



Single Electricity  
Market Operator

MARKET OPERATOR  
SINGLE ELECTRICITY

## SEMO Revenue Control 2016-19 Consultation Response

Response to SEM-16-023

09 June 2016

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## Executive Summary

SEMO welcomes the opportunity to respond to the SEM Committee's Consultation Paper on the SEMO Revenue Requirement commencing 1 October 2016 (SEM-16-023) (the '**Consultation Paper**'). In particular SEMO welcomes the Regulatory Authorities' (RAs') acknowledgment of SEMO's successful operation and maintenance of the Single Electricity Market (SEM) since November 2007.

While recognising that the SEM is entering a winding down phase, as the All Island Market prepares for the introduction of the Integrated Single Electricity Market (I-SEM) arrangements, the regulatory model must continue to provide sufficient revenue to operate the business securely and efficiently and to provide appropriate incentives for its management. SEMO agrees with many of the views set out in the RAs' Consultation Paper in terms of continuation of the Revenue Cap (RPI-X) model for period 1 and a Cost Pass-through model for period 2 and 3, and the clarity that in the event of any slippage in the I-SEM Go-live date that the price control arrangements will be flexible enough to accommodate this. However there are a number of specific areas which are of concern to the Market Operator (MO) Licensees, as follows:

- SEMO's analysis indicates that the proposed provisions for OpEx (Payroll) are insufficient to enable SEMO to continue to carry out its functions. Indeed if proposed level of resourcing is not amended it will be necessary to engage with the RAs to determine the impact on service quality including potentially which functions SEMO should cease to provide during the control period.
- As noted in the SEMO Revenue Control 2016 – 2019 Submission date 18 April 2016 (the '**SEMO Submission**'), the revenue recovery model applied to date cannot simply be rolled forward for this control period and as part of this process will need to be revised. SEMO welcomes the RAs' proposal that any under or over recovery (K factors) etc be recovered via I-SEM tariffs, however, SEMO believes that this mechanism needs to be extended to the recovery of any residual RAB and any further costs that may be required as a result of RA requests (such as those required to maintain the website post decommissioning).
- The Facilities and Insurance costs need to be restored and included in the final direction. As set out in this response the basis for their exclusion appears to be a misunderstanding.

SEMO welcomes engagement with the RAs on the above matters, and a number of other items highlighted in this response, in advance of the RAs issuing their final determination.

In line with the SEMO Submission and the Consultation Paper, SEMO confirms that this paper does not cover any requirements for I-SEM operation, including any initial market registration or training. I-SEM operational requirements and revenues will be subject to separate engagements with the RAs as required.

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### 1. Introduction

SEMO welcomes the opportunity to respond to the SEM Committee's Consultation Paper on the SEMO Revenue Requirement commencing 1 October 2016 (SEM-16-023) (the '**Consultation Paper**'). In particular SEMO welcomes the Regulatory Authorities (RAs) acknowledgment of;

- SEMO's successful operation and maintenance of SEM since its establishment in 2007;
- SEMO's delivery of market solutions to addresses REMIT, energy Storage and demand side participation;
- SEMO's good performance against its Key Performance indicators (KPIs) targets;
- The CapEx efficiencies delivered to date by SEMO; and
- SEMO's achievement of OpEx savings.

In responding to the proposals in the Consultation Paper, and taking into account its good performance to date, SEMO would like to emphasise the importance of the counterproposals and justifications as set out in the following sections being granted and incorporated into the final decision in order for SEMO to maintain its high levels of performance in delivering value to customers up to I-SEM go-live and through to final decommissioning. SEMO has achieved clean independent market audit reports for each year since 2007 and given sufficient resources aims to continue that to the winding-up of SEM.

## 2. Regulatory Model

### 2.1 Remunerating Licence Obligations: the Parent Company Guarantee

In section 13.1 of the Consultation Paper it is noted that the SONI Market Operator licence requires SONI to have in place a Deed of Undertaking (Parent Company Guarantee). The current (2013-16) SEMO control decision provides remuneration for this requirement to the value of €300k per annum. The RAs propose to include remuneration for this requirement for the period 2016-2017. SEMO welcomes this.

However, the RAs note that they are *“minded to remove this parent company guarantee allowance for Periods 2 and 3 of the 2016-19 Price Control”*. The Consultation Paper is not specific as to what this entails and if the RAs wish to see this obligation removed from the SONI Market Operator licence.

