DAM. If FTR Obligations are implemented in the I-SEM they will oblige the wind participant who holds them to pay out during periods where they are unlikely to have a physical position. Purchasing an FTR Obligation will expose them to uncapped payments which they are unable to hedge. FTR Obligations will not facilitate the management of a wind participant's volume risk.

The second generator participant is a mid-merit generator. This participant has forecast that price in GB will be higher than the I-SEM during the period where they are likely to be scheduled. This participant would like to take advantage of this forecast and implement a trading strategy incorporating FTRs.

However during the night valley in periods of low wind on the island this participant has forecast that prices in the I-SEM will be higher than GB and the mid-merit generator will not be guaranteed that they will have any physical position in the DAM. If FTR Obligations are implemented in the I-SEM they will oblige the mid-merit generation participant who holds them to pay out during periods where they are unlikely to have a physical position. Purchasing an FTR Obligation will expose them to uncapped payments which they are unable to hedge. FTR Obligations will not facilitate the management of a mid-merit generation participant's volume risk.

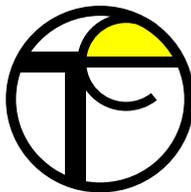
FTR Options on the other hand will rebalance the bias that currently exists in the SEM. They enable one standard FTR product to be offered at auction without the need for time of day products. Both the aforementioned wind participant and mid-merit generator would be able to successfully utilise an FTR Option in their trading strategy to take advantage of times at which prices in GB are forecast to be higher than the I-SEM without exposing themselves to an unacceptable level of volume risk. This will also facilitate the development of a liquid secondary market. Only FTR Options will meet the RAs stated objectives and will maximise the usefulness of FTRs by all participants in the I-SEM.

Q2. What arrangements would be preferred: one FTR between the I-SEM and GB or one FTR per interconnector?

A single FTR product would concentrate liquidity in a single auction. The RAs minded to position to support the sale of FTRs by interconnector is consistent with the recent Building Blocks Decision (SEM-15-064 – model the losses on each interconnector separately subject to confirmation of its feasibility in EUPHEMIA) however the evidence of a cost benefit analysis is not presented in the consultation paper. TEL would request that the evidence of the cost benefit analysis that accurately reflects the costs and the benefits to the whole market be presented prior to the RAs arriving at a minded to positions.

Q3. Should any of the following be discounted from the FTR product payouts? Interconnector transmission losses; Ramping constraints; Curtailment risks.

FTRs are financial contracts they do not represent the physical flow on the interconnector. An I-SEM participant is using FTRs in their trading strategy to hedge against price risk when forward contracting to purchase or sell power in GB. This participant is exposed to the risk of



price differences between the two markets whether or not the interconnector physically flows. If the FTRs are to meet the objective of facilitating risk management then TEL would argue that there should be no discount for transmission losses, ramping constraints or curtailment risk. Revenue adequacy for the Interconnector Owner is not one of the objectives set out by the RAs in the objectives for FTRs. However not allowing these discounts from payouts will not risk revenue adequacy as both interconnectors are already supported through demand side TUoS charges.

Q4. What are the important issues to be considered in deciding on the development of an auction platform?

As outlined above only FTR Options will meet the RAs stated objectives. FTR Options are also in the early implementation of the HAR. The decision to implement FTR Options would therefore negate the need for a local/SEM allocation platform and the associated risk of high stranded costs to be borne from local implementation.

Q5. What is the preferred approach in relation to the establishment of the I-SEM FTR auction platform?

If the Joint Allocation Office (JAO) Platforms is to become the Single Allocation Platform then the I-SEM will have no choice but to join this. TEL would argue that the lowest cost options would be to join the JAO Platform now and therefore this is the preferred option. It is difficult to see how FTRs on HVAC Interconnectors are different from FTRs on HVDC Interconnector. The development of a FUIN Platform as an interim step would appear an unnecessary cost for I-SEM participants.

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

Yours sincerely,

Cormac Daly
Risk and Regulatory Manager