Generator Financial Reporting in the SEM

A SEM Committee Decision Paper

2nd May 2012

SEM-12-027

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2 Executive Summary

The RAs published a consultation paper on generator financial reporting in the SEM in December 2011 (SEM-11-106), with the comments response period closing on 3rd February 2012. The consultation paper set out proposals to extend the requirements for financial reporting to the RAs by key generation companies, and for the publication of such information via an annual RA report. The main objectives of the proposals were to provide the RAs with a greater insight into the financial performance of generators so as to inform SEM Committee policy decisions, and also to increase the level of public market data available, thus assisting market transparency.

There were thirteen consultation responses received in which a number of concerns about the RAs' proposals were raised. Respondents' main concern was around the data to be provided through the proposed financial reporting template, which they viewed to be commercially sensitive and therefore were strongly opposed to its publication. Other issues included the imposition of an excessive administrative burden on smaller generators, the validity of comparisons with other markets and how the RAs will use the information collected.

Having considered these responses, some changes have been made from the proposals set out in the consultation paper. Firstly, while it is important that the RAs have access to a granular level of financial information, including site-specific data, it is accepted that the publication of some of this data could be considered commercially sensitive. Therefore the RAs have decided not to publish generator site or company-specific information in the annual RA report on generator financial performance. Instead the RAs will only publish aggregated data showing information for groups of generators banded together, for example by fuel type, generator size, etc. The RAs will band these groups together so as not to enable commercially sensitive information to be inferred, while still enhancing market transparency.

Secondly the threshold has been increased slightly from 20 MW, so that all generation companies - including all affiliates and related undertakings - with a combined installed generation capacity equal to or greater than 25 MW will be required to complete the financial reporting template. This will provide the RAs with sufficient data on all generation types and, with only approximately one quarter of wind generation companies required to report, exclude smaller generators from any reporting requirements.

There is no change to the financial reporting template which must be completed annually by all generation companies above the 25 MW threshold. The information provided should align with the regulated accounts provided to the RAs, and expanded guidance notes which detail what is to be included in the template have been provided in this paper. A completed financial reporting template for each generation site must be delivered to the RAs within six months of the end of their financial year. Given that there is no great deviation from the standard accounting format, generation companies over 25 MW should have the data readily available. The RAs do not view the reporting requirements set out in this document as constituting an excessive administrative burden.

The RAs will collect the generator financial data for internal analysis and will also prepare a financial report for publication, assisting transparency. As indicated above, this report will contain only aggregated data, showing information for groups of generators banded together. The RAs anticipate that the first annual report on financial performance will be published in Q4 2012 and in the final quarter of each subsequent year.

3 Background

3.1 SEM Background

Since November 2007 the Northern Ireland Authority for Utility Regulation (Utility Regulator) and the Commission for Energy Regulation (CER), together referred to as the Regulatory Authorities (RAs), have jointly regulated the all-island wholesale electricity market known as the Single Electricity Market (SEM) covering both Northern Ireland and the Republic of Ireland. Since its commencement, the SEM has been governed by the SEM Committee[1], consisting of the CER and the Utility Regulator, and an independent member, which has sole jurisdiction to make decisions on SEM on behalf of the RAs.

The SEM includes a centralised all-island gross mandatory pool (or spot) market. In this pool electricity is bought and sold through a market clearing mechanism, whereby generators bid in their marginal cost and receive the System Marginal Price (SMP) for each trading period for their scheduled dispatch quantities, with the cheapest possible generators run to meet demand across the island. Generators also receive separate payments for the provision of available generation capacity through a capacity payment mechanism, and constraint payments for differences between the market schedule and the system dispatch. Suppliers (to electricity customers) purchase energy from the pool and pay the SMP for each trading period along with capacity costs and system charges. This is illustrated below - the SEM rules are set out in detail in the Trading and Settlement Code[2].