Whilst this is a licence requirement it represents a capital committed to the business and therefore must be remunerated to enable the licensees to continue to finance their operations (and the RAs to continue to meet their own obligations to enable licensees to finance their operations/ licensed activities). As such it is SEMO's assumption that, while the licence obligation for the Deed of Undertaking remains, it will continue to be remunerated as heretofore.

SEMO would welcome further engagement with the RAs on their intention in this regard as this will directly influence SEMO's assessment of its ability to manage its obligations and any uncertainty or cashflow variation which may occur including the consequential impact on participants.

SEMO would also note what would appear to be an inconsistency between the stated treatment of the Deed of Undertaking in the SONI Final Determination for the period 2015 -2020 and its absence of remuneration in the forthcoming SEMO control. SEMO would also welcome further engagement with the Regulatory Authorities in this regard.

### 2.2 Residual RAB and roll-over of Tariffs

In Section 10 of the Consultation Paper it is stated that'

*“The RAs estimate that SEMO will have a residual RAB of €1.3m. The RAs propose that SEMO receive depreciation on their RAB for the period for which they are carrying out SEM related activities (i.e. to the 30 November 2019). SEMO can reuse their residual RAB or dispose of it as they see fit”*.

SEMO is concerned that the RAs' proposal would introduce regulatory uncertainty. The RAB is a regulatory concept which provides for a store or recovery of value from future customers rather than an accounting concept. It is a promise for customers to repay that value and cannot be disposed of or reused. The RAs appear to be suggesting that SEMO will somehow write off €1.3m [RAs estimate of the

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residual RAB] of capital expended on behalf of customers, in good faith. This is not consistent with the principle of regulatory certainty and would represent a financial loss to SEMO.

Indeed the RAs state in Section 5.2 of the Consultation Paper that,

*“[] the RAs are minded to continue with rate of return regulation. This method of regulation provides a return to SEMO based on their Regulatory Asset Base (RAB). SEMO’s RAB is calculated based on the actual historical costs, of their RAB, depreciated on a straight line basis over 5 years and increased each year for any RAB additions, which are then subject to the same depreciation policy.”*

In addition in Section 9 the RAs acknowledge the need for and propose providing CapEx provisions over the Control Period which is included in the RAs’ residual RAB estimate calculation above. The proposal that *“SEMO can reuse their residual RAB or dispose of it as they see fit”*, is thus inconsistent with the RAs’ statements in Section 5.2. The Consultation Paper on the one hand appears to provide certainty in regard to the recovery of capital spend while on the other negates the licencees’ ability to recover its costs. We would welcome engagement and clarity on this matter

This issue is inter-related with the provision for recovery of costs through tariffs post I-SEM go-live proposed in Section 5.3 of the Consultation Paper. As there will be no mechanism for SEMO to recover costs following the ceasing of SEM trading it is necessary that the cost be recovered from the same base of customers via a different mechanism. To that end SEMO proposes that the aforementioned residual RAB also be recovered in tandem with the recovery of tariffs as set out in Section 5.3 of the Consultation Paper. The provision for recovery of any residual RAB through a tariff in I-SEM including potentially through the TUoS/ SSS:

1. Provides that the same group of customers pay for the run off of SEM as would be the case were SEMO tariffs to continue;
2. Addresses not only the issue of recovery post 1 October 2017 but also any residual RAB recovery, k factor or other issues which may arise;
3. Provides for the recovery of acknowledged necessary capital spend that will be incurred by SEMO over the period of the control; and
4. Is consistent with the principle of regulatory certainty and regulatory recovery of monies expended on behalf of customers, as noted by the RAs in Section 5.2.

### 2.3 Proposal for Pass-through Costs

SEMO recognises and is in agreement with the RAs’ proposal that, due to the uncertain nature of Periods 2 and 3 of the 2016-19 Price Control, it would be most appropriate to allow for OpEx on a Cost Pass-Through basis. SEMO however fails to understand the basis for any overspend during these periods having to be absorbed by SEMO or approved by the RAs. SEMO accepts and agrees that any underspend would, as stated by the RAs, be returned to consumers through the k-factor mechanism. However, for a cost pass-through model to work, the base assumption must be that any cost overspend would be

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recoverable by the company, subject to normal regulatory oversight that any such costs are efficiently and prudently incurred. SEMO seeks clarity as to why the RAs have not proposed this mechanism to be executed in this manner.

