



Consultation Paper on Generator Financial Reporting in the SEM

A SEM Committee Consultation Paper

20th December 2011

SEM-11-106

1 TABLE OF CONTENTS

1	Table of Contents.....	2
2	Executive summary	3
3	Background	5
4	Purpose of This Paper.....	6
5	Reporting Framework.....	7
5.1	Proposal	7
5.2	Rationale	7
5.3	Reporting Timelines.....	10
5.4	Applicability	10
6	Reporting Requirements/Guidelines	12
6.1	Financial Reporting Template	12
6.2	Volume of Electricity Sold - MWh.....	13
6.3	Revenue	13
6.4	Operating Costs	14
6.5	Other Items	15
6.6	Explanatory Notes.....	16
6.7	Next Steps	16
7	Views Invited.....	17

2 EXECUTIVE SUMMARY

Under Condition 2 of the generation licence issued by the Regulatory Authorities (RAs), all licensees are required to keep accounting records in respect of the generation business, as would be required if it were carried on by a separate company. Licensees must deliver to the RAs an audited copy of the accounts along with the auditor's report, not later than six months after the end of the financial year.

Upon receipt of generators' accounts the RAs conduct an internal review to examine the financial performance of generators over the previous years. This review examines the financial performance of generators operating in the Single Electricity Market (SEM), with the purpose of informing policy decisions.

While these reviews have previously been for internal purposes only, the RAs recognise that there is genuine interest from stakeholders regarding the financial performance of generators operating in the SEM. The publication of information on generators' financial performance, especially with regards to profitability, would increase transparency in the SEM. This would also be in line with practices in other markets, such as the GB market where all large generators and suppliers are required to provide information on revenues and profitability.

The principal objective of the RAs and the SEM is to protect the interests of consumers of electricity in Ireland and Northern Ireland by promoting effective competition. Increased transparency will assist in the promotion of competition within the SEM and it is for this reason that the RAs are proposing to publish information on the level of generator profitability.

Therefore the RAs are proposing to enhance the current reporting requirements for generators by setting out a brief and clear financial reporting template on revenues and profitability. It is proposed that key generator companies - i.e. with a combined capacity greater than or equal to 20 MW - will be required to complete this template and submit it to the RAs annually. This will allow better comparisons between the SEM and other markets, as well as providing additional information to inform policy decisions. This document sets out the information required on revenues, costs and profits as well as the specific template format that generators would be required to provide on an annual basis.

Upon the receipt of the completed financial reporting template from the relevant generators, the RAs will publish the results. The financial reporting template is in addition to the requirements for providing regulated accounts and the RAs will also continue to receive and review the full regulated accounts from generators.

All consultation responses should be addressed (preferably via email) to Fergus O'Toole at fotoole@cer.ie by **5pm on 3rd February 2012**.

3 BACKGROUND

Since November 2007 the Northern Ireland Authority for Utility Regulation (Utility Regulator) and the Commission for Energy Regulation (CER), together referred to as the Regulatory Authorities (RAs), have jointly regulated the all-island wholesale electricity market known as the Single Electricity Market (SEM) covering both Northern Ireland and the Republic of Ireland. Since its commencement, the SEM has been governed by the SEM Committee¹, consisting of the CER and the Utility Regulator, and an independent member, which has sole jurisdiction to make decisions on SEM on behalf of the RAs.

The SEM includes a centralised all-island gross mandatory pool (or spot) market. In this pool electricity is bought and sold through a market clearing mechanism, whereby generators bid in their marginal cost and receive the System Marginal Price (SMP) for each trading period for their scheduled dispatch quantities, with the cheapest possible generators run to meet demand across the island. Generators also receive separate payments for the provision of available generation capacity through a capacity payment mechanism, and constraint payments for differences between the market schedule and the system dispatch. Suppliers (to electricity customers) purchase energy from the pool and pay the SMP for each trading period along with capacity costs and system charges. This is illustrated below - the SEM rules are set out in detail in the Trading and Settlement Code².

