IRELAND

127 Baggot Street Lower,
Dublin 2,
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3rd September 2013

Elaine Gallagher,
Commission for Energy Regulation,
The Exchange,
Tallaght,
Dublin 24.
By email

Subject: Trading and Settlement Code Policy Parameters for 2014 (SEM-13-053)

Dear Elaine,

Thank you for the opportunity to respond to the above consultation on the Trading and Settlement Code (TSC) Policy Parameters for 2014 (SEM-13-053).

General Comments

EAI notes that this is the first time that changes have been proposed to the TSC policy parameters notwithstanding a desire on the part of the RAs for predictability and market stability in the context of market reform by 2016 to comply with Target Model requirements[1]. At this time of unprecedented uncertainty in the market, the proposed unclear and questionable changes, along with the suggested departure from due process, are of significant concern to our members who represent over 95% of the total value chain in the Single Electricity Market across generation, networks and supply.

Given the particular need for predictability and stability at this time we would strongly caution against any change to the TSC policy parameters without strong justification and clear necessity with reference to rigorous, impartial and published analysis. If changes are warranted based on the evidence and robust analysis, a measured and proportionate approach should be adopted following due consultation in the interests of transparency and identifying unintended consequences.

[1] Expressed in the context of the CPM medium term review, scheduling and dispatch, and regional integration workstreams.

- Based on the evidence presented and a forward view of underlying fuel prices EAI does not consider any change to PCAP necessary or justifiable. PCAP should therefore remain at €1,000/MWh for 2014. Changing PCAP to €1,200/MWh could only be considered a reaction to one extremely rare event which has no bearing on the likelihood of such events occurring again or more frequently in 2014. There is also a potential interaction with the Capacity Payment Mechanism (CPM), of which the Regulatory Authorities (RAs) are undoubtedly aware, that could reduce the capacity pot by over €10m if PCAP was set to €1,200/MWh. In the absence of any real evidence supporting a change in PCAP, this disproportionate effect should be considered. Viewed in this context, an ill-justified increase in PCAP could also undermine confidence in the regulatory process.

- With respect to the Uplift parameters, it is unclear what exactly is being proposed in the consultation paper. Incomplete analysis is presented and the need for further analysis by the market operator is identified with a final RA Decision predicated upon this to be made by end of 2013 without further consultation. This is deeply concerning to members of EAI for several reasons. Firstly, it signals a disregard for existing process, with potentially damaging consequences for hedging and market liquidity. Secondly, it suggests that the RAs will review further analysis to be completed by the market operator and will make a Decision on this basis without first publishing the analysis for further consultation. Thirdly, the further analysis to be completed will cover just a 3 month historical timeframe, as identified in the consultation paper. In EAI's view this would be insufficiently robust to support any decision to change the Uplift parameters. Fourthly, any such late modification, which changes the profile and volatility of prices, could have significant commercial impact on CfD counter-parties who have hedging transaction in place for 2014. And finally, there is no apparent and urgent imperative to change the Uplift parameters for 2014, notably in the absence of due process and without sufficiently robust analysis, when the existing parameters have been working effectively since the start of SEM.

More specific views on the individual policy parameters are detailed below.

PCAP

A single breach of PCAP in circa 100,000 trading periods since the start of the SEM does not provide justification for an increase in PCAP. In evaluating the effectiveness of PCAP a range of criteria must be carefully considered. Just because PCAP was triggered by one exceptionally rare event, when a unit was available for only one minute in the trading period where it was committed on, does not in any way increase the probability of PCAP being reached again or more frequently in 2014. This rare and isolated event does not even merit further analysis let alone an arbitrary change in PCAP to €1,200 MWh which could only be considered a knee-jerk reaction with a disproportionate effect on the market. If PCAP was triggered on several occasions and becomes statistically significant one could understand the need for closer scrutiny to see if there was an underlying cause or trend that would merit a change in PCAP. This is not the case. In fact underlying fundamentals point if anything to a reduction in PCAP but in the interests of stability we would suggest that PCAP remains unchanged at €1,000 MWh for 2014.

The material implications for our members in terms of a reduction in capacity revenue lead us further to contend that these proposals do not constitute a measured response to an extremely rare and unlikely to be repeated occurrence in the market.

PFLOOR

EAI agrees that no changes should be made to the PFLOOR parameter in the interests of stability.

Uplift Parameters

Members of EAI have deep concerns about the uplift parameter proposals in the consultation paper. In the absence of suitably robust analysis of these parameters and further consultation on same EAI would consider it highly inappropriate to change the uplift parameters. Furthermore the stipulated deadline in the TSC to finalise the parameters four months in advance of the year (i.e. by 1 September) should be respected[2]. This combined with the clear need for further detailed analysis should preclude any change to the existing parameters for 2014.

Any such analysis should cover at least a 12 month timeline, and should consider, inter alia, seasonal effects; forced and planned outages; interconnector activity (including EWIC operation); increased penetration of wind; the impact of greater price volatility on CfD prices; changes in IC flows on revenues for wind; the coal/gas price flip; and new generation. Clearly a forward looking view taking into account the above is required as well as historical analysis. A 3 month timeline as proposed in the consultation paper is not sufficiently robust to inform any decision to change such fundamental parameters given the potential consequences for supplier risk, hedging, and efficient interconnector flows.

The four month notice period as provided for under the TSC should be adhered to. The proposal to potentially change the existing parameters for 2014, and without compelling reason, before the end of 2013 arguably undermines the legitimacy of the TSC and certainly disregards the purpose and intent of its stipulations as further detailed below. Sufficient notice of change is required so that market participants can budget for the year ahead and take hedging positions from a supply and generation perspective. Market participants have already concluded significant volumes of CfDs for 2014 and modifying the uplift parameters after those hedges have been executed could expose the parties to material commercial losses/gains that would have accounted for in the strike prices for the various CfD products had they forewarning of a revised basis for SEM price formation. A minimum of 4 months' notice is required for the year ahead as stipulated in the TSC otherwise market liquidity is likely to be adversely affected. In fact regulatory decisions should aim for a greater lead time to provide notice to participants of potential price risks looking forward to the new tariff year and when DC and PSO price setting is being considered and market participants are considering their risk management strategies and pricing contracts for customers.

We would very much welcome the opportunity to discuss our concerns in more detail.

Yours sincerely,

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Stephen Douglas
Senior Advisor
Electricity Association of Ireland (EAI)

[2] We note that the timing of this consultation paper (published 6 August for responses by 3 September 2013) already prevents strict adherence to the T&SC deadline. Any further delay should be avoided.