SEMO is of course happy to engage with the RAs as provided for in the Consultation paper on a case by case basis where additional CapEx etc. funding is needed, however, it must be recognised that these may not be the only instances in which additional costs are ultimately incurred and the companies require a reasonable expectation that costs legitimately incurred will be recoverable.

### 2.4 Proposal for KPI Incentivisation

SEMO agrees with the RAs' view that incentives should continue within Period 1 of the Price Control Period. SEMO requests, however, that the final determination includes provision for the KPI targets as set out in Section 11.2 Table 16 to be reviewed and revised in the event that there is a delay to I-SEM 'Go Live'. Such a provision reflects the reality that the longer the SEM is operated in Maintenance Mode the higher the uncertainty and risk to continuous system operation becomes.

In regard to Period 2 (2017/2018) – In addition to the above, SEMO would highlight that the System Availability KPI as currently set out would not be workable. Post I-SEM 'Go Live' SEM operations will no longer operate on a 365 day a year basis. As a result the System Availability targets would need to change for Period 2 to reflect **Monday to Friday** operation (excluding planned outages). In addition the time period of 7am to 5pm may also need to be revised and SEMO would welcome engagement with the RAs on this matter.

### 2.5 Proposal for Adjustment should the Resettlement Period be reduced

In section 5, the RAs state that “As SEMO have not provided us with a submission, based on a resettlement period length of M+4, any deviation from simply reducing M+13 costs, in a proportionate basis, will have to be justified to the RAs and RA approval gained, to enable SEMO to recover any additional costs.”

SEMO has set out these costs in Appendix 1 to this document, which shows that a straight proportionate reduction will not provide an adequate reflection of the costs, while it may be a good proxy for Operational Payroll costs and facilities for example, other OpEx and CapEx costs cannot simply be treated in this manner. In particular any contractual support arrangements in place would have to be honoured and any notice periods under same must be taken account of, in addition professional costs for the provision of services would not necessarily reduce due to a change in the resettlement period.

### 3. Operating Expenditure (Periods 1, 2 and 3)

#### 3.1 Proposal for provision of payroll

SEMO notes the comments of the RAs as set out in Section 8.2, however, SEMO's analysis does not support the RAs' belief that the level of resources proposed to be provided are sufficient for the continued operation of SEM, particularly in the period 2016/2017. The RAs appear to have taken little account of the reduction in FTEs already reported on by SEMO over the period of the previous price control that has resulted in a reduction in the overall SEMO allowances consistent with a reduced headcount of 61 to 42 FTEs. In addition no account has been taken of changes to new activities now undertaken by SEMO, such as those associated with REMIT, and indeed the additional resources required in support of Maintenance Mode as set out in the Central Market Systems Roadmap Options and Recommendations report (the '**CMS Roadmap Report**') endorsed by the RAs, these resource requirements should be considered.

Further to the above, SEMO notes the RAs' statements in regard to the provision of FTEs 'on top of' allowances for contractor costs. SEMO can confirm that, where professional costs have been sought, these are required to carry out function outside of the skill set maintained within the SEM teams or for activities where independent assurance is mandated, such as for audit requirements.

In the sections below SEMO has sought to set out in further detail the activities and justification for the resources sought for the Operating Expenditure in terms of Payroll required over the three periods of the SEMO Control 2016-2019. If this required level of resourcing is not provided for it will be necessary to engage with the RAs to determine the impact on service quality including potentially which functions SEMO continues to undertake during this period.

#### **Context**

The SEMO business is split into four primary functions covering Operations, IS, Development and Finance & Legal.

During the current Price Control period 2013/2016, SEMO has fulfilled all of its licenced obligations, met its regulatory KPIs, and delivered high quality services to Market Participants. During this period, SEMO also implemented and delivered a range of Market Process and Market System improvements across all of its functions, as well as introducing structured in-house Training Programmes for existing and new staff. Over this period, these initiatives have enabled the business to become more efficient while maintaining and improving the level of service to Market Participants. These efficiencies have also supported the delivery in 2016 of the "Maintenance Mode" approach to the business, as approved by the Regulatory Authorities.



