

Comments from SSE on the Policy Parameters consultation:

The observed data supports leaving PFLOOR and PCAP unchanged for 2017. For uplift, the longer period of observed data for the parameters shows that SMP volatility has not increased with the change in parameters. However, we are concerned to see that System Demand and SMP correlation have decreased further. In the final decision paper, we would like to see full year comparisons covering the calendar years 2013, 2015 and 2016 to see how large the impact has been. The paper notes that *“it had been expected in previous consultations that any changes would increase the volatility of the SMP and, as a result, suppliers risk. This appears not to be the case and hence consumers should benefit from the reduction in Uplift rather than it being negated by any increased SMP volatility”*. Any decrease in interconnector efficiency has an impact on social (and potential consumer) welfare in SEM – reductions in uplift that substantially distort trading behaviour could have a negative customer impact in both GB and IE bidding zones. While we believe that the uplift parameters should be maintained at their existing settings for 2017 given that forward contracts have already been allocated for the period, we think that a more comprehensive look at SMP/System Demand correlation and trading efficiency would be helpful to support the final decision.