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Elaine Gallagher,
Commission for Energy Regulation,
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RE: Determination of Uplift Parameters Consultation Paper (SEM-14-022)

Dear Elaine,

EAI is again disappointed at the dearth of analysis of the potential impacts of the proposed changes presented in this Consultation.

While the analysis has improved from last year's consultation, we do not believe that assessing the first month of each quarter of 2013 is sufficient to enable informed decisions to be made on this issue. EAI believes that a 12-month historical analysis is preferable to the 4 month analysis presented for 2013, and that a forward-looking assessment of market activity for 2015 is also necessary. Such analysis should include an assessment of different scenarios such as low/ high wind/ demand days. This would enable the RAs to gain full insight into the breadth of impacts of the proposed uplift parameter changes in the market as a whole. It is particularly notable that as the RAs' analysis averages the daily changes in SMP on a month by month basis, it is omitting a proper assessment of the impacts of the extreme volatility in daily SMPs that EAI members have seen. Such volatility threatens market entry, the ability to hedge and incidentally competition, all to the detriment of the consumer.

The RAs have a duty under the 2007 SEM Acts to both consumers and market participants whereby the promotion of competition must be carried out wherever possible. Without the RAs' quantitative and qualitative assessment of the broader implications of this proposed change, EAI does not believe that a holistic, robust decision can be made at this point in time.

As the RAs' analysis does not take into account the daily volatility in SMP or pay sufficient regard to the deviation between SMP and Shadow Price, it is lacking a rounded view on the potential implications for consumers. These implications include:

- The movement of SMP more to lower demand periods than currently and the incidental deviation between SMP and Shadow Price, as demonstrated for example by the April and October SMP analysis, undermines the cost-reflectiveness of SMP. The RAs note that they are not overly concerned with the diminishing correlation between SMP and Shadow Price with the new uplift parameters, but we wish to emphasise that cost-reflectivity is not only a principle of uplift. Ignoring the decreasing correlation between SMP and uplift also forsakes the principles of cost-reflectivity as enshrined in the Trading and Settlement Code and the Bidding Code of Practice (BCOP). Moreover, the increasing SMP/ Shadow Price deviation also undermine the RAs' future policy on demand-side participation. Demand side customers will have less of a revenue incentive to adjust consumption if SMP no longer follows demand to the extent that it currently does;
- The RAs' analysis also ignores the impact an increase in interconnector imports in times of lower demand might have on SEM policies;
- The move away from cost-reflectivity also impacts the objective of capacity payments. If SMP no longer follows demand to the extent that it instinctively should, the signals for capacity availability will begin to appear more in periods of lower demand than scarcity periods. This also compromises security of supply in SEM;
- The impact on CFDs and hedges that parties have entered for future trading periods to minimise commercial risk and deliver value for consumers, has not been fully taken into account in the Consultation;
- Finally, the perceived benefit for consumers of a reduction in SMP must be viewed in the context of the negative impact on the PSO levy which will increase to meet REFIT payment commitments.

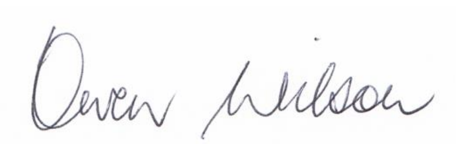
EAI does not believe that industry or the RAs are in a position to confidently agree that from a holistic viewpoint, taking into account the above mentioned high level implications concerning demand-side consumers, interconnector imports, capacity availability, hedging values and negative PSO impacts, whether the proposed uplift parameter changes are in the overall interests of the consumer. Furthermore, the negative effect of volatile within-day SMPs compromises the ability to make market entry decisions and the ability to hedge. This has consequential competition impacts ultimately to the detriment of the end-consumer.

Monthly historical analysis for 2013 as well as monthly forward-looking analysis for at least 2015, but preferably also 2016, and a qualitative assessment of the aforementioned implications would best inform the decision on this proposal.

Ultimately, EAI believes that the RAs have overlooked key implications of the proposed uplift parameter changes. A change such as that proposed, in a market undergoing a significant re-design project which will come into effect just two years after this proposed decision is implemented, is not in the best interests of either consumers or competition, particularly in light of the market entry barriers it raises. Market uncertainty and increasing regulatory risk already exists due to the I-SEM project and further unnecessary regulatory intervention in the market should be avoided to mitigate these risks. Any definitive decision should not come into effect until our suggested analysis and far-reaching implications are fully examined. It is noted that such a decision if any, will not come into force until 1/1/2015 and EAI urges the RAs to withdraw their Trading & Settlement Code modification to move forward implementation timelines on this issue (Mod_04_14). For regulatory certainty reasons however, as market participants enter commercial hedges on an ongoing basis, based on the current uplift parameters, EAI would welcome certainty on the enduring uplift parameters as soon as reasonably possible.

We are available to discuss the above mentioned issues should you wish to do so and urge the RAs to consider the suggestions above as soon as practicable.

Yours sincerely,



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Owen Wilson
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