Response from Viridian Power and Energy

To

SEM T&SC Supplier and Generator Suspension Delay Period

Consultation Paper

AIP/SEM/07/427

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Power & Energy

Viridian Power and Energy (VPE) welcome an opportunity to comment on the RAs selection of supplier and generator suspension delay period and consider the choice made by the RAs to be particularly important to the investment risks faced by existing and future generator projects.

VPE suggest that the RAs give significant weight to the impact of their decisions on future generator investment decisions. The risk of supplier default and the contingent loss of revenue to generators, will weigh heavily on generator investors and their financiers. In a market where a rate of return for new projects is already low by international standards, this additional risk will make new generation projects unattractive. Only special regulatory support outside the SEM could offset this risk, but VPE consider such an approach as unattractive for both customers and the economy on the whole as it damages competition in the market.

VPE's primary concern in setting the supplier suspension delay period is thus to minimise the default risk imposed on generators. We consider however that creating large credit cover requirements to cover the current possible unsecured bad debt period is unattractive to promoting greater supply competition in the market. On this basis we propose the following approach:

1. Seek a change to the T&SC and regulatory mechanisms such that a supplier is automatically suspended from the market after 7 calendar days. At this point bad debt liability should transfer to the supplier of last resort (SOLR)[1]. After the statutory period then the supplier with bad debt would lose their licence and their customers would be transferred to the SOLR. In support of this approach arguably a SOLR is much better placed to chase bad debt from another supplier than is the market operator as the SOLR has a better understanding of a supplier's business and how to manage customers.

   This approach will favour supply competition by lowering the credit cover requirements to participate in the market and increase competition in generation by removing an unlimited and unmanageable risk for generator investors.

2. Seek to procure some level of insurance cover by the market operator to cover events of unsecured bad debt. This may not be perfect cover but will at least limit the level of bad debt exposure in the market.

3. Provide a mechanism by which a generator, to the extent that they are still exposed to default risk, is able to recover those extra costs in the market through either the capacity mechanism or the SRMC bidding code of practice.

VPE note that the level of credit cover in the market would be significantly higher than indicated in the market[2] if the market price rises to PCAP of €10,000/MWh as currently proposed by the RAs.

[1] The SOLR will probably, and not unreasonably, seek to recover this cost in their market revenue.

[2] We note an error in the calculation on page 6 where the SMP should be €67.52/MWh, and not have the capacity value subtracted.

The alternative to the above approach is to increase to the credit cover period to match the period of suspension, but our reading of the consultation this could mean a period of 21 days or possibly even 51 days, which is an level of credit cover that suppliers may not be able to post.

VPE are unclear what potential scenarios would result in a generator suspension as set out in sections 2.243 and 2.246 of the T&SC. VPE cannot comment on whether the proposed 7 days (we assume this is calendar days, but would welcome clarification) without considering what scenarios would result in such as suspension.