



NIE Energy Ltd

**SEMO Revenue and Tariffs
&
TSO Dispatch Balancing Costs for
October 2008 – September 2009**

(SEM-08-079)

24 June 2008

NIE Energy (Supply)'s Response

18 July 2008

Introduction

NIE Energy (Supply) notes that the consultation paper focuses primarily on the following five key areas:

- The appropriate length of the initial tariff period.
- The form of regulation.
- The allowable revenue for the SEMO.
- Dispatch and Balancing Cost proposals
- SEMO Charges

We comment on each of these subjects in turn in the following pages.

Appropriateness of the length of the initial tariff period

NIE Energy (Supply) believes that the proposed duration of the tariff/control period is a sensible, pragmatic choice given the formative nature of the market and the need to manage the risk associated with an under or over recovery. We also have made the assumption that the recent announcement regarding the retail tariff timetable in RoI will not effect the SEMO tariff period.

The form of regulation

NIE Energy (Supply) also believes that the proposed form of regulation for the initial period is sensible and pragmatic.

In the longer term NIE Energy (Supply) believes that the form of regulation should follow an incentive based approach. The form should not only incentivise operating cost efficiency but also incentivise minimisation of imperfection charges (particularly constraint costs), as the SEMO is well placed to influence the magnitude of these potentially significant market costs

The allowable revenue for SEMO

NIE Energy (Supply) welcomes the detailed information provided on allowed revenues for the SEMO. However, we note the proposed scale of the operating costs (e.g. payroll, facilities). These are significantly in excess of say NIE Energy (Supply), which has a comparable level of staffing.

Dispatch and Balancing Cost proposals

NIE Energy (Supply) would support the recovery mechanism proposed for constraint costs. However, as highlighted earlier, the enduring form of SEMO regulation should incentivise the minimisation of constraint costs going forward, as they potentially represent a very significant cost to customers.

SEMO Charges

NIE Energy (Supply) welcomes the relatively minor change in the level of charges proposed. We are concerned however that the prices do not take account of any correctional factor which may be required from 07/08 outturn, nor have any indicative or forecast corrections been provided.

While we acknowledge and welcome the continuation of the current charging mechanisms, we would however question the requirement and efficiency of a Fixed Market Operator Charge for Supplier Units, as this is a very small amount spread across the year. NIE Energy (Supply) would recommend that this charging mechanism for Supplier Units is removed.