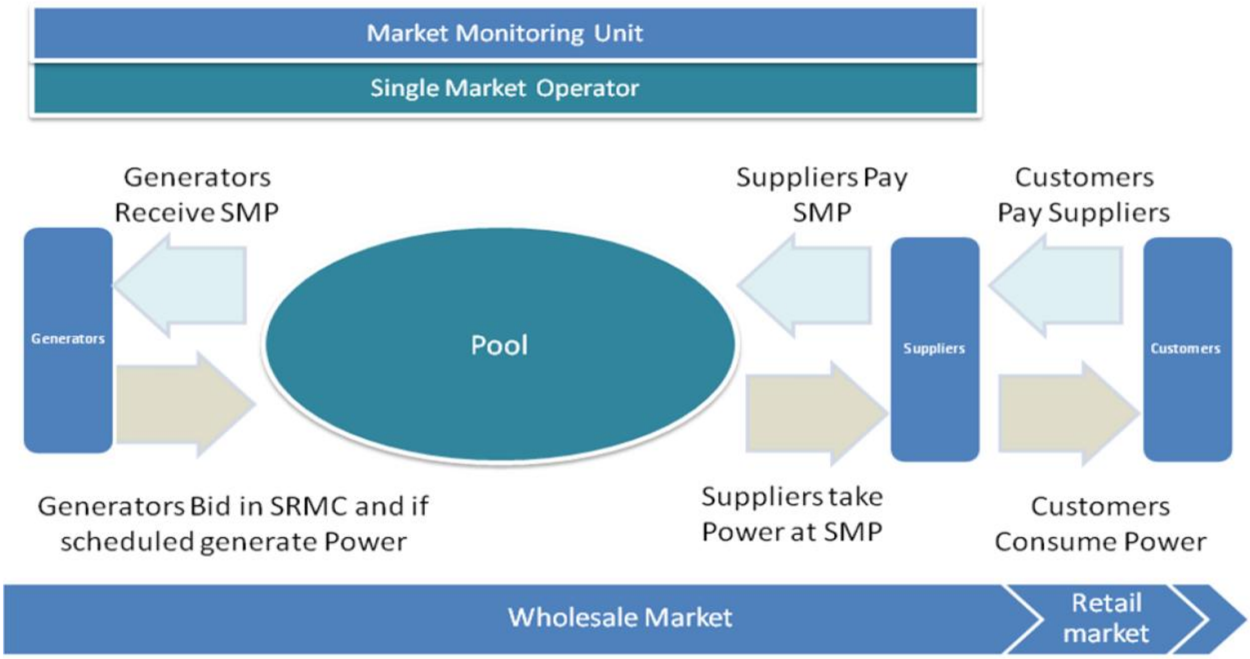

Figure 1 – All Island SEM

[1] The SEM Committee is the decision making authority on all SEM matters and consists of three Utility Regulator representatives, three CER representatives, an Independent Member and a Deputy Independent Member.

[2] Please see http://www.allislandproject.org/en/trading_and_settlement_code.aspx

3.2 Consultation Background

On the 20th December 2011 the RAs published a consultation paper on generator financial reporting in the SEM (SEM-11-106)[3]. This document set out the RAs' proposals, on behalf of the SEM Committee[4], to extend the financial reporting requirements of key generation companies to the RAs via a reporting template that improves the RAs insight into the financial performance of generators, and which would be published via an annual RA report, in order to assist market transparency.

The consultation paper set out the following:

- The rationale behind the RAs' proposals for enhanced financial reporting requirements, covering revenue and profitability, and the publication of such information via an annual RA report. This included improving the RAs' insight into the financial performance of generators, as well as improving the level of market transparency.

- That a proposed threshold of 20 MW would apply and all generation companies (including all affiliates and related undertakings) with a combined installed generation capacity equal to or greater than that would be required to fulfil the proposed reporting requirements.

- The proposed financial reporting template to be completed by generators and submitted to the RAs on an annual basis.

- Details of the financial reporting template and provision of an explanation and guidance notes on what should be included under each heading in the template.

3.3 Purpose of the Decision Paper

The consultation process closed on the 3rd February 2012 and the RAs have since reviewed all of the consultation responses received. In addition the RAs have received further feedback on generator financial reporting through meetings with stakeholders. Having considered the views expressed during the consultation process, this RA paper:

- Provides a summary of the major issues raised during the consultation process, with an RA response to each of these – please see section 4; and,

- Sets out the RAs' decision with regards to the requirements for generator financial reporting in the SEM.

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[3] Consultation Paper on Generator Financial Reporting in the SEM- SEM-11-106

[4] The SEM Committee is established in Ireland and Northern Ireland by virtue of section 8A of the Electricity Regulation Act 1999 as inserted by section 4 of the Electricity Regulation (Amendment) Act 2007, and Article 6 (1) of the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 respectively. The SEM Committee is a Committee of both CER and NIAUR (together the RAs) that, on behalf of the RAs, takes any decision as to the exercise of a relevant function of CER or NIAUR in relation to an SEM matter.

4 Consultation Responses

4.1 List of Respondents

There were 13 responses to the RAs' consultation paper on generator financial reporting in the SEM (SEM-11-106) as below, and they are published with this paper where they were not marked as confidential.

- AES
- Aughinish Alumina Limited (Confidential)
- Bord Gáis Energy
- Bord na Móna
- Endesa Ireland
- Energia
- ESB International
- Irish Wind Energy Association (IWEA)
- National Electricity Association Ireland
- NIE Energy Limited (PPB)
- Northern Ireland Renewables Industry Group (NIRIG)
- SSE Renewables
- Synergen Power Ltd.

Taking account of these comments, Section 5 of this paper provides specific SEM Committee decisions on the financial reporting framework and which generators it applies to.

4.2 Respondents Comments

Respondents raised a number of concerns regarding the proposals set out in the consultation document, with many of these centred on the publication of information collected through the proposed financial reporting template.

This section summarises the key comments received, by topic, followed by an RA response.

<u>Commercial Sensitivity and Administrative Burden</u>

Almost all respondents highlighted the issue of commercial sensitivity, stating that they consider the financial information requested for publication via the financial reporting template to be of a commercially-sensitive nature (specific comments on the template are summarised later in this section). Many respondents stated that the RAs had an obligation under EU regulations and Irish and Northern Irish legislation to treat commercially sensitive information with confidentiality.

It was stated that if the information in the financial reporting template were published it would allow other parties to infer the details contained in Power Purchase Agreements (PPAs) and Contracts for Difference (CfDs). This could constitute a breach of confidentiality clauses agreed with contract parties, thus damaging commercial relationships and acting as a deterrent for future agreements. The effect of this would be to reduce generators' ability to negotiate with other parties, damaging competition, putting upward pressure on prices and therefore having negative consequences for the end customer. Similarly, fuel-related operating costs were classed by respondents as being commercially sensitive and it was stated that they should be neither requested nor published by the RAs.

It was highlighted by many respondents that transparency is already a key element in the SEM design and that the information currently available in SEM is sufficient for consumers or investors. It was stated that RAs had not provided a clear justification for the reporting proposal, which should be targeted and proportionate. Instead, the proposals set out in the paper go too far by infringing on commercial sensitivity and confidentiality.

