

**Consultation on Relevant  
Considerations in relation to the  
possible Cancellation of  
Generating Unit Agreements in  
Northern Ireland**

**NIAUR**

**Consultation Paper**

**NIE Energy Supply's  
Response**

27 January 2010



## **Introduction**

NIE Energy Supply (NIEES) is pleased to have this opportunity to comment on this initial consultation, that invites views on relevant considerations in relation to the possible cancellation of Generating Unit Agreements (GUAs) in NI.

## **General Comments**

The whole issue of the possible cancellation of GUAs in NI is highly complex and requires a very thorough analysis of:

- the benefits case for consumers in respect of increased effective competition, and
- the potential risks of not having sufficient diversity, or indeed generation resources, to meet all reasonable demands for electricity going forward.

Whilst the paper discusses a number of important dimensions to consider in respect of the necessary detailed economic analysis, it is not clear that adequate consideration is being given to the potential impact on market liquidity of the possible cancellation of GUAs.

NIEES is very concerned about the general outlook regarding market liquidity, particularly in the short to medium term. The uncertainty regarding the potential early cancellation of the Kilroot contracts, combined with additional ambiguity around the potential integration of ESB retail and generation entities (as put forward in CER's recent "Roadmap for Deregulation" consultation) create a potentially difficult context to manage the 2010 cfd regulatory contracting process.

These factors could lead to; a lack of clarity on the contracting timetable of the 2010 contracting process, a reduction in cfd volumes in an already under-contracted market, and once again a very compressed contracting window.

NIAUR will no doubt be aware that the issue of a compressed contracting window has been raised as an area of concern by many industry observers in the past. NIEES therefore would urge NIAUR to create a framework to manage important contracting considerations and to provide participants with as much clarity as possible regarding the 2010 contracting timetable and potential range of sale volumes. This process, whilst not ideal, will provide space for the important consultation exercises regarding possible GUA cancellation, to progress effectively.

A further potential diminution of cfd volumes available via the directed and non-directed process within the all island wholesale market could create an uneconomic scarcity dynamic, which would clearly not be in the interests of

customers. It could also lead to greater tariff disturbance, as prices would need to be potentially reset more often due to the lack of satisfactory hedges.