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The reduced allowances consistent with a headcount of 42 FTEs sought in the SEMO Submission, from the 61<sup>1</sup> previously allowed, already takes into account the efficiency gains made over the last price control period and the changed roles and requirements of SEMO, including the reduction in FTEs as a result of the removal of the Bi-annual releases but also the additional resourcing requirements necessary to operate the business in “Maintenance Mode” up to I-SEM ‘Go Live’ October 2017 and those required to fulfil new functions not known at the time of the previous control such as that for REMIT. The requested allowance consistent with a headcount of 42 FTEs up to I-SEM ‘Go Live’ is required in order for SEMO to meet its licence and regulatory obligations for Market Participants.

### Period 1 - 2016/2017

Business Year 2016/2017 will see a continuation of the maintenance mode of operation which commenced in 2015/2016.

#### *Management Resourcing Requirements*

As referenced in Appendix 6 of the SEMO Submission, there is a requirement for 1 FTE to cover the Market Operations Manager and Market Development Manager roles. Additional requirements of 0.5 FTE for Market Services Management and 0.5 FTE for Finance & Legal Management are also included in the submission.

#### *Market Operations & Development Resourcing Requirements*

Management	: 1 FTE
Senior	: 2 FTEs
Controller/Analyst	: 26 FTEs

Market Operations and Market Development are the primary interfaces between the SEM and Market Participants & Stakeholders. As well as running the SEM on a 365 day a year basis from 7.00am to 5.00pm, from two sites, Dublin and Belfast, both areas provide a range of operational and analytical market services to existing and new participants.

The teams are staffed by people with professional backgrounds in disciplines including Business, Project, Technical, IT and Science. As well as developing in-house experience and expertise since the launch of the SEM in 2007, additional skill sets have been developed in areas such as Planning, Training and Process Re-Engineering which have contributed greatly to the efficiencies achieved during the current price control period (2013/2016).

All existing core and support Operation and Development functions for 2015/2016 have to be maintained for the year 2016/2017 until I-SEM Go-Live in order for SEMO to service its obligations to Market Participants.

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<sup>1</sup> Single Electricity Market Operator (SEMO) Revenue Requirement Price control commencing 1 October 2013 Decision Paper 06 August 2013 SEM-13-054

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Currently 29 FTEs (including management) are required to run the Market Operations and Market Development core and support functions. These include Market Controllers, Market Analysts, Customer Service, Training Specialists and Senior Staff across both Market Development and Market Operations. The core functions for these areas include:

- Pricing & Scheduling Settlement;
- Funds Transfer;
- Credit Risk Management;
- Registration;
- Customer Queries;
- Formal Queries;
- Disputes;
- Modifications Secretariat;
- Resettlement;
- Repricing; and
- Operational Analysis and Market Analysis.

In addition to the above core functions the following support functions must also be carried out:

- Annual Parameters Study (MSP Software & Credit);
- Annual review of the Compliance Register and operational support of the Compliance Audit;
- Operational & Analytical input and support for the Annual Market Audit and Internal Audit;
- Stakeholder Engagement and Training;
- Delivery of Internal staff training;
- Fuel Mix Disclosure reporting and analysis;
- Ad hoc requirements e.g. Cigre, REMIT obligations; and
- Market Reports.

In order to comply with its obligations, the Market Operations function operates on a 365 day a year basis to do so there is a requirement to have sufficient staff to operate a rota to provide adequate cover for annual leave, illness and unscheduled leave as well as on-call support for out of hours contingencies.

Market Development services support the provision of both Operational and Market Analysis, primarily driven by Participant, Stakeholder or Regulatory queries. These can be further classified as general, formal or ad-hoc depending on the nature of the query. Notwithstanding the maturing of the current SEM market and the expected launch of the I-SEM Market in October 2017, the level of participant engagement with SEMO, both Query and Registration, is at a consistent high level for the current year (2016) and is expected to continue for the foreseeable future.

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There were circa 27 Market Participants and 117 Generator Units at SEM 'Go Live' in 2007 where a more recent count indicates 113 Market Participants and 213 Generator Units with approximately 24 new units registered in the past year and a significant number of applications in progress.