In terms of the administrative burden, a number of respondents stated that the proposals set out in the consultation went beyond what is intended as part of REMIT (EU Regulation 1227/2011). It was suggested that the RAs refrain from taking any immediate action in this area and incorporate any proposals as part of the approach for addressing requirements emerging from REMIT.

One party argued that no assessment has been done as to the administrative burden that will be placed on generators, particularly wind farm operators with multiple sites, to comply with the proposals.Specifically two respondents questioned the proposed 20 MW threshold, stating that it was inappropriate, capturing generators with no appreciable impact on the market. One respondent stated that the requirement for regulatory accounts to be submitted to the RAs was already sufficient and that the threshold (for the reporting template) should be raised to 100 MW.

RA Response

The RAs' consultation set out proposals for the collection and publication of information on generators' financial performance. The intent was to provide the RAs' with a greater insight into the financial performance of generators in the SEM so as to inform policy decisions, and to improve the level of market data available to all industry stakeholders, assisting market transparency.

The RAs agree that clear market rules and transparency are key features of the SEM and have contributed to attracting investments in new generation capacity over the last number of years. However, it would further assist the RAs and market transparency if the performance of different generation types was known and published. In addition, the focus of REMIT is on the prohibition of energy market abuse at EU level and the provision of EU-wide energy transaction reporting to ACER as a "market monitor" in this regard. Therefore the issue of generator financial reporting is not directly related to REMIT and the consultation was not driven by it. That said, the RAs agree that a balance needs to be struck here. Generator financial reporting, like REMIT implementation, should be proportionate and not overly burdensome for market participants. The RAs are also fully aware of their responsibility with regards to commercially-sensitive information and have always borne this in mind when publishing any documents or reports. It is accepted that the financial reporting template may contain some detailed information that could potentially be commercially sensitive and therefore the RAs do not now intend publishing site specific information in their annual report on generator financial performance.

Hence, as detailed in Section 5 of this paper, and taking account of responses to the consultation, the RAs are making two key changes from what was published in the consultation, as follows:

- *The threshold for generation companies submitting the financial reporting template will increase from 20 MW to 25 MW. This is considered proportionate – for example, it will place reporting requirements on only the largest quarter of wind generation companies while still capturing information on the performance of the majority of the generation capacity and output operating in the SEM.*

- *Financial information provided via the reporting template will not be published, to ensure that no commercially sensitive data is made available publically. Instead only aggregated data showing financial information for groups of generators (for example by fuel type or generator size) will be published. The RAs will band these groups together only where there are a sufficient number of generators so as not to enable commercially sensitive information to be inferred. More details of what the RAs intend to publish is contained in Section 5.*

As a result of this approach there should not be a material impact on generators either in terms of the administrative burden or in terms of the confidentiality of commercially sensitive information. At the same time, the aim of the process, providing information to the RAs and assisting market transparency, will be largely preserved.

Price Takers & Intermediaries

In addition to comments on the reporting threshold, several respondents stated that price-takers and in particular wind generators should be excluded from the proposed reporting requirement. This is because, in their view, price takers do not affect the market price and their costs are not relevant to market participants. With regards to wind generators, it was pointed out that profitability is driven by a variable wind yield as well as market prices, both of which are outside their control.

In addition it was stated that some price taking generators are subject to a power purchase agreement (PPA), under the Renewable Energy Feed In Tariff (REFIT) scheme in Ireland and the Renewables Obligation Certificates (ROC) scheme in Northern Ireland, and as a result do not participate directly in the market.

It was also stated that in some cases, third parties acted as intermediaries in the market, making bids and collecting revenue in the SEM on behalf of the generator. As a result this arrangement removed the necessity for generators to develop the detailed books, procedures and staff necessary to disaggregate revenues to the extent being proposed.

RA Response

As set out above, the reporting threshold has been increased to generation companies with a combined installed generation capacity equal to or greater than 25 MW. This level will capture the majority of generation capacity in the SEM, including approximately two thirds of wind capacity. However, only around a quarter of wind generation companies will be captured by the 25 MW threshold (see Section 5.3). With three quarters of wind generation *companies exempt, the RAs are of the view that there is not an excessive administrative burden placed on smaller generators, many of whom are price-takers, have entered into PPAs and/or have intermediaries acting on their behalf.*

However, the RAs do not accept the rationale for excluding all price takers or those with PPAs/intermediaries. Price takers do influence market prices (though not through bidding) as they are treated as negative demand in the SEM market schedule, and information on their financial performance is still relevant as it informs RA policy decisions and assists market transparency.

Use of Information

In the consultation document it stated that the information provided would be used by the RAs to better inform their decision making process in matters of policy. A number of respondents expressed concerns as to what the RAs intention was in this regard, for example whether it would drive decisions targeted at managing generator profitability or place a cap on generator profits.

One respondent also questioned what manner financial information had been used by the RAs in any policy decisions to date.

RA Response

The RAs would like to clarify that there is no intention to directly manage generator profitability or to introduce price caps of any sort. Rather, the purpose of the information is to understand whether generators are earning a reasonable return (the RAs have an obligation to ensure that generators operating in the market are able to finance their activities). If it was found to be the case that generators were consistently earning either excessive or insufficient returns, then this could call into question the design of SEM or specific policies being pursued.

In either case, if there were to be any follow-on policy changes by the SEM Committee, they would be fully consulted on with industry through the normal consultation processes.

It should also be noted that the RAs have examined the regulatory accounts in previous years to gain an understanding of generators' financial performance and to identify trends over time. To date no policy decision have been made directly based on this analysis;, however it is incumbent upon the RAs to be as informed as possible and this decision paper will add further sources of valuable financial data.

