



Endesa Ireland response to SEM/09/077 SEMO Revenue and Tariffs

Endesa Ireland welcomes the opportunity to provide comments on the SEMO Revenue and Tariffs consultation paper. Endesa recognises that as a new market entrant, we may not fully understand the development of the existing market structures and processes within the SEM. However, it would seem reasonable for the market participants to review and approve the SEMO Revenue and Tariffs, with final approval from the RAs. Endesa Ireland considers that the development of the role of the Market Operator as a service provider, with the eventual unbundling of SEMO from EirGrid and SONI should be the long-term strategy for the SEM. In this regard, Endesa Ireland considers that the market participants are best-placed to determine the appropriate revenues for SEMO to provide the services required by participants, as well as the tariffs necessary to recover this revenue.

When assessing SEMO's Revenue and associated tariffs, Endesa Ireland considers that the most important factor for the RAs to take into account is the services that market participants require from SEMO. In addition to the continued ability to support the existing services, Endesa Ireland would like to see SEMO expand the services it provides to the market. One key area where immediate investment is required is in the development of the SEMO website. SEMO has responded to market participant needs by issuing a tender for an enduring website that will significantly increase market transparency, providing publicly access to market information. Endesa Ireland considers that this project is essential to the market and urges the RAs to ensure that SEMO has sufficient funding to implement the additional functionality on their website and to maintain the website once it is up and running.

Furthermore, Endesa Ireland considers that the roles of the Transmission System Operators (TSOs) and SEMO should be more clearly defined and SEMO should take on greater responsibility for the energy market. Endesa Ireland considers that SEMO should begin to develop competences in areas where it is now fully dependent on the TSOs for information (demand forecasting, wind forecasting, etc) with the intent to fully separate out the role of the market operator and the roles of the system operators in future. The market operator should be fully responsible for the operation of the market, including the procurement of demand data from independent sources (suppliers and TSOs). The system operators will maintain responsibility for the secure and efficient operation of the transmission system.

Following are Endesa Ireland's comments on the specific proposals contained within the consultation paper:

- 1. SEMO's revenues will be indexed with an inflation expectation for the next price control period of 0%.*

Given that the revenues will be subject to an ex-post review utilising actual inflation figures, Endesa Ireland agrees with the proposal to index SEMOs revenues with an inflation expectation of 0%.



2. *It is proposed that the allowed budget for Payroll is € 867,938.*

Endesa Ireland considers that it is imperative that SEMO has a sufficient payroll allowance to ensure a high level of service is provided to market participants. In addition to maintaining the existing level of service, provision should be made for enhancing the services provided. In particular, SEMO should have a sufficient payroll allowance to ensure that the once the new website is up and running, sufficient resources are available to maintain the website and provide useful market information updated on a daily basis.

3. *It is proposed that the allowed budget for IT and Telecommunications is €2.194 million.*

SEMOs IT and telecommunications systems are essential components of their business, which is to provide a service to market participants. Endesa Ireland considers that the budget must include sufficient provision to allow for support and maintenance of the IT and telecommunication systems.

4. *It is proposed that the allowed budget for Facilities is €1.323 million.*

Endesa Ireland considers that the allowed budget for facilities is too high. The RAs have stated that these charges are in proportion of the cost based upon headcount of the Oval Building. The rental costs for the Oval Building are at least 30% more expensive comparable office space within Dublin. While SEMO should have free choice to determine their office location, the rent that is allowed to be recovered from the market should be capped at a reasonable level.

Endesa Ireland considers that the allowed budget for facilities should be capped at a level at least 30% below the RAs proposed costs.

5. *It is proposed that the allowed budget for Professional fees is € 680,000.*

There is insufficient information provided to determine if the budget for professional fees is appropriate. Endesa Ireland would suggest that the RAs ensure that EirGrid's approved budget is sufficient to meet their existing requirements and to allow for the additional advice required relating to interconnector usage, integration of high levels of renewables, market coupling and, in particular, global aggregation.

