**IWEA response to the consultation on Trading and Settlement Code Policy Parameters 2014**

**03 September 2013**

The Irish Wind Energy Association (IWEA) welcomes the opportunity to comment on the SEM consultation on the Trading and Settlement Code Policy Parameters. This is the first year since inception of the SEM that changes have been proposed to the Policy Parameters. This combined with the materiality and questionable basis for the proposed changes, as well an apparent departure from good regulatory process, is concerning in light of the unprecedented uncertainty that currently exists in the market given the need for market reform by 2016 to comply with European Target Model requirements. IWEA has the following particular comments regarding the proposed changes to the Policy Parameters.

**PCAP**

IWEA proposes that PCAP remains at €1,000/MWh. The arbitrary proposal to increase PCAP to €1,200/MWh is clearly not warranted based on the historical evidence presented in the consultation paper and is not justifiable based on a forward view of underlying fuel prices. The analysis does not look at the implications of increasing the PCAP or go back to the original principles/objectives of setting PCAP at €1000/MWh. There is nothing in the analysis that is markedly different from previous years to justify a change that will have significant implications on market participants.

PCAP was only triggered once in February 2013 by an extremely rare event unlikely to happen again and the generator in question was kept whole through make whole payments. The fact that PCAP was reached on this one occasion under highly improbable circumstances, when a unit was available for only one minute in the trading period where it was committed on, does not in any way increase the probability of PCAP being reached again or more frequently in 2014.

There is a clear negative interaction between PCAP and the BNE price which the RAs are undoubtedly aware of. Increasing PCAP to €1,200, resulting in a €10m+ reduction in the capacity pot, would be very damaging to investors and to market confidence more generally in the regulatory process, particularly in light of the decision to introduce stability in the CPM through a fixed period for capacity payments and the decision to maintain market stability to 2016.

IWEA thus recommends no change to PCAP of €1,000 for 2014.

**PFLOOR**

IWEA supports the proposal to leave PFLOOR unchanged at minus €100/MWh for 2014.

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**Uplift Parameters**

In the absence of the results of suitably robust analysis of the uplift parameters and further consultation on same IWEA would consider it highly inappropriate to change these parameters for 2014.

The current consultation paper presents very limited analysis carried out by the market operator covering just one week from 17 January to 23 January 2013 (during which the MIP solver was used on two days), which focuses only on the impact on SMP. Whilst the limitations of this dataset are acknowledged to some extent it is unclear what purpose is served by presenting such preliminary and potentially misleading findings that could not reasonably satisfy any robustness test. IWEA notes that the market operator has been asked to carry out further analysis covering three months for completion by end of November 2013. IWEA does not consider a three month dataset to be sufficiently robust for such fundamental analysis given the need to consider important sensitivities to seasonal effects; (forced and planned) generator outages; the coal/gas price flip; new generation; and interconnector activity, and so on. At least a 12 month dataset is required to capture these and other important sensitivities and the analysis should be forward looking (to consider for example new generation, interconnector activity and the coal/gas price flip) as well as historical. The analysis should not only focus on the direct impact on SMP but should also look at the impact on hedging contracts, IC flows and REFIT payments.

Furthermore it is unclear what will be done with the analysis completed by the market operator. The consultation paper states that '[t]he SEM Committee will publish a decision on the Uplift Parameter values for 2014 before the end of 2013'. This implies that:

- Required timelines in the T&SC will be purposely and significantly breached; and
- The analysis to be completed by end of November will inform a decision without first taking the highly advisable and necessary steps of publishing the analysis and proposing a change in the Uplift parameters (if considered appropriate based on the analysis) for further consultation.

The parameters for 2014 cannot be changed at such short notice as they will impact on risk premia in the market and affect CfD prices, IC flows etc. Sufficient notice of change is required so that market participants can budget for the year ahead and take hedging positions from a supply and generation perspective. A minimum of 4 months' notice is required for the year ahead as stipulated in the T&SC otherwise market liquidity is likely to be adversely affected. In fact regulatory decisions should aim for a greater lead time to provide notice to participants of potential price risks looking forward to the new tariff year and when DC and PSO price setting is being considered.

It is also critical in the interests of transparency, robustness and identifying unintended consequences that all stakeholders are given the opportunity to fully consider the analysis and respond to any proposed changes to the Uplift parameters. The consequences of potentially changing the Uplift parameters need to be very carefully considered, recognising that the damaging effect of increasing the volatility of SMP (increasing supplier risk, reducing liquidity and reducing the efficiency of interconnector trades) could more than outweigh any potential benefits of reducing the overall cost of Uplift.

With reference to above, IWEA thus recommends:

1. No change to the Uplift parameters for 2014

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2. The completion of further detailed and rigorous analysis by the RAs and SEMO covering at least a 12 month dataset, which should be forward looking as well as historical.
3. Further consultation on the Uplift parameters for 2015 following publication of the required analysis.

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