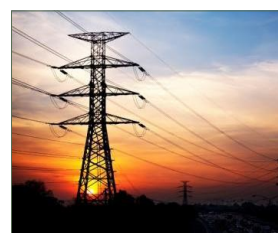


SONI Transmission System Operator Licence

Proposed Licence Modifications Consultation Paper

29 June 2015



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

The key elements of this consultation relate to licence modifications proposed for:

- a) The introduction of a dispatch balancing cost incentivisation mechanism following the decision made by the Single Electricity Market (SEM) Committee;
- b) Clarification for tariffs in the absence of price control modifications.

This consultation also includes a small number of other modifications to provide further clarity to specific aspects of the SONI Transmission System Operator (TSO) licence.

Audience

Electricity Transmission System Operator Licence holder, Regulated Companies, Department of Enterprise Trade and Investment (DETI), Consumer Groups, Industry and Statutory Bodies.

Consumer impact

The SONI TSO licence requires updating to reflect regulatory decisions and to ensure it remains up-to-date and fit for purpose.

Contents page

Executive Summary	2
1. Introduction	3
2. SONI TSO Proposed Licence Modifications	7
3. Summary of Consultation Questions	12
Appendix 1: Article 14 Licence Modification Notice	13

Executive Summary

This licence modifications consultation paper proposes a range of amendments to the SONI Transmission System Operator (TSO) Licence.

When SEM Committee introduced an all-island incentive relating to the management of Dispatch Balancing Costs (Constraint costs) it was recognised that licence changes would be necessary to the SONI TSO licence in order to implement the incentive mechanism. Therefore a key purpose of this paper is to consult with a view to codifying the SEM Committee's decision within the SONI TSO licence.

The Utility Regulator proposes a charge restriction on tariffs in the absence of price control licence modifications. This arrangement was referred to in the recently published Draft Determination 2015 – 2020 price control for SONI TSO. 2015/16 tariffs and/or charges are proposed to be set at the level applicable for tariff year 2014/15. This approach is consistent with the Competition Commission's final determination on NIE. This is also an effective mechanism in protecting the consumer. This restriction would provide clarity in the absence of price control licence modifications.

Furthermore, a small number of other modifications aimed at providing further clarity are also being proposed.

1. Introduction

Background to Consultation

1.1 In 2012 the SEM Committee introduced an all-island incentive¹ on both SONI TSO and EirGrid TSO in relation to the management of dispatch balancing costs. The SEM Committee's decision recognised that licence changes would be necessary to the SONI TSO licence in order to implement the reporting and incentive mechanism.

1.2 The SONI TSO licence sets out the maximum regulated revenue for tariffs and charges until 30 September 2015. After this date there is limited clarity and protection for consumers for tariffs commencing 1 October 2015 onwards.

1.3 The Utility Regulator has recently consulted upon licence modifications to the SONI TSO licence in respect of the Energy Efficiency Directive, Fuel Switching Agreements and the Licence Modifications and Appeals process. It should therefore be noted that the attached modifications have been based on the SONI TSO licence which is in effect at the time of writing, being the SONI TSO licence effective as at 28 March 2014. Any decision arising following this consultation will be applied to the most recent effective licence.

¹SEM Incentivisation of All-island Dispatch Balancing Costs SEM-12-033
http://www.allislandproject.org/en/transmission_decision_documents.aspx?article=40b93d75-e3f6-4eef-b997-3d9209a2b7d8

Purpose of Consultation

1.4 When SEM Committee introduced an all-island incentive relating to the management of Dispatch Balancing Costs (Constraint costs) it was recognised that licence changes would be necessary to the SONI TSO licence in order to implement the incentive mechanism. Therefore a key purpose of this paper is to consult with a view to codifying the SEM Committee's decision within the SONI TSO licence.

1.5 In the absence of price control licence modifications for 2015 – 2020, the Utility Regulator is proposing a mechanism to protect consumers and improve clarity on setting tariffs, while price control licence modifications are developed.

1.6 This consultation also includes a small number of other modifications to provide further clarity to specific aspects of the SONI Transmission System Operator (TSO) licence.

1.7 Therefore, this consultation seeks stakeholder views on any of the proposed licence modifications outlined above and detailed in Appendix 1.

1.8 The outcome of this consultation will inform any necessary changes to these licence modifications.

How to Respond

1.1 The Utility Regulator welcomes all stakeholder views and comments on the proposals set out in this consultation paper.

1.2 The consultation period will close at **5pm on Tuesday 28th July 2015**.

Responses should be sent to:

Karen Shiels

Utility Regulator

Queens House

14 Queens Street

Belfast

BT1 6ED

Email: Karen.Shiels@uregni.gov.uk

Tel: 028 9031 1575

1.3 Responses to this consultation may be made public by the Utility Regulator. If you do not wish your response or name made public, please state this clearly by marking the response as confidential. Any confidentiality disclaimer that is automatically produced by an organisation's IT system or is included as a general statement in your fax or coversheet will be taken to apply only to information in your response for which confidentiality has been specifically requested.

