

Imperfections Charge 2017/18 Consultation

A response by EirGrid plc and SONI
Ltd

2 August 2017



Introduction

EirGrid and SONI (the TSOs) welcome the opportunity to respond to the publication of the Imperfections Charge Consultation paper for tariff year 2017/18. Specifically the TSOs would like to address a number of points relating to the decisions the RAs are minded to make. These are highlighted below.

Interconnector Ramp Rate

SEMC minded decision: Interconnector Ramp Rate Disparity forecast, €10.8m – having liaised with the TSO on the evolving issue of interconnector ramping and the interaction with balancing markets the RAs consider the estimate too high with exposure being largely a volatility issue which will be dealt with under the context of contingent capital within the relevant price controls.

The TSOs would like to clarify that this is not just a volatility issue that will be dealt with under the context of contingent capital and as such a provision for this I-SEM change is required as part of the Imperfections forecast revenue requirement for 2017/18. Based on the I-SEM imbalance pricing design and widespread international experience it is expected that, on average, when the imbalance market is short the imbalance price will be higher than when the imbalance market is long. Interconnector imbalances will both impact and be exposed to this price differential. While there is uncertainty on future I-SEM imbalance prices, this fundamental relationship is expected to hold and is the reason that this cannot just be treated as a volatility issue.

It is clear to the TSOs that in the SEM Committee's minded to decision to disallow the Interconnector Ramp Rate Disparity forecast of €10.8m that the Regulatory Authorities acknowledge that this figure will not be zero. In recognising that this will not be zero and based on the above, the SEM Committee has recognised that there will be shortfall. The TSOs welcome the statement that this will be dealt with under contingent capital. However, the TSOs would note that this is at variance with the SEMC recommendation to remove a provision for the £12m SONI Revolving Credit Facility, which the TSOs further elaborate on below.

Gas Product Charges

SEMC minded decision: Northern Ireland Gas Product Charges forecast, €5.02m – The UR is actively engaging with NIE PPB on this issue to seek to maximise the economic interests of consumers in the next year. This amount has been removed from the forecast.

The TSOs welcome the engagement between the UR and the relevant generators to remove this impact to DBC in the 2017/18 tariff year.

SONI Revolving Credit Facility Provision

SEMC minded decision: SONI Debt Replacement forecast, €14.5m – The RAs recommend removal of this element. SONI state that they do not have a debt facility in place from 1st October 2017, and argue that this is connected to the SONI Price Control arrangements currently under review by the CMA. This CMA process will not have concluded before 1st October. Such debt facilities have been a matter for respective TSO price controls and therefore the RAs are not minded to include this element as proposed by SONI due to the nature and purpose of the imperfections revenue.

In response to the expiring of the existing SONI Revolving Credit Facility of £12m, and SONI's inability to renew same given an unfinanceable price control, the TSOs proposed that market participants effectively be afforded the same level of insurance in the tariff.

The TSOs understand the difficulties for the SEM Committee in doing this. However, the TSOs are concerned at the absence of engagement on this matter given the absolute seriousness of the situation and the potential for the TSOs, and SONI in particular, to not be able to meet market payments to generators should there be adverse movement relative to the tariff come 1 October. This must surely be of significant concern to the Regulatory Authorities, the SEM Committee and indeed market participants. The consequences of this decision if it were to stand need to be clearly spelt out.

The TSOs will note that, while the SONI Price Control and the remuneration of SONI for the holding of contingent capital is first and foremost a matter for the Utility Regulator, it is the SEM Committee which must take responsibility for the approval of the Imperfections tariff in the exercise of its functions on behalf of the island and all market participants.

The TSOs cannot emphasise any more strongly the importance of reversing this position in the final decision paper.