

# Modifications to SONI MO and TSO Licences to Implement the I-SEM

A response from SONI Ltd

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23 January 2017



# Introduction

SONI Limited (SONI) holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Northern Ireland, and is owned by EirGrid plc (EirGrid), the licensed TSO and MO in Ireland. The Single Electricity Market Operator (SEMO) is part of the EirGrid Group, and operates the Single Electricity Market on the island of Ireland.

Both SONI and EirGrid, have been certified by the European Commission as independent TSOs, and are licenced as the transmission system and market operators, for Ireland and Northern Ireland respectively. EirGrid also owns and operates the East West Interconnector, while SONI acts as Interconnector Administrator for both of the interconnectors that connect the island of Ireland and GB.

SONI and EirGrid, both as TSOs and MOs, are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. SONI therefore has a keen interest in ensuring that the market design is workable, will facilitate security of supply and compliance with the duties mandated to us and will provide the optimum outcome for customers.

This response is submitted on behalf of SONI in its role as holder of the two licences that are the subject of this consultation. We welcome the Regulatory Authorities (RAs) consultations on this second phase of modification to our licences to facilitate the implementation of the I-SEM, in particular the harmonised approach to the consultations across the jurisdictions.

This response is structured in five sections:

- this introduction;
- a short summary of the key points that we make in our response;
- comments on the process that the RAs are following;
- comments on the proposed additions to and modifications of our TSO licence;
- and
- comments on the proposed additions to and modifications of our MO licence.

We also include suggested changes to the drafting of the modifications in appendices.

We would be happy to meet with UR, either separately or with our colleagues from the other jurisdiction to discuss any matters included in this response.

# Key Points

In this response, we make the following key points:

- We welcome the approach taken to developing these modifications, which has been particularly helpful given the complexity introduced by SEMC decisions being finalised in parallel with the drafting of these modifications;
- We welcome the proposed modifications in general, with the majority of our comments focusing on refining details that are inherent in a complex change of market design such as this.

## Transmission System Operator Licence

- We propose some changes to the drafting of the new central dispatch condition, to ensure that it aligns with the draft Grid Code (currently being consulted upon), and to ensure that it does not pre-empt policy decisions that will need to be taken in connection with the draft Electricity Balancing Guideline
- We also note that work is currently ongoing to model the impact of the proposed policy parameters that will be employed to facilitate the ex-ante market. Therefore we propose a change to the drafting to accommodate the outcome of that work, while retaining the rigorous governance processes proposed.
- We note the administrative reasons behind the proposal of a single update to Annex 1. It is clear however that Annex 1, which sets out the revenue entitlements to SONI as TSO, requires to be examined in full in the context of the introduction of I-SEM, and the provision of the necessary revenues to enable SONI to fulfil its functions. It is already agreed with the Utility Regulator that this will form part of a separate process following the revenue adjustment exercise in the first half of 2017. As this has not yet been undertaken we believe that this modification should not be made at this time and would therefore respectfully request you to reconsider this.

## Market Operator Licence

- Our response to the suite of modifications to include the NEMO within our licence reflects the UR's assurance that they are comfortable such a licensing approach is robust and that any necessary interaction has taken place with the relevant parties at a European level. Our comments should therefore be read in that context.
- We propose some amendments to the drafting of the NEMO condition to ensure that it:
  - Does not introduce barriers to entry for other NEMOs;

- Does not restrict SONI ability to respond to competition, should it arrive; and
- Provides proportionality in the level of oversight of our NEMO activities.
- We suggest some amendments to the wording of the proposed modifications to ensure that the detailed drafting delivers the intended effect and aligns with SEMC decisions and the Network Codes. This includes ensuring that the scope of the Trading and Settlement Code is limited to matters within our control.

## Common Issues

- We have reviewed the proposed changes to definitions with the two licences and have suggested amendments to ensure that they align with the Network Code requirements and SEMC decisions.
- This response is based on an assumption that the revenue adjustment process will ensure that we can finance and fulfil our functions the transition to the I-SEM trading arrangements. We are engaged with the Regulatory Authorities on this, as part of a separate revenue adjustment process.
- Our comments are limited to the aspects of the conditions that need to change to permit the transition to the I-SEM. We will continue to seek clarity and modification through separate channels in respect of any other matters.
- We note the transitional provisions are included in a number of the new and modified conditions. We would suggest a timetable be put in place for implementation of each condition, to ensure there is no ambiguity in terms of when compliance is expected in respect of each condition.

# Observations on process

We welcome the approach taken by UR when developing these modifications. This has been particularly helpful as the preparatory work has been undertaken in parallel with the finalisation of some of the SEMC decisions which these modifications are implementing. Work on the next phase of modifications has already commenced, and we look forward to a similarly productive approach, which reflect the evolving understanding of the cross-border arrangements and how they apply to our market.

We are reassured by the changes that have been made to tidy up the wording and positioning of the Phase One modifications, to ensure a coherent set of licences in Ireland and Northern Ireland.

We have been working with the RAs to deliver the requirements of these conditions in parallel with the modifications process. Where this work has provided additional insight into the desired outcomes, we have reflected this in our response.

The RAs have commenced their review of our revenue requirements for the I-SEM, and our position in this response paper is premised on a satisfactory outcome from this process.

# TSO Licence

In this section we provide our comments on the proposed modifications to SONI's Transmission System Operator Licence. These are presented in the same order as the consultation paper for ease of reference.

## New Condition 22A: Central Dispatch

SONI agrees with UR's introduction of a new condition to reflect the change in the objectives of the scheduling and dispatch process under the new set of trading arrangements. We welcome the clarity that the updated condition provides around the primacy of physical notifications and the acknowledgement that additional processes and parameters will be required to balance the objectives placed upon us by the changes in the trading arrangements.

We do however have some concerns around the way in which these new processes and parameters are reflected in the drafting of the licence condition, which we outline below, in the order that they appear in the text, rather than in terms of importance. We also propose some modifications to the wording, which would address these concerns.

### **Title of Condition**

Despite changes to the trading arrangements, we note that the title of this condition has not been updated. Under the current draft of the Guideline on Electricity Balancing, the TSOs and RAs will be required to determine if the I-SEM arrangements fit closer with the "central dispatch" or "self-dispatch" processes as defined in this Guideline. This will require assessment of the final arrangements, and it would be helpful if the title of the condition did not prejudice the outcome of this assessment. We therefore suggest that as part of these modifications the title is changed to "Scheduling and Dispatch".

