



# SEMO Price Control Submission

## Paper 6

### Incentivisation

1<sup>st</sup> April 2010

#### COPYRIGHT NOTICE

All rights reserved. This entire publication is subject to the laws of copyright. This publication may not be reproduced or transmitted in any form or by any means, electronic or manual, including photocopying without the prior written permission of EirGrid plc and SONI Limited.

#### DOCUMENT DISCLAIMER

Every care and precaution is taken to ensure the accuracy of the information provided herein but such information is provided without warranties express, implied or otherwise howsoever arising and EirGrid plc and SONI Limited to the fullest extent permitted by law shall not be liable for any inaccuracies, errors, omissions or misleading information contained herein.

---

**TABLE OF CONTENTS**

Table of Contents .....	2
Introduction.....	3
Incentivisation .....	4
Key Performance Indicators (KPI) .....	4
Predictable Business Capex Savings Incentive.....	4
IT Release Capex Incentive .....	5
Key Performance Indicators .....	5
Ex-Ante .....	6
Ex-Post Initial .....	6
Invoicing.....	6
Credit Cover Increase Notice (CCINs) .....	6
SEMO related ad hoc Resettlements.....	6
General Queries.....	7
Assumptions .....	7

## INTRODUCTION

Performance incentives provide additional motivation for a regulated business to efficiently manage costs and service levels. Incentivisation provides the opportunity for cost savings to be reinvested in the business in areas above and beyond those detailed in the Price Control. Here, SEMO may provide customers with additional services or undertakings that it may not otherwise be in a position to do so. Incentivisation also provides the organisation with the motivation to further the quality of service it provides for the benefit of customers and the industry as a whole.

Page | 3

The following document outlines the models of incentivisation proposed by SEMO, which together with the additional duration of the Price Control, aims to achieve a greater focus on customer relations, increasing organisation and project efficiencies and ensuring the Market Participants receive value for their investment. SEMO believes that long term strategies that may be pursued under the projected Price Control are central to the realisation of ongoing quality of service and that incentivisation is key in this achievement.

## INCENTIVISATION

SEMO is currently rewarded through KPIs and Capex, for achieving a number of incentivised outcomes aimed at improving performance, promoting customer service, increasing efficiencies and delivering value to customers. SEMO proposes continuing with this mechanism and implementing the following incentives applied to Key Performance Indicators (KPIs) and Capital Projects.

Page | 4

### KEY PERFORMANCE INDICATORS (KPI)

Four Operational Key Performance Indicators have been delivered as part of SEMO's third Price Control (Oct 09-Sept 10). SEMO proposes retaining these four KPIs and adopting an additional two. These two new KPIs are aimed at reducing the number of resettlements and improving SEMO's customer service standards (resulting from MSDP 3 feedback). SEMO proposes the application of an incentive of 3% per annum (approx €300k of Internal Opex) set on an annual basis and rewarded on a quarterly measurement.

#### Proposal 1 – Key Performance Indicators

**SEMO propose retaining the existing four key performance indicators and adding an additional two performance indicators that will in someway address the issues raised and valued by participants including the number of resettlements and the level of customer service.**

### PREDICTABLE BUSINESS CAPEX SAVINGS INCENTIVE

SEMO proposes that savings made in Predictable Business Capex through detailed engagement, good project management and delivery, and negotiations (as was evidenced during the ABB IT Release Capex negotiations) should form the basis of an incentive. It is important that the appropriate incentives are in place to ensure such savings can be delivered to customers. The capital costs for which SEMO will seek approval from the Regulatory Authorities during the Control will be for well defined scopes of work consistent with the policy environment. SEMO should therefore be rewarded if further cost reductions can be achieved. SEMO believes that there should be an equal sharing of any savings against the Regulatory Approved allowance with the delivery of the capital project to scope and on time.

SEMO also considers that the threshold for incentivisation on Capex projects should be reduced from its current value of €500k to €100k as this would provide a very strong incentive for SEMO to actively pursue the very best costs for all types of Capital Expenditure.

**Proposal 2 – Predictable Business Capex**

**SEMO propose that an incentive be put in place which provides for an equal sharing of the benefits of any Predictable Business Capital Expenditure savings in respect of any capital projects in excess of €100k.**

Page | 5

**IT RELEASE CAPEX INCENTIVE**

SEMO delivers two IT releases per annum. It is proposed that SEMO be rewarded for delivering these releases on-time and within budget. This is a modest performance related incentive when considered in the context of cost and, more importantly, the value of these releases.