1.4 Information provided in response to this consultation, including personal information may be subject to publication or disclosure in accordance with the access to information regimes; these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA). If the information provided in the response is to be treated as confidential, please be aware that, under the FOIA, there is a statutory code of practice

with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

1.5 In view of this, it would be helpful to receive an explanation regarding any information provided as confidential. If the Utility Regulator receives a request for disclosure of the information, full account of your explanation will be taken but an assurance cannot be given that confidentiality will be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Authority.

2. SONI TSO Proposed Licence Modifications

2.1 This chapter outlines in more detail the key areas being consulted upon in respect of the SONI TSO licence:

- a) Dispatch Balancing Costs Incentivisation;
- b) Other general proposed modifications.

Proposed Licence Modifications: Dispatch Balancing Costs (DBC) Incentivisation

2.2 The SEM Committee introduced an all-island incentive² on both SONI TSO and EirGrid TSO in relation to the management of dispatch balancing costs. The SEM Committee's decision recognised that licence changes would be necessary to the SONI TSO licence in order to implement the incentive mechanism.

2.3 The proposed modifications introduce a new Condition 39 entitled 'Dispatch Balancing Cost Incentive – Reporting' and also amendments to paragraph 2 of Annex 1 entitled 'Restriction of SSS/TUoS charges: basic formula'.

2.4 Condition 39 proposed sets out the reporting requirements for both the Annual Out-turn Report and Imperfections Cost Report.

2.5 The Annual Out-turn Report relates to the incentive adjustment proposed to

²SEM Incentivisation of All-island Dispatch Balancing Costs SEM-12-033
http://www.allislandproject.org/en/transmission_decision_documents.aspx?article=40b93d75-e3f6-4eef-b997-3d9209a2b7d8

tariffs. This report compares actual out-turn against the forecast while detailing specific adjustments outlined in the SEM Committee's decision paper. The incentive payment due to / due by SONI will be reviewed and approved by the Regulatory Authorities (Utility Regulator and the Commission for Energy Regulation) on behalf of the SEM Committee.

2.6 The Imperfections Cost Report is to be prepared quarterly by both SONI TSO and EirGrid TSO. This will be published up to 20 working days following the quarter end. This report will compare actual with forecast dispatch balancing costs and explain the key drivers behind actual costs while also describing measures taken to minimise costs and subsequent impact on dispatch balancing costs. SONI TSO and EirGrid TSO already produce this report³ as set out in the SEM Committee's decision paper.

2.7 The SEM Committee decision paper determined that the resultant incentive payment/penalty will be applied on a 75:25 split between ROI TUoS and NI SSS/TUoS revenues respectively. Therefore the objective of the modifications proposed to paragraph 2 of Annex 1 is to facilitate the incentive payment / penalty being captured within the annual tariff process.

2.8 The formula detailed in paragraph 2 of Annex 1 shows the components which comprise the maximum SONI SSS/TUoS revenue recoverable from tariffs. This formula will be extended to include "INCENTt" being the incentive payment/penalty value to apply to a specific tariff year.

Question 1:
Respondents are asked for their views on any aspect of the dispatch balancing cost incentive mechanism as currently set out in the new Condition 39 and paragraph 2 Annex 1.

³ http://www.eirgrid.com/media/Quarterly_Imperfections_Report_Jan-Mar_2015.pdf

Proposed Licence Modifications: Other

2.9 Modifications to Condition 2 'Preparation of Accounts' has been proposed in order to update the legal references to the Companies Act.

2.10 A modification proposed to paragraph 1 of Condition 20 'Operation of the Transmission System and the System Security and Planning Standards'. It is proposed to extend paragraph 1 to include the words "... in an efficient, economic and coordinated manner". This results in a clear and direct licence obligation in relation to planning and operating the transmission system. This also aligns with the National Grid licence.

2.11 Modification to paragraph 11 of Condition 20 'Operation of the Transmission System and the System Security and Planning Standards'. The Utility Regulator proposes to change the reporting year from financial year to calendar year which aligns with the EirGrid TSO licence. Also proposed is an extension to 6 months for when the performance report is due for submission to the Utility Regulator.

2.12 A restriction is proposed to apply to the SSS/TUoS charge in the absence of modifications to Annex 1 paragraph 2. This restricts the tariff to the latest year for which the tariff parameters are set within paragraph 2. This provides clarity in the absence of price control licence modifications until such time as price control licence modifications become effective. This approach aligns with the Competition Commission's recommendation within their final determination for the NIE 'RP5' price control. This specific modification can be seen at the bottom of Annex 1 paragraph 2 (following the DBC incentive proposed modifications).

Question 2:

Respondents are asked for their views on any aspect of the other modifications being proposed to Condition 2, Condition 20 and Annex 1 paragraph 2.

