SEMO 2021 – 2024 PRICE CONTROL (SEM-21-046)

SSE Response

For a better world of energy

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INTRODUCTION

SSE welcomes the opportunity to comment on SEMO 2021 – 2024 Price Control (SEM-21-046). For the avoidance of doubt, this is a non-confidential response.

SSE supports the investment and development of SEMO through the price control mechanism. Most notably, the implementation of Key Performance Indicators (KPIs) can incentivise appropriate~~,~~ behaviour and performance. As a key service provider operating the all-island market, KPIs that appropriately incentivise SEMO's performance is important to ensure market functioning and customer confidence.

We have contributed to both the EAI and WEI response to this consultation and are supportive of the comments enclosed in each.

WHO WE ARE

At SSE we're proud to make a difference. From small beginnings we've grown to become one of Ireland's largest energy providers, supplying green electricity and natural gas to over 700,000 homes and businesses on the island. We are driven by our purpose: to provide energy needed today while building a better world of energy for tomorrow.

Since entering the Irish energy market in 2008 we have invested significantly to grow our business here, with a total economic contribution of €3.8bn to Ireland's economy over the past five years. We own and operate 890MW of onshore wind capacity across the island (including Northern Ireland's largest, Slieve Kirk Wind Park), offsetting over 700,000 tonnes in carbon emissions annually. Our portfolio includes Ireland's largest onshore wind farm, the 174MW Galway Wind Park, which was jointly developed with Coillte. We also own and operate the Great Island Power Station, Ireland's newest gas station and a strategic asset for Ireland's security of electricity supply.

As a leading developer of offshore wind energy in Great Britain, we believe offshore wind has the potential to transform Ireland's response to climate change. SSE is currently progressing the development of a consented offshore windfarm off the coast of Co. Wicklow - Arklow Bank Wind Park Phase 2. We also have plans to progress projects at Braymore Point and in the Celtic Sea.

SSE are proud to be a Principal Partner for COP26 – the 26th United Nations Climate Change Conference of the Parties – where world leaders will be seeking a more ambitious climate change agreement. We look forward to continuing to work with the UK government and other stakeholders to support the delivery of a successful and impactful COP in Glasgow next November.

SSE RESPONSE

We have provided general comments under the following headings.

- Operating Expenditure (OPEX)
- Capital Expenditure (CAPEX)
- Incentivisation

Prior to setting out our comments as framed above, we wanted to signal our support for the revised price control approach. We broadly support the intention to make the price control more meaningful and challenging for SEMO. However, we recommend some consideration around these proposals to ensure that SEMO is appropriately supported or incentivised to deliver key priorities for the market.

OPERATING EXPENDITURE (OPEX)

We note that the resources proposal from the RAs deviates significantly from the one submitted by SEMO. We appreciate that part of the rationale is that historically, SEMO has not operated up to its full FTE quota and therefore, until such time as it is clear how they are operating at full quota, it makes little sense to allow for such a significant increase. We would be supportive in principle, with this logic.

However, we consider the following non-exhaustive “known unknowns”/externalities, should be quantifiable and would have an impact on resources for the forthcoming price control period.

- planning, development and system changes to deliver Article 12 & 13 of the Clean Energy Package,
- implementation of other market changes to reflect European requirements: Value of Lost Load, scarcity pricing requirements, wider aspects of the Clean Energy Package.
- first stage changes under Electricity Balancing Guidelines, and planning for second stage changes in preparation for European platforms MARI and TERRE
- loose volume coupling and recoupling with Europe via Celtic (which will likely be two separate activities),
- administrative work and supporting of CRM into the future,
- increased security of supply issues for this and future winters

All of these activities are critical and need long lead-times for planning, system impact assessment and deployment, alongside stabilisation of the market and business as usual activities. We do not accept that the impact of these and the likely planning timelines for these, cannot be already quantified. Given the timeframe for a large majority of the workstreams above, we consider that at least resources for planning and initial scoping would fall within the forthcoming price control period.

Therefore, resource allocation must take account of these significant workstreams.

We would suspect these areas are currently insufficiently resourced within SEMO, but we would also agree that the full proposed resource allocation submitted by SEMO, may not be justifiable. Therefore, we would propose some middle ground in recognition of the significant longitudinal work required of SEMO, and as a clear signal from the RAs that these workstreams cannot continue to be "known unknowns" that are unquantified, even if capex will need to remain flexible. One possible solution is to reconsider the level of the quota itself in recognition of the wide-reaching work that SEMO will need to undertake. Another is to grant some mid-point level of resources that is higher than the existing quota but reasonable. We would encourage SEMO to prioritise these workstreams and to clearly demonstrate the need for resources specifically for these targeted areas.

