

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

**SEMO
Revenue Requirement**

Price Control commencing 1 October 2016

Consultation Paper

SEM-16-023

Response by Power NI Energy (PPB)



9 June 2016

Introduction

Power NI Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper on the Single Electricity Market Operator (SEMO) Revenue Requirement.

Comments

Proposal (5.2) Opex & Capex

PPB agrees with the proposed regulatory framework in relation to OPEX for all three periods.

PPB considers the rate of return regulation to be more appropriate except perhaps where the investment is relatively minor (e.g. less than £100k). Although the SEM is currently due to end on 31 October 2017 we see no reason why provision cannot be made to allow any outstanding RAB (including new expenditure) to be carried forward and recovered in the I-SEM. Any delay in the commencement of the I-SEM could lead to increased Capex/Opex and this in turn is likely to result in significant tariff volatility due to the recovery of asset costs in a single year.

Proposal (5.3) Tariffs

PPB agrees with the proposal to allow the final K-factors associated with the Imperfections Tariff and Market Operator Charges to be recovered by a tariff in the I-SEM.

Proposal (5.5) Duration

PPB agrees with the proposal to roll forward the price control should there be any slippage in the I-SEM commencement date provide the slippage does not extend beyond two years. In such a case a new Price Control should be put in place.

Proposal (6) Indexation

PPB agree with the proposal to use out-turn inflation.

Comments on SEMO’s Submission

Proposal (8.2) Payroll

It is not possible for PPB to comment on SEMO’s resources levels in each of the three periods. We are surprised however that the average per FTE cost of resources increase by 14% in period 2 with a further 22% increase in Period 3.

PPB do not believe an allowance for contractors should be built into a 3 year price control but where it is demonstrated that such resources are needed to deliver specific projects that are not part of the “normal” business activity of SEMO, then such costs should be considered and approved as pass through costs at that time in relation to that specific project. As SEMO are moving to an

operate and maintain market model it is difficult to see any need for any such specific projects.

Proposal (8.4) IT & Telecoms

Such IT and telecom costs should be relatively predictable and therefore the expected costs should be capable of evidential demonstration. Such costs should be allowed otherwise SEMO would not be able to provide the services required.

Proposal (8.5) Facilities & Insurance

If the Facilities and Insurance costs are allowed for in SONI and Eirgrid's price controls then it is right that they are removed from the SEMO price control.

Proposal (8.8) OPEX savings

PPB agree with the proposal to retain RPI-X for period 1 of the price control.

Proposal (9.1) Biannual Release Capex

PPB agree that SEMO should seek RA approval for costs associated with an ad-hoc release when they occur and that no provision should be included in this price control.

Proposal (9.2) Predictable Capital Expenditure

PPB agree with the proposal.

Proposal (9.3) Unpredictable Business Capex

PPB agree with the proposal.

Proposal (10) Regulated Asset Base

As stated above PPB see no reason why provision cannot be made to allow any outstanding RAB to be carried forward and recovered in the I-SEM.

Proposal (11) Weighted Average Cost of Capital & Depreciation

Not enough information has been provided to comment on whether there should be any change to the existing approach.

Proposal (12) Key Performance Indicators

PPB agree that the incentive allowance pot should not be fixed but should remain a percentage of Opex costs. Not enough information has been provided to comment further.

Proposal (13.1) PCG

PPB agree with the proposal.