

Response from Viridian Power and Energy

To

SEM

PES RETAIL TARIFF PERIOD ALIGNMENT

IN BOTH REGULATORY JURISDICTIONS

12th February 2007



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VP&E welcome the open debate on the setting of appropriate tariff periods for the respective PES organisations on the island but consider that the issues of alignment are secondary to the following issues:

1. Why should there be a PES tariff in either jurisdiction? The existence of PES tariffs has a major distortionary effect on retail markets in both jurisdictions. Innovation in retail products are stifled if competition is set by reference to a PES tariff. In the southern jurisdiction the PES tariff has been removed for large energy users and this generally accepted by suppliers as a favourable indication of competition having been demonstrated in this sector. Unfortunately the tariff removal coincided with a rapid rise in fuel prices that resulted in customers not fully sharing this opinion. VPE consider that the SEM should improve the competitive dynamic on the island and thus there should no longer be a justification for PES tariffs except for perhaps domestic customers.
2. The SEM design information to date has not explained the mechanisms by which PES tariffs, if they are to be used, will be determined in the market. It appears that Directed Contracts may only constitute around 15% of the volume of customer demand. The RAs have yet to set out how:
 - How 85% of the customer volume will be set
 - What level of pool price exposure is acceptable for PES organisations
 - How any over or under recovery will be treated (eg. K factor?)
 - How the Economic Purchase Obligation on PES organisations will be discharged

In considering the position for alignment, VPE do not hold strong views, but have the following observations:

- a. Gas transportation charges are not a significant component of costs for even gas fired generators and thus should not be used as a significant determinant of tariff timetables
- b. The setting of capacity values will be important for suppliers in assessing forward prices and thus tariffs. The paper does not address this.
- c. The setting of transmission loss adjustment factors has a significant bearing on market participant bid prices and thus the timetable for setting them could have bearing on the accuracy of tariff setting. The paper does not address the timetable for these.
- d. There is an argument that supplier resource is used more effectively if tariffs are not aligned in that all the pricing and sales teams can be smaller if they service different retail areas at different times.

In conclusion VPE do not hold a strong opinion on the appropriate time for aligning tariffs, or even whether they should be aligned, but on balance suggest that an April to March timeline best meets the needs of budget setting processes.