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Dear Jean Pierre,

SEMO REVENUE AND TARIFFS & TSO DISPATCH BALANCING COSTS FOR OCTOBER 09 – SEPTEMBER 2010

Thank you for this opportunity to respond to the above consultation.

Viridian Power & Energy (VP&E) appreciates the important role of SEMO in administering the SEM. Accordingly it is important for SEMO to have sufficient resources to carry out its duties under the Trading and Settlement Code (TSC) and to be given sufficient latitude to deliver efficiencies and innovation to the market. However we do recognise the need to optimise operations in this challenging economic climate and nobody should be insulated from this.

VP&E suggest the following measures that would in our view further enhance SEMO performance and offer improvements to customers and market participants more generally:

1. Provide a fixed exchange rate for market operator and imperfections charges akin to the capacity payment mechanism: - the existing methodology means that Northern Ireland suppliers and customers must deal with fluctuating exchange rates to cover market operator charges and imperfections charges denominated in euros. A revised methodology fixing the exchange rate would provide greater certainty to customers and would eliminate competitive and jurisdictional distortions. Any surplus or deficit relative to outturn rates could be dealt with through the k-factor.
2. Provide KPIs for accuracy of market data as well as timeliness: - the KPIs suggested in the consultation paper focus exclusively on the timely publication of market data. VP&E would also like to see the accuracy of market data incentivised to some extent. For example it might be useful to have KPIs for resettlement caused by market operator errors.
3. If KPIs capture accuracy as well as timeliness (as suggested above) it then becomes more appropriate to use penalties as well as rewards in the incentive structure: - this is

because penalties may have the potential to distort accuracy unless accuracy *per se* becomes a performance metric.

4. It may be appropriate to provide incentives for transmission system operators (TSOs) to reduce dispatch balancing costs.
5. Refrain from creating a new specific charge for Make Whole Payments (totalling €311,652) because this would be costly for market participants to administer from a systems perspective: - instead this cost would be more efficiently recovered through the imperfections charge but only if the Make Whole Payment cost continues to be reported separately in the interests of transparency. We comment further below on the need for transparency in Make Whole Payments.

It is unclear how Make Whole Payments have been incurred and why they are to be recovered as proposed in the consultation paper. VP&E understand from the Trading & Settlement Code that Make Whole Payments should be reflected in SMP. Why is this not the case? VP&E would appreciate further clarity on this point and ongoing transparency in how Make Whole Payments are incurred. It would be useful to provide examples by way of explanation.

In addition to these comments we note that the regulatory authorities (RA) are minded to use a reward only mechanism to incentivise good performance from SEMO, the rationale being:

“The RAs do not wish the potential for financial penalties to distort the behaviour of SEMO or to have a negative impact on the energy market”.

VP&E welcome this acknowledgment that financial penalties can have distortionary and unintended effects. VP&E have always shared this view and have consistently argued in favour of rewards as well as penalties in incentivising good behaviour. We note that rewards as well as penalties are used to incentivise TSO performance (in ROI at least) and we would like to see the same principle applied elsewhere. For example the current harmonised ancillary services rates consultation proposes generator performance incentives and other charges for short notice declarations and trips which are all exclusively penal in nature. This along with other aspects of the ancillary services proposals could perversely incentivise generators to become inflexible just when flexibility is required more than ever to accommodate increasing penetrations of wind on the system.

I hope these comments are helpful but please do not hesitate to contact us if you would like to discuss further.

Yours sincerely

K Hannafin

Kevin Hannafin
Senior Regulation Analyst