

**Single Electricity Market
SEMO Revenue and Tariffs
October 2010 – September 2013**

Consultation Paper

SEM-10-050

NIE Energy Supply's Response

August 2010



Introduction

NIE Energy Supply (NIEES) welcomes the opportunity to reply to the SEMO Revenue and Tariffs for October 2010 to September 2013 Consultation Paper issued by the Regulatory Authorities (RAs).

The paper issued contains a comprehensive review of all the costs associated with SEMO and provides market participants with a clear view as to the drivers behind of the SEMO charges. While NIEES appreciates the detailed nature of the paper we are disappointed at the timetable for publishing this information and a subsequent decision. As we stated in previous responses the Variable Market Operator Charge (VMOC) is an important element of retail tariff setting and although this paper gives a proposed figure we would ask the RAs to consider completing this process earlier in future years.

Form of regulation

NIEES welcomes the RAs proposed move to RPI-X OPEX regulation, this is a method which is commonplace in the industry and will incentivise SEMO to find appropriate cost savings were possible.

Furthermore, NIEES notes the RAs CAPEX regulation changes and welcomes the attempt to reduce financing costs incurred by customers. We would request however that the RAs are mindful of any future high cost projects and potential volatility effects; although it should be noted that the VMOC accounts for a relatively small proportion of retail tariffs.

Corporate Services

The RAs have disallowed SEMO's proposed corporate services budget without further discussion with its parent companies. NIEES expects that certain activities will be carried out on SEMO's behalf and that the RAs will ensure recovery is not duplicated in separate price controls. NIEES believes that SEMO should not be encouraged to source such activities in isolation at higher cost if a lower cost internal option is available.

CAPEX Expenditure

NIEES has and continues to be supportive of the bi-annual release strategy. We believe this provides certainty to the market and facilitates participant engagement with their own vendors in a timely and structured manner; this reduces cost incurred by all parties. To ensure an effective release SEMO should be provided with the appropriate resource levels to fully scope out and test the detailed requirements associated with system changes. The early provision of technical documentation to participants is essential to ensure readiness and reduce late changes. Appropriate SEMO testing mitigates market risk and the likelihood of a future ad hoc resettlement requirement.

NIEES therefore considers the release support CAPEX as an important inclusion.

NIEES notes that SEMO have submitted business cases for a range of predictable CAPEX items which the RAs have scrutinised.

Incentivisation

In the 2009-10 SEMO Revenue and Tariffs decision the RAs introduced the KPI incentivisation mechanism. In our response to that consultation round NIEES welcomed the KPI operational incentives and our view has not changed. NIEES consider the 2.5% allocation as appropriate and note that no rationale for increasing to 3% has been provided. Without such reasoning NIEES suggest that the incentive level is held at 2.5%.

The addition of 2 further KPIs is a positive step however further details on the criteria would assist participants. NIEES notes that the proposal reduces the target for the ex-ante and ex-post pricing publication reports and views this as a negative, backward step.