



**RA CONSULTATION ON RECOVERY PRINCIPLES FOR SEMO AND  
DESIGNATED NEMO (SEMOPX) FROM ISEM GO-LIVE  
SEM-17-108**

**SSE RESPONSE**

**MAY 2017**

## INTRODUCTION

SSE welcomes the opportunity to respond to the RA consultation on Revenue Recovery Principles for SEMO and Designated NEMO (SEMOpX) from ISEM go-live. Liquid, resilient and deep physical markets underpin competition across retail and wholesale markets. The correct charging structure for SEMOpX access and usage can allow I-SEM physical markets to properly develop from May 2018.

## SEMOPX PRICE CONTROL

### Form of control

We agree with the majority of the RAs proposals in relation to SEMOpX. Given the level of interest in the NEMO designation a price control was inevitable. There has been recent interest in provision of NEMO services for Ireland which could result in regulatory oversight no longer being necessary in future.

In the interest of transparency, simplicity and minimal regulatory intervention we would agree with the RAs that the full establishment cost should be recovered through the TSOs over a 5 year period. We also support the proposal that incremental capex should be considered separately and addressed subsequent revenue periods. These are practical approaches that should avoid steep changes in access charges over the critical first years of I-SEM market operation.

Opex models are discussed in detail in the paper. Our preference is for a target revenue model (with a cap and floor) to be introduced. This would allow for SEMOpX to cease its operations as NEMO in a clear, defined manner should it be necessary.

### Incentives and KPI

As SEMOpX is the only NEMO currently designated in the Irish Market, users should be provided with a high standard of service as they currently have no alternative service provider. We have considered which KPIs would be useful from a user perspective and propose that provision of the following information in a timely and accurate manner is incentivised:

- Market Results;
- Trade Confirmations;
- ETS bid files;
- Block Bid Order files;
- Buy and Sell curves

The Draft Operating Procedures document also lists resilience results files and exchange transparency as publications, however, we don't think an incentive on the

timely publication of this data is necessary as this information should be available on alternative PCR member platforms

We also believe a KPI or incentive based on platform reliability would be helpful. Based on our experience in the GB market, this is an area where technical issues have a market wide impact with significant financial implications for market participants.

There will understandably be a 'bedding in' period for the platform. However, the impact of any unplanned outages of the platform or impact on service from planned outages should be minimised and captured and potentially incentivised through a KPI.

Finally, the SEMOpX platforms are the only route to market for physical power in I-SEM, unlike the GB market which supports physical bilateral trading. Any interruptions in service would lock participants out of the market and leave them with no means to manage cashout exposures. Therefore the reliability of the platform is fundamental to overall I-SEM market functioning.

### Tariffs

The establishment of an appropriate tariff mechanism will have a direct impact on liquidity in the market. A dependence on variable charges such as transaction or volume based tariffs will prevent the development of liquidity:

- Per transaction fees disincentive small volumes being posted and traded – given the unit based cash out approach adopted by the RAs, we think this could damage liquidity particularly in the ID timeframe and penalise smaller generation units;
- Volume fees effectively create a trading deadband which damages liquidity. Given the volatility of some major inputs in the I-SEM market (particularly wind forecasting), it is important that this deadband is minimised or eliminated to allow market participants to effectively balance their positions by re-optimising against updated forecasts.

Both of these fees also don't reflect the primarily fixed cost structure of SEMOpX – SSE would recommend that **per transaction fees are avoided entirely and volume fees are kept to an absolute minimum**, particularly during the first years of market operation.

If a volume fee is required, we would suggest that the RAs use a threshold approach whereby participants face a charge up to a certain fee per month. Once this fee threshold is reached no further volume fees are applied. This is a simple but effective way to ensure that liquidity is available, particularly in the ID markets.

SSE believes that the tariff structure should be largely fixed and constructed using a combination of the following:

- Initial access fee;
- Annual subscription fee;
- IT service element.

The rationale behind use of these elements is explained below:

#### Initial Access Fee

This covers initial set up, training and registration for participants looking to use the Power Exchange.

