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23 July 2007

Tony Doherty  
Northern Ireland Authority for Utility Regulation  
Queens House  
10-18 Queen Street  
Belfast  
BT1 6ED

Our Ref: EN01-000021

Dear Mr Doherty,

**Consultation on the value of lost load, the market price cap and the market price floor**

RES-Gen is pleased to respond to your consultation on the value of lost load, the market price cap and the market price floor.

RES-Gen is the wind farm operating business of the RES Group which is part of the Sir Robert McAlpine group of engineering and construction companies. Res-Gen is the owner and operator of the Altahullion, Lendrums Bridge and Lough Hill wind farms, and is currently the largest generator of electricity from wind in Northern Ireland.

We have no comments to make on the issues set out in the consultation document on the setting of the value of lost load (VOLL) nor the setting of the market price cap (PCAP). We note the proposal to set the value of PCAP equal to that of the VOLL.

In the discussion of the Market Price Floor (PFLOOR) the discussion of a negative price floor raises the possibility of negative market clearing prices.

We agree that a negative price floor would expose price taker generators (such as the wind farms operated by RES-Gen) to the risk of potentially significant losses.

We note your expectation that most, if not all, price taker generators will be protected from low or negative price through their contract positions, and your request for information if that is not the case and the extent to which it is not.

Our contractual position post-SEM is still a matter of negotiation with the relevant suppliers. However we share your expectation that the finally negotiated position should protect price taker generators from exposure from negative market prices under normal generation conditions.

However, this protection would not seem to be afforded under circumstances where a price taker generator is constrained down. That is to say it reduces output in response to a dispatch instruction from the system operator. Under these circumstances the contractual position with the supplier is irrelevant. The compensation mechanism under the SEM however provides payment for the lost energy at the market price.

When the market price is negative this means that the generator that does not generate will be obliged to pay for compliance with a dispatch instruction issued for the benefit of the network as a whole. Perversely

however, price taker generators that are not required to reduce output would continue to be protected from the negative prices.

We therefore request that the regulatory authorities address this deficit in the market arrangements as a matter of urgency. The simplest mechanism in the short term might be to ensure that compensation for constrained down generation has a minimum value of zero.

We have concerns that the System Operators have not yet published robust and transparent mechanisms to decide which price taker generators to constrain where there is a choice of options. We believe that the System Operators can best operate economic and efficient networks in an environment where the SO is required to compensate price taker generators for the cost of reduced generation.

In the longer term, therefore, RES would welcome a debate on mechanisms to compensate constrained generation and the development of a published methodology for the issue of despatch instructions to price taker generators.

We would be very happy to discuss these thoughts further. In the first instance please contact Richard Ford, UK Grid Connections Manager for the RES Group. Richard can be contacted at [Richard.ford@res-ltd.com](mailto:Richard.ford@res-ltd.com) or by phone on 01923 299374.

Yours sincerely,

Stephen Balint  
Managing Director

CC: File