CAPITAL EXPENDITURE (CAPEX)

We are supportive of the views of the Participant Consultative Forum (PCF) members outlined in the paper relating to Capex considerations. We have provided comments under the following headings:

1. Testing
2. Capex assessment and uncertainty

Testing

We are supportive of the views of the PCF, EAI and WEI regarding involvement of market participants in testing of code releases. We have asked for this before given that it formed a key part of the deployment of the new SEM. In our opinion, involving market participants in testing and trialling contributed to market transparency, confidence, and clear knowledge of the extent of Day 2 issues that would need to be remedied post Go-Live. At this time, where system changes must ensure they are future proof to meet EU requirements as they are also stabilising the market; testing and trialling with market participants' involvement becomes critical.

On the separate point of bi-annual code releases we are less supportive. We can agree that predictable and clear timeframes for code releases and clear expectations for items to be included in scope of forthcoming releases is important. However, looking ahead at future projects which we expect to be complex and wide-ranging, an 18-month lead-time for a modification to become active in the market, would not appear to be in the best interests of this process. We are already still far behind implementation of various market changes in line with European requirements, which is in part due to Brexit, but otherwise, the challenge is increased in terms of ensuring system changes can be as foresighted as possible. Therefore, 18 months lead-time in order to "stand still", is just not appropriate.

Finally, as we have previously raised, we have ongoing concerns with the SEMO-vendor relationship. In our view, the price control is an opportunity to consider how transparently system improvements and changes are made. Where it is clear that there are discrete workstreams that will require system changes, such as Article 12 implementation, these should be required to be procured separately. This would allow for separate and specific contractual terms and delivery requirements with the vendor, or any other contractor that is successful in the tender. These projects can also be suitably identified insofar as adhering to procurement obligations and thresholds. We can appreciate this may appear unrealistic; however, it would increase transparency for the market and ensure that there is an opportunity for clear outlining of specific deliverables with associated penalties, for failed delivery. This approach would also make it easier to understand any unexpected overspend or need for additional capex in the context of what was procured and expected to be delivered. Otherwise, the transparency of system delivery is limited in spite of the fact that it is the market that is directly affected by system changes.

Capex assessment and uncertainty

We note that it is intended for all capex to be assessed by the RAs under three criteria and for SEMO to evidence that all three criteria have been met. We welcome this framework for assessment of suitable expenditure. It would be useful to understand how frequently this process would occur, whether the market will get to view these submissions to understand how SEMO has demonstrated efficiency of expenditure. We would also consider that this approach should be considered for any within period expenditure arising from unexpected activities.

On the matter of “known unknowns”, we can appreciate that flexibility may be needed. However, we do not accept that none of these externalities can be quantified in any manner at present. We have seen the requirements under EBGL and Clean Energy Package coming down the line for some time. The likely costs and impacts to the market, the system and its participants, should be able to be expressed. We will be in great danger of lagging behind, if SEMO cannot be encouraged to realistically envisage the impacts and create credible contingency and forecast work plans alongside expenditure and resources, to meet these. Especially, given the lead-times likely associated with changes to implement these externalities, they must be quantified in some manner to ensure that their delivery is expedited without delay.

Similarly, the project of market re-coupling is a critical one for the SEM, and one where SEMO and the RAs have an opportunity to prepare and seek to assess possible outcomes and alternatives where needed. But there is no indication that this a direct activity for SEMO during this period. The possible outcome will then be that the market will be asked to agree to changes in principle, with no evidence or clear impact assessment, likely at a time close to delivery of Celtic, when we will be unable to realistically refuse. SEMO holding the SEM hostage in this manner due to being unable to quantify the impacts of these externalities on their activities and the market, is unacceptable. Market participants are constantly required to consider the impact and risk of these externalities as they participate in the SEM. We would expect SEMO to be able to do the same.

INCENTIVISATION

We welcome the proposed rationalising of the KPIs outlined in the consultation. We can see that several of these activities are of greater importance than others, and that others are clearly business as usual activities that should be well-integrated into business activities. We would therefore not expect these activities to continue to be additionally rewarded in the manner of a KPI. On the other hand, we have provided some thoughts below as to what we consider should form part of this framework. We would welcome a separate consultation regarding the KPIs framework in order to engage specifically in the exercise of developing meaningful incentives for this price control period.

