

TYNAGH ENERGY
L I M I T E D

Kenny Dane
Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED

Kevin Lenaghan
Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED

Ref: TEL/JC/2020/035

20th March 2020

RE: Response to CRM T-4 Parameters Consultation (SEM-20-006)

Dear Kenny/Kevin,

Tynagh Energy Limited (TEL) welcomes the opportunity to respond to this Capacity Remuneration Mechanism T-4 Parameters Consultation (SEM-20-006).

This response firstly outlines key concerns TEL have with some proposed parameters for CY 2024/25 as well as the direction of travel of the CRM, followed by TEL's responses to the questions posed in this consultation.

Capacity Requirement

Similarly, to the T-4 CY 2023/24 parameters consultation, the RA's have not invited comments on the Capacity Requirement. However, TEL believe there is a direction of travel towards under procuring capacity. The capacity requirement for the 2022/23 T-4 auction was 7,524MW (7,412MW was acquired), but the peak demand in the Generation Capacity Statement is close to 8,000MW under the Median demand analysis. Compounding the fact that capacity is being under-procured for median demand, the Generator Capacity Statement's High demand analysis has peak demand at 8,500MW. Therefore, if demand outturns higher than the median forecast the CRM process will be significantly under-procuring. TEL note from SEM-19-021, the three reasons for holding back capacity in the T-4 auctions: Non-participation, DSU's and uncertainty. However, the negative uncertainty value of -300MW is asymmetric as it doesn't appear to account for uncertainty relating to demand being higher than expected.

The SEMC appear to be significantly increasing the exposure to multiple loss of load events for a significant period of time. It is only once these events begin to occur frequently that the methodology will change, leading to an increase in capacity. This will be too late; if we have multiple Loss of Load events, we may quickly see a loss of demand as new data centres locate in countries with more reliable systems.

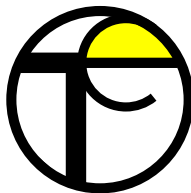
Net CONE Determination

TEL have two fundamental concerns with the current Net CONE determination. Firstly, the RA's have not re-assessed the BNE and associated Net CONE. The current BNE, a distillate fired OCGT located in Northern Ireland, is not compliant with Article 22(3)a of the EU 2019/943

**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



- (a) *from 4 July 2019 at the latest, generation capacity that started commercial production on or after that date and that emits more than 550 g of CO₂ of fossil fuel origin per kWh of electricity shall not be committed or to receive payments or commitments for future payments under a capacity mechanism;*

Therefore, as the BNE currently stands, there is a blatant misalignment between the underlying Net CONE of €92,300/MWh/year proposed in this consultation and EU law. The RA's must carry out an updated consultative assessment to determine a new BNE of a unit that adheres to the new law.

Secondly, TEL would like to re-iterate the perverse incentives stemming from the BNE/NET CONE determination. In the current BNE/NET CONE determination, a new generator's revenue from DS3 and their IMR is offset against their Gross Costs. But, the SEMC has encouraged generators to invest in their plants to maximise DS3. If this revenue continues to be offset against capacity revenue then there will be a shortfall for generators. The DS3 revenue is being counted twice, once against a payback on upgrades and once against capacity. In Ireland's endeavour for de-carbonisation, DS3 and "DS30" incentives should not be discouraging investment. Therefore, in a new BNE consultative assessment, TEL strongly believe DS3 revenue should not be discounted from Gross CONE.

ECPC Proposal

TEL agree with the SEM Committee's proposal to continue to set the Existing Capacity Price Cap ("ECPC") for the T-4 2024/25 capacity auction at 0.5 times Net CONE. However, TEL remain concerned at the RA's openness to reducing the ECPC to 0.4 times Net CONE in future auctions, with no regard for potentially increasing the ECPC. There appears to be a singularity of focus for reducing the ECPC in this and previous consultations.

It is of TEL's view that the ECPC should be set at a higher level. In response to SEM-16-073, TEL made the point to the SEM Committee that the ECPC was not sufficiently high to allow the recovery of fixed costs – this assessment is valid today. Capacity payments are not sufficient to meet fixed costs.

Auction Format

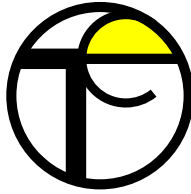
TEL are not in a position to comment regarding the transition to auction format D, as TEL does not believe the format D has been adequately consulted to CRM participants. A full and in-depth explanation, inclusive of a clear and concise worked example should be provided to participants. Currently, participants don't have a clear understanding of what is entailed in an auction that employs a full combinatorial solving mechanism.

TEL are also concerned with TSO/MO's ability to implement Auction Format D in 2020, given the current COVID-19 pandemic.

Consultation Questions

Compliance with the Clear Energy Package (CEP)

Q1 Which of Option 1 (allow high CO₂ emitting plant to participate in the CRM, but be subject to additional derating) and Option 2 (make no changes to the CRM, but ensure that any unit with emissions exceeding 550g CO₂ / kWh comply with CEP annual run-hours limitations) is your preferred approach?



TEL fully supports the government's Climate Action Plan (CAP) as well as the requirement to align the CRM with the EU CEP regarding CO₂ emission limits and capacity mechanisms. Of the two options outlined in this consultation TEL support Option 1 – *Allow high CO₂ emitting plant to continue to participate in the CRM, but be subject to additional derating factors.*

The issue with Option 2 regarding annual run-hours, is that a unit may reach its annual run-hours limitations due to TSO dispatch decisions and therefore it is unfair that they should be exposed to Reliability Option Difference Payments for failure to make capacity available in times of scarcity. This may send exit signals to the plant in question. Therefore, Option 1 is the only feasible option outlined in this consultation.

Timing of Changes and Phased Approach

Q2. If the additional de-rating is applied, should it be applied for the 2024/25 capacity year, or held until the 2025/26 capacity year? Alternatively, should the duration of the 2024/25 capacity year be reduced to nine months?

Despite the CO₂ emission restriction not coming into effect until July 2025, TEL believe the Capacity year duration should remain at 12 months for CY 2024/25. To date, there have been several interim measures put in place since the inception of the CRM, which creates uncertainty for investors and owners of existing plant. Therefore, TEL believe maintaining the capacity year for 2024/25 at 12 months and not applying additional de-rating to high CO₂ emitting plant until the 2025/26 to be the simplest approach proposed.

Long Stop Date

Q3. Should the Long Stop Date be reduced from 18 months to (for example) 12 months or 6 months?

TEL agree with the SEMC that the Long Stop Date should be reduced. TEL support reducing the Long Stop Date to 12 months.

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

Yours sincerely,

John Casley
Commercial Strategy & Regulation Analyst