



## **Endesa Ireland response to SEM/10/050 SEMO Revenue and Tariffs**

Endesa Ireland welcomes the consultation on SEMO Revenue and Tariffs for the period from October 2010 to September 2013. We fully agree that in order for SEMO to carry out its pivotal role of Market Operator effectively that the principles of sustainability, stability, transparency, predictability and cost effectiveness outlined in the consultation paper must be upheld.

Bearing these principles in mind, we are concerned with the proposal that the revenue requirement for CAPEX for each period be directly related to the acquisition of capital for that period. This is a significant change from the CAPEX recovery methodologies of other regulated companies in the industry. We consider that due to the lumpy nature of investment, such a move would lead to volatile tariffs, which will be more difficult to predict in the medium to long-term. This seems to be contrary to the core regulatory principles of predictability and stability set out in the consultation paper.

The proposal to recover the entire capital expenditure costs approved each year through in this manner would significantly increase SEMO's corporation tax liabilities; costs which are recovered from Market Participants. The recovery of capital expenditure costs should be spread over the useful life of assets concerned and in line with write-off periods established under Accountancy and Tax principles. For example, capital expenditure on IT infrastructure assets is eligible for a write-off period of 8 years under Irish Tax Legislation<sup>1</sup>. Adopting this principle would smooth the corporation tax liabilities for SEMO over a more appropriate timeframe.

The RAs have indicated that this mechanism would reduce the overall tariff as they would not include the associated depreciation and interest costs for capital investment. However, this benefit is significantly reduced / nullified by higher corporate taxation liabilities, as set out above. In addition, we consider that this policy could be deemed discriminatory, as new entrants will benefit from the capital investments made in prior years, but will not be required to make a contribution toward their cost.

For determination of CAPEX revenue, we support the proposal to implement menu regulation whereby SEMO may choose either a lower cost allowance with a high powered incentive scheme or a higher cost allowance with a low powered incentive scheme.

Endesa Ireland is mindful of the important service provided by SEMO and its need for a highly skilled work force, the cost of which makes up the largest component in its operational expenditure (OPEX). We consider that it is vital that SEMO's allowed revenue is sufficient to allow for the acquisition and retention of the highly skilled people needed to carry out SEMO's essential functions.

We also consider that the Key Performance Indicators set out by the RAs are reasonable.

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<sup>1</sup> Section 284 Taxes Consolidation Act, 1997