#### Annual Subscription Charge

This is a guaranteed revenue stream for the Exchange Operator. Each registered participant would be required to pay an annual subscription charge irrespective of the number of users it has registered<sup>1</sup>.

This element of the SEMOpx charge would be a certainty for each subscriber as well as being a blocky, predictable payment for the exchange operator to be paid at a set time each year.

Given the SEM Committee decision to require unit-based cash-out and unit-based 'trading portfolios' in ex-ante markets, it is important that the charging regime accounts for this, by either applying a flat PX member fee or tiered charging based on number of registered portfolios.

Applying a direct per 'trading portfolio'/unit charge would discriminate against smaller units by discouraging individual registration or aggregation – the annual subscription charge structure must avoid this (as noted by the SEM Committee in SEM-17-024<sup>2</sup>).

#### IT Service Element – Incremental

This should take account of IT infrastructure contracted for by SEMOpx. The idea is to ensure that the users driving the costs are those who pay and that it is not smeared across users requiring bespoke or specialist infrastructure.

For example if a user wanted 10 dedicated phone lines to SEMOpx and a dedicated router they should pay for the cost of their infrastructure. Other users should not be subsidising their operational needs.

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<sup>1</sup> Realistically, no trading desks in I-SEM will reach the standard user access caps applied in other markets (i.e. 25 accounts)

<sup>2</sup> *Regardless, of the level of direct involvement in SEMOpx charges, the SEM Committee would take this issue [unit cash-out] into account in its deliberation as part of the approval process of SEMOpx charges*

In order for this charging approach to be implementable a minimum standard cost needs to be established. This would be the benchmark cost for all subscribers with any additional services requirements being paid for by the drivers – this should follow price structures in other markets i.e. EPEX IT fees.

## **SEMO PRICE CONTROL**

### **Form of control**

We agree that retaining the RAB WACC approach is the most appropriate option for SEMO at this stage. Given that the company is a regulated monopoly with no requirement to compete for business, the current methodology best reflects the market conditions for SEMO.

In addition, we support the RAs preference that CAPEX is addressed through rate of return regulation as in previous price controls.

Retaining the RPI-X approach seems the most sensible and transparent solution for SEMO. Changing the price control methodology in a period of uncertainty linked to market redesign is an unnecessary complication. The efficiency elements in this methodology produce the market operators with a clear set of drivers for maximising their financial gain. If these are clearly defined and in line with participant requires they will drive more efficient and beneficial market operation.

### **SEMO KPIs**

We would welcome an adjustment to the weighting for both credit cover increase notices and general queries.

In the case of credit cover limits, this output has real world impacts for market participants and the timely notification of a change is important. There is a risk for participants of being 'locked out' of the ex-ante markets if they cannot adjust their credit cover in time. Our experience to date has been that the current notice period is too short and would welcome an extension of the time period and a higher weighting on this KPI. We believe this would reflect the value of getting this information from SEMO earlier than is currently the case.

SEMO, as the market operator carries out a number of administrative functions. Queries related to these admin functions are currently covered under general queries. This is another area we believe could be targeted for improved through retaining a KPI and a weighting adjustment.

### **Future KPIs**

KPIs linked to the production and issuance of the following information would be particularly useful for market participants.

Preferences (in no order)
Forecast Imbalance
Four Day Rolling Wind Power Unit Forecast by Unit
Net Imbalance Volume Forecast
Accepted Bid Quantity
Accepted Offer Quantity
Anonymised Inc/ Dec Price Quantity Pairs
Daily Load Forecast

In general the information produced by SEMO should be published as early as possible. The market moves in real time with participants relying on information held by the market operator to make commercial decisions. Clear incentives in these areas would be welcome.

#### Tariffs and duration

We agree with the RA proposals for tariffs and the duration of the price control for SEMO. Three years is a reasonable period given the ongoing ISEM project and market redesign. Once the new market is established there may be scope for extending the price control to five years.