The revised price control framework provides for better investment and funding overall, however, does little to incentivise delivery nor tackle SEMOs reliance on vendor. We wished to flag this point again, i.e. the need to address the SEMO-vendor relationship, as it challenges the success of the KPIs as a regulatory framework. The rest of our response on this area focusses on the proposal outlined in the table below.

RAs' Proposed Annual KPIs 2021-2024				
Metric	**Weighting**	**Target**	**Upper Bound**	**KPI Reward per annum**
Invoicing	30%	97%	100%	€ 130,548
SEMO Re-settlement Queries	40%	<15 per Qtr	<5 per Qtr	€ 174,064
General Queries (resolved within 20 business days)	10%	95%	99%	€ 43,516
System Availability	20%	99%	99.9%	€ 87,032
Maximum Available Reward Per Year based on 4% of Opex Allowance for 2021/22	100%			€ 435,160

Table 6.4b: RAs' proposed suite of KPIs for SEMO during 2021 - 2024

We firstly welcome the setting of a maximum available reward per year, set at 4%. We would encourage consideration as to whether 4% is the most suitable level, but we welcome the intent to cap the incentive. The rationale for consideration of the level of the cap is to ensure that it will still incentivise the behaviour needed to be encouraged.

Secondly, we note that the KPIs are proposed to be reduced from six to four. In principle, we can appreciate the rationale, but we feel the approach is incomplete. We would consider that discounted KPIs are still significant and should continue to be monitored in some manner; either via a licence requirement or a Code modification to require compliance and auditing. We would also like to request clarity on the future of the discounted KPIs. It appears for instance like the Key Market Information KPI might be gradually reintroduced with a limited amount of publications.

Specifically, referencing the Key Market Information KPI, we note that it did not have any clear performance data provided and that it was found difficult by SEMO to either comply, or monitor compliance. In our view, this would indicate that the KPI framework was not a suitable mechanism to incentivise this activity and that another method should be used. Such alternatives could be either a binding licence requirement (reflecting the escalation of this matter since compliance could not be achieved), or else via a Code requirement that would be included in future audits to clearly track compliance. It is also worth noting that the publication of market information evolves over time, and where new publications may be required, this may prove a suitable activity to encourage via a KPI in the future under a lower weighting. For instance, the new publication of information relating to disputes under Mod_13_20, is a new activity that should be incentivised to encourage behaviour before it can become business as usual.

Thirdly, the proposed weighting in the table above we consider could be amended to reflect critical activities for the market. The invoicing KPI is being met relatively well, but the Resettlement KPI weighting and System Availability weightings are both insufficient. There have been several instances of lack of system availability over the last period and we would consider that this should suggest a higher weighting to motivate greater performance. We are pleased the Resettlement Query KPI is remaining and find it a necessary and important function. In order to enhance performance, the definition of the metric should be amended. Currently, the target is based on the number of upheld formal queries from market participants who have identified errors in settling the market, which are attributed to SEMO's operations and processes, including defects and pricing issues. SEMO does not have control as to what queries are received, or what queries are upheld. SSE instead considers utilising the KPI to measure how quickly a query is resolved and how engaging SEMO has been in reaching an agreeable resolution. Given the requirement under the TSC for good faith negotiation, we consider the KPI should be complementary by setting the target based on the the degree of open engagement and timeliness of resolution.

Finally, as part of a previous response to the SEMO KPI Consultation of 2019, we indicated that the current Resettlement KPI metric did not define how highly material settlement queries should be dealt with, which may at this time be the result of defects. Given the need for a full repricing exercise due to system defects, how resettlement of material queries is dealt with, becomes a significant and enduring activity for SEMO during the forthcoming period. We would request consideration of a separate KPI under which this activity could be incentivised.

SUMMARY

We welcome the opportunity to provide a response to the proposals intended to incentivise SEMO's activities up to 2024. We consider this period to be pivotal in the delivery of key requirements associated with greater cooperation in Europe and in preparation for a new direct trading partner. We wish to ensure that SEMO has sufficient resources and incentivises in place to safeguard the continued competitiveness and sustainability of the SEM when it physically reconnects with a greater trade block. We also consider that stabilisation of the market cannot be a stagnant or binary process of only delivering on previous requirements, since we are now in a period where planning, development and deployment needs to be futureproof. We would welcome another opportunity to consider the KPI framework through a separate consultation.