### **Multiple Objectives**

We are concerned there is a potential for conflict between maintaining some of the existing and updated economic dispatch objectives, which are based on the current market design, whilst adding new economic objectives reflecting the new market design. The economic/market objectives contained in the proposed condition can be summarised as:

1. operate a merit order system (existing requirement)
2. dispatch in ascending order of incremental offer prices and descending order of decremental bid prices (an update to an existing requirement)

3. minimising the cost of diverging from physical notifications (new requirement)
4. enabling the ex-ante markets to resolve energy imbalances...(new requirement)
5. minimising the cost of non-energy actions...(new requirement)

In practice, the core economic objective of the new scheduling and dispatch process is to minimise the cost of deviations from the physical notifications with policy parameters introduced to enable, where necessary, movement towards objectives 4 or 5 above. The ex-ante markets will become the primary means of establishing the most efficient market position for each generator; the merit order will be taken into account in scheduling and dispatching units in the balancing market. We note, however, there are references to objectives 1 and 2 above in the Grid Codes that would need to be considered if any licence condition change is made.

### **Interconnector Flows**

The proposed wording for paragraph 5 suggests that we should only be considering forecast exports across any interconnector. We suggest that this is updated to reflect the scheduling of interconnector flows by the ex-ante markets introduced to comply with CACM, interim intra-day trading arrangements and possible exchanges of energy through mechanisms aligned with the Guideline on Electricity Balancing (and any of the other Network Codes), once finalised.

We suggest that this could be worded as: Flows across any interconnector as determined by the ex-ante trading arrangements or other mechanisms in compliance with the Network Codes.

We note that detail around how these flows will be determined is still emerging, and the wording of this criterion may need to be reviewed as part of the next phase of modifications.

### **Scheduling and Dispatch Parameters**

We welcome the incorporation within the licence of the concept of policy parameters within the scheduling and dispatch processes that we undertake. These will be of particular importance as they will impact on the commercial position of participants. We do however have some strong concerns about the way in which these are defined in the consultation and the prescriptive approach adopted in the consultation proposals.

The scheduling and dispatch systems already include a large number of technical parameters that fundamentally differ in purpose and origin from the two new parameters highlighted in the proposed condition. It will be essential that the process introduced to identify and approve these policy parameters that relate to the ex-ante market, does not become unwieldy or ambiguous. We therefore ask that clarity is introduced through amending the term used to describe them to “scheduling and dispatch **policy**

parameters” This is reflected in our suggested amendments, included in Appendix 1 of this response paper.

We would also like to highlight, that while we welcome the UR endorsement of the two parameters that are currently proposed to facilitate the ex-ante market, these are still conceptual. The derivation of the Long Notice Adjustment Factors and System Imbalance Flattening Factors is currently underway through an I-SEM ETA parameter setting process. We expect the parameters to be consulted on (in an RA led consultation) later in Q1 2017. We expect that the identification of these ‘policy parameters’ and their assessment through this process would fulfil the requirements of the proposed governance requirements outlined in the modifications for I-SEM go-live and would welcome confirmation of this in the decision paper.

With regards to the ongoing review of the parameters, we note that there is already an annual ‘Policy Parameter’ setting process operated by UR that determines a number of market parameters (VOLL, PCAP and PFLOOR). This process may offer a model for the new ‘scheduling and dispatch policy parameters’.

While these parameters remain untested, there is a risk that modelling may show that they potentially lead to unintended outcomes within the scheduling and dispatch process with knock on impacts for customers. We therefore caution strongly against the prescriptive application of these through the licence condition.

The UR proposals introduce a strong governance process, permitting review and re-assessment of the parameters used to ensure that the ex-ante market is allowed to operate effectively and efficiently. We therefore suggest that explicit reference to any specific parameter is removed from paragraph 6 of the licence condition at this time. This would allow the governance process in paragraph 7 to operate in the best interest of customers and market participants, without an enduring restriction being introduced.

### **Periodic Audit**

We welcome the opportunity that this provides to expand on the assurance given to market participants through the recent extension of the market audit to scheduling and dispatch.

We note that these audit arrangements will be implemented following a period of operation under this condition and after UR have provided direction to SONI on these arrangements. We would welcome further information about the timetable for, and scope of, this audit as early as possible to ensure that the preparation can take place in an efficient manner.

This audit will introduce costs to the SONI business, and this response is based on an assumption that the necessary resources will be provided for through review of the SONI price controls, or through another adjustment mechanism that reflects the role of the UR



in determining the scope of the audit. We believe that ongoing and regular assurance can also be provided through our compliance auditing programme delivered by our independent Internal Audit & Compliance function and suggest that this additional assurance source should also be factored into terms of reference for the periodic auditing element.

## Definitions

We have proposed changes to certain or the definitions in this condition, as follows:

**Long Notice Adjustment Factor:** we are suggesting that this definition is removed as specific mention of this parameter is not appropriate in the licence.

**Non-energy actions:** changes suggested accounting for the fact that these are not just for constraints on the transmission system but also for a range of security issues such as the provision of reserve. Also in this category are actions taken to facilitate priority dispatch and to meet other statutory requirements such as dispatch to ensure maximum cross-zonal capacity is maintained. Actions issued by the TSOs are not explicitly issued as 'energy' or 'non-energy' actions; rather this categorisation is performed in an ex-post, rule based, flagging and tagging process.

**Scheduling and dispatch parameters:** suggested term and definition change to focus the intent on a subset of policy related parameters rather than all parameters within the scheduling and dispatch tools.

**SEM Generation** (including Northern Ireland / Republic of Ireland SEM Generation): the current definitions are focused on generating units whereas in reality the TSOs also schedule and dispatch Demand Side Units and may, in the future, dispatch System Service providers which are neither generator nor demand. We point this out for future consideration rather than as a specific I-SEM related issue.

**System Imbalance Flattening Factor:** we are suggesting that this definition is removed as specific mention of this parameter is not appropriate in the licence.

We have included a mark-up version of our suggested amendments to the modifications in Appendix 1.

