

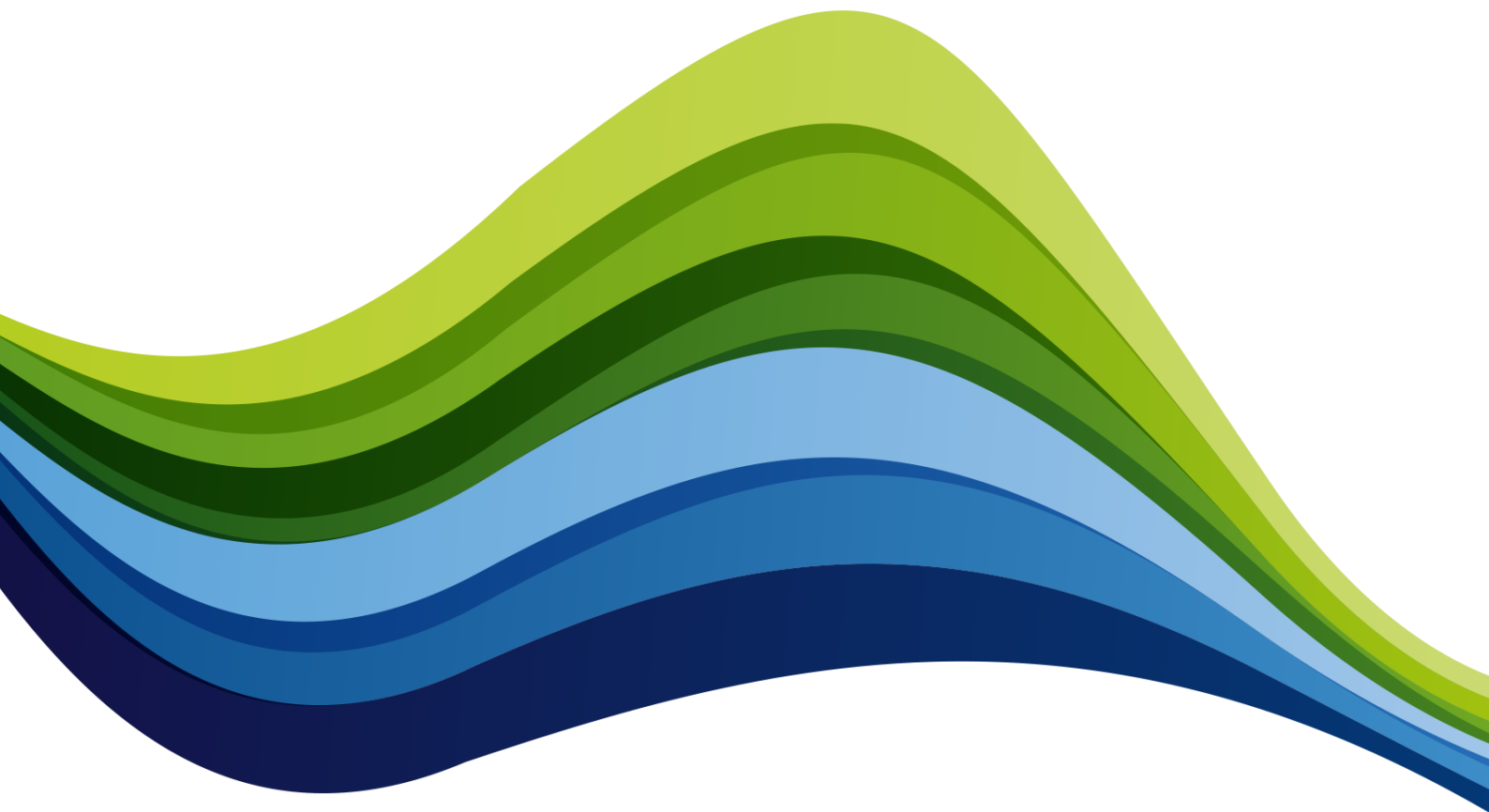


# Markets

# Policy Parameters

# 2016

If you have any questions in relation to our response, please don't hesitate to contact me at [connor.powell@sse.com](mailto:connor.powell@sse.com)



Thank you for the opportunity to respond to the Regulatory Authorities consultation on SEM Trading and Settlement Code parameters. SSE would like to make the following comments on the decisions within the paper:

### PCAP

We agree with the proposal to leave PCAP unchanged at €1000/MWh for 2016 – this allows (in every trading period observed to date, excluding an event in February 2013) for variations in SRMC to be reflected in SMP without constraint.

### PFLOOR

The current PFLOOR value of €-100/MWh has been effective throughout SEM operation, therefore we agree with the proposal to leave it unchanged in 2016.

### Uplift Parameters

We did not believe that the changes in uplift parameters were warranted. The analysis in the consultation paper is inconclusive, noting that:

*“There is a significant reduction in the standard deviation which suggests that prices are less correlated with the demand profile as a result of the change in the Uplift beta.”*

And that:

*“[T]he changes to the Uplift Parameters arising from the last consultation only came into effect in January 2015 and therefore the impact of these changes is not fully quantifiable.”*

From a supplier, generator and interconnector perspective, the profile objective has been negatively impacted – price less closely reflects fundamentals. Specifically from a supplier perspective, you primarily manage risk against fundamentals, rather than against MSP software parameters.

While there is no substantive increase in volatility (standard deviation) observed during the two periods which have been compared, this cannot be assumed by suppliers on a forward looking basis – suppliers are less able to reliably replicate software variables<sup>1</sup> in forecasting, unlike demand, input costs and availability. Therefore, it is difficult to see the benefit of the change in parameters for customers:

- Any benefits are unlikely to fully flow through into forward contracts until there is a longer period of data available for analysis<sup>2</sup>.
- Interconnector flows are likely to be less optimal.

We believe that the RAs should carry out an additional analysis on interconnector flows over 2 periods before deciding on the Uplift Parameters for 2016.

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<sup>1</sup> Unless they want to invest in an identical shadow market solver

<sup>2</sup> Which means they are unlikely to see a benefit before I-SEM