TYNAGH ENERGY
L I M I T E D

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Commission for Energy Regulation
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Ref: TEL/PH/17/190

29th September 2017

RE: Directed Contracts Implementation Paper (SEM-17-064)

Dear Sirs,

Tynagh Energy Limited (TEL) welcomes the opportunity to respond to this Directed Contracts Implementation Paper (SEM-17-064). However, TEL urge the RA's and the I-SEM Project Team to provide longer consultation periods.

In relation to the specific questions raised by the consultation:

- TEL largely welcome the decision by the RA's to proceed with minimal change in the DC process.
- Regarding the timing of a forward consultation, TEL support Option 1.
- TEL agree with the RA's intention that there would be no change to the products offered in the new market.

The model for the regression of the DC price has a significant flaw. The DC model is used by industry as a forecast for future SMP. This is used as the basis for strike prices in many CfD contracts. It is critical that this reflects the best possible estimate of the future price. The RA's appear to have not considered the change in the relationship between Capacity, System Service and Energy Revenue. By fundamentally using the same regression method as the current DC price the RA's are ignoring other price affecting aspects of I-SEM:

1. If generators cannot receive their fixed costs in the capacity market then they will need to recover these costs in the energy market.
2. It is likely that Wind Generators will underbid their forecast into the Day Ahead Market leading to higher prices in the DAM due to the current minded to position regarding REFiT payments.
3. SEMO in association with industry conducted EUPHEMIA trials (which were attended by the RA's). As part of these tests SEM prices for five days were compared with results (from the same inputs) using the EUPHEMIA model. The result was that the EUPHEMIA orders were considerably higher than the SEM results. See below:

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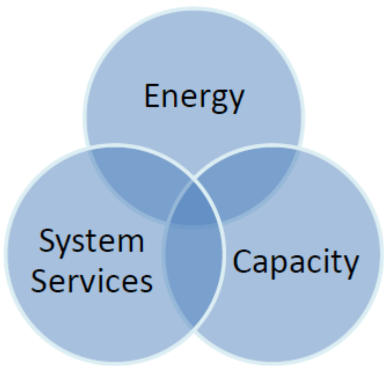
SEM Study Runs for Comparison

Batch 4 Average Prices		Full ATC SEM Study	Zero ATC SEM Study
Date	Average of MarketPrice	Average of SMP	Average of SMP
22/06/2014	€ 44.58	€ 43.75	€ 59.34
25/11/2014	€ 83.98	€ 76.61	€ 75.44
24/01/2015	€ 53.64	€ 44.76	€ 63.52
14/03/2015	€ 86.34	€ 61.30	€ 77.14
11/04/2015	€ 52.90	€ 43.64	€ 55.92
Grand Total	€ 64.29	€ 54.01	€ 66.27

None of these factors should be ignored in the DC price creation, especially the capacity shortfall. It is unlikely that prices will match those in the SEM if (potentially) a large portion of the €700 Million (through the capacity mechanism) received and required by generators currently will not be paid in the new market. This revenue will have to be recovered elsewhere.

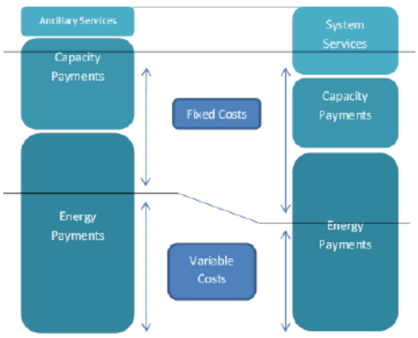
Previously, the expectation was that while there would be lower capacity payments these would be compensated by higher DS3 payments. From recent DS3 Decisions (and TSO Minded to), it is now clear that this will not be the case. Therefore, the revenue must come from a greater Energy Market return. The below diagram is from the 2014 DS3 Procurement Decision.

Figure 2: The Revenue Streams Must Interact Efficiently



All three revenue streams will interact to incentivise the optimal trade-off between efficient production of energy, supporting system security and reliable capacity. Units earning revenues in the system services market should be incentivised to be in merit more often than those that are earning less in system services revenues. And units earning more in the energy and system services markets should require less "missing money" to be recovered in the capacity market.

Figure 3: Rebalancing of Revenue Steams



As illustrated above the SEM Committee considers that the relative value of the revenue streams will change while, broadly speaking, total revenues should not alter significantly. Therefore as shown here lower variable costs and higher fixed costs may result in lower energy payments but higher system service payments, which should also lower capacity payments.

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TEL have experience of trying to sell CfD's to counterparties where the counterparty continually refers to the DC price and as a benchmark. The DC price has to be as accurate a future price as possible. If the regression formula is low or inaccurate generators will not be able to sell their power through NDC's. This will affect the liquidity in the Forward Market.

Should you have any queries, please do not hesitate to contact me.

Yours sincerely,

Cormac Daly

Cormac Daly
Risk and Regulatory Manager

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