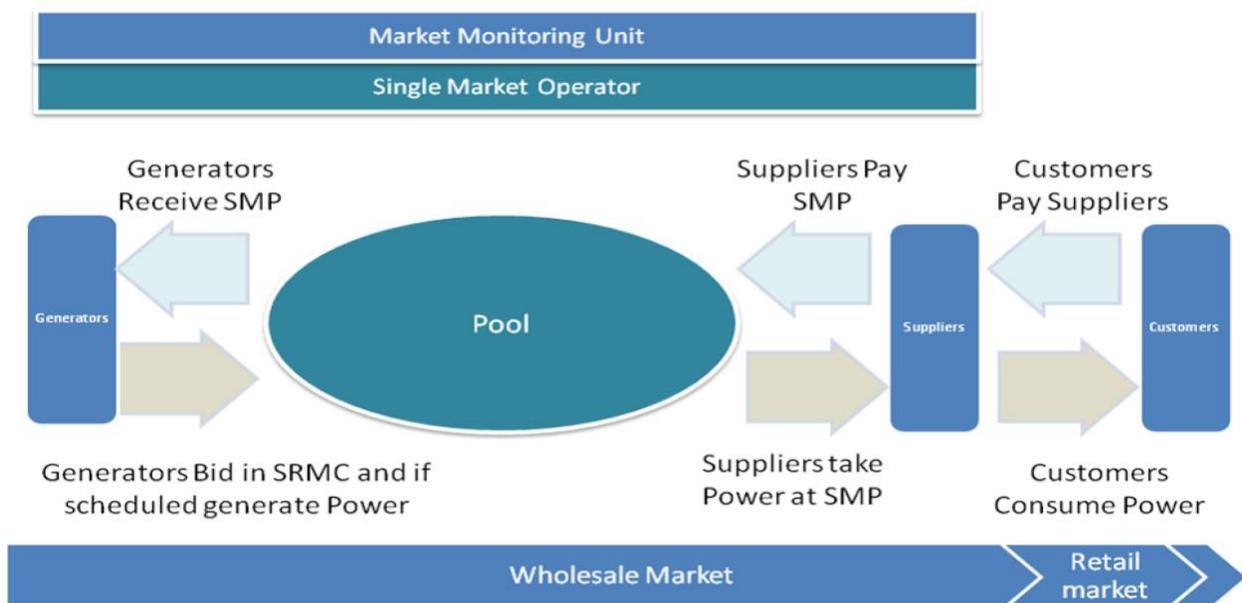


Figure 1 – All Island SEM

¹ The SEM Committee is the decision making authority on all SEM matters and consists of three Utility Regulator representatives, three CER representatives, an Independent Member and a Deputy Independent Member.

² Please see http://www.allislandproject.org/en/trading_and_settlement_code.aspx

4 PURPOSE OF THIS PAPER

As set out in Section 5 of this paper, Condition 2 of the generation licence issued by the RAs places accounting and reporting requirements on generators. The purpose of this proposal is to extend the reporting requirements of key generation companies and create a reporting template that improves the RAs insight into the financial performance of generators, as well as improving the level of market data available to all industry stakeholders.

With this in mind the purpose of this consultation paper from the SEM Committee is to:

- Set out the rationale behind the RAs proposal for enhanced financial reporting requirement, covering revenue and profitability, from key generators in the SEM. This includes improving transparency, therefore assisting competition in the SEM, and allowing comparisons to be made between generator profitability levels in the SEM and other markets.
- Set out the proposed financial reporting template that generators will be required to complete and submit to the RAs on an annual basis. In addition this document sets out which generators the proposals apply to and the reporting timelines involved.
- Provide an explanation and guidance notes on what should be included under each heading in the financial reporting template. This is done in order to ensure reporting consistency across generators.

5 REPORTING FRAMEWORK

5.1 PROPOSAL

This document sets out the proposed financial reporting template that will provide additional information on generator revenues, costs and profits. The RAs are proposing that all generators above a minimum level of generation capacity will be required to complete the financial reporting template on an annual basis and submit to the RAs within six months of the end of their financial year.

Based on the information provided by the generators in reporting template the RAs will publish a report detailing the results and providing comparisons, where appropriate, with other markets.

5.2 RATIONALE

As detailed below, licensees are required under Condition 2 of the generation licence³ to keep accounting records, in respect of the generation business as would be required if it were carried on by a separate company.

Condition 2: Separate accounts for the Generation Business

2. The remaining paragraphs of this Condition apply for the purpose of ensuring that the Licensee (and any affiliate or related undertaking of the Licensee) maintains accounting and reporting arrangements which enable separate accounts to be prepared for the Generation Business and showing the financial affairs of the generation Business.

In addition, the licensees are required to procure the services of auditors to report on those accounts, stating whether in their opinion the accounts have been prepared in accordance with the terms of the licence condition and give a true and fair view of the financial position of the of the generation business. The auditor's report, along with the regulated accounts must be submitted within six months of the end of the financial year to the CER, for generators licensed in Ireland, or to the Utility Regulator for generators licensed in Northern Ireland.

