



Energy for
generations

Generation & Trading

Commission for Regulation of Utilities

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Sent by email gkelly@cru.ie and Ian.McClelland@uregni.gov.uk

RE: Framework for NEMO Regulation from October 2019

Dear Gina and Ian,

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to Regulatory Authorities (RAs) consultation paper on the options for a framework for future regulation of NEMOs in Ireland and Northern Ireland (SEM-19-003). ESB GT ultimately would not like to see a further price control period, but would support SEMO setting its own reasonable and competitive fees. This would allow competitive pressures to have a downward pressure on prices and where this is not available benchmarked price caps could be applied with efficiency factors. Furthermore, ESB GT believes that ring-fenced businesses must be competitive in their own right and price controls arrangements of this nature would not deliver the correct incentives.

Please see below ESB GT's answers to the consultation questions:

Consultation Question 1: The RAs invite feedback on whether the next term of designation should be time limited and for how long.

ESB GT agrees with option 2, that a time-limited three year designation is the most appropriate way forward at this time. Setting a time limited designation is simpler to implement as it would remove the requirement to determine a termination process. It also provides more certainty for the market of Ireland having designated NEMO(s) being in place. ESB GT believes that the enduring basis should be further reviewed in the future to understand if this a more efficient framework than a time limited designation.



Consultation Question 2: Application of a price control

As per ESB GT's response to SEM-17-044, the coexistence of a regulated NEMO and competitive ones within a bidding zone has the potential for complex regulatory issues to arise. It is difficult to see that a traditional allowed revenue and resultant tariff based on expected throughput will work effectively for SEMOpx. This is because lower volumes will result in higher tariffs the following year with spiking tariffs etc. This issue has arisen in other utilities such as gas pipeline regulation.

ESB GT believes that SEMO should set its own competitive fees and the RAs, where these fees are considered excessive and if there is no competition, can use fees levied by NEMOs across Europe as a benchmark.

ESB GT supports the RAs' view that there is a *"need (s) to ensure that that there is no distortion to a level playing field for NEMO competition in the SEM"*. But ESB GT believes that any correction factor should only be contained within a ring-fenced business unit and not as is implied here by a licence vagary.

ESB GT therefore supports Option 3 which promotes a competitive, comparative process which will result in the most cost efficient solution for end users that uses the promotion of competition for this end.

Consultation Question 3: If a price control continues to apply to SEMOpx (should SEMOpx successfully re-apply for designation), it is proposed that this is applied for a three-year period, linked to a time-limited designation period. Responses from interested stakeholders are invited on this proposal.

ESB GT believes that a price control should not be applied going forward. Should a price control continue, it would be imperative that any new entrant NEMO would not be disadvantaged nor end users unnecessarily burdened with duplicated costs.

Consultation Question 4: comments on the form of remuneration SEMOpx should receive under an allowed revenue approach are invited.

Please see response to question 2.

Consultation Question 5: feedback is requested from interested stakeholders on the overall proposal to apply revenue regulation to SEMOpx from October 2019 for a three-year period, should SEMOpx successfully apply for re-designation.

ESB GT disagrees with this final proposal. If another NEMO enters the market, the price control cannot continue as if there were only one designated NEMO, the previous price



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control was based on there being no viable competitor when the RAs put out an expression of interest. If competitors do now exist then competition should now drive the charges and the management and operation of such a service.

If you have any questions, or would like to discuss this further, please do not hesitate to get in touch.

Yours sincerely

Paraic Higgins

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