

SEM Committee Meeting

Minutes Meeting No. 1

Location: NIAUR Offices, Belfast
Date: 28th November 2007
Time: 10.30 – 14.00

Attendees: Tom Reeves (CER), Michael Tutty (CER), Iain Osborne (NIAUR), Dermot MacCann (NIAUR), Alan Rainey (NIAUR), Ignacio Perez-Arriaga Jose Sierra

In attendance: Eugene Coughlan (CER), Paul O'Neill (CER), Paul McGowan (CER), Philip Newsome (CER), Tadhg O'Briain (NIAUR)

Minute Taker: Michelle Gillan (CER)

0. Adoption of agenda

Agenda adopted without comment.

1. Appointment of Chairman

Tom Reeves to act as chairman of the Committee for the next six months. Iain Osborne to act as vice chairman. Appointment of chairman and vice chairman agreed.

2. SEM Committee Rules and Procedures

Discussion - in relation to the procedures for the circulation of agenda and papers especially in relation to the timeframe. The timeframe set out in Rules and Procedures adopted. However if this is deemed not to be working well, it may be amended in the future.

Other issues noted:

- Rule 10: Secretariat to request that receipt of the papers for SEM Committee meetings is acknowledged by the SEM Committee members;
- Written procedures – process to be included in Rules and Procedures to allow decisions to be made via written procedures;
- Inclusion of line ' SEM Committee endeavour to make decisions by consensus' in relation to decision making rules;
- Is reporting of dissenting views – to be noted in minutes or just the SEM Committee decision. Further discussion needed;
- Timescales for meetings – Minimum of two weeks notice to be given to members if meeting times and dates are to be changed;
- Rule 22. Conflict of Interests. Secretariat to compile a register of interests of SEM Committee member which is to be updated. Legal support on this required;
- Rule 26. Review for legality; and

- Consider the inclusion of an annual review of the effectiveness of the SEM Committee.

Action: Edits to be made to Rules and Procedures. To circulate via email for comment. Final edition to be presented at the next meeting.

3. Interim Scheme of Delegation – Project Office

Interim Scheme of Delegation agreed. An oversight committee matter is one which does not require the oversight committee to decide upon a matter of policy. Delegation of powers agreed, based on the assumption the document is legal. Delegation of powers retrospectively – PN noted that since NIAUR and CER agreed on issues after 1st November (a SEM Committee quorum), there should be no need for a note to delegate retrospectively.

Actions:

Interim Scheme of Delegation agreed. Delegation of powers agreed, based on the assumption the document is legal.

Note may be needed on what is established SEM policy.

Terms of Reference of Oversight Committee and other delegated parties needed.

Standing SEM Committee agenda should include an update on TSC Modifications.

Further investigation needed on retrospective authority for decisions.

Further comments on this issue to be sent to PON.

4. MMU Report – Tadhg O’Brian

Noted that report has been compiled using a limited amount of data.

Main points noted:

MO has been inaccurately forecasting Ex-ante prices. Clarification needed on how accurate the demand forecasts are. The inclusion of wind in the forecast to be discussed at a later date.

Kilroot – software can’t handle Kilroot switching from coal to oil. Market rules don’t match plant capabilities. Market rules don’t allow interconnector traders to meet this demand. Symptom of the software not being able to deal with dual fuel pricing offers from Kilroot.

Actions:

Temporary fix – introduce progressive/stepped penalties for an undergeneration event. This may not require a Code modification.

Long term solution – investigation needed regarding TSC. Are the market rules too strict?

5. Two official complaints received:

From Viridian regarding Synergen – constrained by its contract and it can’t arbitrage out of it. Has an opportunity cost of 0 and so can bid in lower than anyone else.

From Ballylumford regarding Coolkeeragh – how start up costs are included in the price.

Interpretation of the Bidding Code of Practice (BCOP)

Different generators interpret the BCOP in different way. All differing issues and generators looking for ways to deal with them. Selective interpretation of the BCOP will lead to problems vis a vis enforcement of market rules.

Actions:

Synergen:

TOB has requested a letter from Synergen outlining what provisions in the contract prevent them from arbitrating out of it? Copy of contract also to be sent to the SEM Committee.

Complaints:

Immediate action: Accept complaints.

Allow those who wish to modify their interpretation of the BCOP in line with that being adopted by others in the same position as them to do so.

Long term: Launch a formal investigation into both regarding compliance with the TSC and the BCOP (time limit of two months allowed according to TSC, however state one month for investigation and see if there is a response to this).

Investigation to include whether the bidding done by generators is the correct interpretation of the BCOP and it is also to look at how repeated start up costs are included in the price. Generators will be allowed interpret the BCOP the same way that the generators that were complained about are. There will be no enforcement actions by the SEM Committee.

TOB instructed by SEM Committee to follow this up. To circulate a note which is to include the official acceptance of complaints as well as SEM Committee intentions for the approval of the SEM Committee. Decision to be made via written procedure.

6. Bidding Principles and Carbon

Generators must bid in the full cost of carbon. Electricity prices will rise by 7% as a result in Rol to no advantage to consumers. This has resulted in windfall profits to generators. Issue of distribution of the cost of carbon is the issue. It falls on consumers, not generators.

Action:

Prepare consultation paper which is to focus on the windfall profits issue. Noted that there are time constraints on this issue. Paper to go to next SEM Committee meeting. Ensure all SEM Committee members are kept up to date on this issue.

7. Intermediaries Decision Paper - Philip Newsome

Revision of criteria for intermediaries. Allows all price takers to have an intermediary status under the TSC.

Discussion as to whether this allows incumbents, acting as intermediaries to gain greater market power and therefore allow them to manipulate the price.

Action:

Publish paper subject to edits. Review decision in twelve months time.

8. MO Monthly Report Decision Paper

Noted that the financial performance report on the MO will form part of a separate report as per MO licence obligations.

Action:

Publish subject to edits. Noted that edits include casting all papers from now on as SEM Committee papers.

9. Work Plan for the SEM Committee

Work plan to be presented at the next SEM Committee meeting. Day Two issues will be incorporated into the work plan.

Action:

SEM Committee work plan to go to Oversight Committee for approval on 4th December. Put on agenda for the next SEM Committee meeting.

10. CER Update

- Recruitment competition opened to employ new Commissioner.
- Generation Adequacy Report being drawn up
- Sale of ESB generation plants to be completed by the end of January
- Construction of two baseload plants under way.
- Six peaking/mid-merit plants proposed
- 1300mW wind farms being connected. Consultation paper on wind soon to be published.
- Grid Study to be published shortly
- East-West interconnector landfall points agreed. Tender for construction to go out in January.
- North-South interconnector in planning stage. May be held up due to public opposition

NIAUR Update

- Divesting SONI from NIE. To be independent by November 2008.
- Kilroot threatened judicial review as longterm contracts with generators will end contracts if certain criteria are met in 2010. If Kilroot can demonstrate that the market isn't competitive this will significantly impact SEM Committee decisions

AOB

- **AES letter**

Action:

To be discussed at the OC meeting on 4th December. To revert to SEM Committee with update following that meeting.

- **SEM Committee independent legal advice**

Is there a need for independent legal advice to SEM Committee on issues such as: functions of the committee; decision making; basis in legislation; and other ad hoc legal advice.

Action:

To be discussed at the next OC meeting on 4th December. To revert to SEM Committee with recommendation.

Date of next meeting: 29th January 2008