## New Condition 22B: Balancing Market Principles Statement

SONI welcomes the formalisation of this obligation into our licence following the extensive consultations undertaken by the SEM Committee. We are already working to ensure that this information is available for market participants as early as possible, and hope to consult on the draft document in late spring 2017.

Process that is being defined in the licence provides a balance between predictability for market participants and the flexibility required to ensure that the lights stay on at a reasonable cost. This flexibility is particularly important over the coming years as we transition to higher rates of SNSP. We note that the proposed wording allows for technology trials and the introduction of new system services in advance of the document being updated.

We welcome the fact that the BMPS review process defined in paragraphs 4, 5 and 6 respects the precedence of the Grid Code and other documents prepared under our licences. This ensures efficient development of the industry in line with the established governance arrangements, such as the Grid Code and TSC Modifications Panels. However, to ensure clarity around the primacy of these other documents and our overriding statutory duties, we suggest inserting additional wording for paragraph 3 of the condition.

“3 The Licensee shall ensure that, following updates **to obligations on the Licensee and/or the Licensee’s associated operational processes** and in accordance with paragraphs 5 and 6, the Balancing Market Principles Statement is as accurate and up-to-date a description of the scheduling and dispatch process as is practicable.”

In addition, we note that the production and maintenance of the BMPS will introduce costs to the TSO business, and this response is based on an assumption that the necessary resources will be provided for through the current review of the TSO revenues.

## **New Condition 22C: Compliance and Assurance Officer**

While we are broadly comfortable with the addition of this condition, we propose two amendments to the wording to reflect the practical implementation of its requirements, while retaining the intent of the modification. These are:

- Clarification that only one Compliance and Assurance Officer appointment is required across both jurisdictions; and
- Facilitating the application of standard audit processes when the Compliance and Assurance Officer is preparing his report, by highlighting that the timelines refer to the Final report.

## **Modified Condition 1: Interpretation and Construction**

While we are broadly comfortable with the proposed changes to this condition, we would like to make some points of clarity around the proposed insertions to paragraph 8.

The definitions inserted for “ex-ante market” and “gate closure” relate only to the balancing market gate closure. Given the multiple market timeframes, and interim arrangements, that will exist under the I-SEM this may introduce unnecessary confusion.

This could be avoided by simplifying the text by deleting references to “gate closure” in the definition of “ex-ante markets”. This change will also need to be mirrored in the Central Dispatch licence condition. This change does not alter the intent of any of the modifications.

In our mark-up of the licences annexed to Appendix 1, we have amended the definition of Ex-Ante Markets by simply deleting the words “prior to the relevant Gate Closure”, and changing the relevant text of the central dispatch condition by deleting “ahead of Gate Closure”. The definition of Gate Closure can then be deleted.

We would also like to suggest that it may be more sustainable in the longer term to link the definition of the NEMO to the CACM regulations, as these take precedence over the licence and contain considerably more information around the roles and responsibilities of the NEMO. As TSO we will be required to interface with all NEMOs offering services here, licenced, designated but unlicensed or operating under passport.

We suggest that, as SONI is required to comply with all of the Network Codes, rather than specify each code individually it would be more appropriate to include a broader definition within the licence. We therefore suggest replacing the definition of CACM and associated references with one that covers all codes, maintaining the intent of the modification while reflecting the circumstances that we are operating within.

## **Modified Condition 1A: Transition**

We welcome clarity provided by these proposed mods, in particular the clarification of the date to align with outcome of recent stocktake by the SEM Committee.

## **Modified Condition 3: Availability of Resources and Undertaking of Ultimate Controller**

While SONI welcomes the clarity that is provided by the addition of a reference to the CACM regulations within the condition, there are eight Network Codes either in force or in the process of being finalised. SONI will need to have sufficient resources to fulfil all of the obligations imposed by these codes. We therefore suggest that the UR takes this opportunity to add amore generic reference into our licences to European regulations, rather than prioritising one specific regulation.

In this regard we note that we already have obligations under a number of European regulations such as REMIT, EMFIP, RfG which are not referenced here, but are as binding on us as CACM.

Please refer to our proposed amendments to this definition in Appendix 1.

## **Modified Condition 11: Restriction on Use of Certain Information**

SONI welcomes the assurance that these modifications provide for us and for market participants, in parallel with the introduction of further transparency through audits of compliance with this. We would however like to make two points of clarity around the detailed wording proposed.

Firstly, the definition of “cooling off period” would in theory require a member of staff to have no access to any information obtained by us in our role of TSO, whether or not it confers any commercial advantage. Taken literally, this could be overly restrictive and we suggest that the definition is extended as follows:

“Cooling-off period” – means a period of time during which a member of staff is not actively engaged in any work of the Licensee which requires access to protected information **which could potentially result in an unfair commercial advantage**.

Secondly, we assume that any transitional provisions the UR adds in here would reflect the fact that this condition is already in force, and therefore only refer to the text inserted by these amendments.

## **Modified Condition 12: Independence of the Transmission System Operator Business**

We welcome the clarity provided by these updates

We note that this consultation is only covering changes that are expressly required to implement the I-SEM and our response in this, as in other, areas should be considered in that context

## **Modified Condition 22: Central Dispatch and Merit Order**

SONI welcomes this modification, which facilitates the cutover between the SEM and I-SEM arrangements.

## **Modified Condition 23: Single Electricity Market Trading and Settlement Code**

We welcome the clarity provided by these modifications, and have no further comments.

## **Modified Condition 23A: Capacity Market**

We welcome the clarity provided by these modifications. However, as the market arrangements are still developing, we suggest that the wording is considered again during the next phase of modifications. It will be essential to provide an opportunity to incorporate the outcome of the current consultation on the Capacity Market Code within the licence modification framework.

## **Modified Annex 1**

We note the administrative reasons behind the proposal of a single update to Annex 1. It is clear however that Annex 1, which sets out the revenue entitlements to SONI as TSO, requires to be examined in full in the context of the introduction of I-SEM, and the provision of the necessary revenues to enable SONI to fulfil its functions. It is already agreed with the Utility Regulator that this will form part of a separate process following the revenue adjustment exercise in the first half of 2017. As this has not yet been undertaken we believe that this modification should not be made at this time and would therefore respectfully request you to reconsider this

As part of this process Condition 39 (NI) Dispatch Balancing Cost Incentive – Reporting, will also need to be reviewed, to ensure the reporting mechanism remains fit for purpose.