General queries requiring a significant amount of investigative effort and technical expertise on SEMOs' part have not diminished as the current SEM reaches its closing stages with requests for detailed technical information increasing. This is partly due to industry developments in terms of so called Power Parks whereby various technologies such as storage, anaerobic digestion, Solar PV, Wind, biomass etc. are increasingly seeking to trade via the SEM. Demand Side Unit participation has seen a marked increase too with some operators also considering the Power Park approach and there are significantly more parties trading on interconnectors.

SEMO also has an ongoing obligation to provide explanatory information on the current SEM design. The increased requests discussed above along with increasing numbers of Market Participants and non-conventional Generator Units mean that it is important that SEMO is resourced to fulfil this role.

The Modifications Secretariat provides the necessary services and support to the SEM Modifications Committee on behalf of the RAs and Market Participants. While CMS schedule Market Releases will cease in 2016 as per the "Maintenance Mode" leading to a reduction in the level of associated Modifications, there is an understanding on the part of SEMO that the Modifications Committee will continue to meet and function for the period up to I-SEM Go-Live October 2017 and beyond. An example of current and planned engagement with the Modifications Committee during 2016/2017 is the proposal for a Modification to consider changing the Resettlement Period post I-SEM Go-Live October 2017. SEMO would welcome the opportunity to discuss with the RAs their considerations on reducing or eliminating the obligations on SEMO to provide FTE resourcing for the Modifications Secretariat.

During the period 2015/2016, SEMO engaged with the RAs on delivering and supporting additional services to the Market under the REMIT project. These services were delivered, and continue to be supported by SEMO, without additional resource allowances for FTEs being sought as the efficiencies gained up to that point allowed SEMO to flex to meet this requirement. Maintaining this service to the Market as well as provision for any additional requirements that might arise up to I-SEM Go-Live October 2017 is included in the SEMO Submission for 28 FTEs.

In order to service all of the above functions to the same level for the coming period 2016/2017 and up to I-SEM Go-live, the same number of Market Operations & Market Development staff will be required. If this required level of resourcing is not provided for it will be necessary to

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engage with the RAs to determine the impact on service quality including potentially which functions SEMO continues to undertake during this period. In addition we would need to consider any KPIs as without sufficient resources it will be difficult to agree targets and to continue to fulfil all functions.

### *IS Resourcing Requirements*

Management	:0.5 FTE
Senior	:2 FTEs
Functional/Technical	:9 FTEs

SEMO secured regulatory approval for its CMS Roadmap Report for a Maintenance Mode Roadmap option for the remainder of the lifetime of the Central Market System (CMS). As set out in the CMS Roadmap Report (Section 4), *“As before whilst the maintenance mode avoids the significant CapEx requirement associated with the upgrade mode, the former **will incur additional OpEx costs** in particular to provide for **the additional support requirements**. This must be provided for in SEMO tariffs post 1<sup>st</sup> October 2016”*[Emphasis Added].

The SEMO Submission for 11 FTEs (Senior and Professional) and Management oversight of 0.5 FTE needs to be maintained as per above to support the increased level of maintenance overhead (repairs etc) to ensure that the Central Market Systems remain fully operational up to I-SEM go-live (due Oct '17). SEMO note however, that if parallel running is required beyond this date or indeed the I-SEM Go-Give date is pushed out then the resource profile will require to be adjusted to reflect this.

The numbers in the current 2015/2016 IT headcount (11 FTEs) already reflect the ending of the release agreement with the Central Market Systems vendors. The release agreements, approved by the Regulatory Authorities, included a provision for two Business Analysts to assist with release activities (i.e. Requirements gathering, testing, deployment etc.). This supplemented the pre-existing team of three Business Analysts required to support SEM Market Operations, bringing the total staff numbers on the functional team to five during the period where release activity was ongoing. Over the last year, as release activity has trended down, the number of business analysts has been reduced to three.

With respect to the remainder of the IT team (Technical Resources), this FTE provision is not directly related to release activity. They primarily support the Production and SEMO Corporate systems (including IT and network infrastructure). Activities include environment provisioning, database administration, associated repair, remedial work etc.

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Basic tasks to be undertaken during the “Maintenance Mode” include the following:

### **Functional:**

- Support to all SEM stakeholders for the current Central Market Systems (MA, MI, Settlements, Credit Risk, Finance, MIUN Software);
- Testing of defect fixes;
- Market Audit support; and
- Vendor management and oversight.