³ Generic Generation Licence [AIP-SEM-07-333](#)

3. The Licensee shall in respect of the Generation Business:

(c) procure, in respect of the accounting statements prepared in accordance with this Condition (with the exception of interim accounts prepared in accordance with paragraph 3(b)(ii) of this Condition) in respect of a financial year, a report by the Auditors and addressed to the Commission stating whether in their opinion those statements have been properly prepared in accordance with this Condition and give a true and fair view of the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, the Generation Business;

and

(d) deliver to the Commission a copy of the account referred to in subparagraph (b)(ii), the Auditors' report referred to in sub-paragraph (c) and the accounting statements referred to in sub-paragraph (b)(i) as soon as reasonably practicable, and in any event not later than three months after the end of the period to which it relates in the case of the account referred to in sub-paragraph (b)(ii) and six months after the end of the financial year to which they relate in the case of the accounting statements and Auditors' report referred to in sub-paragraphs (b)(i) and (c).

Section 5 of condition 2 also sets out the requirements around the publication of licensed generators' annual accounts:

5. Accounting statements in respect of a financial year prepared under subparagraph (b)(i) of paragraph 3 shall, so far as reasonably practicable and unless otherwise approved by the Commission having regard to the purposes of this Condition:

(c) (with the exception of the part of such statements which show separately the amounts charged, apportioned or allocated and describe the bases of charge or apportionment or allocation respectively), be published with the annual accounts of the Licensee.

Further to this sections 6 & 7 of the condition state that the RAs may specify the format and content to be included in the generators financial reporting:

7. The guidelines notified by the Commission to the Licensee under paragraph 6 may:

(a) specify the form and content of accounting statements, including information on specified types of revenue, cost, asset or liability and information on the revenues, costs, assets and liabilities attributable to specified activities;

(b) require any reconciliation that may be required with the annual accounts of the Licensee prepared under the Companies Acts, 1963 to 1999;

(c) specify the accounting principles and the bases of valuation to be used in preparing current cost accounting statements; and

(d) specify the nature of the report by

The RAs have reviewed the regulated accounts supplied by generators internally in order to have a better understanding of the financial performance of generators operating in the SEM. The analysis covered a range of financial indicators including profitability and liquidity as well as projections of likely future profitability levels. The information provided through this analysis is used by the RAs to better inform their decision making process in matters of policy and with regards to the operation of the SEM.

The SEM Committee has previously noted⁴ how clear market rules and transparency in the SEM have played a part in encouraging investments in new generation capacity over the past few years. It is therefore a natural extension of this approach for the RAs to publish a greater level of information on the profitability of generators operating in the market via a report detailing annual profits across key generators. Further to this it is expected that this report will deliver further information to potential new entrants and provide the appropriate signals for market entry. The proposed financial reporting template set out in this document will also enable customers and other stakeholders to gain a better understanding of the level of profits earned by generators.

The principal objective of the RAs and the SEM is to protect the interests of consumers of electricity in Ireland and Northern Ireland by promoting effective competition. Promoting competition is undertaken in order to ensure that there are competitive pressures on prices in the wholesale market, which ultimately feed through to the final cost for electricity customers. The proposed reporting requirement will promote competition by putting in place the necessary measures to ensure that there is an appropriate level of transparency in the SEM.

In addition the reporting framework set out in this document will facilitate comparisons between generator profits in the SEM and in other markets. Most notably, it will be possible to compare generator profitability in the SEM with the profits earned by generators in Great Britain, where Ofgem have recently introduced requirements for

⁴ SEM Annual Report 2010 [SEM-11-071](#)

large vertically integrated generators to publish information on the level of profits earned each year as well as similar requirements for the supply end of their business.

The proposals set out in this document refer only to generators above a minimum level of generation capacity and will report on profitability in the SEM – see later in this paper.

5.3 REPORTING TIMELINES

As set out above, under Condition 2 of the generation supply licence issued by the RAs, all licensees are required to deliver to the RAs an audited copy of the accounts along the auditor's report not later than six months after the end of the financial year.

In line with this requirement it is proposed that generators must provide the RAs a completed copy of the financial reporting template set out in this document at the same time as they provide the full accounting records to the RAs. The data included in the report should align with the generators financial year. While most generators financial year is aligned to the calendar year, it is recognised that in the case of certain generators in both jurisdictions their financial year ends on the 31st of March each year. As a result it is envisaged that the RAs will publish their report in the fourth quarter of each year, as the reports from some generators will not be received until the end of September.

