

NIE Energy Limited

**Market Power Mitigation in the SEM
Directed Contract Implementation Report**

Response by NIE Energy (PPB)



22 February 2008.

1 General points

NIE Energy Limited – Power Procurement Business (“PPB”) has two main concerns with the proposals set out in the Draft Directed Contract Implementation Report.

Requirement for PPB to enter into Directed Contracted

The main issue for PPB is that the document continues to leave open the potential for requiring PPB to offer Directed Contracts (DCs). PPB were not required to offer Directed Contracts (DCs) last year and as a consequence, PPB has no resources (systems, processes, or people) in place that would enable it to conduct any DC transactions in the immediate future.

If PPB was to be required to offer DCs in 2008, there would be a lead time to establish appropriate systems to enable any transactions to be executed and it would require regulatory approval for the associated investment in such systems. The lead-time for any such development is such that even if we commenced development now, it is extremely unlikely such systems could be developed and implemented by mid April to meet the proposed 2008 DC timetable. The draft report indicates that the regulatory Authorities (RAs) plan to publish Aggregated DC Quantities by 14th April and clearly if this were to be the first indication of any requirement for PPB to offer DCs, it would not be possible to do so.

DC Pricing

PPB’s other main concern relates to the pricing, since the pricing of the DC contracts sets the context for the pricing of Non Directed Contract sales. Hence the PLEXOS modelling that determines the pricing must be robust and reflective of the actual market pricing witnessed in the market. It is critical that market participants have confidence in the PLEXOS model outputs and that the model is benchmarked against the outputs of the MSP software to a reasonable degree of accuracy. This is a key factor for participants but our concern is that it is not clear how the integrity of the model will be demonstrated.

In addition, the modelling must reflect any changes that occur following the outcome of the investigation into the bidding behaviours of certain generators, as should the conclusion of the debate on the inclusion of the full opportunity cost of CO₂ in bids.

It is critical that the RA validation of the PLEXOS Model is completed within the timescales outlined in the paper and that the integrity of the modelling is clearly demonstrated.

2 Other Comments

PPB is generally content that the planned subscription window aligns with the wider tariff timetable.

PPB is supportive of the changes in definitions of the baseload, mid-merit and peak products.