TYNAGH ENERGY
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REF: TEL/DV/12/239

18th December 2012

Re: Implementation of the European Target Model for the Single Electricity Market – Next Steps Proposed Decision Paper (SEM-12-105)

Dear Sirs,

Tynagh Energy Ltd (TEL) welcomes the opportunity to respond to the Implementation of the European Target Model for the Single Electricity Market – Next Steps Proposed Decision Paper. As a member of the Electricity Association of Ireland, TEL has participated in industry meetings and supports the collective response of the association. TEL would like to make three comments on the proposed decision.

1. High Level Principles

TEL accepts the SEM Committee recommendation that changes to the design of the SEM will be evaluated using the same eight criteria proposed for the SEM High Level Design with the addition of a ninth criteria of "Implementation of the Target Model". TEL does not however agree that the statutory obligation not to discriminate is sufficient.

While interconnector participants trading in the SEM are required to accede to the Trading and Settlement Code, they are not an authorised supplier of electricity nor are they licensed by either the Utility Regulator or the Commission for Energy Regulation. The Equity and Competition criteria should therefore be expanded to ensure that the changes to the SEM do not discriminate between participants and customers located on the island of Ireland and our European counterparts.

2. Dispatch Model

The TSOs have a statutory duty to operate the transmission system in a safe, secure, reliable, economical and efficient manner. In order to fulfil this duty the TSOs dispatch the system in real-time. The TSOs state that in the SEM today the principle is "least-cost dispatch" i.e. the TSO may dispatch a generating unit away from its market position to account for system conditions but does so to meet least cost dispatch. The tools that the TSOs have at their disposal to achieve this goal is the Unconstrained Units Commitment tool (UUC) and the Reserve Constrained Unit Commitment tool (RCUC).

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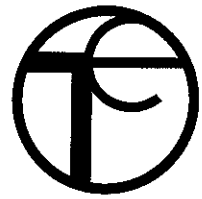

The UUC is run ex-ante to calculate an ex-ante Market Schedule Quantity (MSQ) for each unit. This takes account of the Commercial and Technical Offer Data submitted by market participants and uses forecast system demand and forecast wind output. The SEM is an ex-post market so MSQ is recalculated ex-post using actual system demand and actual wind output. This design effectively excludes demand from the market and therefore appears to be contrary to the requirement of the CACM Network Code[1], which states:

> *Nominated Electricity Market Operators shall ensure that Orders submitted to the Price Coupling Algorithm shall be expressed in terms of Euros and make reference to Market Time.*
> *Order means an intention to purchase or sell energy and/or capacity expressed by a Market Participant subject to a certain number of execution condition.*

Similarly unexpected unavailability of plant is accounted for in the market schedule with the outturn availability used to calculate MSQ. This excludes generators from the market schedule if they are unavailable and does not make them responsible for their imbalances. This is contrary to the requirement of the Framework Guidelines on Electricity Balancing[2] which state:

> *The Network Code on Electricity Balancing shall describe that the general objective of imbalance settlement in national balancing mechanisms is to ensure that Balancing Responsible Parties (BRPs) support the system's balance in an efficient way and incentivise market participants in keeping and/or helping to restore the system balance.*
> *Imbalance Settlement is a financial settlement mechanism aiming at charging or paying BRPs for their imbalances.*

It is clear that the UUC will need to change in order to comply with the Target Model. In the TSOs' report on Dispatch Models for the All Island Market the TSOs compared the ex-post MSQ with actual dispatch quantities. The TSOs state that their intervention accounts for 30% of system demand. They conclude that for this reason central dispatch is required. What they have failed to highlight is that the Target Model is an ex-ante market. If the dispatch model remains unchanged the imbalances between the ex-ante UUC and the actual dispatch will increase, leading to a greater divergence. It is not clear how this will be more efficient that self dispatch.

The RCUC produces an optimised Unit Commitment schedule for the island by co-optimising the provision of energy and five reserve categories (Primary, Secondary, Tertiary 1, Tertiary 2 and Negative Reserve). The RCUC tool is an optimisation tool, not a system security constrained tool. The TSOs apply additional constraints (called Transmission Constraint Groups) to reflect their rules of prudent system operation. Satisfying these constraints adds, at a minimum, 650 MW of plant onto the system that is out of merit. This represents between 15% and 40% of system demand in 2012. These constraints costs are not transparent nor are they individually priced but form part of the entire Dispatch Balancing Costs that all customers on the island are required to pay for. It is difficult to reconcile this outturn with the aforementioned principle of least-cost dispatch.

The CACM Network Code specifically outlines its requirements with regard to redispatching of generation:

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[1] Network Code on Capacity Allocation and Congestion Management
https://www.entsoe.eu/resources/network-codes/capacity-allocation-and-congestion-management/favicon.ico

[2] Framework Guidelines on Electricity Balancing
http://acernet.acer.europa.eu/portal/page/portal/ACER_HOME/Communication/News/FG-2011-E-002%20(Final).pdf

The pricing of Redispatching and/ or Countertrading shall be known before their application and shall be based on:

(a) market prices, which reflect the prices in the relevant electricity markets of the relevant timeframe; or
(b) the costs of Redispatching and/or Countertrading resources, which have been calculated transparently on the basis of incurred costs. Generation and load units shall ex-ante provide all information necessary for calculating the Redispatching and/or Countertrading cost to the relevant System Operators. This information shall be shared between the relevant System Operators for Redispatching and/or Countertrading purposes only.

TEL would agree that financial firmness is the same as physical firmness but the question remains as to what position a market participant is being made financially firm to. While it is possible the Central Dispatch may be the correct solution for the island of Ireland it is clear that there will be significant changes to the dispatch model that currently exists. This should be stated by the SEM Committee in their decision.

3. Treatment of Renewables

Ireland has set an ambitious target for renewable energy: 40% of electricity produced will come from renewable sources by 2020. To achieve this 37% of electricity must be wind-powered, a variable source of generation. Targets for Northern Ireland are of a similar magnitude. At present, non-synchronous generation is limited to 50% of demand.

The DS3 project aims to increase this limit to 75%. Non-synchronous wind generation which is Priority Dispatch and is currently excluded from the market could alone reach this limit. Priority Dispatch status cannot be represented as a simple MW constraint in the current SEM systems. Both the SEM and RCUC are designed to deduct the MW Output profile for all Price-Taking Units from the system demand and set about solving the problem of meeting net system demand with the non-PD generation.

The SEM Committee has decided to adhere to the "absolute" interpretation of priority dispatch within the new market design. To avoid market failure and limit curtailment it is important that wind generation in brought into the market i.e. that wind generators are Balancing Responsible Parties and they can effectively trade their electricity across the interconnectors intraday. With Priority Dispatch generation dominating the market pricing the balancing electricity will become increasingly problematic.

The Target Model is explicit regarding intraday trading and continuous market operation "up to one hour ahead of real time". In this regard the RAs clearly state that, under a centrally dispatched market, continuous intraday trading "poses problems of timing" which "could be difficult to implement in a centralised market". It is unclear how this issue will be addressed given the proposed decision on Central Dispatch.

TEL hopes that these suggestions prove constructive to the process and look forward to further positive engagement with the RAs and the SEM Committee.

Yours Sincerely,

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