



Mr Tadhg O'Briain
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21th December 2007

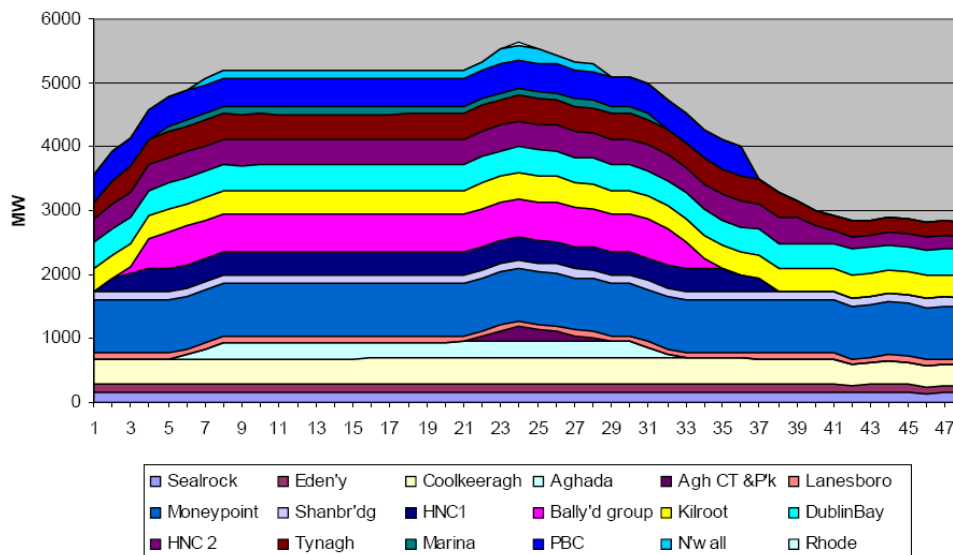
Bidding Behaviour in the First Month of the SEM Market

Dear Tadhg,

This submission, on behalf of Airtricity Limited relates to the bidding behaviour of thermal generators observed during the first month of SEM. Airtricity Limited would like to state from the outset that, as a supply company with a balanced market position, it has no particular interest in seeing future prices above or below the level which would result from a correctly functioning market. The concerns raised here relate to the Airtricity's desire to see a successful and correctly functioning SEM market in the long term.

Airtricity would see the market space occupied by the CCGT plant as having the potential to result in distorted bids and perhaps ultimately market prices. There may be competitive issues between CCGT as they vie to be one of the plants that run over night. The graph below illustrates how some CCGT are shut down over night while other remain on.

MSQ Thermal Generators Fri 23 Nov



The market principles would suggest that if CCGTs have technical issues regarding two shifting of their plant; these should be reflected in the technical offer data and should not be allowed to distort the commercial offer data. Despite this some CCGT plant have offered in commercial offer data that is clearly in breach of the stated bidding principles.

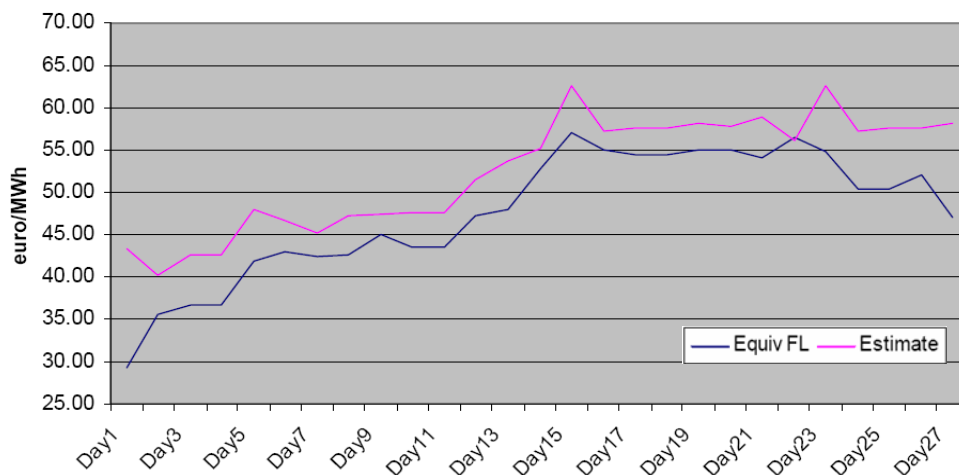
Article 8.i.a of the Bidding Code of Practice clearly indicates that commercial offer data should reflect **“costs the relevant generator would incur in offering that cost-item for sale, or acquiring that cost-item, on a recognised and generally accessible trading market;”**. With regard to CCGT plant the key cost item is clearly the gas fuel costs. The gas markets are highly liquid and have to be deemed without question to be **“generally accessible”**. Proper cost reflective bidding with incorporates the true fuel costs is clearly correct practice from an economic and social perspective as it most efficiently signals the true costs vertically from primary fuel markets, through wholesale markets to the electricity supply side.

