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Karen Shiels  
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Dear Karen

### **Response to Imperfections Charges for October 2014 - 2015**

The TSOs welcome publication of the consultation paper on the Imperfections charges for October 2014 – 2015, and appreciate the opportunity to be able to clarify and correct a misunderstanding around the changes being proposed to the calculation method for the coming tariff year. This response is submitted on behalf of both SONI and EirGrid.

The Regulatory Authority's (RA's) proposed tariff includes offsetting an amount of €4.9m for Other System Charges revenue against the Imperfections cost forecast for tariff year 2014/15 as provided by the TSOs. This approach represents a significant change from previous years and is at odds with the modelling assumptions presented annually to the RAs. This invalidates the basis of the TSOs' Imperfections submission.

In line with the previous year's assumptions, the TSOs' model that is used to estimate the Imperfections charges assumes that all generators are grid code compliant and that none of the actions by generators that trigger the payment of charges occur, the corollary of this is that a value of zero is placed against Other System Charges in the forecast.

If a generator unit trips or redeclares their availability down at short notice they are required to pay charges to compensate for not supplying the necessary services to the system. Such events result in an increase in DBC over and above that forecast by the TSOs modelling exercise. It is these additional, unmodelled, costs that are partially offset by Other System Charges.

As such it would appear that the RA's proposal to offset a value for Other System Charges against the current Imperfections forecast is based on an incorrect premise. Should the RA wish to include an assumption in regard to costs recovered through Other System Charges in the calculation of the Imperfections costs baseline it would be necessary for the TSOs to change the base assumption in the modelling to reflect our best expectations around grid code compliance and issue a revised Imperfections forecast. This forecast would need to



include the full costs imposed by non-compliance rather than the portion that is offset by the Other System Charges.

The fact that the charges did not offset the costs imposed onto customers was acknowledged in the SEM Committee's decision paper of January 2010<sup>1</sup>, where the RAs stated: "Although some commentators considered this arrangement as too punitive, generator trip charges are expected to be less than the system costs caused by the outages plus the costs of holding reserve for such eventualities, the costs of which are ultimately borne by customers."

In light of the above, it is incorrect to offset the DBC baseline by the Other System Charges revenue figure proposed by the RAs. In the absence of further modelling, the baseline figure should be the €177.6m as per TSOs' Imperfections revenue requirement submission.

We note that the Imperfections charges are trued-up based on the actual outturn of costs and charges and that modelling is only used to create a realistic baseline to ensure that the costs are allocated as best as possible to customers in the appropriate year. Adjustments are made in subsequent years to account for any under or over recoveries.

We would welcome the opportunity to discuss the historical treatment of these costs, with regard to both how they are reflected in tariffs and how we can ensure that the Other System Charges are used to deliver the optimum outcome for consumers.

*Yours sincerely*



*Sarah Friedel  
Group Regulation  
On behalf of SONI and EirGrid.*

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<sup>1</sup> Harmonised All-Island Ancillary Services Rates and Other System Charges Decision Paper, 4 January 2010, SEM-10-001

