



Response to SEM-16-031, Imperfections Charge October 2016 – September 2017 And Incentive Outturn October 2014 – September 2015

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For the attention of:

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Introduction

Kore Energy provides energy procurement and energy price risk management services to a significant number of large energy users in Ireland and currently manages circa 2,700 GWh of electricity on behalf of large electricity users. Our clients include 5 of the country's top ten energy users and global leaders in the pharmaceutical, IT and Food sectors.

We welcome the opportunity to submit comments in relation to the proposed Imperfections Charge for 2016/17 year.

Summary

The reduction in Imperfections charges of c54% is hugely welcomed as Irish Industry continues to try to compete internationally against businesses in other jurisdictions with differing energy markets and government policies all affecting positively or negatively the price of electricity to the customers. We would however like to make some comments in relation to this charge.

1 Potential Imperfections Charge increase in 2017/18

The main driver for the level of reduction seen this year is the material K-Factor adjustment as without this adjustment the reduction would only have been c2.5%.

The K-Factor adjustments in the past 2 years have kept the Imperfections Charges lower than would otherwise have been the case (The Imperfections charge rate for 2015/16 was reduced by 12.8% with a K-Factor adjustment of €22.12m was applied). With a smaller K-Factor adjustment next year which would be expected to occur if the forecast costs input this year (into the forecast 2016/17 rates) outturn to in line with the actual costs, or if the K-Factor adjustment is an actual cost (as opposed to a credit) as it was in 2014/15 (at c€5m), there is the possibility that the actual 2017/18 Imperfections rates may increase leading to the proportion Imperfections represent of the end user costs increase. This would be a detrimental step for electricity consumers in SEM and thus the SEM Committee are asked to take all reasonable steps to prevent any rate increase for Imperfections charges in future years given it represents c4-6% of the end user price.

2 Concern ref Volume used for Imperfections Charges

The volume to which the Imperfections Costs are spread has increased by 1.4%, the first increase in 4 years. While the volume is still less than it was in 2011/12 or 2012/13 the trend is adverse albeit it reduces the unit rate. It is suggested this volume is kept under close scrutiny to ensure it remains appropriate.

3 Forecast Imperfections Charges excluding K-Factor

The lower wholesale electricity market rates in the SEM market should drive a reduction in Imperfections charges all other things being equal. The SEM Committee paper suggests that the Imperfections charge costs for 2016/17 were forecast to be reduced by 14% from 2015/16 costs (€170.70m reduced to €146.80m) before any other adjustment. This reduction appears reasonable given that the Wholesale SEM Market Price for the period June 15-May 16 appear to have seen an average reduction year on year of c15.4% over the period May 14-June 15. This should also be kept under review.

End.