It is Airtiricity’s view that correct commercial offer data should always be greater than the equivalent of the relevant fuel cost on the day multiplied by the units heat rate. Commercial offer data below this point implies either, non compliance with the bidding code of practice or a negative variable operation and maintenance cost. The later being viewed as very rare indeed.

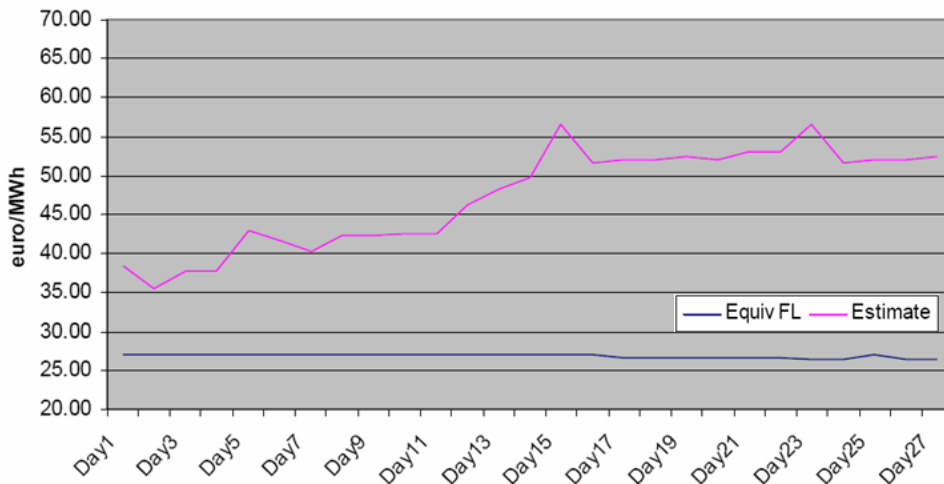
In November it can clearly be seen that some generators are bidding grossly out of line with bidding principles. The graphs below contain comparisons between the estimated generation costs (as derived from the spectron published day ahead gas prices and the published generator heat rates) and the actual full load unit running cost as derived from the participants submitted commercial offer data.

During November, it can be clearly seen that while Coolkeeragh’s commercial offer data is correlated with the daily gas prices it is consistently bidding below the estimate of what its generation costs are. The commercial offer data from Dublin bay is even more marked. It does not appear in any way to relate the physical reality of the generator or the costs components referred to in the bidding code of practice.

