



ELECTRICITY SUPPLY BOARD
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REGULATORY AFFAIRS

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Jean Pierre Miura,
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Queens House,
14 Queen Street,
Belfast,
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14th August 2009

Re: SEMO Revenue and Tariffs October 2009 – September 2010

Dear Jean Pierre,

ESB welcomes the opportunity to provide its comments on SEMO Revenue and Tariffs for the forthcoming year.

While the consultation paper is quite detailed, ESB has kept its comments at a high level focusing on three areas:

- Duration of the Tariff Period;
- Cost of Services provided by SEMO; and
- Incentivisation Mechanisms;

Duration of Tariff Period

ESB believes that an annual process to determine SEMO Revenue and Tariffs may not be in the best interests of the industry. Market Participants require SEMO to be responsive to service requests throughout the year arising from system and/or market events. Determination of allowable SEMO revenue on an annual basis is likely to limit the flexibility for SEMO to react on a timely basis to Market Participant requirements in terms of operational services, which might otherwise be possible under a scenario where greater regulatory certainty over revenue allowance for a longer 3 or 5 year period were known.

In addition ESB is aware, from its own experience, that for regulated entities, price control determination is a detailed and resource intensive process and assumes that for SEMO, an annual process is likely to consume substantial management and analyst resources for a number of months each year. ESB believes that there could be greater value to Market Participants in reducing the frequency of the revenue determination process so as to free up SEMO management resources to focus their activities on market developments and service delivery.

Cost of Services Provided by SEMO

The consultation paper focuses at length on SEMO operational costs, in particular its payroll budget. SEMO has taken some prudent steps over the last 12 months to resource its operations so as to be able to service the increased activities associated with the resettlement and adhoc settlement cycles.

ESB is concerned that the Regulatory Authorities proposals regarding reduction in allowable opex, particularly in the area of payroll budget, might give rise to a reduction in SEMO resource levels back to 2008 levels. It is essential that SEMO can continue, at a minimum, to provide the same level of operational services as exist today.

While ESB recognizes that there is a need to control SEMO costs, a reduction in service by SEMO would not be welcomed.

Incentivisation Mechanisms

ESB supports the introduction of an incentive mechanism for SEMO related to the achievement of KPI metrics for settlement and related activities.

The four metrics identified have some value in determining performance of SEMO however ESB suggests some additional metrics that should also be included:

- Indicative Settlement reports; and
- Initial Settlement reports;

Also, ESB believes that the target of 90% set for Invoicing should be increased to reflect its importance across the market. In finalising targets for each of the KPIs, while they should be stretching and greater than current performance levels, they should not be set at a level that makes their attainment unrealistic and which could as a result discourage investment in the necessary resources and process improvements within SEMO required to achieve them.

Finally, in view of the lack of a penalty mechanism associated with non-achievement of KPI targets, ESB believes that a formal process of monthly or quarterly reporting of performance against targets should be implemented by CER. This would help identify to CER and Market Participants any performance trends, particularly where performance is below the target level expected.

If you would like to discuss in any more detail the points raised in this response, please feel free to contact me.

Yours sincerely,
Fergal Egan

ESB Regulatory Affairs