Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Jody O'Boyle
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Telephone: 01738 456484
Facsimile: 01738 456415
Email: robert.hackland@sse.com

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Dear Jody,

Fixed Cost of a Best New Entrant Peaking Plant & Capacity Requirement for 2012

Thank you for the opportunity to respond to this consultation.

The CPM plays a central role in the SEM in incentivising investment in generation capacity and thereafter incentivising that plant to make itself available. The methodology that was originally put in place takes account of a number of factors that at the outset would have been expected to provide a robust signal for future long-term investment through providing a long-term stable revenue stream. Whilst most of these factors remain valid, in particular those associated with the cost of generation, the use of a short-term (in the context of the asset life of generation investments) variation in demand in the calculation is resulting in a sub-optimal outcome that can only lead to a sub-optimal generation capacity level. The use of a short-term (in this case recession led) demand variation has a significant impact on the provision of a stable revenue stream. Not only does this impact on existing generation (closure decisions) it undermines future new plant investment decisions.

Rather than rely on short-term demand forecasts, it would seem more appropriate to remove this demand side variation from the methodology going forward, moving towards a fixed level reflective of a maximum longer-term level of demand.

One more minor point concerns the information in Table 11.1. It would be beneficial if the background calculations and assumptions in relation to this table could be made available to the market.

I hope that you find our comments helpful.

Yours sincerely,

Robert Hackland