# Market Operator Licence

In this section we provide our comments on the proposed modifications to SONI's Market Operator Licence. These are presented in the same order as the consultation paper for ease of reference.

## New Condition 15A: Nominated Electricity Market Operator (NEMO)

SONI has reviewed the proposed new licence conditions and the associated alterations to other existing conditions in the context of the CACM regulations, which take precedence over this licence. As we have previously noted, based on the legal advice that we have received, we have reservations about the principle of regulating NEMO functions via mandatory licence conditions. However, our response reflects the UR's assurance that it has obtained legal advice supporting its licensing approach and that any necessary interaction has taken place with the relevant parties at a European level.

In addition to our general concern, referred to above we have some more specific concerns around the way in which this new role is reflected in the drafting of the licence condition, which we outline below, in the order that they appear in the text. We also propose some modifications to the wording, which would address these concerns.

These concerns can be summarised under three headings:

- **Barriers to entry:** SONI are concerned that some of the proposed modifications may deter competitors from entering the market, reducing choice for participants;
- **Restricting SONI's ability to respond to competition:** While we note the proposed charging restrictions may be switched off if sufficient competition enters the market, this does not extend to the other areas that NEMOs will compete on (e.g. product offering).
- **Proportionality:** The proposed modifications go beyond those required to provide the assurance that market participants need, that a NEMO will be available to facilitate trading in the ex-ante markets on the island of Ireland.

We expand on these concerns in relation to new condition 15A below. Further comments are also provided with respect to the conditions modified to accommodate the NEMO activities within the existing MO provisions, under the relevant headings.

## **Paragraph 2 – Consistency with CACM**

While we note the intention of this requirement, given that designation only provides a right to offer a service to potential customers, we are unsure of the appropriateness of converting this into an obligation. We are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market.

The provision of NEMO services in the ex-ante markets is consistent with these objectives. However, given the potential for competition to enter the market for the provision of these services, we do not consider it appropriate that the rights accorded through our designation should be converted to an obligation without caveat, scope for us to request revocation of our designation, or protection.

This could be resolved by expanding paragraph 11, to fully reflect the provisions in our designation and in CACM, noting that we are committed to ensuring that the wholesale market operates efficiently and that the outcomes from the ex-ante markets form the starting point for our scheduling and dispatch activities.

## **Paragraph 3, 4 & 5 – Scope of Exchange Rules**

SONI notes and understands the concerns that the RAs and market participants have around the appropriateness of the rules applied to the ex-ante market. However, we would like to highlight that the majority of these rules are established and harmonised at a European level, and that as a NEMO operating in one jurisdiction, we have limited influence over these pan-European trading arrangements.

While we are comfortable in principle with the concept of regulatory approval of any rules that are specific to the island of Ireland, we consider it appropriate that the scope of both the “exchange rules” to be approved and the regulatory powers to direct amendments to them (including amending their scope), should be limited to matters that we can reasonably control. They should also provide scope for us to adopt and amend operational procedures (as opposed to exchange rules) without reference to the UR, in order to ensure our continued ability to respond rapidly to the markets.

As drafted, these provisions restrict SONI’s ability to compete with any alternative NEMO (either designated or passport) and could infringe on the commercial position of our service providers. The time required for these approvals that extend beyond normal corporate governance would also restrict our ability to respond to competition in a timely manner.

The terminology adopted in this draft condition implies that these rules are “the” NEMO exchange rules to be applied for the I-SEM. This would introduce a barrier to entry. For purposes of clarity, it should be confirmed in the decision paper that the Exchange Rules being referred to here do not apply in respect of any other NEMO that commences

operation in the island of Ireland, but only to the Licensee. To this end, we suggest referring to them as “Exchange Rules” in the drafting, and have reflected this in Appendix 2.

We ask that the UR gives serious consideration to revising these provisions to ensure consistency with the obligation under CACM to create a level playing field for NEMOs and to ensure that the licence arrangement does not introduce barriers to entry for other NEMOs.

We have suggested alternative wording in Appendix 2 and will be happy to meet with UR to resolve these concerns.

### **Detailed Drafting Comments**

We would like to highlight that the specific scope of the exchange rules, as defined in the proposed text, would exclude any interim arrangements for intra-day trading.

### **Future Developments**

We note that, in its recent Winter Package of proposed legislation, the EC has outlined its intention that oversight of NEMO activities will be undertaken at European level, and this response is based on an assumption that the arrangements on the island of Ireland will be revised as necessary to comply with any new legislation in this regard.

### **NEMO Website**

We note that this condition appears to require a separate website for the NEMO and MO activities; however we would welcome clarification of the degree of separation required within the decision paper to ensure that appropriate investments are made in a timely and efficient manner.

## **New Condition 15B: Agent of Last Resort**

We note that the SEM Committee has already undertaken significant consultation on the role of the Agent of Last Resort, and that the proposed condition reflects the outcome of that process. We would like to highlight a couple of points of detail within the drafting that might ensure that the service provides value for its users. Our response is based on an assumption that the SEM Committee expects this role to be undertaken jointly with EirGrid in the same way that we discharge our other obligations under this licence. We would welcome clarity if this is not the case.

Firstly, we would suggest that the arrangements that we are required to enter into through paragraph 5 are limited to those that can be realised at a reasonable cost. This will limit the market power of potential service providers and assist with any commercial



negotiations we undertake in this regard. Compliance at any cost would not be in the interests of the users of this service.

We also note that the Market Operator revenues do not at present cover the provision of this service and our response is based on an assumption that these will be provided for through the Market Operator price control on which we are engaged with the Regulatory Authorities as part of a separate process.

## **Modified Condition A: Transition**

We welcome clarity provided by these proposed modifications, in particular the clarification of the date to align with outcome of recent stocktake by the SEM Committee.

## **Modified Condition 1: Interpretation and Construction**

While we are broadly comfortable with the proposed changes to this condition, we would like to make some points of clarity around the proposed insertions.

The definition of “Ex-Ante Market” refers to the relevant “Gate Closure”. Although the intention is presumably to refer to the relevant gate closure for each of the Ex-Ante Markets, the definition refers to the definition of the term in the Trading and Settlement Code, i.e. the balancing market gate closure. The reference to Gate Closure appears to add nothing to the definition of the Ex-Ante markets, and in order to avoid confusion we believe that it should be deleted, as should the definition of Gate Closure itself (not being required elsewhere in the Licence. This is consistent with our comments on the same modifications to our TSO licence.