5.4 APPLICABILITY

While it is important to gather as much data as practicable on the profitability of generators in the SEM, the RAs are aware that there are a number of smaller generators in the market who account for a very small percentage of the volume of electricity generated. As a result these generators have minimal impact on the overall profitability of the market. Given their limited impact and the fact that the RAs do not wish to create any additional or disproportionate administrative burden for smaller operations, we are proposing to limit which generators this reporting requirement applies to.

It is proposed that the reporting requirements set out in this document will apply to all generation companies (including all affiliates and related undertakings) with a combined installed generation capacity equal to or greater than 20 MW. This includes all forms of

generation capacity including both renewable and conventional generation. Generators must provide a completed financial reporting template for each generation site in their portfolio, in line with each generation licence issued.

Table 1 below provides some examples of what generation companies would be subject to the reporting requirement set out in this document. So for example, Company C would be required to complete and submit the financial reporting template annually as their generation capacity exceeds the 20 MW threshold. However Company D, despite having a portfolio of several generators would not be required to complete the template as the total capacity is below the 20 MW threshold.

	Plant 1	Plant 2	Plant 3	Plant 4	Plant 5	Total Capacity	Reporting Required
Company A	2MW Wind	3MW Wind	4MW Gas			9MW	No
Company B	5MW Wind	6MW Wind	4MW Wind	5MW Wind		20MW	Yes
Company C	100MW Gas					100MW	Yes
Company D	5MW Wind	3MW Wind	4MW Wind	4MW Wind	2MW Wind	18MW	No

Table 1 – Examples of Generator Applicability

Respondents are asked to comment on the proposed 20 MW threshold and whether it is a suitable level to capture sufficient information while at the same time avoiding creating disproportionate administrative burden for smaller operations.

The RAs recognise that some wind generators may have entered into agreements with third parties, usually a supplier, regarding the flow of revenues earned from SMP and revenues related to the Renewable Energy Feed In Tariff (REFIT) scheme in Ireland and the Renewables Obligation Certificates (ROC) in Northern Ireland. As the generator may not deal directly with SMP revenues they may allow a third party to complete the financial reporting template on their behalf. Where a generator allows this they must inform the RAs in writing and it is important to note that the licensed generator is ultimately responsible for ensuring the completed template is submitted and accurate.

6 REPORTING REQUIREMENTS/GUIDELINES

6.1 FINANCIAL REPORTING TEMPLATE

This section of the paper sets out the proposals for the financial reporting template as well as providing information on what generators must include in each category. The table below is a sample of the proposed financial reporting template which generators must complete annually (see section 5). In completing the financial reporting template the information provided should align with the regulated accounts provided to the RAs. The template should be completed for each generation site in the generation companies portfolio. Explanations for each line item in the template are provided below.

	Financial Yr	
Volume of Electricity Sold - MWh		
Revenue	€,000	
Revenue from SEM Pool*		
Revenue from Contract Difference Payments*		
Revenue from Capacity Payments*		
Other Revenue*		
Total Revenue		
Operating Costs	€,000	
Fuel Related Operating Costs*		
Non-fuel Operating Costs*		
Total operating Costs		
EBITDI		Gross Margin %
Depreciation & Impairment ⁵		
EBIT		
Interest & Tax		
Net Profit		Net Margin %

Table 2 – Proposed Financial Reporting Template

⁵ Under IFRSs goodwill is no longer amortised. It is revalued every year and the amount of any impairment will be written off as a cost. It is still amortised where UK standards are used.

The RAs are considering the appropriateness of publishing all of the above information and in particular the green coloured lines marked with a “*” above. While it is the RAs preference to publish all of the above information, we will give due consideration to the views of respondents in this regard. Therefore it is requested that any stakeholders who have valid reasons why any of the information included in the reporting template should not be published should address this in their response, providing justification for their rationale.

6.2 VOLUME OF ELECTRICITY SOLD - MWH

The SEM consists of a gross mandatory pool market, into which all electricity generated on (above the de-minimis threshold of 10 MW) or imported onto the island of Ireland must be sold. The volume of electricity included in the report should correspond to the total volume of metered electricity sold by the generator through the SEM during the financial year, as recorded by SEMO⁶.

6.3 REVENUE

Generators must provide the total revenue earned during the full financial year. This financial data should align with the revenues and costs included in the regulated accounts for the same period. Where there is any deviation from this the generator must provide a written explanation. Below are details of what should be included under each revenue heading:

Revenue from SEM Pool

Under “Revenue from SEM Pool” the generator must include all revenue received from the sale of electricity through the SEM during the financial year, including constraint payments. For clarity, this excludes any difference payments from Contracts for Differences (CFD) hedging as this is covered separately.