Template Format

Some respondents questioned the RAs' authority to request certain information set out in the financial reporting template, specifically covering revenues earned outside of the market that do not fall within the scope of the Generation licence.

The granularity of data proposed in the reporting template and publication was also questioned. It was stated by a number of respondents that the data for a number of the line items set out in the reporting template are already available from various sources (such as SEMO) and therefore they should not be in the template.

In addition, some respondents highlighted the fact that there are already detailed provisions in Irish and UK legislation setting out accounting reporting standards for public accounts. In their view the reporting templates should not seek to include any additional details that are not included in these standards.

However, one respondent suggested that the RAs should collect and publish information on Ancillary Services Payments, Generator Performance Incentives/Penalties and Constraints Payments by station. In their view there is not currently sufficient transparency in those areas.

RA Response

The RAs reject the assertion that they should not seek to find out information with regards to the breakdown of SEM-related revenues and costs. Referring to Condition 2 of the generation licence, the licence in Ireland states that the RAs may specify the format and content to be included in the generator's financial reporting and Condition 2 of the Northern Ireland generation licence similarly states that the accounting statements shall comprise such other current cost information as the Authority may reasonably require. Therefore the RAs are fully entitled to request this information where it is appropriate and relevant to SEM, as is the case with the template.

With regards to the proposed reporting granularity and format of the financial template, it is closely aligned to that used under normal accounting reporting standards. Given that there is no great deviation from the standard accounting format and as reporting will only be required once per annum for generation companies with a combined installed generation capacity equal to or greater than 25 MW, the RAs do not view the reporting requirements set out in this document as constituting an excessive administrative burden.

While the regulated accounts from generators submitted to the RAs annually conform to the accounting standards in the relevant jurisdiction, there are differences in the way that each generator treats various items. The financial reporting template will enable a more uniform reporting method for the essential financial indicators. By reporting on a site basis it will allow the RAs to better understand the financial performance of the varying generation types, which is not possible from the analysis of regulated accounts. Finally, by breaking out the financial data included in these categories, as set out in the reporting template, it will provide more insight into the areas most relevant to the industry.

The RAs recognise that some information requested in the financial reporting template is available from various other sources. However it is the responsibility for the generator rather than the RAs to source and provide the relevant data, especially given the fact that the data in the financial reporting template must align with the regulated accounts.

As set out earlier, the RAs will not be publishing the data collected on a generator basis, for confidentiality reasons. Instead the report will provide aggregated data showing information for groups of generators banded together, for example by fuel type, generator size, etc. Therefore it would not be appropriate to publish details of Ancillary Services Payments, Generator Performance Incentives/Penalties and Constraints Payments by station, as part of this process.

Uncertainty in Completing Template

Respondents raised a number of concerns around the way the template could be completed and the resulting confusion that may emerge from differences in the way generators breakdown costs and revenues. Among the issues raised were:

1) Generators' financial years do not align and as a result the information provided will not align over one twelve month period.

   RA Response

   The RAs recognise that there is a difficulty with the lack of alignment of financial years. We will consider how best to deal with this issue when analysing the data received from generators and drafting the annual financial report later this year.

2) Generators adopt different risk management policies and strategies resulting in transactions being accounted for differently. As a result there are concerns that interpreting information provided on revenues has the potential to be extremely misleading.

   RA Response

   Generators may adopt a broad range of risk strategies and these will result in different breakdowns of costs and revenues. However the fact that information will only be published in banded format will reduce the risk that stakeholders will misinterpret the report.

3) It was unclear why CfDs were referenced, yet any costs/revenues arising from commodity or currency hedging were not, as these were also likely to be part of a generator's overall risk management strategy.

   RA Response

   The RAs are aware that CfDs may only form part of a generators overall risk strategy; however they are likely to be the main constituent of any strategy. In addition, CfDs can be a significant aspect of the SEM and generator costs/revenues which feed through to customer electricity prices. Therefore it is important that the RAs are able to fully understand the impact that CfDs can have on generator profitability in any given period.

4) Generators are unlikely to enter into hedges attributable to any one site and therefore the way they apportion this between sites will differ among generators.

   RA Response

   This is true, particularly with regards to larger generation companies with a portfolio of generation sites. However the RAs are confident that generators have accounting procedures in place in order to allocate portions of any hedges entered into between the various generation sites in order to assess the financial performance of each. Therefore generators should apply such methodology as is used in-house in order to allocate any hedges across their generation portfolio.

5) CfDs may or may not align with the generators' financial year and thus the allocation of these will be problematic.

RA Response

Similar to the previous comment, generators are likely to have in-house accounting policies for allocation of hedges across financial years and whatever policies are used in-house should be adopted for reporting purposes.

6) With regards to the "Other Revenue" one respondent stated that a generator may have income or costs associated with non-energy trading activities and the inclusion of these incomes is potentially misleading as they may be from sources not directly linked to generation and energy trading activities.

RA Response

The revenue reported in the template should align with that of the regulated accounts. Licensees are required, under Condition 2 of the Generation licence issued in Ireland and Northern Ireland, to keep accounting records in respect of the Generation Business as if it were carried on by a separate company and to have revenues identifiable in the books where reasonably attributable to the Generation Business. As a result, if there are revenues included in the regulated accounts submitted to the RAs these should be included in the financial reporting template.

<u>Comparison with GB/Other markets</u>

The consultation document stated that the reporting framework would facilitate comparisons between generator profits in the SEM and in other markets, in particular with the BETTA market in GB.

