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Dear Bronagh,

SONI and EirGrid (the 'TSOs') welcome the publication of the consultation paper on the Imperfections charges for 2016/17 and Incentive Outturn 2014/15 (SEM-16-031) and the opportunity to provide comment. This response is submitted on behalf of both TSOs.

The TSOs welcome the Regulatory Authorities ('RAs') endorsement of the proposed 2016/17 forecasted Imperfections revenue requirement of €146.8m and the incentive payment of €0.63m. However there are a small number of specific areas on which the TSOs wish to comment.

1. In Section 5.1 of SEM-16-031 the RAs note they are minded to endorse the TSOs '12 month of benefit' principle as part of the Imperfections Incentive process. The TSOs welcome this and for the incentive to not have unintended timing consequences it will be important that the benefit of any initiative is ascribed for at least a full financial year following its introduction¹. To that end it is presumed by the TSOs, and to ensure the incentive is designed such that customer benefit is attained, that any such initiatives shall be applied in full to the financial year following their year of introduction when considering the overall modelling of any incentive payment.

In Section 5.1 of SEM-16-031 the RAs then set out that this principle may be applied to any outperformance of System Non-Synchronous Penetration (SNSP) targets achieved by the TSOs. The TSOs, through the DS3 programme, publish an annual Operational Capability Outlook² document which outlines the high level SNSP projection out to 2020 and the milestones required to achieve increases to the SNSP level. These targets were developed and are being driven by the TSOs however, they require external parties to contribute to the successful delivery of each milestone before any increases can be realised. Any consideration of an incentive arrangement around SNSP levels needs to be considered in the context of the *Delivering a Secure Sustainable Electricity System (DS3)*' Programme and its

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¹ In the case of general cost saving initiatives under the revenue cap approach utilities are generally incentivised through the retention of savings for up to 5 years in terms of such initiatives undertaken

² DS3 Programme – Operational Capability Outlook 2016; <http://www.eirgridgroup.com/site-files/library/EirGrid/DS3-Operational-Capability-Outlook-2016.pdf>

objectives. Only following such consideration could proposals on targets, the incentive mechanism and assessment to apply be appropriately considered and commented upon. The TSOs also note that it is essential, that the cumulative effect of all incentives placed on the respective TSO are taken into consideration when developing any one facet as it is this overall cumulative effect that must be balanced against a licensee's ability to perform and finance its functions. Ultimately, the appropriate financial upside and downside associated with the incentives, both individually and as a package, will depend on the respective revenue controls in place, the specific targets that are set, and the design features of each of the incentives.

2. In regard to the comments in the paper on the need for an accurate DBC forecast for tariff setting purposes under I-SEM. As noted in separate discussions the exact operation and thus allowances that may be required for DBC/imperfections or similar under I-SEM are currently unknown. While we of course will be working to provide an accurate a forecast as possible, it must be recognised that the changes to the market arrangements and how this may outturn in practice will be difficult to forecast. It is also the case that, given the market design, they may be expected to be somewhat higher than under the current *ex post* pool mechanism and with a greater degree of uncertainty and attendant risk in their management.

The TSOs would welcome early engagement with the Regulatory Authorities on the forecast and any potential incentive processes as part of I-SEM.

We are happy to discuss our comments above.

Yours sincerely

Sent by email and accordingly bears no signature

Margaret McCarthy
Group Regulation
On behalf of EirGrid Plc. and SONI Ltd.