

Response from Viridian Power and Energy (VPE) dated 22 February 2008

VPE welcomes an opportunity to comment on the referenced document. VPE remains concerned about the efficacy of a regulated approach to dominance in the SEM, and in particular the validity of regulatory intervention in the contract market in order to address market power. We acknowledge however that the process set out last year for Directed Contracts (DC) was well run and had minimal distortion in the market.

Modelling process

VPE's primary observation on the report is that the Plexos modelling underpinning last year's DC process provided a reasonable base for the calculation of DC prices. It is worth noting that last year's DC prices closely mirrored outturn prices. We also note that the Plexos model is used extensively by market participants in assessing forward prices and thus provides a common base for understanding regulatory interventions in the contract market. We note that the RAs have decided to engage consultants to benchmark the Plexos model against the outturn results from the MSP market engine run by the Market Operator. VPE acknowledge that the Plexos model, as with any model, will not perfectly replicate the actual MSP outputs, but note that a benchmarking exercise was carried out last year and no major errors were identified. Notwithstanding this, a residual error is more likely to occur when a model is trying to replicate complex centralised unit commitment software which is discrete and non-linear in nature, such as the MSP. We caution however any changes that may be considered by the RAs to the functionality of Plexos would need to be carefully considered and require significant extensive testing by the product vendor to ensure that changes do not distort future projections; it may be more appropriate to use Plexos on the same basis as last year and to consider a more in-depth project to enhance the model accuracy after significantly more market data is available (eg. for next year's tariff round). We note that the volume of data since the market start is relatively small and has not tested the extremes or seasonality of market operation and thus will not be conclusive in supporting model validation.

VPE note that the report references the concentration model used in determining the volume of DC contracts to mitigate market power, but there is no reference to the ESB plant that are due to be divested. VPE understand that the current process of ESB divestment will result in the following plants not being under ESB PG control by the 1st October 2008. The following plants will be divested:

Plant	Export Capacity	Location
Great Island	216 MW	Wexford
Tarbert	590 MW	Kerry
Peaking Plant	4*50 MW	Various

VPE would expect the volume of DCs to reduce significantly when the above plant are removed from the concentration model. This means that the primary role of the DC price setting process will be determine a benchmark price for PSO plant such as the peat plants. VPE seeks to protect its customers (and by extension all customers) from any PSO payments beyond what is absolutely necessary and thus are concerned that any model assumptions that would lower the Plexos modelling price beyond what has already been validated last year.

Product types

VPE suggest that the RAs do not use a mid-merit product type that is designed specifically for PES supply companies but reflect the more generic product type, 07:00 – 19:00 weekdays, that would be of equal value to all suppliers. VPE note that the 07:00 – 19:00 EFA product is the most popular non-baseload product in the BETTA market in Great Britain.

For reference, this issue was raised last year, and an appropriate product was made available but late in the process. Some companies, such as VPE, were forced to purchase the original mid-merit product and enter into further market arrangements to replicate the generic 07:00 – 19:00 weekday product.

Publication

VPE would welcome increased transparency of the DC and NDC subscription and auction processes such that the volume and price held by each supplier was made available to all in the market. VPE contend that this will increase the transparency in the market, provide a clearer pricing understanding by customers, and thus promote competition. VPE note that in the all-island context this level of transparency is provided by the Moyle interconnector auctions and this level of transparency has enhanced the efficacy of the Moyle interconnector auction process.