It was questioned by several respondents whether the legitimate comparisons could be made between the SEM and GB markets. Given the recognised effectiveness of the SEM, the GB market should not be considered an appropriate comparator with respect to the publication of financial information and should not inform policy in the SEM in this regard.

Respondents highlighted the fact that the reporting requirements introduced in the GB market were as a result of the lack of transparency as well as concerns about dominance, market abuse and the impact on prices faced by the customer. It was also stated that the GB market lacks the regulatory supervision that exists in the SEM and so GB generators can make greater profits than in SEM.

Finally some respondents highlighted the fact that the requirements in the GB market only applied to large, vertically integrated companies, where as the RAs' proposals apply to relatively small generators. In addition the granularity of the requirements in the financial reporting template is in excess of those introduced into GB.

RA Response

The RAs recognise the significant differences between the two markets and that it is not always appropriate to use the GB market as a direct comparator for the SEM. For example, the different fuel/generation mix and market size between the two markets can result in *differing generator profit levels. These differences would certainly be taken into account when comparing generator financial performance between the SEM and BETTA. However, there are still useful comparisons that can be made in terms of examining changes in relative profit levels over time. Moreover, such comparisons may become increasingly relevant in the future given the ongoing work on market integration.*

The rationale of improving market transparency and providing relevant information to stakeholders remains valid in the SEM. Therefore the RAs believe that the publication of a report annually on generator financial performance will prove to be a positive step for the SEM, taking account of the fact that the RAs will not be publishing individual generator templates and that the reporting threshold has increased (see earlier).

With regards to the difference in format between that in use in GB and the template, the RAs' view is that the categories included in the financial reporting template provide valuable insight into generators' financial performance. As set out in Section 5, the RAs will limit the level of detail published, but for the purpose of allowing the RAs to monitor generator financial performance we are fully satisfied that the level of detail included is fully warranted.

Should the RAs make any reference to the GB market in our annual financial report, a clear explanation will be include in order to try and ensure that the differences between the markets and the impact that has on profitability is understood.

Regulatory Uncertainty

Some respondents stated that the consultation's proposals risked creating regulatory uncertainty and may have a number of negative consequences.

It was argued that the proposals risk damaging confidence in the market as well as investor confidence. Another respondent stated that the publication of the information proposed may impact on the value of generators or their parent company and could potentially influence the companies cost of capital.

Other respondents highlighted the potential for confusion to be created by underlying differences that may occur as a result of the reporting framework, including; misalignment of financial reporting periods and different cost structures. In their view the templates would be misleading as stakeholders may make comparisons without having considered all variables.

RA Response

The RAs are of the view that the measures set out in this decision document are justified and proportionate and that there are clear objectives. With regards to concern about any detrimental impact on the value of generators or their parents companies due to the publication of commercially sensitive information, this document sets out the RAs' intention to only publish the template in grouped or banded information. This will ensure that generators' commercial data is protected (see Section 5 for further details). It is recognised that there is the potential for the publication of data to be misinterpreted; however the RAs will set out clear guidance in their annual publication in order to explain what is being presented and the mitigating factors that must be considered. This includes the variance in financial periods between generators and the impact of CfDs.

5 Reporting Framework

Taking account of the comments received to the consultation paper on generator financial reporting (see Section 4), the RAs have made some amendments to the proposals set out in the consultation document. This section now sets out the SEM Committee decision in relation to the generator profit reporting framework.

It should also be noted that both the rationale behind this decision, as well as the reporting requirements set out, relate to the wholesale market (SEM) only.

5.1 Rationale

There are a number of objectives which the RAs hope to achieve through the collection of generator financial data and the publication of an annual report on generator financial performance. The main objectives of the RAs' are to provide a greater insight into the financial performance of generators in SEM so as to inform policy decisions, and to improve the level of market data available to all industry stakeholders, assisting market transparency.

The RAs have a responsibility to ensure that generators operating in the market are reasonably able to finance their activities and to ensure that all reasonable demand for electricity is met[5]. It is important that there are reasonable incentives in place in the market design to attract the right mix of generators into the SEM, so that policy objectives are achieved, including that the SEM continues to meet all reasonable demand for electricity.

By analysing the financial performance of key generators in the SEM, the RAs will be able to analyse whether there are sufficient incentives in place to attract appropriate generator entry, and to appropriately reward different generator types in the market. If it was found to be the case that generators or generator types were consistently earning either excessive or insufficient returns, then this could call into question the design of SEM or specific policies being pursued. Based on this information the SEM Committee could then take appropriate action (following the normal consultation process).

In this regard, the RAs' collection of financial data from generation companies with a combined installed generation capacity equal to or greater than 25 MW (see Section 5.3 below) will enable a better understanding of the financial performance of generators in the SEM. Although the RAs currently analyse the regulated accounts supplied by generators, the financial reporting template set out in this document will allow the RAs to gain a better understanding of financial performance. The data provided through this process will allow the RAs to review the performance of different generator types as well as the relative performance of specific generators or generator types, in a more uniform manner.

It is generally accepted that there is already a higher level of transparency in place in the SEM in comparison to many other markets. The RAs will continue to promote increased levels of transparency wherever it is appropriate and will deliver benefits for the market and

[5] Part II, Section 9BC (1), Electricity Regulation Act 1999 & Section 9(2), The Electricity (Single Wholesale Market) (Northern Ireland) Order 2007

for final customers. The publication of banded information on generator profitability (see Section 5.4 below) will provide information to potential new entrants and provide the appropriate signals for market entry, helping to drive competition and benefitting the final customer, while at the same time preserving commercially sensitive individual generator financial information. Market entry or even the threat of new generators entering the market will create competitive pressure on existing players and downward pressure on prices. It is therefore expected that the measures set out in this document will increase transparency, delivering benefits for the customer without adversely impacting on market participants.

