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Policy Parameters 2012 Consultation

Dear Clive and Jean Pierre

Energia welcomes the opportunity to comment on the above consultation.

PCAP

The case for and beneficial effects of price caps in electricity markets in general is highly questionable but especially in the context of the Single Electricity Market (SEM) where Value of Lost Load (VOLL) acts as a natural price cap and bidding short run marginal cost (SRMC) is a licence condition of generators monitored by the market monitor. Energia has previously argued that the existence of PCAP exposes generators to the risk of being required to generate at a loss. We maintain this risk cannot be mitigated by modelling year ahead based on prevailing forward fuel and carbon prices because of (frequently observed) large discrepancies between forward prices and outturn prices. It is also worth noting that the existence of PCAP should not be considered a substitute in any way for market liquidity and we know from experience that MSP software does not frequently drive prices to PCAP at times when all load is actually being served. We therefore suggest that there is no basis for

the continuation of PCAP and to do so exposes generators unnecessarily to the risk of generating at a loss.

PFLOOR

Energia has previously raised concerns about the existence of a negative price floor that applies to price taking generation in an excessive generation event, noting that these events are increasingly likely with more wind on the system. It is clearly important that achievement of renewable targets is not frustrated and we maintain that the potential for negative prices could hinder the financing of renewable projects. We understand that the workstream on scheduling and dispatch is relevant to this issue and we therefore reserve further comment pending its outcome.

Uplift Parameters

Energia has considered the analysis of uplift carried out by the regulatory authorities and see merit in the recommendation to keep the existing uplift parameters unchanged as this seems to provide minimal distortion against underlying shadow prices.

Please do not hesitate to contact me if you would like to discuss this response.

Yours sincerely



Kevin Hannafin
Regulation Manager