

Karen Shiels  
Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED  
[karen.shiels@uregni.gov.uk](mailto:karen.shiels@uregni.gov.uk)

Conall Heussaff  
Commission for Regulation of Utilities (CRU)  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24  
[cheussaff@cru.ie](mailto:cheussaff@cru.ie)

08 January 2021

**RE: SEM-20-086 - Consultation on SEMO 2018–2021 Capital Expenditure**

Dear Karen and Conall,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to this consultation on SEMO's 2018–2021 Capital Expenditure.

In general, we welcome the cost challenges outlined by the Regulatory Authorities (**RAs**) in this consultation paper to ensure that the capital expenditure (capex) allowances must in all cases be for efficiently incurred costs required to deliver services of value. The proposed reductions to allowances in some projects such as the Market Analysis Tools project and the Compliance Management project seem appropriate for this pricing period based on the rationale outlined in the consultation paper. However, a balance is needed in other projects to ensure that the proposed allowance reductions do not undermine achieving the system improvements needed such as Known Issues fixes in the Market System Release Capital project. We ask the RAs to exercise caution and ensure that the final capex figures will enable completion of such fixes.

**1. Exclusion of Opex costs, clarity in breakdown of Capex costs and synergies**

BGE supports the approach taken by the RAs in removing spend that should be considered as operational expenditure (opex) such as the Settlement Support and Resettlement project from the capex allowance requested by SEMO. This Settlement Support and Resettlement project in our opinion should be considered as an operational model in year 3 of the new SEM.

Clarity from SEMO as to what they consider to be capex costs and what they consider to be opex costs in their project work would help simplify the nature of the capex costs submitted for this period. Insight on the delineation by SEMO between capex and opex would help us to better understand the status of cost items in certain projects. For example, the RAs have identified the inclusion of the first year's annual maintenance costs within the Market Management System (MMS) Performance Enhancements project and Additional Market Environments project as capex, but the RAs have stated that they expect to see these as opex expenses for future years.

BGE previously suggested in our response<sup>1</sup> to SEMO on their Market Systems Development Plan (MSDP) 2019-2021 that cost items common across business cases such as infrastructure/ hardware should be grouped and reported separately to the respective projects to which they relate. The portion of those cost items allocated to the respective projects could also be reported for the respective projects for transparency. Separate reporting of spend common to a number of projects would provide clarity to participants on the application of cost-effective synergies across the projects, especially where different projects appear to overlap in purpose<sup>2</sup>.

---

<sup>1</sup> Dated 15 October 2020

<sup>2</sup> Such as Release Support Capital project and the Market System Release Capital project

Reporting of this type will aid better understanding, and appropriate allocation, of capex cost allowances and such cost synergies reporting should apply now and going forward.

## 2. Project specific comments

**Additional Markets Environments project** - There is not enough detail in this project to understand if it is addressing an existing testing environment request by participants. Significant numbers of defects are still appearing in market releases, and market participants have requested involvement to test the pre-release versions of significant releases before they go live in the market release. Participants need to be facilitated with access to pre-release versions in a testing environment. Pre-release testing by participants of significant changes would bring the benefit of increased defect detection and reduce SEMO's resource requirements for in-house testing and post release defects arising. If more specific information was available to establish that this participant testing environment is present in the Additional Market Environments project, then it may be more beneficial to participants that this testing environment build went ahead, and some capex allowance is allocated to enable it. Should the Additional Markets Environments project currently not include this participant request for the testing environment then BGE asks that a separate project and capex allowance is provided for that sees market participants testing defect corrections pre the release of significant market releases in the SEM.

**Market System Release Capital project** - We agree with the view by the RAs that capex should only be allowed for in the period in which it is incurred through the delivery of the contracted system release, and that the capex costs associated with Release H are delayed to the next pricing period (2021-24). We share the RAs stated concern that "...some defects have not been resolved efficiently within the warranty period and additional monies are being sought." Although the basis of the warranty is not stated, unless the warranty clearly prohibits the remediation required, given that the market is still in 'release mode' and is still remedying Known Issues we believe fixes of the defects should not be charged to SEMO customers. It remains essential that all known defects are remediated effectively on a cost-efficient basis for participants whether under warranty or otherwise. It is noted that the proposed allowance for this project is reduced to €6.4m from €8.6m based on the rationale outlined in the consultation paper. However, a balance is needed in the capex available to ensure that the proposed allowance reductions do not undermine achieving the system improvements needed through Known Issues fixes in the Market System Release Capital project, and we ask that caution is used to ensure sufficient capex is available to SEMO to complete the fixes needed.

**Market System Release Capital project, the Release Support Capital project, and the Additional Market Environments project** - The apparent overlap of some projects would benefit from more granular detail on costs (and cost synergies) within those projects to differentiate the spends that appear similar in nature. Recognising the reductions proposed by the RAs to the costs requested under these projects, we believe that additional specificity on the costs and purpose associated with the different projects would help better understanding of the costs where the projects appear to overlap in purpose and design.

**Market System Data Archiving project** – BGE supports the RAs' view that this is an important project and should receive the full capex allowance for its completion as a priority in 2021. We note the dependency of the **Market Analysis Tools project** to the completion of this Archiving project and we support the deferral of that Tools project until the Market System Data Archiving project is completed in 2021.

**Website Development project** – BGE supports the importance given to the Website Development project in the consultation, and the proposed allowance to be provided to it in this pricing period. The website is a significant source of information provision for participants and stakeholders, and its development for dynamic reporting and communications should improve the value experience to users.

## 3. Exclusion of costs of Clean Energy Package, Brexit, and the Electricity Balancing Guidelines

We believe that the absence of costs in this paper that relate to the impacts of the Clean Energy Package, Brexit, and the Electricity Balancing Guidelines omits a significant aspect of the potential capex costs that

SEMO will incur not only for this pricing period but also into the next. Uncertainty on the full final capex costs for SEMO raises concerns of cost and charge volatility for participants who are already dealing with the challenges presented by the current Covid-19 pandemic and the business planning adjustments they are making for the coming years. We request more insight on the potential capex cost impacts these areas could have on SEMO and ultimately customer costs in the final decision on this consultation.

#### **4. April 2021 update on progress**

Finally, we support the proposal by the RAs for SEMO to provide a mid-year progress report for the 2020/21 year in early April 2021 on project and spend status to both the RAs and to stakeholders. We agree that the Market Operator User Group (MOUG) meeting is a good forum to make this presentation. Such updates would be informative for participants as a semi-annual item going forward and we ask that the RAs consider introducing such updates.

I hope you find the above comments and suggestions helpful. If you have any queries thereon please do not hesitate to contact me.

Yours sincerely,

**Ian Mullins**  
**Regulatory Affairs – Commercial**  
**Bord Gáis Energy**

*{By email}*