Revenue from Contract Difference Payments

Generators may enter into Contracts for Differences (CFD) hedging arrangements in relation to the SMP with a supplier or another third party. The result is that difference payments, with regard to the SMP, are made subsequent to the period in which the

⁶ www.sem-o.com

contract was set for. The difference payments during the year could be either positive or negative for the generator. Generators should include the net difference payments figure received during the financial year, in line with what has been included in the regulated accounts.

In addition, generators participating in the REFIT scheme may have entered into a Power Purchase Agreement (PPA) with a licensed Irish electricity supplier in order to set a price for electricity generated. The net difference between revenue earned in the pool by the supplier and the price/payment guaranteed to be paid the electricity generator by the supplier under the PPA in the REFIT scheme should be included in this line item.

Similarly generators participating in the ROC scheme may have entered into PPA's with a third party or agreements for the sale of ROCs. In this case the net difference between revenue earned in the pool and revenue earned through these agreements must be included in this line item.

Revenue from Capacity Payments

The Capacity Payments Mechanism (CPM) is a fixed revenue system of payment for participants offering generation capacity in the SEM. All payments received under the CPM should be included under this heading.

Other Revenue

All forms of revenue, other than those set out above, earned during the period should be included in this row, including revenue from ancillary services.

6.4 OPERATING COSTS

In addition to the revenues earned generators must provide also the total operating costs incurred during the full financial year. This financial data should align with the costs included in the regulated accounts for the same period. Where there is any deviation from this the generator must provide a written explanation. Operating costs incurred should be broken down into the following two categories:

Fuel Related Operating Costs

Under this heading generators should include all fuel cost incurred during the financial year for the purpose of electricity generation as well as associated variable fuel transportation costs. For clarification the fuel costs should correspond to those set out in fuel contracts entered into by the generator and not necessarily the market price for fuel on the day of consumption. Also the generators net carbon position should be included under this heading and this is to be based on contracted carbon arrangements.

Non-fuel Operating Costs

With regards to Non-fuel Operating Costs, generators should include all additional plant operating costs, including fixed fuel transport charges, TUoS charges, plant maintenance, salaries, insurance, etc.

6.5 OTHER ITEMS

EBITDI

Earnings Before Interest Tax Depreciation and Impairments (EBITDI) is calculated by taking the total operating costs for the period from the total revenue. This shows the generator's operating profits over the period. In order to calculate the percentage gross margin, the PBITDI figure is divided by the total revenue for the period. The level of gross margin is impacted by movements in wholesale prices and/or changes in how generators control operating costs, such as maintenance, payroll and administrative overheads.

Depreciation and Impairment

Generators should include all depreciation and impairment items listed in the regulated accounts for the period. Where there is any significant item or change in accounting policy the generator should include an explanatory note.

Note: It is recognized that generators operating in Northern Ireland may use the term amortization instead of impairment. In Ireland, under International Financial Reporting Standards (IFRSs) goodwill is no longer amortised. It is revalued every year and the amount of any impairment will be written off as a cost. It is still amortised where UK standards are used.

EBIT

Earnings Before Interest and Tax (EBIT) shows the operating profits minus all depreciation and impairment charges incurred during the period.

Interest & Tax

Generators should include all interest and tax items incurred during the period and which are listed in the regulated accounts.

Net Profit

This figure shows that generators net profit or loss for the financial period after all deductions are made. In order to calculate the net profit margin as a percentage, the net profit figure is divided by the total revenue for the period.

6.6 EXPLANATORY NOTES

In addition to the above financial reporting template requiring information on revenues and costs, generators must also provide written explanations of any extraordinary or exceptional items included in the figures. This is to ensure that the data provided gives stakeholders sufficient information to allow proper interpretation of profitability levels.

6.7 NEXT STEPS

Following this consultation paper the RAs, having taken on board the views of respondents, plan to publish a decision document in Q1 next year. It is intended that the requirements set out in the final decision document will come into effect in relation to reporting of the 2011 regulated accounts.

As set out in Section 5.3, some generators financial year ends on the 31st of March, as result it is expected that reports will be provided by all generators no later than the end of September. Therefore the first report from the RAs is likely to be published early in the fourth quarter of next year and at the same time in each subsequent year.

7 VIEWS INVITED

Views are invited regarding any and all aspects of the proposals put forward in this Consultation Paper and in particular to the issues raised in Section 6.1. All responses should be addressed (preferably via email) to Fergus O'Toole at fotoole@cer.ie by **5pm on 3rd February 2012**.

The SEMC intends to publish all comments received. Those respondents who would like certain sections of their responses to remain confidential should submit the relevant sections in an appendix marked confidential together with an explanation as to why the section should be treated as confidential.