



**TYNAGH ENERGY**  
**L I M I T E D**

Bronagh McKeown  
Utility Regulator  
Queens House  
14 Queens Street  
Belfast  
BT1 6ED

Dylan Ashe  
CRU  
The Grain House  
The Exchange  
Tallaght  
Dublin 24  
D24 PXWO

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**RE: Response to System Services Future Arrangements Scoping Paper (SEM-20-044)**

Dear Bronagh/Dylan,

Tynagh Energy Limited (TEL) welcomes the opportunity to respond to this System Services Future Arrangements Scoping Paper.

TEL will break this response into two sections firstly addressing the overall aspect of this consultation and secondly answering the specific questions from the consultation.

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**Section A**

**Timing**

This consultation is crucially important. It is the enduring solution to the three legs of revenue for generators which are expected to see the market through to 2030. These three strands of revenue – Energy Markets, Capacity and System Services must suffice for thermal generators as the system transitions to decarbonisation.

Energy Markets and Capacity appear to be fundamentally decided those systems are in place and there are no obvious plans to change these systems.

The RA's need to ensure that the consultation process is thorough and complete, whilst ensuring all necessary technology types remain economically viable.

**DS3 Revenue Cannibalisation**

If System Service revenue is either explicitly or implicitly linked to energy market revenue then it will inevitably be treated as an opportunity cost, effectively being included in participants energy bids and forcing down market prices. This cannot be counted twice. There needs to be a methodology which separates DS3 revenue from a unit's market position. If the RA's can again revert to making these payments based on availability, then this will allow those participants who truly offer flexibility to gain from it.

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**Block A, The Crescent Building, Northwood Park, Santry  
Dublin 9 D09 X8W3  
IRELAND**  
**TEL:** +353 (0) 1 857 8700  
**FAX:** +353 (0) 1 857 8701

**DIRECTORS**  
Jan Springl (CZ)  
Tarloke Singh Bains  
Bran Keogh (IRE)

**REGISTERED NUMBER:** 378735



### **Missing Money**

It has become apparent that there will be a significant missing money issue for thermal generators in the next 4-6 years. With more wind on the system, there will be many more times particularly overnight, where the price will clear at €0/MWh or below. This will see the energy revenue for participants fall significantly. Capacity revenue is not increasing to meet this expected drop in revenue but instead the RA's have repeatedly sought to reduce the ECPC. While funds allocated to DS3 may increase in this future arrangement, it will also have significantly more participants, the net revenue for any single thermal unit is not likely to increase. Therefore, many thermal generators will be faced with economic feasibility issues at the same time.

As a result, there will be an issue where multiple thermal units will look to close at the same time. The RA's need to plan for this now, by either preventing this occurring until the exit can be controlled or alternatively by planning for how to manage it when it occurs.

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### **Section B**

- 1) *Are there additional requirements in EU legislation or national policy that should be considered as key guidance for the project?*

TEL do not believe that there are other policy or legislative considerations.

- 2) *What should the role of DSOs be in development of the new arrangements?*

The DSO's should have a significant role in the new arrangements.

- 3) *Should any further assessment criteria be included in this workstream?*

Long term consumer value has to be considered. This needs to ensure that there will be the required level of generation on the system on calm and cloudy days (when there is low wind or solar generation) and that there is the required level of revenue across all streams to support this generation over the longer term.

Transparency should also be included as an assessment criterion.

- 4) *Is the general approach to the Project appropriate and complete?*

TEL believe that what has been developed is a good start but that the timeline is critical here. It is neither feasible or appropriate to try and implement such a significant change with an aim to drive the decarbonisation of the Irish system in a short period of time.

The timing for this has to be appropriate to the concept that is being discussed, and it is a significant concept, this appears to be the last major change to the overall market design to achieve the portfolio that is required for 2030. It has to be right.

There are more considerations, the paper discusses the implications for the energy market and the capacity market, and this is important. But as the system strives for 70% decarbonisation by 2030, the RA's need to prepare for the cloudy and still days, until there is sufficient storage on the system or whatever is needed for 100% decarbonisation there will still be a need for conventional generation. The RA's need to accept this and ensure that these units are compensated, either through the energy market, capacity, DS3 or some other mechanism.

At this stage the current consultation is quite high level so it is not easy to comment on completeness of the approach proposed.



- 5) *For which products is a market-based approach appropriate? What sort of market based approach is most appropriate?*

For conventional generators it is difficult to see how any services that can only be received based on market performance are appropriate. Any service which will reward generators depending on the market position will just be an opportunity cost in their bids and will see lower overall SRMC bids. Effectively they will not increase the net revenue for the conventional asset portfolio. As such, the reserve services, those which will mainly be targeted by batteries and peakers may be better for a market based approach.

There is an argument for sequential auctions for all products, however we are concerned that participants will sell below cost to get on in the DAM and therefore be eligible in the System Service auction, effectively this will see price cannibalisation. Therefore, in order to actually give a true value to this service, TEL suggest that the longer-term products are paid on a contractual basis, or else based on availability.

- 6) *For which products is a market-based approach not appropriate? Why is a market based approach not appropriate for these products? Will an alternative approach be more economically efficient? What sort of alternative approach should be considered.*

The RA's need to look at this project as holistically as possible. In order to meet the 2030 targets the RA's will need to provide sufficient support for batteries and other fast acting response units to be able to meet significant wind forecast errors in the future. Eirgrid's point that there should be some plan for technologies which are not yet available but may be in the future, is fair, but equally there needs to be investment certainty for participants who will join the market in the relatively near term.

