



**Airtricity Comments on
SEMO & TSO Revenue, Tariffs and Other Costs 2008/09
(Consultation SEM-08-079)**

18 July 2008



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Introduction

Airtricity notes the proposed revenue, tariff and other cost proposals for SEMO and the TSO. As the consultation points out, four months of operation represents a rather short baseline against which to assess ongoing revenue requirements so, in general, we are content with the proposed budget. However value for money must be a key issue for any market operation and we would have expected to see some comparison of the SEM running cost against at least one other market operator, as a means of providing an overall budget value-for-money and sanity check.

We also have four further comments; in relation to the HCA vs CCA question, the scale of audit activity, the relevant inflation figure for Northern Ireland and timing of the revised SEMO tariff implementation, in light of the CER's decision to abandon the defined SEM supply tariff revision process.

External cost comparison

Apart from any North American comparator, the BETTA market provides the closest European yardstick against which the cost of running the SEM can be measured. While the two markets differ in scale and complexity, the fact that the proposed SEM operational budget is approximately half that of the BETTA market might be considered surprising given order-of-magnitude difference in scale of data submission and frequency of gate closure and price calculation process cycles. Of course there are many costs that may be fixed, irrespective of market size, but against that is the fact that retail aggregation is more complicated in GB and is part of the overall Elexon budget (as is some £5m for redesign of the market messaging solution).

For future years, we believe that a comparison of normalised market running costs should be provided along with the draft budget, to provide evidence that customers on the island of Ireland are receiving value for money. We also believe there should be an incentive mechanism built into the TSO costs, to encourage a reduction in dispatch and balancing costs.

HCA vs CCA depreciation

Given that SEMO asset expenditure is approved on a project-by-project basis and that ongoing market development and equipment renewal will be fully reflected in future charges, we see absolutely no need to impose a further charge on customers to collect a current cost write down value of SEMO assets. Depreciation is a non-cash item so, in the context of SEMO where there is no need to maintain the productive capacity of the enterprise, by inflating historic actual costs. The situation would be different if SEMO were a commercial enterprise.

Scale of audit review

Although Airtricity fully supports the need for proper independent review of SEMO finances, the reported scale of audit operations being undertaken for essentially similar purposes suggests that there must be a degree of impact on SEMO performance as a result of support provided to the audit process. There may well be accommodation and timing issues involved, as auditors bid for accommodation slots and multiple access to the same files.

We believe there must be some means of consolidating the external audits at least, into a single, multi-purpose review. As the primary purpose of SEMO's existence is to operate the SEM and not to support audit activity, the RAs should discuss with the Companies and their auditors how this can be done.

Inflation measure for NI

For all purposes associated with payment of pensions and benefits, the UK Government always uses CPI rather than RPI. This is said to be because CPI is a more accurate representation of price level and is more consistent with wider European measures of inflation. Therefore, for the purposes of SEMO indexation, we believe CPI should be used in both jurisdictions.

SEMO tariff implementation (RoI move away from SEM timetable)

The SEM timetable is based on alignment of retail tariff years in NI and RoI and similar alignment of all directed and non-directed contracts, market parameters and operator charges. In the context of low competition in the market, the timing of dominant supplier tariff changes acts as effective regulation of the independent retail sector.

The CER has decided to abandon the defined retail tariff adjustment timetable for 2008 and will not allow full cost-reflectivity from October 2008. The RAs should therefore implement the SEMO tariff changes until 1 January 2009, to avoid further competitive distortion in the market.