Article 14 Licence Modification Notice

2.13 A formal licence modification notice made under Article 14 of the Electricity (NI) Order 1992 is included within the appendix to this consultation paper.

Section 75 of the Northern Ireland Act 1998

2.14 As a public authority, the Utility Regulator has a number of obligations arising from section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

- (a) persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- (b) men and women generally;
- (c) persons with disability and persons without; and
- (d) persons with dependants and persons without.

2.15 The Utility Regulator must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.

2.16 In the development of its policies the Utility Regulator also has a statutory duty to have due regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas. Some of the above equality categories will therefore overlap with these vulnerable groupings.

2.17 In order to assist with equality screening of the proposals contained within this consultation paper, the Utility Regulator requests that

respondents provide any information or evidence in relation to the needs, experiences, issues and priorities for different groups which they feel is relevant to the implementation of any of the proposals. Furthermore, the Utility Regulator welcomes any comments which respondents might have in relation to the overall equality impact of the proposals.

Question 3: Respondents are asked to consider if the proposals within this paper have an impact on equality of opportunity in relation to the persons listed in section 75 of the Northern Ireland Act? If yes, please provide reasons and state whether you believe the impact is positive or negative.

3. Summary of Consultation Questions

3.1 Respondents are asked for their views on the following:

Question 1:

Respondents are asked for their views on any aspect of the dispatch balancing cost incentive mechanism as currently set out in the new Condition 39 and paragraph 2 Annex 1.

Question 2:

Respondents are asked for their views on any aspect of the other modifications being proposed to Condition 2, Condition 20 and Annex 1 paragraph 2.

Question 3: Respondents are asked to consider if the proposals within this paper have an impact on equality of opportunity in relation to the persons listed in section 75 of the Northern Ireland Act? If yes, please provide reasons and state whether you believe the impact is positive or negative.

Appendix 1 – Article 14 Licence Modification Notice

THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION NOTICE UNDER ARTICLE 14(2) OF THE ELECTRICITY (NORTHERN IRELAND) ORDER 1992 (AS AMENDED)

MODIFICATIONS PROPOSED TO THE SONI LIMITED ELECTRICITY TRANSMISSION LICENCE

The Northern Ireland Authority for Utility Regulation (hereafter referred to as “the **Authority**”) hereby gives notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 (as amended) (hereafter referred to as “the Order”) as follows:

1. It proposes to make modifications to the transmission licence (the “**Licence**”) held by SONI Limited (the “**Licensee**”).
2. The proposed modifications are to reflect :
 - (a) Legislation updates and further clarification in respect of Condition 2 Preparation of Accounts.
 - (b) A specific reference within Condition 20 paragraph 1 to include ‘...in an efficient, economic and coordinated manner’.
 - (c) Within Condition 20 paragraph 11 a change from ‘financial year’ to ‘calendar year’, and also a revision to the timeline for report submission from 2 months to 6 months.
 - (d) The new Condition 39 ‘Dispatch Balancing Cost Incentive-Reporting’ based on requirements necessary to fulfil the SEM Committee dispatch balancing cost incentive decision.
 - (e) The implementation, within Annex 1 paragraph 2, of the mechanism to facilitate SONI TSO receiving an incentive payment or alternatively paying a penalty.
 - (f) A restriction on the SSS/TUoS charge in the absence of modifications to Annex 1 paragraph 2. This restricts the tariff to the latest year for which the tariff parameters are set within paragraph 2.
3. The reasons for the proposed modifications are:
 - (a) To update legislation references and improve transparency of financial statements.
 - (b) To provide clarity on the need to plan and operate the transmission system ‘in an efficient, economic and coordinated manner’. This wording aligns with the National Grid licence.
 - (c) To provide alignment with the EirGrid TSO licence and to revise the timeframe for submission of the Transmission Performance Report to the Authority.

- (d) Required to implement the SEM Committee decision paper entitled 'SEM Incentivisation of All-island Dispatch Balancing Costs (SEM-12-033).
 - (e) The SEM Committee's decision paper entitled 'SEM Incentivisation of All-island Dispatch Balancing Costs' (SEM-12-033).
 - (f) To provide clarity in the absence of price control licence modifications, and thereby protect consumers. This approach aligns with the Competition Commission's recommendation within their final determination on NIE.
4. Representations with respect to the proposed modifications may be made on or before 5pm on 28 July 2015 to:

Karen Shiels
Utility Regulation
Queens House
14 Queen Street
Belfast BT1 6ED
Tel: 02890311575
Email: Karen.Shiels@uregni.gov.uk

5. The Authority has, in pursuance to Articles 14(3) and 4 of the Order respectively served a copy of this notice on the Licensee and sent a copy to the Department of Enterprise, Trade and Investment.
6. Dated this 29 day of June 2015

Jenny Pyper
For and on behalf of the Northern Ireland Authority for Utility Regulation

cc
John Mills, DETI
Robin McCormick, SONI Limited