TYNAGH ENERGY

LIMITED

Kenny Dane
Utility Regulator
Queens House
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Ref: TEL/TOD/12/ 224

15th November 2012

RE: Treatment of Gas Transportation Capacity Costs

Dear Kenny

Tynagh Energy Limited (TEL) welcomes the opportunity to provide feedback on this consultation.

TEL does not support the inclusion of gas capacity costs in generator Commercial Offer Data (COD) as we do not agree they can be considered a short run marginal cost. Where a generator has bought annual capacity, this cost is fixed and does not vary with plant output (whether generating or not).

Daily gas capacity is priced in such a way to encourage the purchase of annual capacity – for any generator which runs more than 125 days in a year or 54 days in the winter months, annual capacity is cheaper. While lower running may appear to make daily capacity more attractive, for a standalone gas generator the reality is that this introduces additional risk. Where a portfolio of gas plant exists, the operator would purchase annual capacity based on the forecast requirement of the portfolio, and transfer between sites as needed.

Based on running levels in the last gas year, all CCGT plants in ROI would have purchased annual firm capacity. The remaining gas units are either "must run" or part of a larger portfolio and would have purchased all or a portion of their capacity as an annual firm product. All gas plants in NI would have purchased annual firm capacity due to the inflexibility of daily capacity products. As annual firm capacity is considered a fixed cost, it cannot be included in COD.

TEL's responses to the following questions:

1. TEL does not believe capacity costs are a short run marginal cost which can be included in COD. We acknowledge there has been development in the trading of gas capacity, in so far as daily capacity can be purchased from the Transporter (in ROI and NI) and bought/sold in the secondary market (in ROI only). To be able to include these costs in COD, one must be able to calculate the Opportunity Cost according to the principles of BCOP.

   Paragraph 8 (i) *"where there exists a recognised and generally accessible trading market"...* There is no recognised and generally accessible trading market for firm daily capacity or secondary capacity. Firm daily capacity is accessible in both jurisdictions but prices are regulated and capacity can only be purchased (not sold).

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Secondary capacity is not generally accessible in NI, and is only available to ROI units who have contracts in place. Price transparency can only be achieved by way of the BGN floor price which will be abolished in October 2013.

Paragraph 8 (ii) *"where no recognised and generally accessible trading market exists"*... As annual capacity is purchased by generators, no replacement is required and therefore there is no replacement cost.

If the Opportunity Cost of gas capacity cannot be appropriately defined according to the BCOP principles, then generators should not include it in their COD.

2. TEL does not believe capacity costs are a short run marginal cost which can be included in COD. However if the decision is to allow them, then both NI and ROI units should include them in order to provide equal treatment and prevent distortions in the market.

3. See response to question 2. It is unclear how the principles in paragraph 8 of the BCOP can be applied as per response to question 1.

4. If capacity costs are deemed to be a short run marginal cost, then all generators must include them in their COD (in both ROI and NI). The least cost product is secondary capacity but it is not accessible to all units. Firm daily capacity is expensive and will have a profound impact on customers, especially in the winter months.

5. If capacity costs are deemed to be a short run marginal cost, then all generators must include them in their COD (in both ROI and NI). Per the response to question 1, as annual capacity is purchased by generators there is no requirement to replace this capacity and therefore there is no replacement cost.

6. While gas capacity is considered in the cost of the BNE, there is no impact as the selected technology is distillate. Even if gas capacity costs were excluded in the BNE paper, the preferred technology would not change and there is no double compensation.

7. If capacity costs are deemed to be a short run marginal cost then none of the methods outlined are suitable. There needs to be a consistent and transparent approach and it must be reflective of the costs that generators would reasonably incur. ROI generators who need capacity and have access to the secondary market will pursue this product first – prices are set contractually and are not consistent with the principles of the BCOP. Daily firm capacity is the only short term product available to NI generators, but as it is considerably cheaper than daily capacity in ROI, there will be distortion in the market.

8. TEL does not support the inclusion of capacity costs and does not believe there is a single method which can be consistently applied, be reflective of reasonable costs and does not lead to distortion in the market. Any method will only be temporary anyway since the EU 3rd Energy Package will bring about significant market changes for both gas and electricity on the Island.

TEL would like to highlight that the inclusion of gas capacity costs (particularly daily firm) will substantially increase the cost of electricity for the end consumer. Any rational generator will purchase gas capacity at the cheapest rate possible. If a generator purchases annual firm capacity but is able to bid in daily firm prices, the result could be a windfall profit for the generator at the expense of the consumer.

TEL does not agree that gas capacity costs should be included in COD as they are not a short run marginal cost. The cost of this capacity cannot be applied consistently and would create distortions in the market at the expense of the consumer. TEL would be happy to discuss the above in greater detail should you require clarification on any of the points raised.

Yours sincerely

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