Jean Pierre Miura
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Philip Newsome
Commission for Energy Regulation
The Exchange Belgard Square
North Tallaght
Dublin 24

25 July 2014

Dear Sirs

Powerhouse Generation Limited is a recently formed company with a focus on demand side participation. We welcome the opportunity to respond to your consultation, and offer the following comments:

1. The "interruption cost" of demand is typically high and therefore demand side reduction is most likely to occur after all other supply side options have been exhausted. This should be a key consideration in market design if demand side participation is to be encouraged.

2. The paper seems to suggest that the energy and capacity markets will be independent of each other. However, it is not clear that this will indeed be the case. The one-way CfD, in the form of the Reliability Option (RO), seems to create a connection.

3. It is far from clear how the "claw-back" will work in the RO. The RAs should consider publishing worked examples to help understanding. In particular, we pose the following questions:

   - Paragraph 8.4.21 suggests that "claw-back" (i.e. the reference price minus the strike price) will only occur if the option is "called". Does this mean that the option holder must be dispatched for this to occur? This would make sense, if the purpose of the claw-back is to ensure that customers achieve a cap on energy prices (for the volume consumed) in return for paying an option fee (for the volume of capacity needed).

   - Demand side units do not actually receive energy payments when they are dispatched to reduce demand. How therefore can surplus energy payments, above the strike price, be clawed-back?

4. The paper suggests that auctions for ROs may occur with a 4-year lead-time. If this is the case, then consideration must be given to interim arrangements for capacity payments during this period. It is very important that these arrangements are kept simple (to minimise uncertainty) and we think sticking with the existing CPM best achieves this outcome and should be acceptable to the EU Commission. The quantity of capacity required under this existing mechanism is determined in a similar way to that proposed for the RO. Furthermore, it is not entirely true to say that the price determination under the existing mechanism is not market driven. The price is determined by reference to the market price of the best new entrant peaking capacity (BNE).

Yours sincerely

Sam Thompson
Director