### **Technical:**

- Support of the SEM corporate applications (Email, Supportworks helpdesk software and portal, etc.);
- Support for new Market Entrants (e.g. CCQT);
- Database administration and management;
- Environment provisioning;
- Data Archiving;
- Application of security patches and anti-virus;
- Support of the technical infrastructure for both the SEMO Corporate and Central Market; and
- Systems infrastructure, including:
  - Third party software upgrades
  - Server replacement / repair
  - Network / firewall replacement repair.

### ***Finance & Legal Resourcing Requirements***

Management :0.5 FTE

Professional :1 FTE

For the period 2016/2017, there is no anticipated reduction in any of the activities carried out in this area from the previous period 2015/2016.

The requirement of 1.5 FTEs, split across the Finance & Legal function is the minimum resource needed to support and provide a range of services including:

- Bank Payments;
- Cashflow Management;
- Security Cover;
- Regulatory & Financial Accounts;
- Market Audit;
- VAT Compliance;
- SEM Legal Services; and
- Modifications Support.

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## Period 2 - 2017/2018

Business Year 2017/2018 will see a movement from Maintenance mode of operation undertaken in 2016/2017 to a phased “Wind Down” SEM. In addition SEM Operations will move from a 365 day per year function to a Monday to Friday (working week) model.

The overall resource requirements referenced in Appendix 7 of SEMO Submission are further expanded below.

### *Market Operations & Development Resourcing Requirements*

Management	:0.5 FTE
Senior	:1 FTE
Controller/Analyst	:10 FTEs for 6 months = 5 FTEs per annum
	6 FTEs for 3 months = 1.5 FTEs per annum
	3 FTEs for 3 months = 0.75 FTEs per annum

During this period, post I-SEM Go-Live October 2017, there will be a phased “Wind Down” of Operational and Development activities from Month 1 to Month 12. Pricing and Scheduling (P&S) will cease immediately and with it the requirement for weekend P&S services. Settlement for M+4 and M+13 Energy and Capacity will continue over the period. Funds Transfer activities for “money-in and money-out” and final bank closure will be required to close the market up to and within the “Decommissioning” period. Credit Risk Management activities will continue up to 100 days after the I-SEM Go-Live. At that point, credit cover will be combined with Funds Transfer and based on Fixed Credit Cover. It is assumed that Registration activities can be wound down within a month of Go-Live. Customer Service will be required for Query Management activities for up to 6 months post Go-Live. Requests for Operational and Market Analysis arising from participant and regulatory queries are very likely to arise given the “Wind Down” activities over the M+13 period.

FTE numbers for Market Operations and Market Development will reduce on a phased basis from 11.5 FTEs to 4.5 FTEs over the 2017/2018 period.

Over the 12 month period this equates to 8.25 Controller and Analyst FTEs (excluding Management) for Market Operations and Market Development.

### *IS Resourcing Requirements*

Manager	:0.5 FTE
Senior	:2 FTE
Functional/Technical	:2 FTEs

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During the period 2017/2018 post I-SEM Go-Live October 2017, Market Services will be required to continue with “Maintenance Mode” for the period. Functional and Technical Services as already set out above for 2016/2017 apart from systems that will cease operationally i.e. Pricing and MIUN. Software will continue to be provided. A capability for re-pricing will have to be maintained in the event of queries and/or disputes (as set out in the T&SC). Participants will still utilise the MPI for the fetching of resettlement invoices etc. M+4/M+13 processes will need to be run, with supporting CRM and Finance functionality.

Planning for and execution of preliminary Decommissioning of Central Market Systems (CMS) activities will commence during the “Wind Down” period. This will also include data archival and storage (to fulfil future audit requirements) to be put in place. Test systems could be taken down during this period in advance of the final Decommissioning phase in 2018/2019.

### *Finance & Legal Resourcing Requirements*

Management	:0.5 FTE
Professional	:1 FTE

For the period 2017/2018, the level of activities in this area will broadly be the same as for 2016/2017 arising from Operational functions in Settlement, Funds Transfer and Credit Risk Management. Additional work around the phased “Wind Down” involving preparation for a final market audit, participant account reconciliations and any relevant VAT, Legal or Regulatory compliance issues may arise during this period.

