EP UK Investments

A member of the EPH Group

TYNAGH ENERGY LIMITED

Mod Proposal 10_22 – Strike Price Volatility Modifier

Mods Committee Meeting 112

Mod Rationale

- This modification proposal seeks to address commodity volatility within the Strike Price calculation.
- On 11 August the closing daily gas prices was 35% higher than on the previous day. On 26 July, there was a 30% increase. This level of volatility is incompatible with a Strike Price being set on a monthly basis.
- The long-term solution to this issue would be the introduction of more granular Strike Price calculations, but this could take time or resources to implement.
- This solution offers a quickly implementable, interim solution which would allow the Strike Price to react to commodity changes when volatility is high. This will protect generators from unavoidable loss.

Volatility in the Gas Market

Strike Price: €1796.9/MWh

Strike Price: €1360.1/MWh

- In just a number of days, the difference between calculated Strike Prices would be over 30%.
- The current Strike Price methodology is no longer appropriate for the SEM. This is a result of unprecedented levels of volatility in global commodity markets.

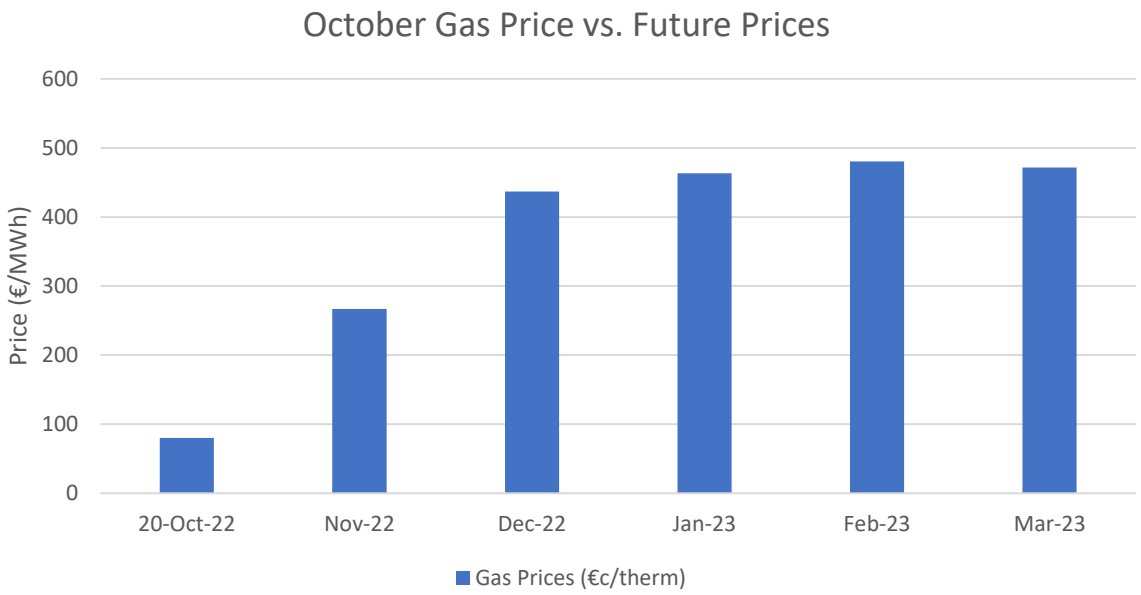
How the Mod Works

- This modification introduces a new term to the Strike Price calculation – *the volatility modifier.*
- This volatility modifier is calculated based on the max-mean difference between daily theoretical Strike Prices within a given month.
- The modification will only be activated when volatility exceeds 15%.
- The calculated volatility modifier will be applied as an addition to the following month's Strike Price calculation.
- Tynagh would welcome a "sunset clause" to the modification, whereby it might be disregarded if it has not been activated in six months, or alternatively if commodity prices fall to below a certain threshold.

Expected Impact

- This modification proposal, if approved, would result in higher Strike Prices in months following high volatility periods. This would reduce the likelihood of exposure to unavoidable downside for capacity providers.
- We do not expect any changes to the Strike Price to affect participants' bidding behaviours. Bids are driven primarily by fuel prices rather than Strike Prices.
- While this modification does not fully address the issue of volatility, it should be easily implementable compared to other solutions.
- The calculation for the volatility modifier is straightforward and can be calculated quickly.

Mod 09_22 – Exclusion of Difference Charges During Non-RO Events



- The above compares today's gas prices to potential future prices. It is highly likely that the Strike Price calculation will not align with any sudden price movements. This has been the case for all previous spikes.
- Potential for additional spikes in response to global developments (i.e., Russian invasion of Ukraine).