

**NORTHERN IRELAND ELECTRICITY plc**

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

**Consultation Paper  
(2 July 2007)  
AIP/SEM/07/381**

**NIE's Response**

27 July 2007.





## **Introduction**

This paper sets out NIE's response to the RA's consultation paper entitled "The Value of Lost Load, the Market Price Cap and the Market Price Floor" (AIP/SEM/07/381, dated 2 July 2007). The consultation paper seeks views on the RAs proposals for the determination of the values of the three different administered prices.

### **The Value of Lost Load (VOLL)**

NIE considers that the general approach to determine the implicit value of VOLL from the generation security standard is sensible. However, our concern, as expressed in previous responses, is the variability that results when the cost of peaking plant varies. It is clearly not rational that customers' valuation would change markedly over short time periods while at the same time requiring a stable level of generation security. It is more conceivable that customers' generation security requirements will evolve over time. It would be reasonable to mirror this by ensuring the implicitly determined valuation of VOLL should also dampen volatility by using a longer term cost for peaking plant that would smooth out short term supply / demand driven cost volatility. Therefore it would be more appropriate to smooth the changes by for example using a 5 year rolling average cost for the peaking plant, or if further simplicity is desired, using current costs for a period of years with only a general inflation indexation until the next full cost review.

### **The Market Price Cap (PCAP)**

NIE agrees with the proposal to set the value of PCAP equal to the value of VOLL.

### **The Market Price Floor (PFLOOR)**

NIE agrees that generators must be able to submit commercial offers that are less than zero providing they reflect the SRMC principles to which all generators are required to comply. It is not clear how an excessive generation event will materialise in ex-post settlement since the SOs will undoubtedly have taken action in real time (e.g. disconnecting price taking generators) to ensure such an event, which would put the network at significant risk, would not happen.

It is not clear why the figure of -€500 has been proposed and, on the assumption that the System Operators would target the disconnection of larger groupings of price taking generators, the generators who would be most exposed to negative prices are more likely to be the smaller renewable generators who may also have less contract coverage and hence protection against negative prices.