### **Period 3 - 2018/2019**

Business Year 2018/2019 will see a movement from the phased wind down undertaken in 2017/2018 to the decommissioning of SEM. Until such time as the Decommission period and the requirements of the RAs are better understood, we note the RAs requests that the website be maintained for a period of two years and access to data indefinitely, SEMO is not in a position to develop a Decommissioning Plan. SEMO will work to develop a plan with input from the RAs over the coming months.

Notwithstanding the need to develop a plan, SEMO can advise as to the likely activities that will need to be undertaken and a view as to the associated internal FTE and external (Contractor) resources required to support same.

### *Market Operations & Development Resourcing Requirements*

Management	:0.5 FTE
Senior	:0.5 FTE
Controller/Analyst	:1 FTE

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During this period, the focus is on completion of the “Wind Down” and delivery of the Decommissioning phase. It’s assumed that the period will be from November 2018 to March 2019 based on an M+13 Resettlement which started in October 2017. Key tasks will include:

- Final Resettlement of the Market;
- Inventory of all files and paperwork for filing and storage;
- Review and follow-up actions from a Final Market Audit;
- Final checks on all banking and participant account settlements;
- Responding to any requests for market data through the website or helpdesk;
- Support both the 2018 Annual Market Audit and the 2018 Internal ;
- Stakeholder Management.

### *IS Resourcing Requirements*

Manager	:0.5 FTE
Senior	:1 FTE
Technical	:2 FTEs

The Decommissioning phase will run for a period of approximately 3 months given the scale of systems, kit and software to be removed or destroyed. As well as the Central Market System, it will also include back-ups, power down, equipment removal, and recycling (including certification that hard-drives have been destroyed). The Decommissioning approach and execution for the Production systems should be independently “audit approved and certified” for which SEMO have included a provision for Professional (Contractor) fees during this period.

Decommissioning will also need to include a contractual/commercial “wind-down” work stream where contracts with suppliers and vendors are reconciled and terminated.

SEMO note the RA’s requirement for retention of the existing SEM website for 2 years post cessation of the SEM. This could require it to be maintained up to 2021. This is a new requirement and was not envisaged in the SEMO Submission as the SEMO Submission assumed that all systems (including the website) would be powered down as part of the Decommissioning. Keeping the website active will incur an additional vendor OpEx cost of €20k per annum plus requirement for additional support (monitoring, patching, maintaining firewalls etc). Costs associated with maintaining the website will need to be recoverable and should the RAs require this facility to be provided, provision of these costs and a method for their future recovery, consistent with the recovery of the K factors etc as proposed in Section 5.3 of the Consultation paper would need to be set out in the Final Determination.

SEMO also note that the RAs have requested that SEM data be accessible to interested stakeholders on demand until the RAs deem it is no longer required. SEMO would welcome further engagement with the RAs on this aspect as, depending on what is envisaged here, there is likely to incur a that will need to be provided for and recoverable.



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### *Finance & Legal Resourcing Requirements*

Management	:0.5 FTE
Professional	:1 FTE

For the period 2018/2019, completion of the “Wind Down” will involve ensuring that all relevant banking, commercial, regulatory, contractual and legal obligations have been met. As well as oversight of delivery of all standard audit processes and reports, it is expected that an additional “Final Market Audit” process will be required. SEMO have included a provision of €90k for Professional (Contractor) fees for additional costs arising from this.

### **3.2 Response to proposal for Facilities and Insurances**

Section 8.5 of the Consultation Paper the RAs state that,

*“In the current EirGrid TSO Price control [CER-15-296] there has been no reductions specified in relation to SEMO and premise costs were not provided on a FTE basis. The RAs are therefore minded to make no allowance for facilities and insurance within the SEMO 2016-2019 Price Control.”*

The above statement appears to be a misunderstanding of the allowances provided under the EirGrid TSO (PR4) Control. EirGrid TSO has confirmed that the PR4 Price Control does not contain or provide for EirGrid MO’s facility costs. In EirGrid TSOs PR4 Revenue Control submission (Appendix 14 ‘EirGrid plc Cost & Recharge Policy’) EirGrid TSO indicated that €0.68m p.a. was allocated in recharges on a FTE basis for SEMO Facilities and the costs sought by EirGrid TSO in PR4 in terms of facilities was net of such recharges and thus only relates to the EirGrid TSOs facility requirements. It is only the net TSO facilities costs that have been provided for by the CER in PR4.

