

Mr Billy Walker  
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Jamie Burke  
Commission for Energy Regulation  
The Exchange  
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Re: SEM Incentivisation of All-island Dispatch Balancing Costs (SEM-11-048)

Due 29 July 2011

Dear Billy, Jamie,

The IBEC Large Energy Users Working Group (LEUWG) welcomes the opportunity to comment on the above consultation issued on the 23 June 2011. The LEUWG provide a collective voice for the main industrial energy consumers for whom competitive energy is essential. Business consumers account for over 60% of the total consumption in the Irish electricity retail market and Large Energy Users account for over 25% of the total consumption in the Irish electricity retail market.

Following consideration, the LEUWG would like to make the following comments about the proposal and to request that the Regulatory Authorities consider this response before making their final decision on the matter.

In the current regulatory and economic context, the LEUWG are very concerned about the timing, level and competitive impact of the proposed imperfection charges for medium/large sites from the 1 October 2011.

It is acknowledged that medium and large business consumers benefited from electricity prices that fell below the EU average in 2010<sup>1</sup>. This was due to commodity prices movements and consumer rebates.

While this relative improvement is welcome it is by no means guaranteed to be sustained, with some market commentators indicating higher gas and electricity prices in Q4, 2011<sup>2</sup>. Relative energy costs remain a challenging issue in restoring our international competitiveness, securing inward investment and protecting existing jobs. The real impact on the Irish electricity market will come if customers cannot be retained in the market and suppliers are then faced with a reduced industrial customer base.

The proposed imperfection charge for October 2011 – September 2012 is €5.61 per MWh, an increase of 79.9% on the previous tariff year (SEM-11-054). Table 1 shows our analysis of regulatory decisions regarding imperfection charges since 2008. The main components of the proposed increase are significant Dispatch Balancing Costs and a K-factor.

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<sup>1</sup> Sustainable Energy Ireland (SEAI) (July, 2011) –Electricity & Gas Prices in Ireland, 2<sup>nd</sup> Semester (July-December) 2010. The latest Eurostat data remains positive for the 2<sup>nd</sup> Semester, 2010 but indicates a slight deterioration on the first half of 2010.

<sup>2</sup> Recent buoyancy in energy commodities: <http://www.bordgaisenergy.ie/energyindex/>

**Table 1: SEM Decisions Regarding Imperfection Charges 2008-2012**

Tariff Year	Dispatch Balancing Costs	Make Whole Payments	K-factor <sup>3</sup>	Total Imperfections Allowance	Forecasted Demand for Tariff Year	Imperfections Charge (IC)
<b>Proposed</b> , Oct. 2011 – Sept. 2012 (SEM-11-054)	+€142.6 M	+€0.1 M	+€48.136 M <sup>4 5</sup>	€190.836 M	34,030 GWh	€5.61/MWh
<b>Proposed % Change from 10/11</b>	+29%	-69.6%	+1471%	+77.82%	-1%	+79.9%
<b>Decision</b> , Oct. 2010 – Sept. 2011 (SEM-10-055)	+€110.5 M	+€0.33 M	-€3.51 M	€107.32 M	34,430 GWh	€3.117/MWh
<b>% Change from 09/10 to 10/11</b>	+4.2%	+6%	-72.1%	+14.5%	+1.1%	+13.3%
<b>Decision</b> , Oct. 2009 – Sept. 2010 (SEM-09-089)	+€106 M	+€0.31 M	-€12.58 M <sup>6</sup>	€93.73 M	34,060 GWh	€2.752/MWh
<b>% Change from 08/09 to 09/10</b>	-13.1%	-40%	-	-24%	-9.8%	-16.5%
<b>Decision</b> , Oct. 2008 – Sept. 2009 (SEM-08-093)	+€122.04	+€0.52 M	-	€124.6 M <sup>7</sup>	37,788 GWh	€3.296/MWh

The drivers of the proposed cost increase are due to a 'significant imbalance in the market for the 2010/11 year to date, due to high constraint costs<sup>5</sup>'.

We understand that the imperfection tariff is a pass-through charge that covers the gap between the market price and the cost of dispatching generation in real time into a market where constraints in practice do exist. We acknowledge the purpose of the charge. While acknowledging that force majeure outages, weather events and commodity price movements are uncontrollable, we welcome the RAs commitment to investigate options that ensure that 'all parties that influence the magnitude of Dispatch Balancing Costs (DBC) are incentivised to manage the aspects within their control, for the benefit of all consumers on the island'.

In principle, any all-island DBC incentive proposal that proceeds should provide:

1. For the efficient management of controllable costs associated with imperfection charges
2. Demonstrable cost savings and efficiency gains for business consumers
3. A transparent process of regulatory verification and reporting around the efficiency of dispatch balancing costs incurred

<sup>3</sup> K-factor reflects an under or over-recovery of imperfection costs on an annual rolling basis

<sup>4</sup> Proposed K-factor of €60.136 M (under-recovery) net of €12 M offset for other system charges 2009-2011

<sup>5</sup> Contributing factors are reported to be: forced long-term outages of a number of generators causing increased costs of reserve constraints; and higher than forecast system demand over the winter with expensive generation being constrained on and a divergence of actual fuel costs from those assumed in the constraints forecast (SEM-11-054)

<sup>6</sup> Over-recovery in period 2007-2009

<sup>7</sup> Includes an energy imbalance charge of €1.99 M

We hope that these comments prove constructive in reaching your decision and would welcome the opportunity to discuss this further. If you have any queries, please do not hesitate to contact my colleague, Erik O'Donovan, secretariat of the group, email: [erik.odonovan@ibec.ie](mailto:erik.odonovan@ibec.ie)

Kind regards

Tadg Farrell  
Chairman, IBEC Large Energy Users WG  
(By email)