

**NIE Energy Limited
Power Procurement Business (PPB)**

**Generator Financial Reporting
in the SEM**

Consultation Paper

SEM-11-106

Response by NIE Energy (PPB)

3 February 2012.



Introduction

NIE Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper on the proposals for Generator Financial Reporting in the SEM.

Considering the proposals, there are three primary issues : (i) is the information needed, (ii) what use will the SEMC make of the data, and (iii) can/should the information be published. PPB’s views on each of these issues is set out below.

The appropriateness of the information requirement

All licence holders have existing obligations to provide information to their relevant Regulatory Authority, including the provision of regulated accounts. The market revenues for each generating unit registered in the SEM are also published and the RAs have previously published documents¹ showing analysis of infra-marginal rents. It is not therefore clear what additional benefit would accrue from the further provision of information proposed by the RAs and whether this justifies the additional burden that would be imposed on generators.

The proposal is for each generator to provide information that reconciles with the regulated account information. The first issue with this is that generators have different financial years and therefore the information provided will span different 12 month periods. Any subsequent comparison of data that spans different horizons would be meaningless and likely to be misleading and open to misinterpretation. This is unlikely to assist or provide any improvement to the RAs in relation to transparency.

Looking at each of the data items in the reporting template, the RAs already have access to all the SEM related revenues, i.e. we understand the RAs already collect data on the SEM energy and capacity revenues and we assume they similarly obtain information from the TSOs on the HAS payments to each of the generators. In relation to CfD revenues/costs data, the relevance of it is not clear and it has the potential to be extremely misleading given that the generators will undoubtedly adopt different risk management policies and strategies and that the transactions may be accounted for differently (e.g. depending on whether hedge accounting is used). It is also unclear why CfDs are referenced yet any costs/revenues arising from commodity or currency hedging are not, given they are all likely to be part of a generator’s overall risk management strategy. A further problem with such hedging costs/revenues is that where a generator manages a portfolio of generators, it is unlikely that hedges would be attributable to any individual generating unit or site and any such allocation is likely to be arbitrary. Furthermore, the allocation rules applied by one licensee will inevitably be different to the rules applied by another.

We also note that the consultation proposes that generators who are subject to a PPA under the REFIT or ROC schemes should include a netting amount under the CfD line item to reflect the difference between their PPA revenues and the SEM

¹ e.g. MMU Public Report 2009

revenues. It is not clear how (e.g under what right) the generator will obtain information on SEM revenues to enable such netting calculation to occur. We would also highlight that there are a number of non-renewable generating units in Northern Ireland that are party to PPAs and there are PSO backed generators in RoI who are likely to have similar issues.

The purpose and use of the data

The stated objective of the reporting is to promote competition through enhanced transparency in the SEM. This conflicts with the RAs many statements, made in a wide variety of forums, that the SEM is a very transparent market that is functioning well and that is attracting new investment.

As we noted in our comments in the previous section, we have a concern that the data could actually create more confusion, not least because different risk management and accounting policies and different year ends would make it extremely difficult to make comparisons on a like for like basis.

There is also a concerning statement in the consultation where it indicates that the RAs use analysis of the existing information they receive to inform policy decision making. This could be interpreted as meaning that it is used to drive decisions targeted at managing generator profitability. Management of generator profits is not a primary duty of the RAs and such implication will inevitably raise concerns over the proposed requirement for generators to provide more financial information and the subsequent use of the information by the RAs.

The proposed publication of comparative information

The basis and rights of the RAs to publish information is not clear and our review of the licences and legislation indicates there are a number of differences both within and across jurisdictions.

Condition 2 of the generator licences in Northern Ireland do not contain the provisions, shown² as sections 7 and 8, which provide for CER to “specify the form and content of accounting statements ...”. In contrast, we also note that clause 2(b)(i) of the ESBPG and Tynagh generation licences (but not the generic RoI generation licence) provides that the licensee must make available such accounting information as will “*enable the Commission and the public to assess the financial position of the Generation Business*”.

In relation to publication, Article 63 of the Energy (Northern Ireland) Order 2003 places a general restriction on the disclosure of information obtained by both DETI and NIAUR and generally provides that, unless it has the consent of the individual, disclosure can only be made in limited circumstances. On the assumption that generator consent is unlikely (given the commercial and confidential nature of the information), it is not clear under what basis NIAUR would have a right to disclose any information it has obtained from licensees.

² on page 8 of the consultation paper