

Utility Regulator,
Queens House,
14 Queen Street,
Belfast,
BT1 6ED

Re: PrePayPower Response to SEM20-046 Imperfections Charge Consultation Paper

14 August 2020

Dear Billy,

PrePayPower (PPP) welcomes this consultation and the opportunity to respond to it.

PPP generally welcome the proposed 2020-2021 imperfections charges as they represent a 18.2% year-on-year decrease in the Imperfections Tariff which is a saving of approximately €8 per customer per annum. This is a positive outcome for all residential consumers. However, we do note that the proposed 2020/2021 tariff is still 63% higher than the 2018/2019 tariff, despite input costs falling by approximately 40% since the 2019/20 tariff proposal and 50% relative to the 2018/19 tariff proposal. Whilst we note there are some changes in system operations over time driving cost increases, the imperfections tariff does still seem high in the context of fuel prices and historic imperfections costs as shown in table 2 of the consultation paper.

With reference to our response to last year's Imperfections consultation SEM 19-040 and our response to the Balancing Market Options paper SEM 19-024, we would like to continue to highlight some factors that historically have driven higher than optimal Imperfection charges in the ISEM. It is our position that these factors could still drive imperfections costs higher in the coming year in certain circumstances.

In our response last year, we highlighted some of the key balancing market issues we felt were negatively impacting electricity consumers on the Island since the beginning of ISEM. We acknowledge and welcome the reduction in very high offer prices made in the Balancing Market since the start of the new tariff year in 2019. This has had a direct impact on reducing Imperfection costs, as the TSO are able to choose from more reasonably priced offers to meet energy actions.

That said, we would like to note that, during times of certain predictable system conditions, there are still some participants using both the reliability option strike price as an offer price target, and the balancing market floor price as a bid price target. This practice remains questionable given the economics of operation for these particular participants.

With regards to the upcoming Modification (MOD_10_19), set to come into effect in October 2020, which will remove dispatchable priority dispatch generators from the balancing market price, we believe this may have a negative impact on imperfections cost in particular during high wind periods, due to the very low bid prices submitted during these events. Some consideration should be given to increasing the price floor for bids if this rule change leads to a significant increase in imperfections costs.

We recognise that the majority of the most expensive system constraints could be alleviated with Grid Build out. In the continuing challenging environment for Grid build out and maintenance, which has

been exasperated by the pandemic, there may be further situations where a small amount of generators or a single price setting generator may be able to alleviate a constraint thus resulting in locational market power for that generator. We would welcome any attempts by the RAs and the SOs to monitor and mitigate the imperfections cost impact of these situations should they arise.

We note that the year-on-year decrease is due entirely to the sizable swing in the proposed K factor; going from +€84.44m to -€0.37m. When the k factor is removed from the tariff calculation, the year on year change in the imperfections charge represents an increase of 7.5%. We assume that the near zero k factor would appear to be largely attributable to the impact Covid-19 has had on wholesale costs driving an over-recovery in the 19-20 tariff which offset a further under recovery in the 18-19 tariff of approximately €30m. In future assuming that there are no further waves of Covid-19 of similar intensity to the first, this performance is unlikely to be repeatable. Had it not been for the over-recovery in the 19-20 tariff, this year's imperfections tariff would have been approximately 1 €/MWh or €4 per customer higher.

In conclusion, All Island electricity consumers have benefited from increased competition and market structure changes in the ISEM ex-ante and Capacity markets, however recent increases in imperfections costs have eroded a lot of that benefit. We support the RAs and the TSO efforts to manage the imperfections and constraints costs in order to provide value for the end consumer. We would encourage future scrutiny of market behaviour in order to maintain downward pressure on the cost for the end consumer.

Best Regards,

Cathal Fay,

CEO

PrePayPower