Coolkeeragh Equivalent Full Load vs Estimate

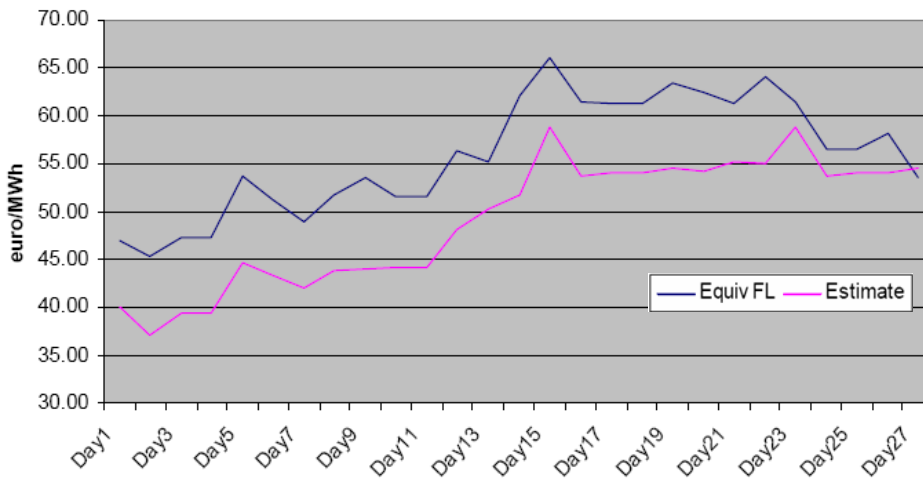


Dublin Bay Equivalent Full Load vs Estimate

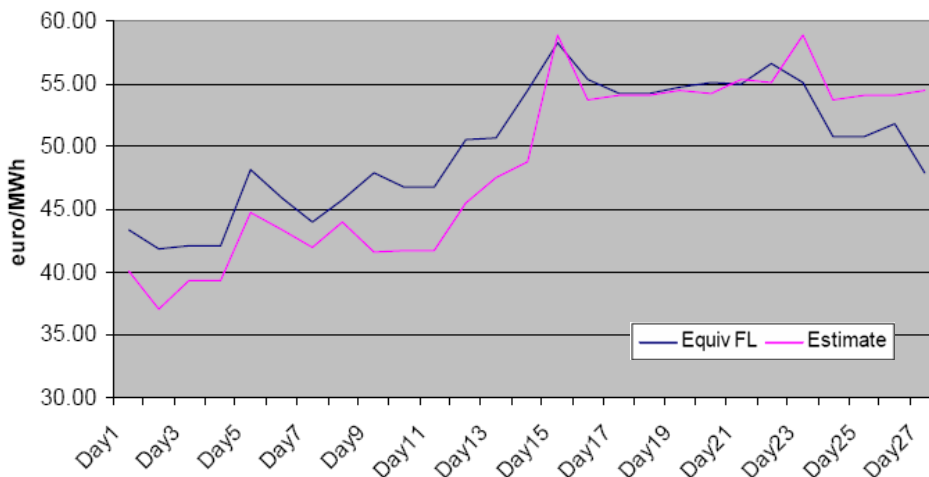


Airtricity is concerned that this bidding behaviour, if unchecked will set a dangerous precedent in the market place. A precedent that says non-cost reflective bidding is tolerated in the SEM. Such behaviour on the part of some participants may initiate similar behaviour in response from other participants. It can be observed in the last week of November, that the bids of other generators in the market have reduced with respect to the actual estimated fuel cost.

Huntstown 2 Equivalent Full Load vs Estimate



Tynagh Equivalent Full Load vs Estimate



There is insufficient data available to Airtricity to conclude that this apparent change of behaviour is in response to the unchecked non-cost reflective bidding of others, however Airtricity hopes that the market monitor is conducting similar and more in-depth analysis into these issues.

In summary, Airtricity believe that there has been non-cost reflective bidding by certain generators in the SEM in November. This is clearly in breach of the Bidding Code of Practice. This behaviour, if unchecked will set a dangerous precedent in the market, which invoke similar behaviour from other generators and may jeopardise the successful operation of the SEM in the future.

Airtricity would be interested to hear the views of the market monitor with respect these issues. Airtricity would also like know what actions or warnings, if any have been taken against the aforementioned participants with regard to this.

Please do not hesitate to get in contact if you have any further questions in relation to this. We look forward to your response.

Yours Sincerely,

Ronan Doherty

Trading Risk Manager