6. *It is proposed that the allowance for General and Administrative Costs is € 346,902.*

Similar to above, there is insufficient information provided to make substantive comments on the proposed allowance. However, the RAs should ensure that, in particular, the training budget is sufficient to ensure that SEMO staff receive adequate training.

7. *It is proposed that the allowed budget for Corporate Services is €50,000.*

The RAs have stated that SEMO made an informed estimate for the budget for Corporate Services, which will be subject to an ex-post review. As there is no justification for reducing SEMO's estimate and the actual costs will be approved, Endesa Ireland does not consider it worthwhile to decrease SEMO's estimate.

8. *SEMO's allowance for predictable capital expenditure should be fixed at €571,714.*

Endesa Ireland considers that the market participants should have the opportunity to review and approve SEMO capital expenditures to ensure that investment is made in the areas of greatest import to the market participants.

9. *It is proposed that the allowed WACC is €1,852,259.*

Endesa Ireland does not consider that it is appropriate to utilise different WACC rates for the all-island component of EirGrid's businesses in Ireland and Northern Ireland, as there is no difference in the business risk for these two activities. Therefore, Endesa Ireland proposes that the WACC to be utilised for SEMO is 5.63% or €1,797,968.

10. *It is proposed that the allowed Depreciation is €11,360,541.*

Endesa Ireland agrees with the proposed methodology for calculating depreciation.

- 11.

- a) *The RAs propose that the full estimate provided for the net nominal value of Dispatch Balancing Costs, that is €106 million, be recovered through the imperfections charge during the new tariff period.*
- b) *The RAs propose that the full estimate provided for the Make Whole Payments Costs, that is €311,652 (nominal value) be recovered through a new, specific charge during the new tariff period.*

Endesa Ireland agrees with the inclusion of these estimates in the new tariff period. However, Endesa Ireland strongly recommends that the RAs implement incentive mechanisms for the SOs to reduce these charges in the next tariff year.

Concurrently, the RAs should look to increase SEMO competences that will help to reduce imperfections charges. One means of doing so would be to develop the demand-side of the SEM. Currently, the SEM is a market for generation, where demand plays a passive role. The development of the role of demand will help to reduce imperfections charges, by providing SEMO with the suppliers' view of customer demand.



Currently, demand forecasts are solely derived from the TSOs. However, Suppliers also have good forecast of their customer demand. Two estimates derived from separate sources will help SEMO develop a more accurate demand forecast, by comparing EirGrid's forecast demand with the total Supplier demand. SEMO will also need to develop rules about how significant differences in these forecasts will be managed to help reduce imperfections charges.

Endesa Ireland has experience with other markets where such mechanisms have been implemented and would be happy to meet with the RAs to discuss further.

12. *The SEM accession fee should be fixed at €1,115.*
13. *The SEM participation fee should be fixed at €2800.*

Under the T&SC, SEMO is only permitted to recover the costs incurred in assessing the application. As the RAs have shown that these costs are actually €1,115, Endesa Ireland considers that we are due a refund of €485. Similarly, Endesa Ireland considers that we are due a refund of €700 in respect of the SEM participation fee.

The RAs should be aware that it is difficult to comment on the proposals included in the consultation paper as the SEMO revenue submission was not published, nor were SEMO's proposals fully set out in the consultation paper. From the information provided, it is not possible to determine if the proposed budgets are appropriate. Endesa Ireland can only restate our position that SEMO must have sufficient funding to ensure that it can provide the services required by market participants.

As previously stated, Endesa Ireland considers that SEMO revenues and tariffs should be reviewed and approved by the market participants prior to review and approval by the RAs. This would give the market participants a greater opportunity to ensure that the services they require from the market operator will be made available.

In terms of incentive mechanisms for SEMO, Endesa Ireland considers that as a state-owned monopoly, it is not appropriate for SEMO to be a profit-making venture. However, SEMO staff should be incentivised to deliver projects on time and within budget and to meet the KPIs. Endesa Ireland considers that SEMO should be asked to submit a proposal for such an incentive scheme.