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Subject: SEMOpx Price Control, Draft Determination consultation paper, SEM-17-053

Dear Gina and Joe,

Bord Gáis Energy (**BGE**), welcomes the opportunity to respond to this consultation on the SEMOpx Price Control, Draft Determination, SEM-17-053 (**the Consultation**). We outline our views on the various aspects of the Consultation in line with the relevant sections of the Consultation, below.

1. Business Development assumptions

Notwithstanding the short term designation of SEMOpx, BGE believes that it is pragmatic to deem that robust resourcing of SEMOpx is necessary in the early stages of I-SEM such that market requirements can be appropriately represented particularly at a European level. BGE also supports the assessment of this price control submission on the basis of continued operations of SEMOpx rather than a wind down model. Such an approach is expected to minimise the tariff levels.

2. I-SEM Implementation Costs

We understand that an Information Paper is due to be published shortly outlining the full costs of establishing I-SEM. We anticipate that this Information Paper will itemise these costs for both the SEMO and SEMOpx (as NEMO) respectively.

It is however unclear at what point these particular costs will start being recovered through the TUoS and SSS. If it is the case that these costs are to apply to TUoS/ SSS at any stage in 2018, BGE urges the Regulatory Authorities (**RAs**) to publish this information as soon as possible given the potential impact on end consumers.

Finally, reference is made to the point that while all pre go-live capital costs are treated as part of the overall I-SEM implementation costs, 20% of these will be recovered through the SEMOpx price control in line with accounting standards. We would welcome clarification that the remaining 80% of these pre go-live capital costs will be itemised in the Information Paper with a view to recovery through TUoS/ SSS?

3. SEMOpx Costs

BGE has specific comments on certain elements of these costs as follows:

3.1 Labour Costs

BGE welcomes the significant consideration that has been given in the Consultation to maximising synergies and economies of scale in terms of the use of resources across the entirety of the SEMO and SEMOpx activities. The maximising of internal efficiencies should minimise these costs which is practical particularly considering SEMOpx' short initial designation period.

3.2 Facilities costs and overheads

BGE believes that the enduring system operator (**SO**) and market operator (**MO**) price controls are appropriate comparators for FTE costs. Considering that the SEMOpX proposed overhead costs are 1.7 times the overhead costs of a FTE under these other price controls, BGE supports the RAs' proposed reduction to align with them. The removal of IT support costs from the scope of the price control, for the reasons outlined in the Consultation is also supported.

3.3 Ongoing Implementation Costs

BGE understands that the proposed tariffs in this Consultation include provision for a number of third party costs and other uncertain industry costs associated with operating as a NEMO. We further understand that the final tariffs in October will include a final estimate or firm value for these costs. We would welcome clarity however around the RAs' view on how any changes in such costs post publication of finalised tariffs will be recoverable by the NEMO or what such changes might be expected?

3.4 Capital Requirements

BGE recognises that no incremental capex figure has been submitted by SEMOpX for this price control and that the RAs do not expect any incremental capex to be incurred over the course of the initial NEMO designation. We would however welcome the RAs' view on, if unexpected incremental capex should arise:

- i) can this be flagged to industry as early as possible given potential consumer price impacts
- ii) how will they be recoverable, e.g. via a correction factor, if they do arise?

3.5 Proposed management fee

BGE agrees with the RAs' minded to position to underwrite SEMOpX' efficient operating costs only and to remove any management fee for the purposes of this Consultation, given that:

- i. There is no proven model to determine suitable margins for a margin—based approach and the use of benchmarking in SEMOpX' case is not entirely appropriate particularly given the different standalone nature of potential comparator utilities;
- ii. The decision has been made that SEMOpX establishment costs are recoverable via TUoS and that a return on capital is to be earned at EirGrid and SONI respective WACC rates. The application of a return via a RABB-WACC approach thus compensates for the level of residual risks borne by the designated NEMO.

4. Cost Uncertainty

BGE understands and accepts that there will be some costs that cannot reasonably be foreseen for the NEMO. With regard to those related to legislation, regulation or market we support the concept of re-opening their calculation only if they breach a material threshold. BGE emphasises however the need for advance warning of the potential breach of such a threshold from a consumer pricing perspective insofar as possible. Furthermore, BGE also lends its support to:

- i. The position that incremental costs imposed on SEMOpX should be incurred by the party imposing such costs with SEMOpX being held cost neutral; and
- ii. The proposed approaches to dealing with FX fluctuation, and costs uncertainties regarding changes to I-SEM's go-live date or NEMO's market share.

