



Powerhouse Generation Ltd response to SEMC consultation on SEMO 2020-2024 Price Control

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Powerhouse Generation (PHG) welcomes the opportunity to comment on the discussion regarding the price control for SEMO covering 2020 to 2024. This is a period which should see the settling down of activities, for both SEMO and market participants alike, as there has been a significant number of changes since the I-SEM market went live in October 2018. There is an industry wide agreement that, at the start, the I-SEM market wasn't fully functioning as per the high-level design and that it needed some modifications by vendors to introduce the fine tuning required. This however has delayed what could be seen as the smooth operations of the market and its systems and had an unwelcome impact to the revenues due to the market participants.

PHG would summarise this by stating that an amount of capacity payment due to it from **January 2019** has just been paid to it in **July 2021!**

PHG is a member of FERA, which represents demand side aggregation and response. FERA was part of the Participant Consultative Forum and are grateful for the opportunity to be involved and to contribute to the discussions within the forum. Many of our observations have already been incorporated within the consultation paper.

Overview

PHG acknowledges the fact that SEMO, being responsible for market operations, feel that they are then responsible for looking to the future and preparing their resources to handle what they believe should happen. However that is the role of the governmental departments and the Regulators, in consultation with the market participants. This is not to ignore the experience of the System Operators but just to place the overall responsibility and costs at the door of those best placed to make those decisions.

PHG strongly believe that there is still an amount of work that SEMO have to do to ensure the smooth running of the existing arrangements within the Balancing Market and the Capacity Market. Until the backlog of settlement and resettlement is reduced, along with modifying the systems to ensure the known issues are addressed, then it is unwise to attempt to make further changes for the future.

Changes and plans for the future are an opportunity to see what alternative vendors and operators there may be that could deliver an effective and economic service, either equal or better than that experienced within the I-SEM to date. That may be a discussion for the following price review period.

Consultation Comments

PHG agrees with the Forum comments that the markets have not fully developed and should be looking to encompass energy storage and demand response on a more complete basis. We also acknowledge the investment all participants have made to date and that it is wise, and cost effective, to build on that going forward.

Whilst we agree that there should now be a time of stability and increasing service, this should not be seen as a 'stand still' option. The markets should be allowed to incorporate new technologies, as well as existing technologies evolving. This 'Evolution' of the markets should be coordinated using workshops and through transparency to all.

The forum also identified that SEMO could improve its operations and provisions of service to a level expected by participants.

The identification by SEMO of required funding for 'unknowns' raises some concern. We do not dispute the fact that there may be items that arise during the price period that require SEMO to spend capital. The concern is that they are being provided an amount that they can draw upon, and it is they who decide what it is spent on.

When the amount is spent is the issue;

- Do they assess the issues as they arise, or do they 'plan' such investments over the price period?
- Do they then come back to the RAs when they hit the cap, but need to spend more?

It would be better not to make an allowance, but to have SEMO cost up economic investment assessments that they would then bring to the participants and the RAs.

SEMO have had resource issues regarding experienced staff and high turnover. This may be a reflection of the complication of the markets and the need for participants to secure such in house knowledge. It may also be a reflection on the differences in how such employee resources are treated in different organisations. That of course is a manageable issue and the additional resources allowed by the RAs may assist in that.

PHG are supportive of incentivising SEMO in delivering enhanced services to participants and others, above the required base line provision. It is noticed that the RAs also believe that performance related rewards are allowable as part of the incentivisation. PHG agree that such incentives should be retained until existing known issues have been addressed, which have been paid for during the current price control period.

The RAs have proposed that SEMO keep the allowed expenditure and that they keep any incentives they achieve in line with enhanced performance. This builds in a margin between what SEMO spends and the allowed expenditure. **It would be a useful metric to know what percentage that is expected to be.**

All participants would welcome enhanced services but are more concerned with the delivery of baseline services. It is noticeable that SEMO still get to keep the allowed expenditure even if they do not provide the basic services. Poor provision of service shall impact participants such as generators and suppliers but is unlikely to impact SEMO.

If this were any other industry there would be severe questions raised over the potential under delivery of services whilst still being paid, or not being penalised.