



Energy for
generations

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ESB Generation and Trading Response:

Generator Financial Performance Reporting Update to Requirements (SEM-19-025)

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1. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to the Generator Financial Performance Reporting Update to Requirements Consultation Paper (SEM-19-025). The purpose of this Consultation Paper is to consult on the Regulatory Authorities (RA's) updates to the SEM Committee report, and the associated template for submission of information to the RAs.

ESB GT's response is separated into two sections, an executive summary and answers to the questions. ESB could not see question 1 in this consultation paper and so started with question 2.1.

2. EXECUTIVE SUMMARY

ESB GT would like to take this opportunity to again raise its concerns with the requirement to provide information on financial reporting that feeds into the SEM Committee Generator Financial Performance in the SEM report¹, on top of the already audited statutory reports that are submitted as the company accounts. ESB GT raised concerns in its response to SEM -11-106 on the introduction of further financial performance reporting; the report neither helps the 'casual analyst' as the report presents misleading information, nor does it help the 'serious analyst' that would be interested in more detailed data than is in the report². ESB GT opposed the introduction of the generation performance reporting in this form in 2011 due to it being disproportionate and we oppose the consultation proposals to add further information breakdowns in the template, especially when the outcomes for much of the data is industry-wide and available from SEMO. Other data in ESB's opinion is relevant for the commercial operation of the business and to report against raises questions on how it is used in the report. For this reason, ESB does not find the report effective, and believes financial reporting on top of statutory reporting is unnecessary regulatory involvement.

Considering the transition from SEM into ISEM and the subsequent greater transparency of market data, ESB GT believes that it is timely for the RAs to review the objectives that financial performance reporting was trying to address, and to assess whether these objectives are still necessary and proportionate. It is important that the objectives are still deemed necessary and proportionate given that generators are being asked to under-take an onerous task every year with little to no benefit and could arguably result in misleading information being reported. It is ESB GT's understanding that the objectives were to provide the 'RAs with a greater insight into the financial performance of generators so as to inform SEM Committee policy decisions, and also to increase the level of public market data available thus assisting market transparency'. Below ESB GT will comment on both objectives.

It is ESB GT's opinion that financial performance reporting data collected via the template discussed in this consultation does not provide any more transparency to the market than is already available elsewhere. Furthermore, data that is aggregated into the report may be misleading either because it is published so as to protect commercially sensitive information, or because the report is too high level. As has been asserted in a previous ESB response some categories are "potentially misleading" as they are not granular enough, however if they are more comprehensive, this may result in the publication of commercially sensitive data³. Indeed, the RAs have highlighted that the usefulness of the data may be shrinking in this consultation itself; for example, there is data which will soon become commercially sensitive due to changes in the market and therefore is unable to be published (refer to the question 4.2). Therefore, ESB does not see how the data that is provided in the report provides any additional transparency or is useful to the market.

The second objective is to provide insight into financial performance of generators so as to inform SEM Committee policy decisions. To date ESB GT does not recall policy decisions being made off the back of

¹ SEM-19-016

² <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-12-027%20ESB%20Independent%20Generation%20response%20to%20SEM-11-106.PDF>

³ Refer to Footnote 2

the financial performance reporting specifically. Therefore, it does not seem to be fulfilling this objective either. Further to this, ESB GT is concerned that while the data does not appear to be used for policy decisions, the data is being used for a different purpose altogether, that is part of the exemption process in the CRM qualification (i.e. Unit Specific Price Cap (USPC) Applications) and the setting of CRM auction parameters (i.e. Existing Capacity Price Cap (ECPC)). This is contrary to the decision letter SEM 12-027, where it says:

“The RAs would like to clarify that there is no intention to directly manage generator profitability or to introduce price caps of any sort.”⁴

ESB GT would like the SEMC to address the apparent use of the financial performance reporting in determining the ECPC and USPC in their decision letter.

On the main proposal in the consultation, ESB GT disagrees with providing a breakdown of Day Ahead (DA), Intra Day (ID) and Balancing Market (BM) revenue streams, and with providing RO difference charges. ESB GT does not support further financial reporting when there is no obvious benefit to the wider market, and therefore does not agree with the proposal to add further work to reporting.