5. Performance Standards for SEMOpX

Notwithstanding the short initial designation period for SEMOpX, given that SEMOpX will initially at least be underwritten by the consumer, BGE considers it prudent that certain key performance indicators and incentives should apply to the NEMO.

Given that SEMOpx is the exclusive route to market for day-ahead and intraday auctions, the reliability of its platform is critical. Failure of the platform can have significant financial impacts for market participants therefore platform availability and reliability should be one KPI.

BGE supports the RAs' proposed performance standard around general queries and customer service. Market participants will have no operating experience of the new market arrangements and many queries are anticipated to emerge, that need to be resolved quickly, particularly in the early days of operation. Satisfaction of these queries within suitable timelines will be critical to the effective operation of the market.

Of significant importance to BGE however is the timely delivery of market results. We list below, in order of priority, the important information for which timely delivery is crucial in I-SEM:

Day-ahead market and intraday market (IDM) auctions

- i. BGE trade confirmations;
- ii. ETS market results;
- iii. Price and total quantity executed for each Contract;
- iv. Purchase and sale quantities relating to transactions, per Contract and Unit;
- v. ETS bid file; Block bid Order file; Buy and sell curves (of equal importance);
- vi. Exchange transparency;
- vii. Resilience results files.

IDM continuous trading

- i. anonymised trades in real time;
- ii. Intraday continuous market results trade;
- iii. Intraday continuous market results order;
- iv. Intraday continuous market results statistics.

While the timing of data reports and publications are currently in development, BGE expects these to be published early in Q1 2018. We strongly support the proposal to link KPIs to the timing of the publications and data outlined in the relevant SEMOpx Operating Procedures.

With regard to incentives, we believe that the RAs should consider applying a weighting factor in line with the most important/ priority results and data publications required for delivery.

BGE also supports the proposed discrete KPI of timely and accurate delivery of data publications and performance of market monitor support to the RAs.

Furthermore, given the short duration of SEMOpx' initial designation, it may be appropriate to assess the KPIs regularly, e.g. on a quarterly basis.

Finally, BGE urges the RAs to consider that any KPIs applied from I-SEM go-live will be reviewed if SEMOpx is re-designated as a NEMO from 2019, taking into account the NEMO and market environment at that time.

6. Tariffs

BGE opines that the final Statement of Charges due in October should cover the full itemised list of fees that market participants can expect to be charged over the designation period until October 2019. The current statement includes an entry fee, annual fee and per MWh traded fee. We note the exclusion of a reference to "trading – technical" fees and we seek confirmation that this is not something that will be included in SEMOpx' costs at a later stage?

BGE also notes that the proposed fees do not include "multiple user access". We further note from Technical Liaison Group discussions that each member will be given access for a set number of users. We would welcome clarity as to whether each single user is to hold their own User ID or whether generic user IDs can be used by a number of traders for example? Access should not be unnecessarily

limited. Any additional user fees should be reasonable and kept to a minimum and be included on the Statement of Charges if applicable.

In the current SEM, existing and potential market participants can access market data through a “free login” to the SEMO website. We believe and request that this facility should continue for SEMOpx and SEMO operated markets in I-SEM. Access to freely available data may also entice potential market participants to examine participation in I-SEM and incidentally increase I-SEM’s liquidity.

In general, in the decision paper on SEMOpx tariffs, BGE would welcome clarity on:

- i. From a consumer pricing perspective, the time period over which these fees are to apply. E.g. from I-SEM go-live to October 2019 or some other shorter time period after which point they will be reviewed?
- ii. Whether the IDM fees include IDM auctions and IDM continuous trades?
- iii. Whether, in relation to the flat variable fee for volumes traded, “traded” means volumes accepted (matched) in the relevant market and not all volumes offered?
- iv. If SEMOpx continue in I-SEM as the NEMO post 2019, will the once off entry fee paid by market participants in 2017/2018 endure into any subsequent SEMOpx arrangements?

Finally, these draft fees are based on the registration of 50 members to the Exchange which could be considered quite high. We request that a final estimate based on updated information be included in the October decision. If subsequent to the decision, the final number decided upon does not materialise in registrations we would be grateful for insight into how the dearth in fees will be subsequently recovered by the NEMO and at what point in time?

I hope that you find the above comments and suggestions helpful and BGE would welcome the clarity on the number of items raised above at your earliest convenience. Please do not hesitate to contact me should you have any queries or wish to discuss any of the above further.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}