

**Consultation on Relevant Considerations in relation to the  
possible Cancellation of Generating Unit Agreements in  
Northern Ireland**

**SONI Response**

**27 January 2010**

SONI welcomes the NIAUR consultation paper on Relevant Considerations in relation to the possible Cancellation of Generating Unit Agreements (GUAs) in Northern Ireland. SONI is the licensed Transmission System Operator and Market Operator in Northern Ireland<sup>1</sup>. It is also part of the wider EirGrid group. This response has been prepared by SONI on behalf, and in consultation with other parts, of the group. The response makes a number of general observations before addressing the specific questions posed.

## **GENERAL COMMENTS**

Any early cancellation of the GUAs will require fundamental commercial considerations. We fully support the proposed economic appraisal although it must be recognised that not everything may necessarily be captured through the appraisal and that it should inform rather than dictate the ultimate decision. That appraisal should consider not only the static costs and benefits but also the dynamic benefits which could result.

Without prejudice to the results of the economic appraisal our view is that there may be some benefits in the early cancellation of the GUAs entered into with NIE Energy Power Procurement (“PPB”). These benefits would, of course, need to be balanced and evaluated considering any risks or costs associated with early termination.

The benefits would include increased transparency, liquidity and competitiveness of the Single Electricity Market (“SEM”) as a result of generators operating directly in the market. Moreover the absence of legacy contractual arrangements would aid in increasing flexibility in the introduction and consistent application of any amended arrangements which would support the SEM and ultimately assist the Authority and the SEM Committee (SEMC) in carrying out their primary duties.

---

<sup>1</sup> Trading as SEMO under a joint venture with EirGrid.

## RESPONSE TO QUESTIONS POSED

### **CONSULTATION PAPER SECTION 5: PRINCIPLE OBJECTIVES AND DUTIES OF THE AUTHORITY AND OF THE SEM COMMITTEE**

***Whether cancellation of the GUAs (or any particular GUA) is likely to help further the principal objective of (a) the Authority and (b) the SEMC.***

Cancellation of the GUAs is likely to promote more effective competition, which is a principal objective of both the Authority and the SEMC.

The PPB have been obliged to sell Directed Contracts as their market concentration was above what would be deemed to be competitive. This concentration, while being significantly lower than that of ESBPG, is a direct consequence of the GUAs. As the generator units party to the GUAs are under ownership of different companies, cancelling some or all of the GUAs will decrease market concentration in the SEM. Additionally, cancellation will decrease or eliminate monitoring of the ring-fenced arrangements between PPB and their affiliate generation company in Viridian Group.

***The kinds of effects, whether positive or negative, (if any) that a decision to cancel the GUAs (or any particular GUA) are likely to have on matters to which the Authority/SEMC must have regard. There may, for example, be particular effects of which respondents are aware that they might wish to bring to our attention on matters such as:***

- ***prices paid by consumers;***

The effect of early cancellation on final consumer prices has not been determined and will be better informed by the proposed economic appraisal to be undertaken. It may, however, differ when considered in the static and dynamic cases and whether considered on an all island or Northern Ireland only basis.

- ***the competitiveness of the SEM;***

The cancellation of the GUAs would lead to a more competitive market through reduction in market concentration, vertical foreclosure and an increase in transparency.

An integral part of the development of the SEM has been the implementation of a market power mitigation strategy to ensure that the benefits associated with the SEM are not undermined by the abuse of market power. Part of that strategy was to introduce a suite of Directed Contracts (“DCs”), the purpose of which was to remove the incentives on

PPB and ESB Power Generation (“ESB PG”) to attempt to profit from the use of market power.

Although there may be some economic advantage in retaining some level of plant portfolio for directed contract auctions which the economic appraisal should inform, this needs to be balanced against a higher degree of transparency in the SEM that would be facilitated by cancellation of some or all of the GUAs.

- ***security and/or diversity of supply;***

From a security of supply point of view, there are no identifiable transitional or longer term issues regarding early GUA cancellation. (We have already seamlessly facilitated the cancellation of two GUAs in respect of Ballylumford ‘B’ station.) However, the economic appraisal should inform any potential financial risk that could be passed to the generating companies that may adversely affect their ability to stay in the SEM.

It is however important that any transitioning arrangements be fully considered and important that System Support and Ancillary Services that are not provided in SEM are retained. The imminent introduction of new Harmonised Ancillary Services arrangements in Ireland will ensure equitability of reward for the provision of ancillary services on the island of Ireland. However it is currently unclear how the generation companies in Northern Ireland are reconciled for the provision of ancillary services from PPB through the GUAs. It is desirable to have the flexibility to enable such policy instruments to act without recourse/ bind to the GUAs.

- ***Environmental sustainability***

To the extent that early cancellation of the GUAs would lead to further SEM transparency this may in turn further encourage renewable generation and/ or lower carbon emitting generation to enter the SEM with consequential environmental benefits.

### **Other Considerations**

We also consider that early cancellation would lead to simplification of administration and interfacing – for example the NI Grid Code or the complexity around the provision of Ancillary services to SONI through PPB as Intermediary.

It is important that as licensed businesses we deal with, and are seen to deal with, all generators and suppliers in a consistent and transparent manner. The confidential nature of the current arrangements under the GUAs does not assist in providing that transparency.

***Whether respondents believe that:***

- ***There are any other particular facts or circumstances known to them which the Authority/SEMC should take into consideration in determining whether the exercise of the relevant function would be likely (or not) to help further the relevant principal objective and duties of (i) the Authority and (ii) the SEMC; and***
- ***The Authority/SEMC should give particular attention or attach particular weight to any of these facts or circumstances when it makes that determination.***

[No Comments]

## **CONSULTATION PAPER SECTION 6: ECONOMIC ANALYSIS**

***VIEWS ON:-***

### ***1. Phased Modelling Approach***

The modelling should be carried out over the full period from the ECD to the CED to enable the full costs/benefits to be evaluated. Real Options Analysis evaluations (or at least Discounted Cash Flow for multiple scenarios) could be used to evaluate the decision, taking into account the intrinsic risks.

### ***2. The commodity indices being proposed, in particular the method for deriving longer term prices***

[No Comments]

### ***3. The variables that sensitivity analyses should be performed on, as well as the statistical or heuristic methods and/or ranges that should be considered for each***

[No Comments]

### ***4. Any other aspects of modeling and/or assumptions that should be considered when forecasting SEM revenues.***

The economic modelling should make some attempt to capture the dynamic benefits to consumers of a more competitive overall market environment.

## **GUA PAYMENTS**

***The proposed methodology for forecasting availability and energy payments for the GUAs.***

[No comments]

***The cost implications of the Large Combustion Plant Directive (LCPD).***

[No comments]

***Any other cost considerations which you consider to be relevant.***

The *total cost of financing* the PPB business needs to be taken into the economic appraisal. In addition, as PPB represents a portfolio of generation, there are overheads which should be considered in dealing with an Intermediary in the SEM, with NIAUR, and SONI (through the Power Procurement SONI Interface Agreement, PSIA).