TYNAGH ENERGY
LIMITED

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Commission for Energy Regulation
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Gas Branch Utiilty Regulator
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Ref: TEL/DV/11/152

19th August 2011

RE: Common Arrangement for Gas Consultation (CAG/11/018)

Dear Jerry and Richard

Tynagh Energy Ltd (TEL) welcomes the opportunity to respond to the Regulatory Authorities' (RA's) consultation paper (CAG/11/018).

As gas fired independent power producer in the Single Electricity Market (SEM), TEL support the development of the All-Island Common Arrangements for Gas (GAG) which was outlined in the CAG Memorandum of Understanding signed by the RAs on the 14th of February 2008. Principle 1 states that:

> *"This means that variations in the price and conditions on which gas is bought and sold will be determined by market conditions and economics, not by variations in regulatory arrangements."*

The 2011 Joint Gas Capacity Statement forecasts that the power sector will account for between 66% and 68% of gas demand on an all-island basis over the next 10 years. Differences in the capacity commodity split are creating distortions for gas fired generators in the Single Electricity Market. The Bidding Code of Practice requires generators to bid into SEM at their short run marginal cost. This means that only the commodity tariff can be included in the bids of gas generators.

TEL agree that harmonising the capacity commodity split at entry will go some way toward facilitating a level playing field between gas fired power stations in SEM and believe this should be extended to exit. The suggestion that changing the capacity commodity split at exit

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could be used to compensate for the change at entry would only serve to maintain this distortion.

Flexible gas units will play a key role in catering for intermittent nature of wind as outlined in a recent study conducted by Pöyry. At present there is no opportunity for generators to recover the fixed costs associated with gas transportation. TEL would support a harmonised capacity commodity split of 75:25. Lowering the capacity element would reduce the transmission costs and would create a positive incentive to gas generators that are being pushed into the mid-merit and peaker market segment in response to the development of intermittent generation.

TEL agrees that a significant capacity element encourages efficient booking and use of the pipelines but do not believe that a 75:25 capacity commodity split will lead to capacity hoarding. An increased commodity charge will link the transmission charge more closely to annual gas use and would encourage energy efficiency in the residential sector.

Yours sincerely

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