

**Power NI Energy Limited
Power Procurement Business (PPB)**

**Trading and Settlement Code
Policy Parameters 2014**

Consultation Paper

SEM-13-053

Response by Power NI Energy (PPB)



3 September 2013

Introduction

Power NI Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper which seeks views on the Policy Parameters for 2014.

Comments

Summary

Over the next three years the SEM has to be significantly revised to enable compliance with the European Target Model. The consultation period for the High Level Design is due to start in September 2013. This will be an intense period for the industry and to aid focus on the changes required it is essential, as recognised by the SEMC in its Next Steps Design Paper (SEM-13-009), that stability is maintained in the SEM. PPB believes that consideration of uplift parameters requires a significant amount of analysis to properly understand the consequences but has concerns that such effort will divert attention from the project to ensure compliance with the Target Model.

PFLOOR

PPB has no reason to dispute the Regulatory Authority’s analysis and therefore agrees that the existing value should be retained for PFLOOR.

PCAP

One of the reasons stated for setting PCAP at the conservative level of €1000/MWh was to ensure that the MSP software did not frequently drive prices to PCAP at times when load is actually being served. It is clear from the Regulatory Authority’s analysis that this is not occurring as SMP was set to PCAP on one occasion during the analysis period. Cognisance should also be taken of the fact that this is the first time PCAP has been applied since the start of SEM. This would indicate that PCAP is functioning correctly.

The occasion on the 26 February 2013 occurred as a result of an unusual set of circumstances where a unit was committed for one minute on the last trading period of the trading day. This is a very low probability event and there is no reason to expect a similar set of circumstances would occur in the future. Only if PCAP were being applied more frequently than would be expected given the current generation security standard of 8 hours per year (16 settlement periods) and proper analysis was undertaken to determine the drivers, such that such an outcome were likely to continue, should an increase in PCAP be considered. PPB does not therefore believe there is any justification for increasing PCAP at this time.

Uplift Parameters

The SEM has to be significantly revised to enable compliance with the European Target Model by 2016. The consultation period for the High Level Design is due to start in September 2013. This will be an intense period for the industry and to aid focus on the changes required it is essential that stability is maintained in the SEM as was recognised by the SEMC in its Next Steps Decision Paper published in February 2013 (SEM-13-009). This should not impede changes to matters such as the uplift parameters where the change is relatively minor and the outcomes are wholly understood. However, this is clearly not the case in relation to the uplift parameters and therefore detailed analysis and consultation must be conducted prior to the implementation of any change.

The RAs acknowledge in the consultation paper that the seven day analysis that has been performed is inadequate and they are suggesting extending the period for analysis to three months with a decision then to be made, without consultation with the industry, in December 2013 on the uplift parameters for 2014. PPB is disappointed that the RAs feel that analysis carried out on a period of three months data equates to robust analysis and in addition that they are not planning to hold an industry consultation on such analysis. PPB believes that for analysis to be called robust a minimum period of two years' data, (although preferably for all data since 2007), should be analysed as this will highlight any seasonal or other variations (e.g. changes in commodity prices, increasing intermittent generation, impact of coal/gas change in merit order, change in I/C utilisation, etc.). In addition, it would be sensible to also test scenarios looking forward to capture the impact with ever increasing renewable generation.

As acknowledged in the consultation paper, paragraph 4.70 of the T&SC requires the RAs to inform the Market Operator of the parameters to be used in 2014 four months in advance of the year, i.e. by 1st September 2013, which was two days before the closure of this current consultation. PPB do not believe that it is acceptable to deviate from the governance requirements set out in the T&SC by making a decision on the uplift parameters for 2014 as late as December 2013.

It is also important to highlight that if the results of the initial analysis were to be borne out over more extensive and thorough analysis, this would have a considerable commercial impact on the CfD market in which significant volumes of CfDs have already been committed for 2014. This linkage requires that sufficient lead time for such material changes must be provided such that any price impacts which change the volatility and relativity of prices across the different CfD products (baseload, mid-merit, peak) can be properly priced into CfDs from the date any such change becomes effective. We expect that Suppliers would similarly require notice as they make decisions on pricing for customers.

PPB believes that the decision on the uplift parameters for 2014 should be made immediately and, as there is no robust analysis to suggest a change to the current uplift parameters, that the values of $\alpha = 0$, $\beta = 1$ and $\delta = 5$ should be retained for 2014.

If consideration is to be given to changes for 2015, this analysis needs to be concluded and consulted upon as soon as possible such that market participants know how market pricing will be determined as they determine their risk management strategy and conduct hedging for 2015.