



Energy for
generations

ESB Response:
SEM-17-018: Revenue Recovery
Principles for SEMO and Designated
NEMO (SEMOpX) from I-SEM go-live

16/05/2017



1. SUMMARY

ESB welcomes the opportunity to respond to the consultation on Revenue Recovery Principles for SEMO and Designated NEMO (SEMOpX) from I-SEM Go-Live.

1.1 SEMO Regulation

Given SEMO's monopoly role in providing imbalance settlement functions, ESB GWM sees merit in the continuation of the current regulatory regime. I-SEM represents a major change for both SEMO and for market participants. It is therefore important that SEMO is well resourced to carry out its functions and provide a high level of service to its customers.

It is also important that SEMO has a flexible arrangement with the systems vendors to make changes in light of new modifications raised. It is important to avoid situations where contracts with vendors limit the market's ability to develop.

Regarding Key Performance Indicators (KPIs), we see merit in the continuation of relevant KPIs. Such KPIs could focus on the following;

- Timely publication of the imbalance price with use of the back-up price kept to a minimum
- Dealing with SEMO Helpdesk queries in a timely manner in accordance with agreed standards
- Timely publication of invoices
- Credit cover management
- Availability of SEMO systems and website
- Achievement of certain level of results in customer satisfaction survey

Finally on SEMO, we believe that charges associated with the Capacity Remuneration Mechanism (CRM) should be recovered from participants through SEMO rather than the TSOs setting up a billing channel. Participation in the CRM is mandatory and after establishment costs, ongoing costs shouldn't be significant. Therefore it makes sense to levy these costs through the general MO charge. A separate manual mechanism could be established for new entrants and bond payments.

1.2 SEMOpX Revenue Recovery

Regulation of SEMOpX in I-SEM is complex. The Consultation Paper sets out this complexity clearly and concisely which is welcomed. The RAs carried out a process in 2015 where expressions of interest were sought to act as NEMO in Ireland and Northern Ireland. At that time only SEMOpX applied to the RAs' call. This meant that the I-SEM project was established on the basis that only SEMOpX could be relied upon to be in place for Go-Live. The I-SEM only permits ex-ante trading through NEMOs which makes it quite different to almost all other markets in Europe. Therefore the importance of SEMOpX having come forward to act as NEMO at Go-Live cannot be overstated

The RAs are proposing that all costs associated with NEMO establishment should be recovered through the overall TSO market establishment costs and that this is catered for under CACM. ESB supports this approach on the basis these costs have been assessed by the RAs as being appropriate. ESB is of the view that this principle should extend further than just establishment costs. Specifically, any SEMOpx costs associated with being the proxy “NEMO of last resort” should be recoverable outside of the NEMO fees as they are more rightly categorised as costs of maintaining the I-SEM design of only allowing trading through NEMOs.

Finally on this point, where the RAs impose a requirement on SEMOpx through its licence that SEMOpx would not otherwise have delivered, the cost of this RA intervention should be recovered outside the NEMO fees structure. For example, the Consultation Paper points to the potential for different fee structures for certain classes of participant based in order to ensure that costs of participation are not overly prohibitive. To the extent that the offering of such products has an associated cost, it would not be appropriate to levy that cost within the “pot” of SEMOpx fees as this may make SEMOpx less competitive on other products compared to other competing NEMOs. Such a situation would be an unfair imposition on SEMOpx.

The coexistence of a regulated NEMO and competitive ones within a bidding zone has the potential for complex regulatory issues to arise. It is difficult to see that a traditional allowed revenue and resultant tariff based on expected throughput will work effectively for SEMOpx. This is because lower volumes will result in higher tariffs the following year with spiking tariffs etc. This issue has arisen in other utilities such as gas pipeline regulation.

Given the complexities mentioned above, ESB GWM would recommend an approach where SEMOpx does not have its fees approved by the RAs based on allowed revenues etc. Once establishment costs and costs associated with being NEMO of last resort are removed from consideration, SEMOpx should be allowed to set fees itself. If there are two NEMOs operating in the market, competitive pressures should see fees set at competitive rates. In addition, fees for NEMOs across Europe are published and can be easily benchmarked. If SEMOpx is seeking to charge fees unjustifiably higher than other NEMOs in Europe the RAs could then step in to review. To put such a regime in place, the RAs would need to retain the ability to step in to approve SEMOpx’s fees but would also have the ability not to intervene.

If it were to transpire that only one NEMO was operational in I-SEM and this was SEMOpx, it may still be appropriate to benchmark against other NEMO fees across Europe on an annual basis rather than carry out price or revenue regulation.

We would be happy to discuss our submission with you at any time.