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Gina Kelly
Commission for Energy Regulation
The Exchange
Belgard Square North
Dublin 24

Joe Craig
Utility Regulator
Queens House
14 Queen Street
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16th May 2017

Dear Gina and Joe,

PrePayPower, as Ireland's largest prepay electricity provider, welcomes the opportunity to contribute to the SEM Committee's consultation on Revenue Recovery Principles for SEMO and Designated NEMO (SEMOpx) from I-SEM go-live, (SEM-17-018).

PrePayPower believes that, where possible and appropriate, the charging methodology should not introduce a step-change in the retail competitive environment between suppliers of different sizes arising from new recovery of those costs. We note the introduction of clearing costs, trading and forecasting costs, and the continued collateral intensive nature of the market arrangements, which will increase fixed costs for market participants. Some of these costs remain uncertain, e.g. collateral costs in the Balancing Market arising from the to-be-decided credit cover parameters and the nature and volatility of the imbalance market price. These are important in the wider context of choosing the structure of market access costs for participants.

Secondly, given the current passporting of Nordpool into the I-SEM arrangements as a matter of fact (CER/17/054 and letter of 2nd March 2017 from the Utility Regulator to Nordpool, subsequently published), PrePayPower are keen that tariffs regulated by SEMOpx during its initial short tariff regime (and the recovery of SEMOpx's capital tariffs through TUoS) are sensitive to the fragile development of market competition in NEMO services.

1. PrePayPower agrees that some of the SEMOpx project capital costs should be recovered through TUoS tariffs. There are project overheads incurred by SEMOpx in excess of that which would be incurred by a passporting NEMO. We are not convinced, however, that 100% of capital costs should be recovered through TUoS tariffs. Would this not represent a potential commercial barrier to competitive NEMO service providers? Furthermore, would 100% recovery of project costs which includes some balancing market costs not also represent a de facto cross-subsidisation of some

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degree between SEMO and SEMOpx functions? PrePayPower suggest that some SEMOpx capital costs, efficiently incurred, reflective of new market entry, should recovered through SEMOpx tariffs.

2. Overall, we felt that the level of regulation at the European level concerned with cross-subsidisation between Balancing Market Operator (SEMO) and NEMO (SEMOpx) costs was not discussed adequately in the paper. This is further complicated by the AOLR function and (potentially) the recovery of Capacity Market Code costs.
3. We understand that inclusion of capital costs in tariffs may lead to some volatility in the regulated SEMOpx tariff rates over short price control periods. As long as changes in tariffs are managed on an annual basis with sufficient notice (PrePayPower's comments on predictability of the SEMO T&SC charging variables made in previous consultation responses again apply), year-to-year predictability of tariffs is not a material issue for suppliers – as long as those changes are as competitively neutral as possible.
4. Given the levels of fixed costs for market participation which are outside the scope of this paper, if the SEM Committee have a marginal decision between high fixed cost, low volume/transaction cost tariff structure, or a lower fixed cost, higher volume/transaction cost tariff structure, consideration should be weighted to the latter; low fixed cost and higher volume/transaction costs seem more in line with the exclusive route-to-physical position market design, and the smaller size of market participants in the SEM.

Our response is not confidential and may be published in full. If you wish to have further communication in relation to our submission, please don't hesitate to contact me.

Yours faithfully,

Cathal Fay