

# **Single Electricity Market Committee**

**SMP Uplift Parameters 2009**

**Decision Paper**

**SEM-08-089**

**1 September 2008**

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## 1. Introduction

The Regulatory Authorities are required to determine three parameters used in the calculation of Uplift under the SEM Trading and Settlement Code (the Code).<sup>1</sup> These are:

- The Uplift Alpha value  $\alpha$ , which governs the importance of the Uplift Cost Objective, such that  $0 \leq \alpha \leq 1$ ;
- The Uplift Beta value  $\beta$ , which governs the importance of the Uplift Profile Objective, such that  $0 \leq \beta \leq 1$  and such that  $\alpha + \beta = 1$ ; and
- The Uplift Delta value  $\delta$ , to constrain the overall impact on revenue in each Trading Day  $t$  arising from the Uplift calculation, such that  $\delta \geq 0$ .

Following consultation, the Regulatory Authorities last year decided for the period from 1<sup>st</sup> November 2007 to 31<sup>st</sup> December 2008 that:<sup>2</sup>

- of the four methodologies set out in the paper AIP/SEM/60/06, option D should be used;
- $\alpha$  should be set to a value of zero;
- $\beta$  should be set to a value of 1;
- $\delta$  should be set to a value of 5; and that
- these values would remain valid for the period to end 2008.

The Regulatory Authorities also stated last year that they intended to monitor the effectiveness of the proposed Uplift Methodology, including the parameter values set out in that document, both in the context of the desired objectives and having regard to the stability of SEM prices. In particular, the Regulatory Authorities noted that while the profile objective had been prioritised in this instance, the zero weighting given to the cost minimisation objective may be revisited in the light of market data.

On 25<sup>th</sup> June 2008, the Single Electricity Market Committee issued the paper “SMP Uplift Parameters 2009, Consultation Paper” (SEM-08-080) (the Consultation Paper), a consultation paper on the values for the SMP Uplift Parameters which should apply for 2009.<sup>3</sup> The paper presented some analysis of the behaviour of uplift since 1<sup>st</sup> November 2007 and the paper proposed that the same values should apply in 2009 as for the period up to December 2008; that is, zero for  $\alpha$ , 1 for  $\beta$  and 5 for  $\delta$ .

Two respondents provided comments, none of which were stated to be confidential. The respondents were ESB Customer Supply (ESBCS) and ESB Power Generation (ESB PG).

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<sup>1</sup> See paragraph 4.70 of the Code

<sup>2</sup> See SMP Uplift Parameters, Decision Paper, 15<sup>th</sup> March 2007, AIP/SEM/07/51

<sup>3</sup> The SEM Committee is established in Ireland and Northern Ireland by virtue of section 8A of the Electricity Regulation Act 1999 as inserted by section 4 of the Electricity Regulation (Amendment) Act 2007, and Article 6 (1) of the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 respectively. The SEM Committee is a Committee of both CER and NIAUR (together the Regulatory Authorities) that, on behalf of the Regulatory Authorities, takes any decision as to the exercise of a relevant function of CER or NIAUR in relation to a SEM matter.

Key comments from the respondents are considered in the next Section and their full comments are being published with this paper.

This paper considers the comments received and concludes that the values for the Uplift Parameters that should apply for 2009 should be the same as apply to the end of 2008: that is; zero for  $\alpha$ , 1 for  $\beta$  and 5 for  $\delta$ .

## **2. Respondent's Comments**

ESBPG confirmed its support for the proposals set out in the consultation paper.

ESBCS noted that it had previously responded to the initial setting-up of the current parametric values and had concurred with those proposed in the December 2006 consultation paper. It added that, at this time of very high and volatile fuel prices, it was concerned to maintain a fair balance between costs imposed on customers and the profile of the price signals.

Further, it stated that the current parametric values used in the uplift calculations prioritise the profile objective over the cost minimisation objective and added its belief that this aspect of wholesale pricing is revisited. It agreed that this review can only take place when a sufficient period of market operation has elapsed and suggested that the opportunity to undertake such a review should be taken prior to the next round of the Directed Contract auctions since any parametric changes will impact on SMP projections and participant bids/offers in subsequent contract rounds. ESBCS also stated that it concurred with the SEM Committee proposal that the Uplift parameters should remain unchanged, recommending that a review should take place early in 2009 prior to the auctions.

The SEM Committee is grateful to the parties who submitted comments and is of the view that no new evidence has been brought to its attention which suggests that change in the Uplift Parameter values is necessary. In light of the performance of the current Uplift Methodology and parameters when considered through the paradigm of SEM price stability and the stated SMP objectives, the SEM Committee sees no reason to depart from the value of  $\alpha=0$ ,  $\beta=1$  and  $\delta=5$ .

On the question of the timing of any review of the performance of the Uplift Parameters, the Regulatory Authorities note the stated relationship between that review and the offering of Directed Contracts. However, the RAs also note that, following the SEM Committee decision (below), the Uplift Parameters will be set until the end of 2009. Any review of the operation of the Uplift Parameters should feed into the setting of the parameters from the beginning of 2010. There appears to be a degree of lack of alignment between the calendar year in the Code and the tariff year based calendar of activities outside the Code. The RAs look forward to market participants seeking to align such arrangements through an appropriate Modification Proposal. Until this alignment can be effected, or at least anticipated, the RAs believe that attempts to align the underlying activities are bound to be frustrated.

### 3. **Decision**

Based upon the above considerations, the SEM Committee has concluded that the values of the Uplift Parameters for the year 2009 should remain unchanged at:

- $\alpha$  should be set at zero;
- $\beta$  should be set at 1; and
- $\delta$  should be set at 5.