Single Electricity Market

Approval of SEMO Intra-Day Trading Costs

26 September 2011

SEM-11-083

1 BACKGROUND

1.1.1 Regulation 2003/1228 (2nd Package) of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity provides that all Member States must have intra-day trading mechanisms in place on their borders by 1 January 2008. On 28 June 2010, Ireland and the UK received Reasoned Opinions from the European Commission in relation to provisions of Regulation 1228/2003 (the Regulation).

1.1.2 One of the specific issues raised by the European Commission relates to the inability for market participants to 'take part in intraday trade after the issuing of the indicated or actual day-ahead production schedules' and further the apparent lack of coordination of congestion management procedures. The Republic of Ireland and Northern Ireland replied to the Commission setting out the substantial progress being made by the RAs in conjunction with the system operators and market participants on intra-day trading with an assurance that the SEM would be compliant with the provisions of the Regulation when the East West Interconnector is fully operational in 2012.

1.1.3 Similar commitments were made to the Commission by the UK Authorities with regard to the Moyle Interconnector, though the UK still considers Moyle to be an internal tie-line. The Commission has made it clear through various channels that it sees compliance with the Second Package as an absolute requirement, even as Third Package target models are being developed.

1.1.4 The SEM decided that a Modification to the Trading and Settlement Code to facilitate intra-day trading in the SEM should be developed and submitted to the SEM Committee by the end of 2010. On 16 March 2010 the Regulatory Authorities submitted Modification 18_10 Intra-Day Trading to the Modifications Committee. The Modification was subsequently developed through the course of seven working group meetings with market participants. The Modifications Committee unanimously approved the high level design of the Modification on 25 November 2010.

1.1.5 The high level design was presented to the SEM Committee in November 2010 for its consideration. The SEM Committee agreed that the Modification should be brought to the January 2011 meeting of the SEM Committee along with the associated costs and benefits. This annex of the Decision Paper on SEMO Revenue and Tariffs (SEM-10-050) presents the SEM Committee's Decision on the allowances for the additional costs of the Intra-Day trading implementation incurred by SEMO. The paper presents the decisions of the SEM Committee on the mechanisms for the recovery of the required revenue as well as the incentivisation method to be applied.

2 PROJECT COSTS

2.1.1 SEMO has, over the last number of weeks, performed an extensive budgeting process to determine a defined estimate of the cost of the introduction of Intra-Day. This final estimated cost based on the current scope assumption is comprised as follows:

SEMO Hardware & Software Costs	
Intraday Hardware Requirement 3rd Party SW Upgrade; Excluding Oracle	€ 5,326,930
Oracle Software Upgrade	€ 1,250,000
ABB/Navita Development/Installation/Factory & Site Testing	€ 1,223,070
New Data Centre	€ 300,000
SEMO PC Contribution	-€ 3,500,000
Total	**€ 4,600,000**
SEMO Functional Costs1 2(ABB/Navita/Amor)	
ABB Functional costs (functional design; coding, testing and documentation)	€ 6,200,000
SEMO PC Contribution	-€ 2,800,000
Total	**€ 3,400,000**
SEMO Website	**€ 300,000**
SEMO Project Resources	
SEMO Market Development Additional Resource Costs	€ 332,108
SEMO IT Additional Resource Costs	€ 1,515,017
SEMO Market Operations Additional Resource Costs	€ 452,875
SEMO PC Contribution	-€ 300,000
Total	**€ 2,000,000**
Total	**€ 10,300,000**

2.1.2 In addition to the costs outlined above, SEMO suggested that a contingency of 10% should be provided for. According to SEMO the contingency of 10% that will be applied to the project is reflective of the risk and is modest for a project of the size and complexity of the SEM Intraday Trading.

2.1.3 The SEM committee is of the view that SEMO should be allowed to choose the rate according to the level of certainty associated with their cost assumptions. However the higher the contingency rate, the lower will be the rewards for delivering the scope within the allowance . Conversely SEMO can choose a lower overall allowance with the prospect of higher rewards, but also higher penalties in the event of any over-run.

3 INCENTIVISATION MECHANISM (PROJECT COSTS)

3.1.1 The table below lists (in the green row) several different packages to cover the Intra-Day Trading Costs **(IDTC)** which will be offered to SEMO (in current prices). The dark blue column lists the possible outturn expenditure over two years. Across the table, the reward or penalty associated with each choice of package. SEMO would maximize their reward by selecting the package which matches with their "best estimate" expenditure expectations for the outturn figure (Dark Blue Column).

	Allowed Revenue (Menu Choices) in thousand of Euros						
	Package 1	Package 2	Package 3	Package 4	Package 5	Package 6 +5% Contingency	Package 7 +10% Contingency
Outturn	**8,240**	**8,755**	**9,270**	**9,785**	**10,300**	**10,815**	**11,330**
8,240	1,391	1,384	1,365	1,333	1,288	783.8	589.5
8,755	1,082	1,088	1,082	1,062	1,030	627.9	471.6
9,270	773	792	798	792	773	471.9	353.7
9,785	464	496	515	521	515	316.0	235.8
10,300	155	200	232	251	258	160.1	117.9
10,815	-155	-97	-52	-19	0	4.1	0
11,330	-464	-393	-335	-290	-100	-50	0

Table 1: Menu Table for IDTC

Packages 6 and 7 represent a contingency of 5% and 10% respectively.

3.1.2 In addition to the rewards and penalties outlined in the menu:

- Any under expenditure in relation to the chosen package will be clawed back by the regulatory authorities via the k factor.
- Any over expenditure in relation the chosen package will be provided for via k factor, limited to a cap of €11,330k. Above this limit SEMO will absorb the deficit.
- The cap of €11,330k will apply to the current scope of the Intra Day Trading Project. This cap will be reviewed if, by request of the RAs, the projects scope is changed.

3.1.3 SEMO subsequently choose Package 5 from the Intraday Trading project Menu of choices on September 14th.

3.1.4 The SEM Committee will keep the delivery of the proposed projects under close scrutiny. The status of the project will be presented by SEMO to the RAs during their routine meetings. Ultimately, SEMO will furnish the RAs with an End of Year Capital Progress report outlining the progress SEMO has made in the delivery of the proposed project.

3.1.5 The SEM Committee has decided that the costs associated exclusively with this project should be recovered under the RAB/WACC approach. SEMO will receive a rate of return on the capital invested (outturn expenditure) during the period of financial depreciation of the investment. A straight-line depreciation over a five year period should be applied to SEMO's assets. The RAB Value will be based on the final outturn, subject to, and in accordance with Paragraph 3.1.2, and will include Interest During Construction (IDC) which will be recoverable on an NPV neutral basis consistent with the regulatory approved cost of capital pertaining.

3.1.6 SEMO's WACC will be derived from the prevailing price controls for the Transmission System Operator licences of its parent companies (EirGrid and SONI) in the ratio 3:1 as per SEMO Price Control Decision Paper.

4 INTRA DAY TRADING ENDURING REVENUE REQUIREMENTS

4.1.1 SEMO will require additional operational funding in order to support the redesigned market going forward. According to SEMO submission, Intra-Day Trading will result in an enlarged scope of responsibilities, increased workload and extended working day, necessitating a redesign of work patterns and making an increase in resources unavoidable.

4.1.2 SEMO currently estimates the necessary revenue allowance to be of the order of €1.3m per annum, commencing July 2012. This will, however be reviewed early in 2012 and the appropriate allowance included for the tariff review period 2012-13.