We would also like to highlight, that as drafted, the definition of NEMO activity does not extend to the interim intraday arrangements. We suggest adding some text to expand the scope of the definition to align with the I-SEM high level design, i.e. adding a reference to "the corresponding activities in relation to interim intraday market coupling pending the development of the enduring arrangements under the CACM Regulation."

Given the changes to statute to facilitate the implementation of the I-SEM, the definition of the SEM Trading and Settlement system will need to be revised to limit its application to the systems and processes created under condition 15 of the licence. We have suggested alternative wording in Appendix 2 for this to ensure that the effect of the licence conditions remains consistent with the current intention.

## **Modified Condition 2: Preparation of Accounts**

We note the modifications proposed to this condition, and would refer to previous correspondence between SONI and UR around the application of this condition. We are aware that these issues are outside the scope of this review of the licences, as they are not explicitly required to implement the I-SEM.

The provision of separate accounting information for our NEMO activities is in line with CACM, however we would welcome early confirmation of the date from which UR intend to apply this.

## **Modified Condition 5: Prohibition of Cross-Subsidies**

The CACM regulation prohibits cross-subsidy of any NEMO, we therefore welcome the clarity provided by this modification to transpose this into our licence. In particular we note the modifications proposed to EirGrid's TSO licence (in Ireland) which are consistent with this change to the MO licence.

## **Modified Condition 11: Prohibited Activities**

We welcome clarity provided by this modification.

## **Modified Condition 14: Market Operator Agreement (MOA)**

We note that this condition appears to require a separate website for the NEMO and MO activities. We would welcome a discussion with both RAs to ensure that the proposed system architecture fulfils the expectations outlined here.

We are currently working to update the MOA to reflect our updated roles and responsibilities, and in line with the agreed programme for delivering the I-SEM. However, we note that the updated condition in the EirGrid MO licence contains transitional provisions. We request that this is mirrored in our licence to ensure that these conditions remain aligned with each other and the intent outlined in the consultation paper.

## **Modified Condition 15: Single Electricity Market Trading and Settlement Code**

SONI welcomes the modification of this condition to facilitate the designation of the updated Trading and Settlement Code. This reflects the strong consultation process that has been followed, and which allowed all of the issues associated with the transition to the I-SEM to be considered at the same time. This approach has added value above that provided by the process already contained within the condition designed to assess individual modifications. We note that this provision is clearly time-limited, which we also support.

We welcome the clarity provided by increasing the scope of this condition to cover the settlement of the Capacity Market. However, we are concerned that, as drafted, this condition could be construed as requiring the TSC to extend to all market timeframes, including the ex-ante markets. We propose some amendments to the text to provide the necessary clarity.

## **Condition 16 Market System Development Plan**

The modification to this condition, to include publication on the NEMO website, introduces an inconsistency into the licence. Under the other provisions, the NEMO systems are separated from the MO systems, which appears to us to be consistent with CACM. The MSDP covers changes to the balancing market systems, which are required to give effect to the trading and settlement code. There is therefore no basis for publishing it on the NEMO website. Furthermore, we have proposed an amendment to the definition of the SEM Trading and Settlement System in order to ensure that it is limited to the trading and settlement arrangements and does not cover the Ex-Ante Markets.

The NEMO systems are not specific to this island, and will include systems that neither SONI nor its parent company EirGrid have ownership of. The sharing of these systems across Europe provides significant benefits and efficiencies, and the introduction of additional bespoke jurisdictional overheads would undermine the synergies that have been obtained through the implementation process. This would also greatly exceed the requirements defined in CACM.

The effect of this proposed modification appears to be unintended, and we ask that it is removed.

# Appendix 1 –Proposed Amendments to the Modified TSO Harmonised Licence Conditions

In this appendix we highlight the changes that we suggest are made to the TSO licence conditions that are harmonised across the two jurisdictions that make up the SEM. The proposed changes are tracked against the version that has been consulted upon, rather than the original text, for clarity purposes.

## Central Dispatch

To ensure a consistent response to both regulators, the text of this harmonised condition applicable in Northern Ireland has been used. The changes to the proposed modifications that we are suggesting apply to text that is identical in both jurisdictions.

### **Condition 22A. ~~Central Dispatch and Merit Order~~ Scheduling and Dispatch**

1 The Licensee shall, in conjunction with the Republic of Ireland System Operator, schedule SEM ~~Generation Units~~ and ensure that direct instructions for the dispatch of SEM ~~Generation Units~~ are issued in accordance with paragraphs 2, 3, 4 and 5.

2 Having regard to information provided to it by the Republic of Ireland System Operator and by authorised electricity operators (including as to forecast levels of electricity demand and availability of generation capacity), to forecast levels of electricity available to be transferred to or from the Island of Ireland across any Interconnector and to the requirements of the Transmission System Security and Planning Standards, the Distribution System Security and Planning Standards and the Republic of Ireland Operating Security Standards, the Licensee shall, in conjunction with the Republic of Ireland System Operator, undertake operational planning:

(a) for the matching of SEM ~~Generation Unit~~ output (including a reserve of SEM ~~Generation Units~~ to provide a security margin of SEM ~~Generation Unit~~ availability) with forecast demand on the Island of Ireland after taking into account, inter alia:

- (i) physical notifications;
- (ii) unavailability of ~~Generation sets units~~ and/or Interconnector transfers;
- (iii) constraints from time to time imposed by technical limitations on the All-Island Networks or any part thereof; and
- (iv) electricity delivered to the All-Island Networks from generation sets not subject to central dispatch; and

(b) consistently with sub-paragraph (a) above, and in accordance with the Grid Code, for the release of parts of the transmission system for maintenance and repair, extension or reinforcement.

3 The Licensee shall (pursuant to the Grid Code) in conjunction with the Republic of Ireland System Operator (pursuant to the Republic of Ireland Grid Code), establish and operate, a merit order system for the Balancing Market. The merit order so established shall take account of the following objectives:

- (a) ~~as far as practical~~, minimising the cost of diverging from physical notifications;
- (b) as far as practical, enabling the Ex-Ante Market to resolve energy imbalances ~~ahead of Gate Closure~~; and
- (c) as far as practical minimising the cost of non-energy actions by the Licensee ~~in the impact upon the Ex-Ante Market~~.

