

10<sup>th</sup> March 2011

Department of Energy and Climate Change,  
3 Whitehall Place,  
London,  
SW1A 2AW.

**By email**

**RE: Electricity Market Reform Consultation**

To whom it may concern,

Endesa Ireland welcomes the opportunity to respond to the consultation paper on the UK Electricity Market Reform.

*Endesa Ireland*

Endesa Ireland owns a number of generating stations in Ireland and is a participant in the cross-jurisdictional Single Electricity Market (SEM) in operation on the island of Ireland.

The SEM is a mandatory gross pool where generators with an export capacity  $\geq 10$  MW must sell electricity produced into a pool and suppliers must purchase from the pool. Under the SEM market rules, generators are required to submit their *Short Run Marginal Cost* (referred to as an 'offer') to the Market Operator and the most economic generators available to meet demand are included in the market schedule. The *System Marginal Price*, which is based on the offer price of the most economic next available MW to meet any additional demand, is paid to all scheduled generators. This is also the basis for the price charged to suppliers in buying electricity from the pool<sup>11</sup>.

Endesa Ireland is cognisant that the proposed UK Electricity Market changes will be made against the backdrop of a move towards a regional electricity market, as explicitly envisaged by the European Union's 3<sup>rd</sup> Package. Endesa Ireland considers that any changes to the UK market should take account of any impact it may have on the development of the FUI (France-UK-Ireland) regional market. Endesa Ireland would like to see a Roadmap for the achievement of this regional market and would ask DECC to progress this issue in conjunction with the relevant ministries in Ireland and France.

*Carbon Support*

Endesa Ireland highlights to DECC that the imposition of a carbon price floor on generators in Northern Ireland would cause a distortion in the market and asks DECC to fully consider

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<sup>1</sup> Further information on the market can be found at: <http://www.allislandproject.org/en/trading-settlementcode-decision.aspx?article=ae9d4aa4-888b-48e0-a973-6845d54ca467>

the impacts on the SEM market before making a decision on this matter. The impact on any future initiative to deliver a regional market should also be examined.

Endesa Ireland would also ask that the mechanism whereby a non-UK company buying fossil fuel in the UK is exempt from this carbon price floor should not be administratively burdensome and should not expose the company to currency risk, as in the case of a system whereby the charge is paid on purchase of a fossil fuel and then reclaimed.

These points have been raised by Endesa Ireland in its response to the Treasury's consultation on this matter.

*Low Carbon Generation Revenue Support – Contract for Difference Feed in Tariff*

The Feed-in Tariff model of support for renewable generation has been successful in Ireland. Endesa Ireland would suggest that any costs arising from a Feed-in Tariff be paid for from the Carbon Support levy or from a Public Service Obligation levy on customers.

With the potential move towards regional markets Endesa Ireland would suggest that the UK should discuss changes to its renewable support scheme with its regional partners.

*Capacity Mechanism*

Endesa Ireland is in favour of the proposal for an allocation of the capacity mechanism by auction as it will help to provide capacity at the lowest cost to the end customer while providing sufficient incentives to investors. Endesa Ireland is also in favour of targeting this support at desired types of capacity. We would note that a similar capacity mechanism<sup>2</sup> has been implemented in Colombia, with a commitment of up to 20 years, providing a stable and transparent incentive programme to attract desired capacity.

Endesa Ireland suggests that this capacity mechanism could be funded by way of a Public Service Obligation Levy, as the objective is to ensure security of supply and reduce CO<sub>2</sub> emissions, both of which are eligible for PSO support under EU rules.

Please don't hesitate to contact me should you wish to discuss any aspects of this response.

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<sup>2</sup> <http://www.creg.gov.co/cxc/download/documentos/ReliabilityCharge.pdf>