5.2 Reporting Timelines

Under condition 2 of the generation licence, in both jurisdictions, there is a requirement that generators deliver to the RAs an audited copy of the accounts along the auditor's report not later than six months after the end of the financial year. The consultation paper set out reporting timelines that were in keeping with those set out under this requirement.

In line with this requirement, generators must provide the RAs a completed copy of the financial reporting template set out in this document at the same time as they provide the full accounting records to the RAs. The data included in the report should align with the generators financial year. While most generators' financial year is aligned to the calendar year, it is recognised that in the case of certain generators, in both jurisdictions, their financial year ends on the 31st of March. As a result the reports from some generators will not be received until the end of September.

It is therefore envisaged that the RAs will publish their annual report on generator financial performance in the fourth quarter of each year – see Section 5.4 below.

5.3 Applicability

The consultation document specifically asked respondents to comment on whether the proposed 20 MW threshold for financial reporting was reasonable. As set out in Section 4, above, some respondents raised concerns that setting a threshold of 20 MW may place an unnecessary burden on small scale generators.

Taking account of responses received and giving further consideration to the objectives of this process, the RAs have made the decision to raise the threshold to 25 MW. By setting it at this level the RAs will collect data on most non-renewable generation capacity and approximately two-thirds of the wind capacity available in the SEM, which will provide considerable insight, fulfilling the objectives of informing the RAs of generator financial performance and assisting market transparency.

At the same time only approximately a quarter of wind generation companies will be required to report annually. The 25 MW threshold means that only generators of a reasonably large scale are required to complete the financial reporting template set out in this document and that there is no disproportionate administrative burden for smaller operations.

For clarity, the reporting requirements set out in this document will apply to all generation companies - including all affiliates and related undertakings - with a combined installed generation capacity equal to or greater than 25 MW. This includes all forms of generation capacity including both renewable and conventional generation. Generators must provide a completed financial reporting template for each generation site in their portfolio, in line with each generation licence issued.

The RAs may review this reporting threshold after the first year of operation of this financial reporting regime, to ensure it remains appropriate. Any change to the threshold in the future would be subject to public consultation.

Table 1 below provides some examples of what generation companies would be subject to the reporting requirement set out in this document. So for example, Company A would be required to complete and submit the financial reporting template annually as their combined generation capacity exceeds the 25 MW threshold. However Company B, despite having a portfolio of several generators would not be required to complete the template as the total capacity is below the threshold.

	Plant 1	Plant 2	Plant 3	Plant 4	Plant 5	Total Capacity	Reporting Required
Company A	2MW Wind	5MW Wind	5MW Gas	60MW Gas		72MW	**Yes**
Company B	5MW Wind	7MW Wind	2MW Wind	3MW Wind	5MW Wind	22MW	**No**
Company C	200MW Gas	100MW Gas				300MW	**Yes**
Company D	10MW Wind	15 MW Wind	5MW Wind	10MW Wind	10MW Wind	50MW	**Yes**

Table 1 – Examples of Generator Applicability

One further issue that emerged during the consultation process was with regards to the ability of generators who have entered in to a power purchase agreement (PPA) with a third party/intermediary to provide the information required to complete the financial reporting template (see Section 4 for details). Bearing this in mind the RAs have decided that as only the larger wind generation companies will be captured by the threshold of a combined installed generation capacity equal to or greater than 25 MW, those generators are of a sufficient size to have the resources to obtain the necessary information and complete the financial reporting template. Otherwise the generator can liaise with their counterparty in the PPA so that they provide the relevant data to the generator. However, the obligation to report to the RAs remains with the generator.

5.4 Publication

As is evident from the summary of consultation responses set out in Section 4 above, a key concern raised by respondents was with regard to the publication of commercially sensitive information. This included the publication of information on revenue from CfDs as well as the publication of financial information on a site specific basis.

For reasons stated earlier, it is important that the RAs have access to a granular level of information, including site specific data. However, it is accepted that the publication of such data could potentially have negative financial consequences for generators as some of it could be considered commercially sensitive. Therefore the RAs will not publish generator site or company specific information in the annual financial report. Instead the RAs will publish aggregated data showing information for groups of generators banded together, for example by fuel type, generator size, etc. The RAs will band these groups together only where there are a sufficient number of generators so as not to enable commercially sensitive information to be inferred. Appendix A has a sample reporting table to indicate what this banded information may look like.

The publication of banded information will ensure that there is an appropriate level of transparency in the SEM and will deliver further information to potential new entrants, providing appropriate signals for market entry. In addition the RA report will provide a straight-forward and comprehensible document that will enable customers and other stakeholders to gain an understanding of profit levels of generators in the market, both in overall terms and with regards to each generator type. The report will contain explanations where necessary in order to minimise the chance for misinterpretation. The RAs anticipate that the first annual report will be published in Q4 of this year and in the final quarter of each subsequent year.

5.5 Future Developments

Given the current market structure and the levels of transparency that already exists in the SEM, the publication of banded information provides an appropriate balance between the need for market transparency and the need to protect commercially sensitive information.

In view of the work currently underway with regards to the European Market Integration project[6], there may be changes to the structure of the SEM over the coming years. These changes could potentially impact of the level of market transparency that currently exists. Should there be any significant market changes that result in reduced market transparency, the RAs will review the requirements set out in this decision document. Under such circumstances any changes would be fully consulted on with industry through the normal consultation processes.