As such the facilities sought by SEMO are equal to this stated recharge amount. Based on reducing levels of FTEs in Period 2 and 3, SEMO requested reduced facilities costs in these periods on a proportionate basis. SEMO has been in contact with CER and is of the understanding that this matter has been resolved satisfactorily and that the facilities revenues sought by SEMO will be reinstated and provided for in the final determination.

Insurance is also separately a valid SEMO cost in respect of the nature of services provided by SEMO to market participants. Insurance cover is required for example in respect of the level of cash processed by SEMO in settling the market and managed in respect of collateral security.

## 4. Capital Expenditure

### 4.1 Proposal for CapEx Costs

SEMO welcomes the RAs endorsement of its predictable CapEx submission. We note the RAs' statements that in the event that ad hoc releases arise then SEMO can seek additional costs for same and are happy to proceed on this basis.

In regards to the treatment of the Regulatory Asset Base (RAB) this has been addressed in Section 2.2 of this paper.

### 4.2 Proposal for WACC and Depreciation

At the time of publication of the Consultation Paper SEMO had yet to submit its workings for a Weighted Average Cost of Capital (WACC) to a RAB. Below are SEMO's calculations for WACC figures. While SEMO agrees with the RAs proposal to "continue with the current WACC mechanism, which blends the two System Operator WACCs in accordance with the specified proportions, currently 75% for EirGrid and 25% for SONI", it proposes to use a different SONI WACC Rate, in turn resulting in a changed blended WACC Rate to that used in the Consultation Paper. This is due to the SONI rate used by the RAs being taken from the SONI Price Control 2015-2020 Decision Paper, which at present is still in process subject to consultation. SEMO would instead propose to use a SONI WACC rate of 5.42%, which is the most current, agreed upon rate between SONI and the RAs.

Please see the calculations for WACC and Depreciation figures in Tables 1 and 2 below. WACC was calculated based on the above proposed rate and an average of opening and closing RAB.

**Table 1: WACC and Depreciation figures based on original SEMO CapEx submission**

	FY15-16	FY16-17	FY17-18	FY18-19	Total
	€000,000	€000,000	€000,000	€000,000	€000,000
<b>Opening RAB</b>	8.409	5.748	3.514	2.535	
<b>Additions</b>	1.299	1.010	0.490	0.140	
<b>Depreciation Charge</b>	(3.960)	(3.244)	(1.469)	(1.160)	<b>(9.833)</b>
<b>Closing RAB</b>	5.748	3.513814	2.535	1.515	
<b>AVE RAB</b>		4.631	3.024	2.025	
<b>WACC</b>		0.235	0.153	0.103	<b>0.491</b>

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**Table 2: WACC and Depreciation figures based on proposed SEMC CapEx**

	<b>FY15-16</b>	<b>FY16-17</b>	<b>FY17-18</b>	<b>FY18-19</b>	<b>Total</b>
	€000,000	€000,000	€000,000	€000,000	€000,000
<b>Opening RAB</b>	8.409	5.749	3.183	2.220	
<b>Additions</b>	1.300	0.67	0.27	0.14	
<b>Depreciation Charge</b>	(3.960)	(3.236)	(1.233)	(0.925)	<b>(9.354)</b>
<b>Closing RAB</b>	5.749	3.183	2.220	1.435	
<b>AVE RAB</b>		4.466	2.702	1.828	
<b>WACC</b>		0.226	0.137	0.093	<b>0.456</b>

### 5. Further Engagement Requested

As discussed in the chapters above, SEMO would welcome further engagement with the RAs on the following:

- The proposed provisions for OpEx (Payroll) and if necessary to engage with the RAs to determine the impact on service quality including potentially which functions SEMO continues to undertake during this period;
- On the RAs' intentions in regard to the Deed of Undertaking (Parent Company Guarantee) remuneration and treatment of this Licence Obligation;
- The treatment of any residual RAB to ensure its recoverability;
- The KPI incentives Post I-SEM Go Live and their treatment in the event of spillage of the Go-Live date; and
- On the Decommissioning phase and the RAs views/requirements on access to SEM data and the website etc post SEM decommissioning.

## Appendix 1

SEMO Price Control Questionnaire completed for an M+4 scenario (attached)