



Consultation on Possible Cancellation of Generating Unit Agreements in Northern Ireland

A Response by SONI

30 April 2014

Introduction and Context

SONI welcomes the opportunity to respond to the Utility Regulator's consultation on the possible cancellation of Generating Unit Agreements (GUAs) in Northern Ireland. SONI is licensed as Transmission System Operator (TSO) and Market Operator (MO) for Northern Ireland. It is owned by EirGrid plc, the licensed TSO and MO in Ireland.

EirGrid plc is a leading Irish energy business, dedicated to the provision of transmission and market services for the benefit of electricity consumers across the island of Ireland. It is a state-owned commercial company. EirGrid is 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.

This brief response is prepared in the context of the impact that the GUAs have on all aspects of SONI's businesses and that of its affiliates, whether specifically in Northern Ireland or across the island of Ireland.

SONI recognises that the cancellation of the GUAs is a complex decision which is dependent on the accurate modelling of the future revenue streams. In line with our corporate obligations and objectives SONI supports the objective of this draft decision, in particular the protection of consumer's interests in Northern Ireland whilst also maintaining the integrity of the Single Electricity Market ("SEM").

Economic Analysis

While we do not have sight of the model used to assess the costs and benefits of the GUAs to consumers, nor the associated input data, we note that the modelling outputs presented in the paper show that, under the base case scenario, these contracts will result in increased costs to consumers from 2015 onwards. The cancellation of the two remaining GUAs will also reduce the overhead costs that are recovered from consumers via the PSO.

Wider Advantages of Cancellation

From SONI's perspective, wider advantages exist in addition to the direct financial benefit to consumers. These include:

- Increased transparency, liquidity and competitiveness of the SEM as a result of generators operating directly in the market;
- Facilitating increased transparency and consistency in SONI's dealings with generators and suppliers. The confidential nature of the current arrangements under the GUAs, do not permit the desired level of transparency;
- Simplification of SONI's interface with the generators. For example, the NI Grid Code contains schedules and conditions specifically and only for units that are covered by a GUA. These would no longer be required and any future updates, for example in relation to the I-SEM or DS3, would be equally applicable to all generators; and

- SONI will be able to contract directly with the generators for the provision of ancillary services, rather than with an intermediary. This will simplify the implementation of any new arrangements under DS3, and will ensure that the providers of the services will benefit as a result of their provision.

These are areas where there is commonality between NIAUR's statutory duties and SONI/SEMO's licence obligations to deliver high quality services for the benefit of all customers. In addition, direct exposure of all generators to the economic signals emitting from the SEM and subsequently I-SEM would assist UR and the SEM Committee in carrying out their statutory duties.

Risks Created

The cancellation of the final GUAs removes PPB from the SEM and has the potential to transfer additional market power to AES. The role currently undertaken by the MMU should mitigate effectively against this. However, this will remain an issue under the new arrangements for I-SEM. We understand that market power issues are already being considered by the SEM Committee in its choice of high level design for the I-SEM. The choice of solution will depend on the design of the new wholesale trading arrangements.

Conclusion

We have considered the information presented in the consultation paper in the context of our licence obligations and corporate objective of providing services for the benefit of everyone across the island of Ireland. Premised on the modelling results as set out by UR, we support UR's draft decision to instruct the cancellation of the remaining GUAs with effect from December 2014.