[6] Proposals for Implementation of the European Target Model for the Single Electricity Market – SEM-12-004

6 Reporting Requirements & Guidelines

6.1 Financial Reporting Template

This section of the paper sets out the financial reporting template as well as providing information on what generators must include in each category. The table below corresponds to the format outlined in the consultation document; however this decision document sets out more detailed information on what needs to be included in each line item, in order to provide clarification and address questions raised during the consultation process.

In completing the financial reporting template the information provided should align with the regulated accounts provided to the RAs. The template should be completed for each generation site in the generation company's portfolio. Explanations for each line item in the template are provided below.

	Financial Yr		
Volume of Electricity Sold - MWh			
Revenue	**€,000**		
Revenue from SEM Pool			
Revenue from Contract/Difference Payments			
Revenue from Capacity Payments			
Other Revenue			
Total Revenue			
Operating Costs	**€,000**		
Fuel Related Operating Costs			
Non-fuel Operating Costs			
Total Operating Costs			
EBITDI		Gross Margin	%
Depreciation & Impairment[7]			
EBIT			
Interest & Tax			
Net Profit		Net Margin	%

Table 2 –Financial Reporting Template

[7] Under IFRSs goodwill is no longer amortised. It is revalued every year and the amount of any impairment will be written off as a cost. It is still amortised where UK standards are used.

6.2 Volume of Electricity Sold - MWh

The SEM consists of a gross mandatory pool market, into which all electricity generated on (above the de-minimis threshold of 10 MW) or imported onto the island of Ireland must be sold. The volume of electricity included in the report should correspond to the total volume of metered electricity sold by the generator through the SEM during the financial year, as recorded by SEMO[8].

6.3 Revenue

Generators must provide the total revenue earned during the full financial year. This financial data should align with the revenues and costs included in the regulated accounts for the same period. While there may be differences within the Revenue sub heading, due to the treatment of difference payments, the total Revenue figure should align with the regulated accounts. Where there is any deviation from this the generator must provide a written explanation.

Where a generator has multiple generation sites and earns revenues that are not clearly attributable to a particular site then the generator should allocate those revenues in line with whatever internal allocation methodology is used for their own internal financial analysis. In instances where a generator does not undertake financial analysis on a site basis, therefore not having an allocation methodology in place, they may allocate revenues in the manner they feel is most appropriate. The generator must provide explanatory notes to inform the RAs as to how such revenues were allocated across their generation sites. These notes must be provided annually and the RAs reserve the right to direct generators as to how revenues must be allocated across their portfolio for the purpose of this report.

Below are details of what should be included under each revenue heading:

Revenue from SEM Pool

Under “Revenue from SEM Pool” the generator must include all revenue earned from the sale of electricity through the SEM during the financial year, including constraint payments.

For clarity, this excludes any difference payments from Contracts for Differences (CfD) hedging as this is covered separately (see Contract/Differences line item). Similarly, it is acknowledged that in some cases a generator may have an agreement with an intermediary/3rd party via a PPA (see section 5.3) whereby the intermediary receives SEM payments on behalf of the generator and pays the generator an agreed amount. Under these circumstances the SEM pool (and constraint) payments received by the *intermediary* (i.e. not necessarily what is paid to the generator) should be entered into the “Revenue from SEM Pool” line item. Any differences paid to the generator are reconciled separately – see Contract/Differences line item.

As an example, please see Appendix B which provides examples of how revenues from the pool and from contract/difference payments should be treated.

[8] www.sem-o.com

Revenue from Contract/ Difference Payments

Generators may enter into Contracts for Differences (CfD) hedging arrangements in relation to the SMP with a supplier or another third party. The result is that difference payments, with regard to the SMP, are made subsequent to the period in which the contract was set for. The difference payments during the year could be either positive or negative for the generator. Generators should include the net difference payments figure received during the financial year, in line with what has been included in the regulated accounts.

In addition, as referred to above, some generators may participate in a PPA with an intermediary, such as generators participating in the REFIT scheme in Ireland, who may enter into a PPA with a licensed electricity supplier. In these cases the net difference between revenue earned in the SEM pool (including constraints) by the intermediary and the payment to the electricity generator under the PPA (for example in the REFIT scheme) should be included in this line item.

Similarly generators participating in the Renewables Obligation Certificates (ROC) scheme in Northern Ireland may have entered into PPAs with a third party or agreements for the sale of ROCs. In these cases the net difference between revenue earned in the SEM pool (including constraints) by the intermediary and the payment to the electricity generator should be included in this line item.

As an example, please see Appendix B which provides examples of how revenues from the pool and from contract/difference payments should be treated.

Revenue from Capacity Payments

The Capacity Payments Mechanism (CPM) is a fixed revenue system of payment for participants offering generation capacity in the SEM. All payments received under the CPM should be included under this heading.

Other Revenue

All forms of revenue, other than those set out above, earned during the period should be included in this row, including revenue from ancillary services.

Where a generator receives revenue that is not specifically related to one particular generation site then they must allocate it in line with accounting policies used for in-house accounts/financial analysis. If there is no such methodology the generator may use best judgement when allocating it across their portfolio of generation sites. In either case the generator must provide some brief explanatory note setting out the rationale for the allocation of any such revenues.

6.4 Operating Costs

In addition to the revenues earned, generators must provide also the total operating costs incurred during the full financial year. This financial data should align with the costs included in the regulated accounts for the same period. Where there is any deviation from this the generator must provide a written explanation.

