TYNAGH ENERGY
LIMITED

Mr Kevin Baron
Utility Regulator
Queens House
14 Queen Street
Belfast BT1 6ED
United Kingdom

15th August 2017 TEL/PH/17/165

RE: Fixed Cost of a Best New Entrant Peaking Plant, Capacity Requirement and Annual Capacity Payment Sum for Trading Year 2018.

Dear Kevin,

Tynagh Energy Limited (TEL) welcome the opportunity to respond to this consultation and would like to raise the following concerns over the new proposed "calculation 2" methodology for the Trading Year 2018.

There are two keys reasons why the proposed "calculation 2" should not be applied to the Annual Capacity Payment Sum (ACPS) for the trading year 2018 (up to I-SEM Go-Live date of the 23rd of May 2018):

1. The number of errors in calculation 2, and
2. The erosion of investor confidence in long term regulatory decisions.

1. Number of errors in calculation 2

There are several errors in the SEMC's "calculation 2" that make it difficult to fully understand or determine the actual calculated BNE costs for 2018. The three main errors in "calculation 2" methodology are;

a. The use of CPI instead of RPI for inflating EPC costs,
b. The use of currency conversion as per the table on page 19 of the consultation, and
c. The identification of the inflation index is not presented and difficult to verify.

2. Investor confidence in long term regulatory decisions

In 2012[1], the RAs decided to implement a "*component period horizon of three years as it would bring some stability and certainty to the volatility in the capacity pot year on year*". Consistent with the CPM Medium Term Review, in late 2014 the SEMC decided that the 2016 ACPS would be calculated through a bottom-up methodology. Accordingly, the 2016 BNE was adjusted for inflation for the Trading Year 2017. The SEMC's "calculation 2" proposes to go against previous decisions and change the methodology for the first five months of 2018. Coupled with the SEMC decision[2] to use the Best New Entrant (BNE) for setting the New Capacity Investment Rate Threshold and the Net Cost of New Entry, which is used to determine the demand curve for the CRM auctions, the "calculation 2" is a step change from the stability and certainty that the RAs and SEMC have successfully delivered in previous decisions. TEL believe a change to the BNE cost methodology will undermine investor confidence in developing I-SEM and DS3 projects due to an increase in regulatory risk.

[1] CPM Medium Term Review Final Decision Paper (SEM-12-016)
[2] Capacity Remuneration Mechanism Parameters and Auction Timings

In summary, the consultation paper does not clearly present the methodology and input values used for “calculation 2”. Therefore, TEL do not agree with the “calculation 2” proposal as it has numerous errors and more importantly it will have a negative effect on investor confidence going into an environment where there are significant unknown changes to all revenue streams. TEL recommend that the SEMC implement the calculation 1 methodology.

If you have any questions please do not hesitate to contact me.

Yours sincerely,

Paraic Higgins

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I-SEM Analyst

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