4 Taking account of, *inter alia*, the factors set out in paragraph 5, the Licensee shall, in conjunction with the Republic of Ireland System Operator:

- (a) schedule SEM ~~Generation Units~~; and
- (b) except to the extent not reasonably achievable given the fact that the Licensee and the Republic of Ireland System Operator each have separate control centres from which dispatch instructions to generation sets in each of their respective jurisdictions are issued, ensure that direct instructions to dispatch SEM ~~Generation Units~~ are issued;

in each case:

- (c) in ascending order of incremental offer prices and descending order of decremental bid prices; and
- (d) as will in aggregate (and after taking account of electricity delivered to or from the All-Island Transmission Networks from or to other sources and submitted physical notifications) be sufficient to match at all times (to the extent possible having regard to the availability of SEM ~~Generation Units~~) demand forecast on the All-Island Networks taking account of information provided by electricity undertakings and by authorised electricity operators, together with an appropriate margin of reserve.

5 The factors referred to in paragraph 4 are:

- (a) forecast demand on the Island of Ireland;
- (b) physical notifications;
- (c) the values of the parameters which have been determined by the Authority as the scheduling and dispatch ~~policy~~ parameters;
- (d) technical constraints from time to time imposed on the All-Island Networks or any part or parts thereof;
- (e) the dynamic operating characteristics of SEM ~~Generation Units~~;

- (f) ~~forecast exports~~ flows of electricity across any Interconnector determined by the ex-ante trading arrangements or other mechanisms in compliance with the Network Codes;
- (g) transmission and distribution losses;
- (h) in respect of the transmission system, the operating security standard and (in respect of the Republic of Ireland transmission system) the Republic of Ireland Operating Security Standards; and
- (i) other matters provided for in relevant legislation, the Grid Code and the Republic of Ireland Grid Code including in each case any arrangements for the dispatch of renewable generators.

6 The Licensee shall, when directed by the Authority to do so, prepare a report considering and proposing the initial values of the policy parameters to be used in its scheduling and dispatch process ~~parameters including the values of the Long Notice Adjustment Factor and the System Imbalance Flattening Factor~~. Following publication of the Licensee's report and consultation with such persons as the Authority believes appropriate, the Authority shall ~~approve~~ determine the values of the parameters to be used in the scheduling and dispatch ~~parameters process including the values of the Long Notice Adjustment Factor and the System Imbalance Flattening Factor~~ and shall specify the period for which they shall apply. The Licensee shall use the specified values of the policy parameters in the scheduling and dispatch support systems until such times any revisions are to be applied following the procedures set out in paragraph 7.

7 The Licensee shall provide a report to the Authority on an annual basis, or whenever so required by the Authority, on the performance of its scheduling and dispatch process resulting from the current values of the scheduling and dispatch policy parameters. The Licensee may propose changes to the values of those parameters, or their replacement with different parameters. After publication of the Licensee's report and following consultation with such persons as the Authority believes appropriate, the Authority may determine that the values of the policy parameters shall change, or that different policy parameters shall be used. Such a determination shall specify the date from which any such changes shall take effect and may specify transitional arrangements to be applied by the Licensee.

8 The Licensee shall provide to the Authority such information as the Authority shall request concerning the merit order system or any aspect of its operation.

9 The Licensee shall arrange for the carrying out of a periodic audit of the scheduling and dispatch process, its operation and implementation in accordance with directions given to it from time to time by the Authority in respect of such matters as the Authority considers appropriate, including (without prejudice to the generality):

- (a) the frequency, audit period, process and timetable for the audit;
- (b) the selection, appointment and tenure of a person or firm to carry out the audit;
- (c) the terms of reference for the audit;
- (d) the publication of the audit report and of any other relevant materials;

and the Licensee shall provide, or arrange for the provision, in a timely manner of such information, reports or other assistance (whether to the Authority or to another person **specified by the Authority**) as the Authority may request concerning the audit. The Licensee shall, where directed to do so by the Authority, implement the recommendations contained in any audit report.

#### Coming Into Effect

10 The provisions of this Condition (other than those of this paragraph and of paragraph 11 which shall come into immediate effect) shall come into effect on such day, and subject to such transitional arrangements, as the Authority may by direction appoint. Different days may be so appointed for different provisions and for different purposes.

11 In this Condition:

“Available”	means, in relation to any generation set, <b>demand side unit</b> or Interconnector transfer, generation set, <b>demand side unit</b> or Interconnector transfer which is available in accordance with the Grid Code or the Republic of Ireland Grid Code (as applicable) and “availability” shall be construed accordingly;
“central dispatch”	means the process of scheduling and issuing direct instructions by the Licensee, in conjunction with the Republic of Ireland System Operator, as referred to in paragraph 1;
“Interconnector transfer”	means the flow of electricity across an Interconnector into, or out of, the Island of Ireland;
<del>“Long Notice Adjustment Factor”</del>	<del>means a multiplier applied to the start-up costs of generation sets which varies</del>



	<p><del>depending on the length of notice provided in any instruction from the Licensee to synchronise such generation set and which has greater values for greater lengths of notice;</del></p>
“merit order system”	<p>means a system establishing economic precedence of electricity from available generation sets or Interconnector transfers to be delivered or transferred to the All-Island Networks (subject to other system needs).</p>
“NI SEM <del>Generation Units</del> ”	<p>means the available generation sets of each relevant generator <del>or demand side units</del> which:</p> <ul style="list-style-type: none"> <li>(a) are required to be subject to central dispatch instructions under the terms of that relevant generator’s licence or exemption (as applicable); or</li> <li>(b) are otherwise agreed by that relevant generator <del>or aggregator</del> to be subject to central dispatch.</li> </ul>
“non-energy actions”	<p>means dispatch instructions <del>issued with the intent of</del> categorised through the ex-post market systems as resolving system security constraints <del>in the transmission system and meeting other statutory requirements</del> rather than balancing energy between demand and generation;</p>
“physical notification”	<p>has the meaning set out in the Single Electricity Market Trading and Settlement Code Part B;</p>
“relevant generator”	<p>means:</p> <ul style="list-style-type: none"> <li>(a) the holder of a licence under Article 10(1)(a) of the Order; or</li> <li>(b) a person who is exempt from the</li> </ul>

requirement to hold such a licence in accordance with Article 9 of the Order, and whose generation set is connected to the total system.

