Imperfections Forecast 2021/22

Response to RAs' Consultation

23 July 2021

EIRGRID SONI

Response

SONI and EirGrid (the TSOs) welcome the publication of the Regulatory Authorities' (RAs') consultation on the Imperfections Charge 2021/22 (SEM-21-053)[1] and the opportunity to respond to same.

In its forecast the TSOs set out a requirement of €473.09m for the 2021/22 tariff year to cover the anticipated Imperfections Costs for the 2021/22 year along with a k-factor of -€10.18m in accordance with Paragraphs 4.153 and 4.155 of the Trading and Settlement Code ("the Code"). The RAs have recommended a forecast allowance of €341.01m, which is a reduction of €132m.

The greater part of this reduction (€124.5m) is with regard to provision for implementation of Article 13 of the Regulation (EU) 2019/943 (Clean Energy Package).

Without prejudice to the RAs' consultation (and final decision) on the Proposed Decision on Treatment of New Renewable Units in the SEM (SEM-21-027)[2], the TSOs are concerned that without this provision, of €124.5m, the TSOs' ability to "pay out" (in the event that constraint and curtailment volumes be required to be compensated, up to their support price level) may be restricted. Regardless of the amount ultimately owed to participants, this could result in such payments not being made in full until the end of tariff year 2022/23 (i.e. September 2023), at which point, payments in respect of January 2020 would have been outstanding for some 45 months (with presumably associated interest costs).

While we welcome the RAs' confirmation that any imperfections costs that may arise due to the implementation of Article 13 of the Regulation (EU) 2019/943 will be recoverable by the TSOs in subsequent tariff years, this could give rise to a large k-factor being carried into tariff year 2022/23. This reflects that the K factor adjustment mechanism enables any under or over recovery of Imperfections Costs, in the previous year and an estimate for the current year, to be accounted for in the upcoming tariff year. Inclusion of a provision for such costs as part of the tariff for 2021/22 as proposed by the TSOs would spread the potential cost more evenly, minimising the potential for excess volatility in the tariffs. .

Imperfections Charge Factor: In addition to the approval of the Imperfections Charge itself, the TSOs note that in accordance with the TSC Part B the Imperfections Charge Factor needs to be approved by the RAs. The TSOs set out the request for approval of this Charge Factor in Section 4 of its submission. The RAs have not made reference to same in the Consultation Paper and the TSOs ask that the RAs address this requirement in the final decision paper.

This Imperfections Charge Factor and the adjustment mechanism around same as provided for in the TSC Part B is of particular importance for the 2021/22 tariff year if, as per the consultation, the RAs recommend a forecast allowance, which is €132m less than that forecast by the TSOs.

[1] https://www.semcommittee.com/publications/sem-21-053-imperfections-charge-202122-and-reforecast-report-201920

[2] https://www.semcommittee.com/publications/sem-21-027-proposed-decision-treatment-new-renewable-units-sem

Should it becomes evident within the year that the Imperfections Charge is not providing adequate recovery of the Imperfection Costs, for example in the event that costs associated with the implementation of Article 13 materialise, then the TSOs may need to seek to increase the Imperfections Charge Factor, in order to increase the Imperfections Charge, at short notice. To be clear, in such an event, the increase via the Charge Factor could be significant.

Such increases at short notice may have a detrimental impact on supply companies and ultimately consumers. It is to no party's benefit to enter a tariff year with high levels of uncertainty around the scale of charges that will be applied over the course of the year, particularly for supply companies who rely on timely information to allow them to plan for the year ahead.

Credit Facility: There is currently a revolving credit facility in place for EirGrid and SONI for a combined €200m of contingent debt supported by contingent equity. This facility covers Imperfection Costs, DS3 System Services, capacity socialisation fund, residual error and foreign exchange variations. The maximum drawdown to date has been €130m.

This facility is in place to deal with risks over and above those currently known i.e. unpredictable events. It should not be relied upon to deal with risks that are appropriately factored into our original Imperfections forecast of costs for 2021/22 in line with the provisions and requirements of the TSC, that is to use the facility as a mechanism to manage in built shortfalls.

Furthermore it must be recognised that the facility is finite. Any significant draw on the facility as a result of an unpredictable event in any one of the areas covered would directly limit the available funds to manage shortfalls in other areas. Should the funds be fully drawn the MOs (as the settlement body) may have to invoke the provisions of section F22.1 of the TSC that provides payments to be participants to be reduced, where the charges recovered do not meet the level of payments required.

Conclusion

Without prejudice to the RAs' consultation (and final decision) on the Proposed Decision on Treatment of New Renewable Units in the SEM (SEM-21-027), the TSOs are concerned that the removal of the proposed provision, for implementation of Article 13 of the Regulation (EU) 2019/943 (Clean Energy Package), the TSOs' ability to "pay out" (in the event that constraint and curtailment volumes be required to be compensated, up to their support price level) may be restricted directly impacting participants.

While the TSOs are cognisant of the Imperfections Capacity Charge Mechanism and the revolving credit facility in place, as outlined above these features of the market arrangements are not intended to deal with currently known risks, particularly where such risks are factored into the forecast of costs as submitted by the TSOs. In addition while they may go some way to addressing the challenges that would be faced by the TSOs, should they need to be relied upon they could have a notable impact on market participants and ultimately consumers.

The TSOs in their Imperfections forecast submission set out their best view of the anticipated Imperfections Costs for 2021/22 and urge that the RAs include provision for implementation of Article 13 of the Regulation (EU) 2019/943 (Clean Energy Package) as part of setting the Imperfections Charge.