

**Modification Committee
Consultation for Modification Proposal
MOD_34_09: Global Aggregation**

**NIE Energy Supply's
Response**

16 July 2010



Introduction

NIE Energy Supply (NIEES) welcomes the opportunity to respond to the Modifications Committee proposals for Global Aggregation.

The successful implementation of such a solution is an important market issue. Currently within the Single Electricity Market (SEM) all Suppliers are not settled using the same methodology. Global Aggregation will ensure that this is corrected and the fundamental Trading and Settlement Code (T&SC) objective of avoiding undue discrimination achieved. NIEES therefore strongly advocates the expedient implementation of a Global Aggregation methodology.

NIEES is supportive of the Modification Committee's approach to considering Global Aggregation and believes that the various Working Groups have considered in depth all the relevant delivery options. Furthermore, NIEES believes that the two options presented in the consultation paper do represent the most appropriate potential solutions.

General Comments

Option A+ - Enhanced Balancing Cost

While this option is described as the simplest approach NIEES believes that it has a number of advantages over the Dual Factor Smear.

To utilize the current residual formula leverages the 'as is' market system design. It would cause minimal change and cost to be incurred by SEMO and the Meter Data Providers (MDPs). No changes would be required by those Suppliers who currently do not act as the registrant of the Error Supplier Units (ESUs). This approach therefore minimizes the risk to the market and the cost incurred ultimately by the customer.

While the day to day variance would be managed by the Market Operator NIEES believes that the potential netting effect and regulatory K factor provides sufficient protection to SEMO as well as an incentive to influence the quality of data provided. This solution also provides certainty to Suppliers regarding upstream costs and clear reconciliation throughout the settlement process. As no volume smearing takes place the wholesale and retail markets can be aligned using published loss adjustment factors. This tariff element certainty also reduces risk to Suppliers and ultimately provides clarity to customers.

NIEES also believes that the implementation of Option A+ does not preclude a future amendment to the Global Aggregation solution once further detailed information is available.

Option E – Enhanced Dual Factor Smear

This option facilitates assigning a different proportion of any residual error to half hourly or interval metered customer compared with a non half hour or index metered customer. An approach which was implemented in GB and is based upon the principle that a proportion of any residual is due to profiling errors and as an interval customer has no profile applied to their consumption their proportion of the smear should be less than that of an indexed, profiled customer.

NIEES accepts this as a valid assumption however would also note that Distribution Loss Adjustment Factors which apply to all customer types have perhaps a more significant impact. NIEES also note that this solution will require all Suppliers to amend their shadow settlement functionality to take account of the smearing factor and as such make costly system changes.

NIEES therefore when considering this proposal attempts to balance the cost of implementation against the appropriateness and accuracy of the solution. The complexity of the Option E solution does add an increased degree of accuracy and represents a common industry methodology. It also however introduces a cost of implementation and a degree of fluctuation to Supplier volumes.

Market Report

The provision of a jurisdictional market report on the residual error volume is an important aspect of either Global Aggregation solution. As the SEM has two distribution MDPs, Participants are in a unique position to have directly comparable benchmarking information. To contrast the percentage error in Rol to that of NI will introduce a quasi competitive element to data provision as well as an assessment of relevant key aspects such as Distribution Loss Adjustment Factors. NIEES therefore would support the inclusion of this report with either Global Aggregation option.

Conclusion

The current market arrangements do not achieve the T&SC section 1.3 (6) objective of avoiding undue discrimination. The Suppliers who are obliged to assume responsibility for the ESUs are settled in a different manner to and assume a greater risk than other Suppliers active in the SEM. Global Aggregation corrects this imbalance. Given this and mindful of knock on effects of deregulation, changes to TLAFs and other market factors it is important that Global Aggregation is implemented in a timely manner.

NIEES believes that both of the proposed solutions have merit. Our stated preference however is Option A+.