



Generation & Wholesale Markets

**Response to:**

**Imperfections Charge October 2015 – September 2016**

**and**

**Incentive Outturn  
October 2013 – September 2014**

**SEM-15-041**

15<sup>th</sup> July 2015

## **Introduction**

ESB GWM welcomes the publication of this consultation and the opportunity to respond on the issues raised within it. Transparent and appropriate TSO incentives are an important principle of this market, and will become even more important under I-SEM.

## **Comments**

Upon review of the issues raised in the consultation paper, ESB GWM makes the following observations:

1. The TSO incentive scheme operates on the basis of applying penalties for overspend on DBC, and awarding incentive payments for savings, all with respect to the ex-ante forecast that is modified for factors such as perfect foresight effects. Whilst ESB GWM believes that an incentive scheme is an important feature of the market, we would welcome greater transparency around the modelling process. As the model outputs directly influence the incurrance of penalties or the award of payments, an independent validation of the model used would be welcome in this respect.
2. It is further noted that material errors were corrected within the model but it is not clear what the process is for validation or oversight of the model. Independent reassurance of the model's validity would be welcome. ESB GWM supports the RAs' suggestion of a penalty mechanism for any material errors within future forecasts.
3. The TSOs' assertion of efficiency gains (delivered by EWIC being used both for countertrading for reserve co-optimisation, and its inclusion in the Dublin operational constraint) leading to qualification for an incentive payment, presents a clear conflict of interest given the ownership of EWIC. There is insufficient detail in either the RA or the TSO papers to adequately demonstrate the validity of the €52.4m of savings claimed. ESB GWM suggests that independent auditing of incentive claims is required in the interests of transparency and consumer benefit.

ESB GWM believes that the adoption of such measures would increase consumer and industry confidence in the governance arrangements that apply to the TSOs. This will be an important consideration within I-SEM and as such it is ESB GWM's view that the appropriate arrangements should be implemented as early as possible. Given the changes that I-SEM will bring to the role of the TSOs (e.g. a shift from least-cost dispatch), clear incentives will need to be established and so we suggest that the RAs consult as early as possible on the TSOs' incentives in I-SEM. This is not visible in the current project work-plan.

ESB GWM is happy to discuss these matters further should this be required by the RAs.