NORTHERN IRELAND ELECTRICITY plc

Supplier Suspension Delay Period and Generator Suspension Delay Period (AIP/SEM/07/427)

NIE's Response

17 August 2007

Introduction

NIE welcomes the opportunity to respond to this consultation paper which addresses important issues relating to the default of a market participant which will have a direct impact on the commercial interests of all SEM stakeholders and customers.

During previous discussions we have highlighted a number of issues with the Supplier of Last Resort (SoLR) business processes. Whilst we understand the issues that affect credit cover for the wholesale market it is important that the problems that could be faced by the SoLR are clearly understood.

NIE is concerned that the consultation is proposing arrangements for an event of supplier suspension without the SoLR process for Northern Ireland being fully understood and consulted upon. In addition, NIE is concerned that a decision on the suspension delay period may pass on unnecessary wholesale risks to the retail market through the SoLR. This has the potential to increase the operational costs of the designated SoLR, without an immediate mechanism to recover these additional costs. It is likely that this will significantly increase bad debt risks and the costs of credit cover for the supplier concerned.

SoLR

In the interests of customers and all SEM stakeholders, NIE would like to see the selection of the SoLR in NI being treated as a matter of high priority and completed prior to the start of SEM. We consider it is not prudent for SEM to go-live without a SoLR in the North having been selected.

Delaying the selection of the SoLR until the supplier suspension delay period would not be in the interest of any market participant or customers. The selection process could prolong the decision to revoke the defaulting supplier's licence, significantly increasing bad debt exposure and leaving insufficient time for the designated SoLR to complete all necessary arrangements (both practical and commercial). We recognise that the NI supply licences contain SoLR conditions but there would be a significant volume of work for the SoLR to complete before it would be in a position to adequately service its new customers. This would also increase the commercial risk of the SoLR and the forward exposure period for bad debt or debt recovery may be increased.

To minimise the cost of providing the services of the SoLR in NI and ensure that a quality service is provided, the SoLR should be appointed as soon as possible in advance of SEM go live. This would provide a period ahead of time to develop, test and rehearse all necessary policies and procedures. This would also act to minimise all costs including transaction processing, bulk transfer, provision of credit cover and development of billing enhancements to service the additional customers.

Designation of the SoLR pre-SEM go live would provide consistency with the arrangements in ROI and certainty for customers as they would be treated on a common basis in both jurisdictions. It would also provide sufficient time for the appointed Supplier to register a Supplier Unit within SEM in accordance with AP1. This process must be completed in advance of the customers being transferred to the SoLR. If this action was not completed, the customers would be deregistered from the failed Supplier and by default would appear in the NI Error supply unit, which is allocated to NIE Supply as a consequence of the 'differencing' rules under SEM.

Suspension period

To minimise risk to all SEM participants NIE would like to see the period of Supplier Suspension kept to the practical minimum as discussed in the paper, but with a cap set on the maximum allowable period to ensure that the suspension period does not extend beyond 21 days. This should allow sufficient time for the RAs to investigate and determine appropriate action. We understand that there is the period required for the statutory demand to be served prior to the revoking of the licence of the defaulting Supplier but the timescales must be set to be practical and achievable otherwise the risk increases and potential costs are incurred for longer. Such costs would be reflected back into the market as price increases as the disadvantaged parties seek to recover the costs. Undefined or unknown exposure is likely to create a barrier to entry for new participants which would not be in the best interests of the market as a whole.

To help minimise additional market costs and to reduce the generator risk exposure, we would suggest that additional costs incurred as a result of the RAs appointing a SoLR should be socialised across all customers using the PSO mechanism. This would include bad debts with the Pool and the additional costs incurred by the SoLR in taking on the customers of the defaulting supplier.

Bulk transfer

NIE T&D has designed a bulk transfer process that will allow customers of the defaulting supplier to be transferred to the SoLR. Further development work may be necessary following a decision on the processes that need to be implemented to support the market requirements for SoLR. Complexities arise around other associated transactions that may be in progress, for example a meter change or other field work. These exceptions will have to be managed manually and will delay 100% completion of the bulk transfer process.

Summary

NIE supports the proposals for Supplier and Generator suspension delay periods of 14 days and 7 days respectively. The proposals appear reasonable in the context of the credit cover required to minimise market risk whilst avoiding undue demands on potential new entrants. However, NIE would urge the RAs to quickly identify the SoLR in NI so that they may work to develop a viable and practical solution. This will help to further minimise risk and cost exposure of all SEM participants. For the SoLR in the North, it will minimise set-up time and transaction costs. If the appointment decision is delayed, we believe that there will be insufficient time for the selected supplier to provide a cost effective solution for all parties involved.