NIE energy

NIE Energy Ltd

SEMO Revenue and Tariffs
for
October 2009 – September 2010

20 July 2009

NIE Energy (Supply)'s Response

14 August 2009

Introduction

NIE Energy (Supply) (NIEES) welcomes the opportunity to respond to the SEMO Revenue and Tariffs Consultation Paper. We note that the Regulatory Authorities (RAs) have undertaken a comprehensive cost review and have provided information on a range of elements. To structure our response NIE Energy (Supply) has grouped our comments under the headings of General, OPEX, CAPEX and the Incentive Mechanism.

General

The RAs have undertaken a detailed review of the SEMO operational and capital costs opting for a one year rate of return based form of regulation. NIEES acknowledges the RAs reasoning given the relatively new nature of the SEMO organisation and the current economic climate. NIEES is disappointed however with the timing of this paper and the omission of a proposed Variable Market Operator Charge (VMOC)value. The VMOC figure is a requirement within the retail tariff setting process and the timescale for its publication adds further uncertainty to the retail process.

OPEX

The RAs have correctly focused on the payroll line item of the SEMO OPEX submission given its high proportion of the overall cost. While we acknowledge the RAs proposal to fully re-base the prices used, given that this price control extends for a period of only one year, we feel that it is unreasonable to expect an individual businesses costs to fully reflect price changes on the economy as a whole.

As a market participant we urge the RAs to ensure that reductions required by SEMO under this price control will be made through efficiencies rather than a reduction in the services provided to the market.

The consultation paper further provides details of other SEMO operational costs such as IT and facilities. NIEES welcomes the disclosure of such information and the reductions the RAs have suggested compared to the SEMO submission. In general terms however, NEES view these costs in particular, as in excess of our expectation for such items.

CAPEX

Through the submission process SEMO sought allowance for a number of capital projects within this price control. NIEES notes that the RAs view the capital projects and associated cost as sufficiently material to warrant rigorous scrutiny and individual project management arrangements. The proposal therefore is to exclude all except the web site development from this review and deal with each capital item on an individual basis. NIEES fully support the RAs position on this issue.

Incentive Mechanism

NIEES welcomes the introduction of an incentive mechanism into the SEMO price control. We further agree with the RAs position that there should be both operational and capital project delivery incentives.

The introduction of a KPI based operational incentive provides a clear mechanism to reward successful completion of those activities deemed as crucial for the effective running of the market. The proposed 2.5% allocated to incentivisation would appear as a reasonable valuation. NIEES supports the RAs proposals on the appropriateness of the KPI metrics and increasing the weighting towards invoicing. As an additional metric we would ask the RAs to consider either including a metric based on the publication of Ex-Post Initial Settlement or broadening the scope of the Ex-Post Initial Pricing KPI to include settlement statements. NIEES view initial settlement statement publication as a crucial SEMO activity.

NIEES note that the RAs have removed the risk element of the operational incentives and acknowledged the possibility of a KPI reward distorting the behaviour of SEMO. While NIEES also accepts this may be a possibility; however given the one year time period suggested, in general terms we welcome the KPI concept and request that the RAs consider any behavioural effect in their subsequent review of the incentives ex-post.

In relation to CAPEX project incentives NIEES support the RAs proposal to limit the application to projects with a value in excess of €500,000 and reduce the SEMO retention figure to 10%, thereby passing an increased proportion of the efficiencies back to customers.