Imperfections Revenue Requirement Forecast 2018/19

TSO Consultation Response

17 August 2018

Response

SONI and EirGrid, in their capacity as TSOs in Northern Ireland and Ireland, welcome the publication of the Imperfections Charge 2018/19 and Incentive Outturn 2016/17 (SEM-18-038) and the opportunity to respond to same. This response is submitted on behalf of both TSOs.

In its forecast the TSOs set out a requirement of €231.17m for the 2018/19 tariff year. The RAs have recommended €197.63m, which is a reduction of €33.54m. The TSOs are supportive of many of the RAs' positions within SEM-18-038, including the endorsement of the incentive payment for Incentive Outturn 2016/17 of €0.46m and the inclusion of the TSOs' forecast of €7.0m for Gas Transportation Charges. However, the TSOs have concerns in relation to a number of the RAs' minded-to positions.

A general concern is that a consultation closing date of 17 August will not accord the RAs a reasonable amount of time to fully consider all responses to the consultation and come to an informed decision in advance of the deadline to have the SEMO Charging Statement published by 31 August.

Notwithstanding our general comments above, the TSOs have set out more specific comments below.

Interconnector Ramp Rate

SEMC minded decision: Interconnector Ramp Rate Disparity forecast, €8.0m – The RAs have not been persuaded that this effect leads to an expected loss (ie a bias in the differences during ramping) and consider this to be a non-volatility issue and recommend a €0 allowance.

As the TSOs stated in their forecast submission, this is not a volatility issue. The TSOs would therefore welcome clarity on why the RAs believe that this being a non-volatility issue would result in no material impact.

Due to the way Euphemia interprets Interconnector Ramp Rates versus how Interconnectors ramp in reality, there will be material imperfections volumes and costs as a result of this. As such, a provision for this is required as part of the Imperfections forecast revenue requirement for 2017/18.

Based on the I-SEM imbalance pricing design and widespread international experience it is expected that, on average, when the imbalance market is short the imbalance price will be higher than when the imbalance market is long. Interconnector imbalances will both impact and be exposed to this price differential. While there is uncertainty on future I-SEM imbalance prices, this fundamental relationship will hold and is the reason that this cannot just be treated as a volatility issue.

The TSOs strongly recommend that a provision be included as part of the imperfections revenue requirement for tariff year 2018/19 to manage the DBC impact of this.

Imbalance Price Impact in I-SEM

SEMC minded decision: Imbalance Price Impact forecast, €45.54m – The RAs note the use of the uninstructed imbalance modelling approach for this item. The RAs consider however, that the occurrence of uninstructed imbalances in the SEM may not be strongly related to the occurrence of generation requiring a higher payment price in settlement. Further, the likelihood of a generator having offers substantially below the imbalance price (or conversely bids above) may be small.

Balancing this, the RAs acknowledge that the expected impact of these effects will be non-negative, and further acknowledge the difficulty in establishing a robust figure ahead of the commencement of the I-SEM.

The RAs nevertheless consider that €45.54m is too conservative an allowance for the full year for these effects. An allowance of €20m is recommended noting that this is not derived from a detailed model and noting the safety nets of the contingency fund and the RAs ability to revise tariffs mid-year should this allowance prove significantly smaller than what is required.

The TSOs welcome the RAs' acknowledgement that there will be an impact from the effects of I-SEM on the Imbalance Price. The TSOs however have a number of concerns with regard to the RAs' approach to assessing the scale of the impact.

Firstly, as stated by the RAs, the revision to €20m is not derived from a detailed model. The TSOs are concerned that very little consideration has been given to whether this is a reasonable cost.

For the 2017/18 Revenue Requirement, an amount of €16.3m was included in the TSOs' forecast and the RAs deemed this to be a reasonable forecast; this was to cover a four month period of I-SEM. Having carried out similar analysis, the TSOs estimated an equitable amount for a full year of I-SEM. The reduction is therefore inconsistent with the RAs' stated position one year ago.

Secondly, the RAs note the safety nets of the contingency fund. The contingency fund is in place in order to cover unexpected shortfalls; however in this instance the RAs seem to be using it as a rationale for disallowing expected costs. This raises significant concerns going forward that the RAs will seek to disallow costs the TSOs expect to incur on the proviso that shortfalls will be covered through the contingent capital facility. That is not the intention of the contingency fund, and such an approach is likely to lead to additional interest costs for end users.

The TSOs strongly recommend that a provision of €45.54m be included as part of the imperfections revenue requirement for tariff year 2018/19 to manage the DBC impact of this.

Imperfections Charge Factor

In the Revenue Requirement submission the TSOs sought approval that the Imperfections Charge Factor be set to 1. In the absence of any mention of this in the consultation paper, the TSOs will proceed on the basis that the factor is set to 1 until informed otherwise and would request that the RAs confirm this. The Charge Factor is the means by which the tariffs may be adjusted mid-year. This change will be triggered if there is too large a shortfall of revenues collected to carry until it can be recovered through the k factor.