ESB GT does not support the continuation of the collection of this data as when the obligation for the RA to ensure that generators operating in the market are able to finance their activates is exercised the RAs and industry participants have many other regulatory tools to address this such as the USPC, DMILC or LRSAs all of which are based on the financial data for the individual bidding unit.

⁴ <https://www.semcommittee.com/publication/sem-12-027-decision-paper-generator-profit-reporting>

3. CONSULTATION QUESTIONS

Question 2.1. Do stakeholders see benefit in the inclusion of the additional breakdown into DA, ID, and BM revenues, noting that this would need to be accompanied by the associated MWhs? When responding, stakeholders are requested to indicate as to whether this is feasible for “FY2019” considering that generation companies may not have already put systems in place to track this information

ESB GT does not agree that there is a benefit to including the additional breakdown into DA, ID and BM in the financial reporting template. As noted above, ESB GT believes that the level of financial reporting in place currently is already onerous enough on obligated parties, the benefit of which is unclear. The consultation does not elaborate on why the additional breakdown of information would be more beneficial to the market, it will simply “[accommodate] these evolving changes for the purpose of future financial reporting”. Given that ESB GT is not clear on the benefit of a further breakdown, it does not support the additional information being included in financial reporting going forward.

Moreover, if this change does move forward, ESB GT does not believe that it is feasible for FY2018 and FY2019 financial reporting to include this extra information.

Question 3.1. Are any of the required breakdown elements in this section unclear? Please identify any which you believe are unclear and the reason why. Please also provide your proposed clarification.

No comment.

Question 3.2. Do you agree with the proposed categories and breakdowns of costs and revenues in Table 3.1 and as detailed above? If not, please explain why .

The RAs have suggested that a new category be included for ‘Reliability Option Difference Charges’. ESB does not support the inclusion of this information for similar grounds as in the answer given to question 2.1.

Question 3.3. Would you welcome the further breakdown of the market revenue into Day Ahead, Intra Day and Balancing Market revenues as well as the associated MWh data? If so, please explain why.

ESB would not welcome this. Please refer to the answer in question .2.1.

Question 3.4 Is there any aspect or variation of the reported profitability ratios (e.g. gross margin, net margin, etc.) which may need to be amended or added to?

No comment.

Question 4.1. Are there emerging classes or categories of grouping of generators – with significant capacity - which you believe might be considered as being appropriate for reporting on in future Generator Financial Performance reports? Please explain your view.

No comment.

Question 4.2 The current form of the report includes reporting on groups of generators according to “Generation Type” (i.e. baseload, mid-merit, peak, price taker). Do you think that reporting on this method of grouping (i.e. “by Type”) is relevant to the evolving electricity market and is therefore an appropriate and informative form of grouping to be reported on?

ESB GT welcomes the RAs assessment that continuing to have “type’ in the SEM Committee report may become commercial sensitive in due course and therefore ESB GT is supportive of taking this out from the report.

As ESB GT has already established, a lot of the data that is reported is already available to the market. However, if this report is to continue, ESB GT sees merit in providing transparency of all out of market contracts⁵⁶. Having visibility of this would improve the transparency of the financial performance of all generators.

Question 4.3 In your opinion, does the above market price, commodity and spread information provide useful and informative content in the report?

This information is available from market indicators. Indeed, independent parties such as Cornwall Energy can provide this information service. ESB GT understands that by undertaking this work, such services will be driven out by the RAs.

While this is relevant information, it also forms the basis of competitiveness between parties as to how much effort is invested in staying ahead of the competitor. The transparency remains in the market data from semo. This request takes away from the competitive advantage parties may want to employ

Question 4.4 In your opinion, should this information be omitted from future reports? Please explain your view.

Please see answer to question 4.3.

⁵ CRU/18/228

⁶ <https://www.uregni.gov.uk/news-centre/utility-regulator-decision-published-aes-derogation-request>