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Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
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Determination of Uplift Parameters Consultation Paper (SEM-14-022)

Dear Elaine,

Thank you for giving SSE the opportunity to comment on the Regulatory Authorities consultation paper on the determination of uplift parameters.

SSE is a utility with both generation and supply interests in Ireland. As SSE Airtricity we supply more than 800,000 customers. To secure energy for those retail customers, SSE is involved in electricity generation and energy portfolio management. Our wholesale business priorities are competitiveness, sustainability and flexibility.

AIP-SEM-60-06

When originally picking out uplift parameters for the original SEM Market Design (a process which had tighter deadlines than the 4 month notice period required under the TSC), the RAs noted that:

*“Independent of the implementation process, **the Regulatory Authorities wish to have confidence that the option implemented does not produce profiles or magnitudes that are unacceptable.** This will be examined during a modelling exercise. Furthermore the Regulators wish to examine the options which were rejected at an earlier stage in the context of this modelling exercise.”*

*The form of algebra approved for implementation has a number of parameters associated with it. These parameters will have a direct effect on the magnitudes and profiles of the SMP. **It is intended that any decision on the values for these parameters will be informed by this modelling exercise.**”*

A year's sample market data from Plexos was used as an input, with multiple parameters (and other options) assessed, and a model configured so that third parties could assess the impact of variations in parameters.

The existing configuration

This exercise resulted in the current mechanism and configuration of parameters:

Minimise $\alpha \sum_{u=1}^N \left(\sum_{h=1}^{46,48,50} SMP_h * MSQ_{uh} \right) + \beta \sum_{h=1}^{46,48,50} (SMP_h - SP_h)^2$ by changing the SMP_h

Such that $\sum_{h=k}^{k+j} (SMP_h * MSQ_{uh} - CR_{uh}) \geq 0 \forall u \ 1 \text{ to } N$ units and for each contiguous operating

zone k for j trading periods that the unit is on. For the avoidance of doubt each unit can have several contiguous operating periods in a trading day. Each of these contiguous periods for each unit becomes an inequality constraint such that the revenue in those periods covers the running costs allocated to the unit in those periods.

These have repeatedly been acknowledged by the RAs in various consultations as being **‘the most appropriate Uplift parameters’** and **‘that they provided the most appropriate balance of costs and price stability.’**

Given the level of analysis that went into determining and reapproving the existing configuration from SEM go-live to the present, it is very disappointing that the RAs have still only carried out analysis for only four individual months (selected as the first month of each quarter of 2013). This provides a very limited data set to assess the impacts of a change.

‘Significant’ benefit for consumers?

The consultation paper reaches a conclusion, stating that:

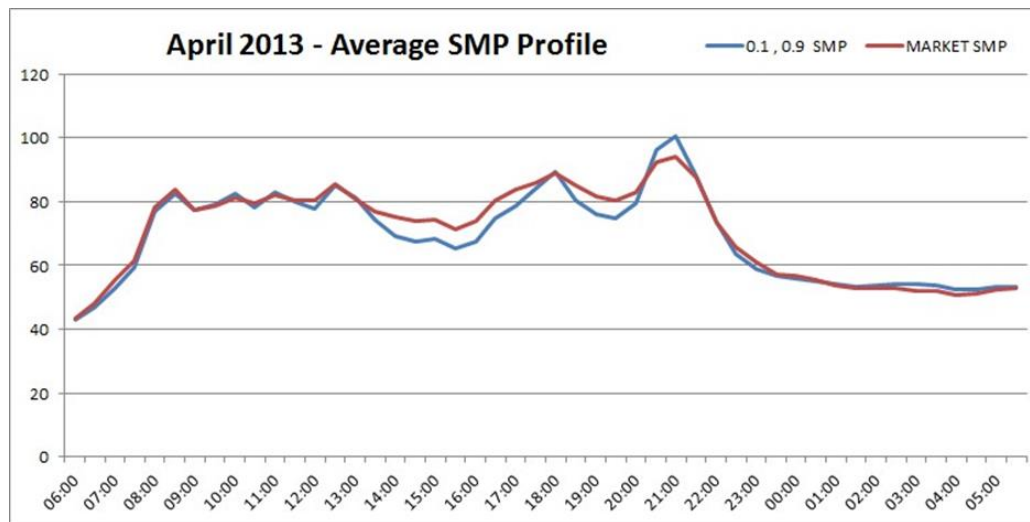
“The likely impacts of making this change are not excessive or overly significant for market participants and do not present a disproportionate impact for any set of stakeholders. However, while the impacts are not excessive for the functioning of the market as a whole, a reduction in SMP of over 1% is significant for consumers and therefore must be considered.”