“Republic of Ireland Generator”

means a person licensed to generate electricity under Section 14(1)(a) of the Republic of Ireland Electricity Act, or the Republic of Ireland Board acting in its capacity as the owner or operator of generation sets.

“Republic of Ireland SEM Generation”

means the available generation sets of each Republic of Ireland Generator which:

- (a) are required to be subject to central dispatch under the terms of that Republic of Ireland Generator’s licence; or
- (b) are otherwise agreed by that Republic of Ireland Generator to be subject to central dispatch.

“scheduling and dispatch ~~policy~~ parameters”

means the parameters to be used in the Licensee’s scheduling and dispatch support systems ~~which are subject to paragraphs 6 and 7. which shall be designed to defer central dispatch instructions to enable the maximum use by participants of the Ex-Ante Markets and shall include a Long Notice Adjustment Factor and a System Imbalance Flattening Factor;~~

“SEM ~~Generation Units~~”

means NI SEM Generation, ~~Demand Side Units and System Service providers~~, Republic of Ireland SEM Generation, ~~Demand Side Units and System Service providers~~ and available Interconnector transfers taken together.

~~“System Imbalance Flattening Factor”~~

~~means a multiplier applied to the start-up costs of generation sets which varies depending on the degree to which forecast~~

~~generation including forecast imports and forecast exports on Interconnectors is short of forecast demand and which has greater values for greater shortages.~~

## Balancing Market Principles Statement

We suggest one change to this condition to provide clarity around the precedence of other industry documents

“3 The Licensee shall ensure that, following updates **to obligations on the Licensee and/or the Licensee’s associated operational processes** and in accordance with paragraphs 5 and 6, the Balancing Market Principles Statement is as accurate and up-to-date a description of the scheduling and dispatch process as is practicable.”

## Compliance and Assurance Officer

### Condition 23B. Compliance and Assurance Officer

- 1 In addition to and separate from the appointment of a Compliance Manager under Condition 12, the Licensee shall, in conjunction with the Republic of Ireland System Operator, and following consultation with the Authority, appoint a competent person who is a senior member of its personnel **or the personnel of the Republic of Ireland System Operator** (the "Compliance and Assurance Officer") for the purpose of verifying the Licensee's compliance with its obligations under Conditions 5, 11 and 15, and to provide independent assurance of such verifications.
- 2 **In conjunction with the Republic of Ireland System Operator**, the Licensee shall ensure that the Compliance and Assurance Officer is independent and has access to such staff, premises, systems, information, documentation, equipment, facilities and other resources as he might reasonably expect to require to fulfil the duties and tasks assigned to him.
- 3 The Licensee shall provide a copy of any complaints received by it in respect of Condition 5, 11 and 15, to the Compliance and Assurance Officer as soon as reasonably practicable and in any event within one month of receiving any such complaint.
- 4 The duties and tasks assigned to the Compliance and Assurance Officer shall include:
  - (a) providing relevant advice and information to the Licensee for the purpose of ensuring its compliance with Conditions 5, 11 and 15;
  - (b) monitoring the Licensee's compliance with Conditions 5, 11 and 15 and providing assurances around this;
  - (c) reviewing the processes followed and ensuring that due process has been applied to the investigation of any complaint or representation received by him or the Licensee from any person in respect of any matter arising under or by virtue of Conditions 5, 11 and 15;
  - (d) recommending and advising on the remedial action which any such investigation has demonstrated to be necessary or desirable; and
  - (e) reporting annually to the directors of the Licensee on his activities during the period covered by the report and the investigations he has conducted. This report shall be prepared and submitted in a form approved by the Authority and shall include the Compliance and Assurance Officer's assessment of the compliance of the Licensee with the requirements of Condition 5, 11 and 15, as well as an explanation of the practices, procedures and systems adopted to effect compliance with such conditions.
- 5 The Licensee shall, following consideration of the Compliance and Assurance Officer's **Final** report and within one calendar month, or such other period agreed by the Authority, provide a copy of the Compliance and Assurance Officer's **Final** report, together with its response to that report to the Authority.

6 Following approval of the Compliance and Assurance Officer's **Final** report by the Authority, the Licensee shall publish it and any part of its response to the report specified by the Authority on its website once directed to do so by the Authority.

#### Coming into Effect

7 The provisions of this Condition (other than those of this paragraph which shall come into immediate effect) shall come into effect on such day, and subject to such transitional arrangements, as the Authority may by direction appoint. Different days may be so appointed for different provisions and for different purposes.

## Definitions

In our response we request some changes to the definitions used throughout the TSO licence which have been inserted or amended through this consultation. These are summarised below.

<del>Gate Closure</del>	<del>has the meaning set out in the Single Electricity Market Trading and Settlement Code, Part B</del>
Ex-Ante Markets	Means the day-ahead and intraday markets for the trading of wholesale electricity in the Single Electricity Market <del>prior to the relevant Gate Closure</del>
NEMO Activity	has the meaning given to that expression in the <del>Market Operator Licence Network Codes</del>
Network Codes	(i) any network codes established under Article 6 of the Electricity Market Regulation, and  (ii) guidelines adopted under Article 18 of the Electricity Market Regulation;
“Electricity Market Regulation	means Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009 4 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228, as same may be amended varied, supplemented or replaced from time to time
Cooling-off Period	means a period of time during which a member of staff is not actively engaged in any work of the Licensee which requires access to protected information <del>which could potentially result in an unfair commercial advantage.</del>

# Appendix 2 –Proposed Amendments to the Modified MO Harmonised Licence Conditions

In this appendix we highlight the changes that we suggest are made to the MO licence conditions that are harmonised across the two jurisdictions that make up the SEM. The proposed changes are tracked against the version that has been consulted upon, rather than the original text, for clarity purposes.



## NEMO

We suggest some changes to the text of the NEMO condition, to ensure that these modifications provide the necessary clarity around the scope of the services to be provided and the extent of the approvals to be obtained.