Finally, there needs to be certainty for the system portfolio that will be required on calm and cloudy days in the future. TEL believe that at this stage an auction for the non-reserve based products may not be appropriate as it is unlikely to see a reward for thermal generators as they will be incentivised to bid this return as an opportunity cost into their DAM bids.

- 7) *Do stakeholders believe the current qualification process, is the most efficient approach? Do stakeholders have any alternative proposals?*

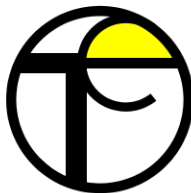
At this stage no, but TEL believe that this warrants further discussion.

- 8) *What are stakeholder views on the overall current governance arrangements including the contractual principles, the Protocol Document and the market ruleset? Should these be modified into an overall protocol document which captures all of the rules for providing and procuring System Services with increased regulatory oversight?*

The Market Ruleset encourages thermal generators to view the system service revenue as an opportunity cost to be bid into their DAM bids, they will only receive revenue when they are successful in the market. This is not the appropriate way to encourage flexibility.

The Protocol Document is significantly flawed in how it uses starts as a measure of performance for a number of services where there may be no relationship with starts. This has been highlighted since the initial consultation in 2016 when it was described as a stop gap measure.

- 9) *Should System Services continue to be funded through network tariffs? Are there views on any alternative arrangements?*



Again, this is an area which requires further consultation. If as described above these payments effectively subsidise the suppliers in the energy market, then perhaps another method would be more appropriate.

*10) Should all services be procured through a single daily auction framework or should bespoke arrangements be developed for the separate products?*

The RA's and the TSO should look to assess what are the appropriate industry portfolios that could sustain the operation of the system in 2030 with 70% of generation coming from renewable sources. Then the RA's need to establish what revenue sources will be required for each facet of that network. Then working backwards, the RA's and the TSO can look to establish what is viable for each of the markets, and then the RA's can establish what is required from these system services.

But without going through each of those steps the RA's run the risk of inefficient exit of thermal generators from the market before the system is ready. That has the potential to have huge costs for the consumer in the medium term.

It is a very fair question, but at this stage it is not obvious that the appropriate information is present to answer the question.

TEL urge the RA's to take the time to plan what is required to ensure that the portfolio that is required in 2030 is viable in 2030 and at intermediate steps prior to 2030, before deciding on whether there should be a single daily auction format or not.

*11) What are stakeholders' views on the timing of auctions?*

If there is to be a market auction, then shortly after the DAM results are published would make sense, though at this stage TEL believe the RA's need to consider whether there is any synergy to be found in the having the services tied to the results of the DAM.

*12) Do stakeholders have any proposals on how best to ensure commitment obligations are met?*

There should be a presumption of adherence, unless there is a clear evidence of the participant not meeting their obligation. The current method for assessing performance is extremely poor which TEL has addressed in the recent consultation on the Protocol Document and at the DS3 Advisory Council.

*13) What are the significant interactions within potential System Services product markets and between Systems Services markets and the energy and capacity markets? How should issues arising be addressed?*

There are considerable difficulties with this. If the RA's and the market operators are to look at this from the view of the desired portfolio, then there will need to be a certain amount of thermal generation available for the dark calm days.

Is DS3 viewed as a genuine source of revenue for these units? Or just as a different source for the same funds? Is it there to incentivise these units to amend their minimum stable generation level? If so, then it must be separate from the energy markets. It cannot be used whether explicitly or implicitly as a method to encourage participants to incorporate DS3 revenue as an opportunity cost in energy bids. This is not good for the long-term future of the market. DS3 must be both implicitly and explicitly separate from the energy revenue to pay for flexibility investment.



*14) Do stakeholders have further views or proposals in relation to auction design?*

At this stage the required information is not present for this consultation. The TSOs reference new services without describing them. But even for those services which are currently required. We do not know what is currently provided and what will need to be provided. There needs to be more clarity before we proceed.

Ideally this consultation would have taken place a year ago, and then possibly there would have been time to move to competitive auctions without a delay, however, at this stage that does not seem possible.

*15) Do stakeholders believe there would be benefit in maintaining the Fixed Contract Arrangements for future procurement runs?*

At a high level there needs to be a level of investor certainty, TEL appreciate the requirements from Europe. But the goal for the regulators is to achieve 70% renewable by 2030.

The entire market design should be viewed from within the context of that target. It needs to be performed within the wider view, what possible portfolios will be required by 2030? How can there be sufficient revenues for these portfolios to be economically viable by that stage. What part should DS3 play in supporting those portfolios?

*16) Do stakeholders have views on the list of additional considerations above? Are there any further issues to consider?*

The TSO appears to be trying to rush this consultation, this is a hugely significant consultation and in TEL's view it is crucial for the 2030 ambitions. This needs to be thorough. Maybe it should have started 18 months ago. At this stage the aim should be that a new system will be in place by June 2024, i.e. 18 months beyond the current timeline.

The RA's should extend the existing tariffs and take the time to do an appropriate consultation with as much transparency as possible. This project needs to consider whether there will need to be changes to either the energy or capacity market alongside the DS3 future arrangements, assessing all generator's revenue streams holistically.

*17) What are stakeholders' views on the potential existence of, and options for mitigation of, market power.*

At this stage we don't know the products, we don't know the volumes, it is difficult to estimate the ability for any participant to exercise market power.

TEL are available for a bilateral on this consultation if that option is available.

Yours sincerely,

**Cormac Daly**  
Regulation Manager