It also states that:

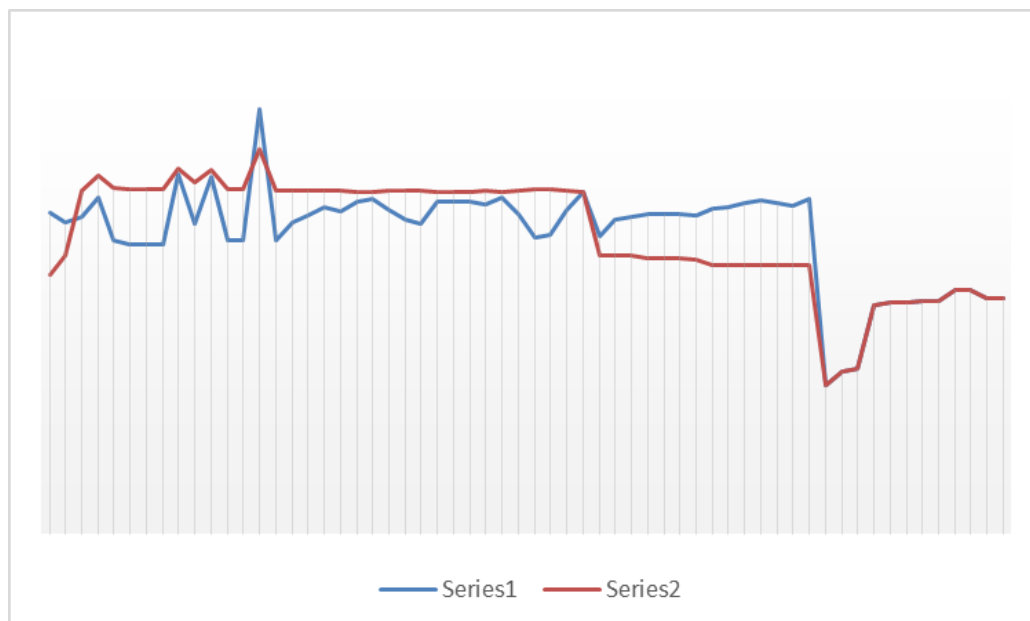
“The SEMC does not believe that making this change is contrary to the stated objective of Uplift in 2007. In particular the SEMC has given the data set significant consideration to ensure that any change does not excessively impact the profile objective.”

Both of these statements and the conclusion they lead to are weakly supported by the available dataset:

- If a reduction in SMP of over 1% is significant for consumers, it is significant for the market as a whole.
- There is no consideration of the impact of variations in profile on different generator types, and no analysis as to whether there is a *'disproportionate impact'* on any set of stakeholders.
- There is no definition as to what *'excessive impact'* on the profile objective would look like, and it is notable that the RAs analysis averages daily changes in SMP on a month by month basis. The profile in April is significantly impacted, with a 12% reduction in correlation between SMP and Shadow Price:



Over the course of a considerable number of individual trading days in the study months, the profile sees significant distortion – would 26th April constitute excessive impact?



- 4 months analysis of months selected on the basis of them being the first in a quarter does not constitute '*significant consideration*'.

Limited Analysis

Given that the RAs are minded to withdraw modification proposal **MOD_04_14, Change to Uplift Parameters Determination Timeline**, there is time to actually conduct analysis that could support these statements, and the conclusion reached (or otherwise) before the 4 month notice period for changing uplift parameters is reached.

Participants cannot provide a counterfactual to the analysis provided in the consultation paper, because only SEMO can provide EP2 data from market solver runs under the new parameters.

From the very limited set of data and analysis provided, the RAs can assert that a change in parameters may provide significant benefit to consumers, but only by making some rather large assumptions:

- That the 1.4% average reduction in SMP will repeat itself over a 12 month period and under various different conditions i.e. high/low wind/demand days.
This could be remedied by carrying out analysis on more than 4 months data. SSE believes that at least 12 months historical data should be provided, and a forward looking assessment would be very sensible.
- The significant impact on daily volatility during spring, summer and autumn months shown in the existing dataset is not systemic and will not have a significant impact on any particular type of consumer or generator.
Full MSQs are available for 4 months – the RAs do not appear to have carried out any comparison as to how the change in SMP might impact on different technology types.
- Whether moving uplift to lower demand periods will actually translate into consumer benefit i.e. the extent to which increases in volatility and reductions in cost-reflectivity will provide benefit to SEM consumers.
SSE would note that future CfDs, hedges and contracts that suppliers have entered into have not been taken account of in the consultation paper and impacts on forward liquidity has not been assessed¹. In addition, signals for availability are weakened by decreasing correlation between SMP and Shadow Price, impacting on DSM and security of supply.

¹ Beyond one statement – 'the SEMC does not believe that making the change will negatively impact on forward liquidity in the SEM'

Concluding remarks

The decision paper takes a 1.4% load weighted SMP reduction from a very limited dataset, draws a simple conclusion and provides some analysis in areas that might offer support to that conclusion.

It does not attempt to look at:

- Whether that conclusion holds true under different scenarios
- How a change might impact on different participants (i.e. DSM/new suppliers/Wind)
- How suppliers actually purchase and sell energy to customers

The paper states:

*'[T]he data analysis carried out is robust for the decision at hand **and taking the first month of each quarter is representative of the whole year.** Had the data analysis shown significant swings, dramatically higher peaks or the increased application of PCAP there may have been an argument for a further data set but this was not the case.'*

SSE strongly disagrees with this statement. Simply running the market solver to provide the dataset has only been carried out for four months². Analysis of that very limited data set appears to be limited to monthly average SMPs. **This is not robust data analysis for a decision that the RAs appear to believe could reduce SMP by €35,000,000 per annum.** The RAs and the SEM Committee should not be satisfied with cursory examination if they believe a decision has a material impact on consumers and generators.

If you have any questions with regard to our response, don't hesitate to contact me.

Yours sincerely,

Connor Powell
Market Development, SSE (Ireland)

² This is not data analysis, **this is generation of the relevant data set to analyse.**