Where a generator has multiple generation sites and incurs costs under either of the two cost categories that are not clearly attributable to a particular site then the generator should allocate those costs in line with whatever internal cost allocation methodology is used for their own internal financial analysis. In instances where a generator does not undertake financial analysis on a site basis, therefore not having an allocation methodology in place, they may allocate cost in the manner they feel is most appropriate. The generator must provide explanatory notes to inform the RAs as to how such costs were allocated across their generation sites.

Operating costs incurred should be broken down into the following two categories:

<u>Fuel Related Operating Costs</u>

Under this heading generators should include all fuel cost incurred during the financial year for the purpose of electricity generation as well as associated variable fuel transportation costs. For clarification the fuel costs should correspond to those set out in fuel contracts entered into by the generator and not necessarily the market price for fuel on the day of consumption. Generators' carbon costs should be included under this heading.

<u>Non-fuel Operating Costs</u>

With regards to Non-fuel Operating Costs, generators should include all additional plant operating costs, including fixed fuel transport charges, TUoS charges, plant maintenance, salaries, insurance, etc.

6.5 Other Items

<u>EBITDI</u>

Earnings Before Interest Tax Depreciation and Impairments (EBITDI) are calculated by subtracting the total operating costs for the period from the total revenue. This shows the generator's operating profits over the period. In order to calculate the percentage gross margin, the EBITDI figure is divided by the total revenue for the period. The level of gross margin is impacted by movements in wholesale prices and a generator's running level and/or changes in how generators control operating costs, such as maintenance, payroll and administrative overheads.

Depreciation and Impairment

Generators should include all depreciation and impairment items listed in the regulated accounts for the period. Where there is any significant item or change in accounting policy the generator must include an explanatory note.

Note: It is recognized that generators operating in Northern Ireland may use the term amortization instead of impairment. In Ireland, under International Financial Reporting Standards (IFRSs) goodwill is no longer amortised. It is revalued every year and the amount of any impairment will be written off as a cost. It is still amortised where UK standards are used.

EBIT

Earnings Before Interest and Tax (EBIT) shows the operating profits minus all depreciation and impairment charges incurred during the period.

Interest & Tax

Generators should include all relevant interest and tax items incurred during the period and which are listed in the regulated accounts.

Net Profit

This figure shows that generators net profit or loss for the financial period after all relevant deductions are made. In order to calculate the net profit margin as a percentage, the net profit figure is divided by the total revenue for the period.

6.6 Explanatory Notes

In addition to the above financial reporting template requiring information on revenues and costs, generators must also provide written explanations of any extraordinary or exceptional items included in the figures.

7 Next Steps

As set out above, all generation companies with a combined installed generation capacity equal to or greater than 25 MW are now required to complete the financial reporting template and submit it to the RAs within six months after the end of their financial year. As some generators financial year may end on the 31st March, all templates will be completed and returned to the RAs by the 30th September of each year.

The RAs will collect this data for internal analysis and will also prepare a report for publication. This report will contain only aggregated data, showing information for groups of generators banded together, for example by fuel type, generator size, etc. Appendix A has a sample reporting table to indicate what this banded information may look like. The final report format will inevitably vary from this and will also include explanatory text in order to reduce the possibility of information being misinterpreted by stakeholders.

The RAs anticipate that the first annual report will be published in Q4 of this year and in the final quarter of each subsequent year.

Appendix A - Sample RA Reporting Format

Financial Yr - 2011	**Baseload Plants**	**Mid Merit Plant**	**Peaking Plants**	**Renewable Plants**
Volume of Electricity Sold - MWh				
Revenue	**€,000 / %**	**€,000 / %**	**€,000 / %**	**€,000 / %**
Revenue from SEM Pool				
Revenue from Contract Difference Payments				
Revenue from Capacity Payments				
Other Revenue				
Total Revenue				
Operating Costs	**€,000 / %**	**€,000 / %**	**€,000 / %**	**€,000 / %**
Fuel Related Operating Costs				
Non-fuel Operating Costs				
Total Operating Costs				
EBITDI				
Depreciation & Impairment				
EBIT				
Interest & Tax				
Net Profit				

Gross Margin - %				
Net Margin - %				

Appendix B – Treatment of PPA in Reporting Template

The two scenarios below have been set out in order to clarify how wind generators should treat PPA's in the financial reporting template.

Each scenario shows how the generators revenue would be treated in the regulated accounts. With 100MWhs sold at the PPA price of €70, the revenue would simply show a total of €7,000. However under the financial reporting template, the generator must show what the value of those 100MWhs would have been had they sold it at the market price, as well as the net impact of the contract/difference payments resulting from the PPA.

While this means that the breakdown of revenue in the financial reporting template deviates from that of the regulated accounts, the total revenue remains the same under either approach and therefore the template will align with the regulated accounts in that respect.

Scenario 1

Market Price	€80/MWh
PPA Price	€70/MWh

Regulated Accounts	
Year	**2011**
MWs Sold	100
PPA Revenue	€7,000
Total Revenue	**€7,000**

Financial Reporting Template		
Volume of Electricity Sold	100MWs	
Revenue		
Rev from SEM Pool	€	8,000
Rev from Cont/Diff. Payments	-€	1,000
Rev from Capacity Payments		
Other Revenue		
Total Revenue	**€**	**7,000**

Scenario 2

Market Price	€60/MWh
PPA Price	€70/MWh

Regulated Accounts	
Year	**2011**
MWs Sold	100
PPA Revenue	€7,000
Total Revenue	**€7,000**

Financial Reporting Template		
Volume of Electricity Sold	100MWs	
Revenue		
Rev from SEM Pool	€	6,000
Rev from Cont/Diff. Payments	€	1,000
Rev from Capacity Payments		
Other Revenue		
Total Revenue	**€**	**7,000**