



**Response by Energia to SEM Committee  
Consultation Paper  
SEM-19-031**

***Imperfections Charge Oct 2019 – Sept 2020  
&  
Incentive Outturn Oct 2017 – Sept 2018***

**29 July 2019**

## 1. Introduction

Energia welcomes the opportunity to comment on this SEM Committee consultation paper (SEM-19-031). This paper highlights a number of important points in relation to both the new SEM market and SEM Committee's communication. While it remains too early to judge the performance of the SEM market design, particularly given the persistent incidence of errors since go-live, the projected increase in imperfections costs is related to a number of design decisions taken by the SEM Committee. Only once these errors have been resolved and as experience of the new market matures, will the full impact of these decisions be apparent, including the cost to customers.

Notwithstanding this, the consultation paper proposes a significant increase in imperfections charges for the upcoming year and the SEM Committee's provision of information falls short of what is required, if industry is to robustly review and comment on the proposals. Furthermore, the communication of the significant, proposed change in costs is impermeable for most customers and it is necessary that the SEM Committee provide a clear and simple explanation of the final changes in the decision paper.

## 2. General Comments

As outlined in the introduction, there are a number of points in relation to this consultation paper and the general approach applied, that should be addressed in either the decision paper or in future consultations.

### Information contained in the paper

Based on the information provided in the consultation paper, it is difficult, if not impossible, to comment on a number of the proposed positions outlined in the paper. The modelling results, including the assumptions underlying them, are opaque and while our internal review highlighted some possible issues, there is not sufficient information in the paper to comment on these issues specifically. While we welcome the consultation paper, it is important for the SEM Committee to review the objectives of the is consultation against the likely outcomes, given the information provided; i.e. can industry reasonably comment on the charges and results presented in the paper, based on the information available, and if not, how can the consultation paper be improved to provide for more meaningful engagement with industry.

### Profiling of the K-Factor adjustment

Given the significant increase in the imperfections charge for the upcoming year and the likely impact on customers, Energia supports the profiling of this charge provided the following conditions can be satisfied:

1. There is no risk to the TSO's working capital facility being exhausted.
2. The SEM Committee is satisfied that the proposed increase for 2019/20 is not to be replicated in future years and that the significant increase in costs isn't compounded.

Given these constraints can have an impact on the profiling decisions – e.g. what proportion of the costs and for how long – we urge any decision to profile this cost be done in such a way to respect the constraints and ultimately customers’ interests.

*Explanation of the changes*

While the information provided in the consultation is not sufficient for a robust assessment of the proposals, it is also not accessible for the vast majority of customers affected by the proposed, significant increase in the imperfection charge. It is necessary therefore that the SEM Committee provide a simple and clear explanation of the charge, the drivers of the change(s) and the implications/outlook for the charges in the future, as well as of their decision(s).

*Incentive outturn*

As discussed already in this response, there is insufficient information to credibly and robustly challenge the assumption and results presented in the consultation paper. On the basis of the information available, we suggest this is therefore a matter to be determined by the SEM Committee, based on the information and submission(s) provided by the TSOs.

### **3. Conclusions**

While Energia welcomes the opportunity to respond to this consultation, for this process to be effective it needs to be reviewed and improved. The modelling results and assumptions are too opaque for industry to meaningfully comment on and, the information is not sufficiently clear and simple to allow customers to understand the proposed changes. There is an opportunity for the SEM Committee to address some of these points in their decision but further consideration is required in for future consultations on this topic. We would welcome the opportunity to be involved in any such review that the SEM Committee may instruct on this issue or their approach to consultations more generally.