### Definition of NEMO Activity

<b>“Nominated Electricity Market Operator (or NEMO) Activity</b>	means the activities of the Licensee in performing the activities required of a Nominated Electricity Market Operator for performance of day-ahead and intraday market coupling under the CACM Regulation <b>and the corresponding activities in relation to interim intraday market coupling pending the development of the enduring arrangements under the CACM Regulation.</b>
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### Condition 15A: Nominated Electricity Market Operator (NEMO)

1. The purpose of this Condition is to make provision in relation to the duties of the Licensee in its capacity as holder of the Designation.
2. The Licensee shall, at all times during which the Designation is in effect:
  - (a) fulfil its obligations as NEMO as provided for in the CACM Regulation;
  - (b) maintain compliance with the requirements of Article 6 of the CACM Regulation;
  - (c) ensure that it satisfies the conditions attached to the Designation; and
  - (d) comply with the provisions of the **NEMO** Exchange Rules.
3. Within three months of the coming into effect of this Condition the Licensee shall in conjunction with the Republic of Ireland Market Operator Licensee prepare and submit to the Authority for approval a set of rules, to be known and referred to as the **NEMO** Exchange Rules, setting out the terms on which it will carry out the NEMO Activity **and on which market participants will participate in the Ex-Ante Markets.** The **NEMO** Exchange Rules shall, subject to any directions in respect of same issued by the Authority under paragraph 5 of this Condition, be consistent with the requirements of (a) the CACM Regulation and the Electricity Market Regulation with respect to the operation of the Ex-Ante Markets and (b) the Single Electricity Market Trading and Settlement Code (provided that any such directions shall themselves be consistent with the requirements specified at (a) above).
4. Where the Licensee wishes to amend the **NEMO** Exchange Rules it shall submit the proposed amendments to the Authority for approval prior to their coming into effect. Any such amendment shall be consistent with the provisions of paragraph 3.

5. The approval of the Authority under paragraphs 3 and 4 shall not be required for the [Operational Rules/Procedures] implementing the Exchange Rules.

6. ~~5.~~ The Authority may from time to time give directions to the Licensee in respect of: (a) the matters it wishes to see specified in the ~~NEMO~~ Exchange Rules; and (b) the review and revision by the Licensee from time to time of the ~~NEMO~~ Exchange Rules, and the Licensee shall comply with directions given by the Authority under this paragraph.

7. ~~6.~~ The Licensee shall at all times charge in respect of its NEMO Activity in accordance with its NEMO Statement of Charges and with the requirements of the CACM Regulation. The Authority shall specify from time to time by direction the form of the NEMO Statement of Charges, which shall include a price list.

8. ~~7.~~ The Licensee shall obtain the Authority's prior approval to the NEMO Statement of Charges. In the event that the Authority considers there to be sufficient competition for NEMO services in the Single Electricity Market, it may issue a direction removing the foregoing requirement for such period of time as it specifies and in any case, until such time as it issues a further direction to re-apply such requirement.

9. ~~8.~~ The Licensee shall, in conjunction with the Republic of Ireland Market Operator Licensee establish and maintain a web-site for the NEMO Business. The Licensee shall publish the approved ~~NEMO~~ Exchange Rules and, where required by the Authority, the NEMO Statement of Charges on the web-site for the NEMO Business.

10. ~~9.~~ The Licensee shall, in conjunction with the Republic of Ireland Market Operator Licensee, ensure that the persons who receive or wish to receive NEMO services from the Licensee have, to the extent reasonably practicable, a single point of contact when interfacing with the NEMO Business.

#### **Coming into, Cessation of Effect**

11. ~~10.~~ The provisions of this Condition (other than those of this paragraph and of paragraphs 11 and 12 which shall come into immediate effect) shall come into effect on such day, and subject to such transitional arrangements as the Authority may by direction appoint. Different days may be so appointed for different provisions and for different purposes.

12. ~~11.~~ This Condition shall cease to have effect immediately upon the revocation of the Designation by the Authority without prejudice to the continuing enforceability of any right or obligation which may have accrued or otherwise fallen due for performance prior to that date.

#### **Definitions**

13. 12. In this Condition, unless the context otherwise requires:

“Designation”	“” means the designation of the Licensee by the Authority (which took effect at 12:00 am on 3 October 2015) as NEMO for single day-ahead and intraday coupling in Northern Ireland as amended and/or replaced from time to time;
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“Electricity Market Regulation”	means Regulation (EC) 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity;
“NEMO	has the meaning ascribed to it by the CACM Regulation; and
NEMO Statement of Charges	means a list of the charges to be applied by the Licensee in respect of its NEMO Activity.

## Other Definitions

**Ex-Ante Markets** Means the day-ahead and intraday markets for the trading of wholesale electricity in the Single Electricity Market ~~prior to the relevant Gate Closure~~

~~**Gate Closure** has the meaning set out in the Single Electricity Market Trading and Settlement Code, Part B~~

**“Single Electricity Market Trading and Settlement System”** means the hardware, software and processes, operated by or on behalf of the Licensee (in its capacity as the holder of a licence granted to it under Article 10(1)(d) of the Order) and/or the Republic of Ireland Market Operator Licensee, for the ~~operation of the trading of electricity in the Single Electricity Market and the~~ and settlement of financial obligations in respect arrangements described in Condition thereof. 15.

## Trading and Settlement Code

We propose a clarification to paragraph 3 of the Trading and Settlement code condition, to ensure consistency with the scope of the draft Code that is currently being consulted upon by the SEM Committee.

- 3 The trading and settlement arrangements referred to in paragraph 1(a) are arrangements which (a) set out rules and procedures for the sale and purchase of wholesale electricity in the Single Electricity Market ~~other than in the Ex-Ante Markets and the Capacity Market~~ and (b) sets out the settlement arrangements for the Capacity Market.

## Market System Development Plan

We propose a deletion from paragraph 5 of the Market System Development Plan condition, to ensure consistency with other aspects of the modifications being made.

- 5 Where, and to the extent, required by the Authority, the Licensee shall publish the Market System Development Plan on the web-site for the Single Market Operation Business ~~and on the web-site for the NEMO Business.~~

# Appendix 3 –Proposed Amendments to the Modified Licence Conditions Applicable in NI only

## **Annex 1 of the SONI Transmission Operator Licence**

We ask that the proposed modification to this Annex is not made at this time, rather it should be deferred and included the full suite of revisions required to implement the current review of SONI's revenue requirements, and the associated assessment of its financeability after the transition to the new trading arrangements.