**Proposal 3 – IT Release Capex**

**It is proposed that SEMO be awarded €50k for every IT Release delivered on budget and within the scheduled time.**

**KEY PERFORMANCE INDICATORS**

SEMO is committed to delivering improved quality and performance levels in the processing of crucial Market Operations data. Therefore it is proposed that SEMO's performance be monitored using six KPIs against operations considered to be the most important for Market Participants. . The six KPIs on which SEMOs performance will be monitored are:

- Ex-Ante
- Ex-Post Initial
- Invoicing
- Credit Cover Increase Notice (CCINs)
- SEMO related ad hoc Resettlements
- General Queries

For the achievement of these KPIs, SEMO proposes that a reward mechanism of 3% of Total Internal Operating Costs (approximately €300k per annum.) Each of the KPIs is weighted, as shown in Table 1, based on historic performance and its importance to Market participants.

It is proposed that in terms of assessing the KPIs, a measure be taken at the end of each quarter using the average value of each KPI over that period. Should the KPI be achieved in the given period the reward for that quarter shall be earned. This allows SEMO to continue to be incentivised should it fail against a KPI in any particular quarter.

#### Proposal 4 - KPIs

**It is proposed that SEMO be rewarded for performance above the targets on 6 KPIs to a maximum of €300,000 per annum measured on a per Quarter basis.**

The following KPIs are to apply.

Page | 6

#### EX-ANTE

The Ex-Ante publication targets refer to the percentage of occurrences where the Ex-Ante pricing reports are published on time. Currently the target time for publication is 13:00 every day, seven days a week. The Ex-Ante pricing runs are carried out on D-1 and give an indicative forecast of Market Scheduled Quantities (MSQ) and System Marginal Price (SMP) for all units. The Ex-Ante is also important for setting the Interconnector Unit Nominations for all Interconnector Units. Unlike the prices and quantities, the Interconnector nominations are fixed and cannot be re-priced after the Ex-Ante is published.

#### EX-POST INITIAL

The Ex-Post Initial publication targets refer to the percentage of occurrences where the Ex-Post Initial pricing reports are published on time. Currently the target time for publication is 17:00 every day, seven days a week. The Ex-Post Initial pricing runs are carried out on D+4 and give the final SMPs and MSQs for all participants. These figures are used for the final settlement of all Market participants.

#### INVOICING

The Invoicing targets refer to the percentage of occurrences where Invoices to all participants are published on time. Currently for the weekly energy Market and Variable Market Operator Charge (VMOC) invoices the target is 12:00 each Friday. Capacity is invoiced at 12:00 seven working days after the end of the month, and the Fixed Market Operator Charge (FMOC) invoices are published on the first Friday after the end of the month at 12:00.

#### CREDIT COVER INCREASE NOTICE (CCINS)

The Credit Cover Increase Notice targets refer to the percentage of occurrences where the CCINs are published on time. Currently the target time for publications is 17:00 every working day. CCIN reports are used to inform Market participants that their posted collateral cover is less than their required collateral cover. They then have two working days in which to rectify this on receipt of the CCIN.

#### SEMO RELATED AD HOC RESETTLEMENTS

If the Market is settled incorrectly, a Market Participant raises a query to ensure it is settled correctly. When the Market is settled incorrectly the Market Participants query is upheld and the correction is completed in either the scheduled resettlement (M+4 and M+13) or in an ad hoc resettlement. The materiality of a formal query determines whether an ad hoc resettlement run is required.

Some of these formal queries are the result of SEMO issues, however others are driven by external factors outside of SEMO's control. The proposed measure is to reduce the number of SEMO related issues hence the number of SEMO upheld query incidents<sup>1</sup> per quarter, to include those incidents in the quarter which will be rolled into the next scheduled resettlement.

## GENERAL QUERIES

The Trading and Settlement Code places no obligation on SEMO to respond to general queries. However, since 1st November 2007, SEMO has endeavoured to answer all queries received (in excess of 6000 e-mails). At times, depending on the complexity, resource issues and operational performance, the time taken to respond to these queries has taken over 30 business days. SEMO proposes that a target response time be established for general queries.

Page | 7

## ASSUMPTIONS

In the achievement of these KPIs it is assumed that:

1. The metric is delivered within one hour of the targeted time;
2. External factors outside the Market Operators direct control are excluded e.g. Limited Communication failure by Market Participant, late provision of data by System Operators or the Meter Data Provider, Government policy changes, Regulatory Authorities' policy changes etc; and
3. The first two weeks after a System Release are excluded from the annual target.

Metric	Weighting	Target	Upper Bound
Ex-Ante	0.1	97%	100%
Ex-Post Initial	0.1	97%	100%
Invoicing	0.2	95%	100%
Credit Cover Increase Notices	0.1	98%	100%
SEMO related formal Queries resulting in Market Resettlement	0.25	30 or less Upheld queries incidents per quarter	10 Upheld queries incidents per quarter
General Queries	0.25	97% of Queries answered within 30 Business days	99% of Queries answered within 30 Business days

Summary of the proposed Key Performance Indicators

<sup>1</sup> Multiple Upheld Queries for one incident shall be classified as one Upheld Query Incident. A Formal Query referencing a number of days shall be classified as Multiple Upheld Queries Incidents.