

Response from Viridian Power and Energy

to

**The Value of Lost Load, the Market Price Cap and
the Market Price Floor**

Consultation Paper

AIP-SEM-07-381

27th July 2007



Viridian Power and Energy (VPE) welcome an opportunity to comment on this consultation. The setting of limits on market prices is important for market participants as it impacts on the risks borne in participating in the market.

VPE's primary concern is that regulatory uncertainty with regard to market price limits should be minimised so that investors can make longterm investment decisions with the knowledge of how price limits apply.

Price limits in the market should not undermine the fundamental market principle that a generator should not be required to generate when the market price is below the generator's short run marginal costs.

VPE remains concerned, as we have set out in our comments on the T&SC, that the use of VOLL to change the distribution of capacity payments lacks any theoretical rationale and more importantly discriminates against mid-merit and peaking plant by comparison to baseload plant. VPE would welcome a thorough review of this aspect of the T&SC.

VPE have the following comments on the specific variables:

VOLL

VPE are not convinced about the theoretical basis by which the price that a customer is willing to disconnect is set by the cost of new entrant open cycle gas turbines. The causal link between generator equipment prices and customers valuation of disconnection is tenuous at best. Our primary concern about adopting the proposed methodology is that it implies an annual review and could be subject to significant variation. We caution against this approach as it will undermine the investor confidence in the market. VPE would much prefer a fixed VOLL price with change in this figure being limited to escalation by an agreed inflation index.

The current RoI market has a long established VOLL price of €7550/MWh¹. We are not aware of a VOLL price being established for the existing NI market. While the RoI figure is arguably a reasonably high figure it would provide regulatory certainty to continue with this figure. VPE are concerned that a high figure for VOLL could create distress in the market when this value is reached. It is important that the level of change between the current market and SEM is minimised where possible and VOLL could be one of those areas where regulatory stability and certainty is given due consideration. VPE notes that the recently established Singaporean market has set VOLL at around €2000/MWh² on the 1 January this year. As a small island system with a similar system size and similar industry competing with Ireland, it may be an interesting benchmark.

¹ CER/02/32

² http://www.emcsg.com/f6129,77619/77619_Appendix_6J_1Jan07.pdf

PCAP

If PCAP is set at a value that is lower than the SRMC of an individual generator, then that generator will stop generating.

VPE would welcome a review of the conditions under which the MSP software will set the price to PCAP. We understand PCAP could be set if the deemed plant dispatch in the unconstrained MSP runs are not sufficient to meet the calculated demand in the software, even though in reality no customers had been disconnected. Similarly we understand that insufficient plant flexibility in their technical characteristics could trigger PCAP under certain circumstances. It will also be important to understand how the MO includes suppressed demand (i.e. demand control) and interconnector residual capacity in the software³

VPE tend to agree with the regulatory authorities that the PCAP should be equal to VOLL. The reason we support this approach is that then a generator would not be required to generate at a loss if its SRMC was higher than PCAP; at VOLL it is reasonable for a generator to not be commercially available as the customer is unwilling to pay for the electricity.

PFLOOR

VPE are concerned about the value of PFLOOR of minus €500/MWh because of how this interacts with the excessive generation event set out in section 4.74 of the T&SC. It implies that a price taker with an SRMC of say zero would be required to generate at a significant loss. We do not however have a fundamental concern about generators bidding below zero if they consider this to be their SRMC and this could in theory set the market price.

VPE suggest that the T&SC is changed such that in an excessive generation event the price would be set at zero; setting an excessive generation at the price floor will cause price taker generators to generate at below cost.

³ Appendix N32 of T&SC v2