

**Appendix 1: Marked-up extracts detailing final licence modifications (UR Decision Paper re DBC incentivisation and SSS/TUoS tariff restriction published August 2015)**

**LICENCE TO PARTICIPATE IN THE TRANSMISSION  
OF ELECTRICITY**

**granted to**

**SONI LIMITED**

**The Department of Enterprise, Trade and Investment**

## **Condition 2. Preparation of Accounts**

### Financial Years

- 1 In respect of the Transmission System Operator Business, the first financial year of the Licensee shall run from SEM Go-Live to 30 September 2008 and thereafter each financial year of the Licensee shall run from 1 October to the following 30 September.

### Accounting and Reporting

- 2 The remaining paragraphs of this Condition apply for the purpose of ensuring that the Licensee (and any affiliate or related undertaking of the Licensee) maintains accounting and reporting arrangements which enable separate accounts to be prepared for the Separate Business and showing the financial affairs of the Separate Business.

- 3 The Licensee shall, in respect of the Separate Business:

- (a) keep or cause to be kept for the period referred to in section 388 of the Companies Act 2006 Article 230(5)(b) of the Companies (Northern Ireland) Order 1986 and in the manner referred to in that sectionArticle, such accounting records in respect of the Separate Business as would be required by section 386Article 229 of the Companies Act 2006 (Northern Ireland) Order 1986 to be kept in respect of such business if it were carried on by a separate company, so that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, the Separate Business are separately identifiable in the books of the Licensee (and any affiliate or related undertaking of the Licensee) from those of any other business;
- (b) prepare on a consistent basis from such accounting records in respect of the first and each subsequent financial year, accounting statements comprising a profit and loss account, a balance sheet and a cash flow statement, together with notes thereto, and showing separately in respect of the Separate Business and in appropriate detail the amounts of any revenue, cost, asset, liability, reserve or provision which has been either:
  - (i) charged from or to any other business together with a description of the basis of that charge; or

- (ii) determined by apportionment or allocation between the Separate Business and any other business together with a description of the basis of the apportionment or allocation;
- (c) procure, in respect of the accounting statements prepared in accordance with this Condition in respect of a financial year, a report by the Auditors and addressed to the Authority stating whether in their opinion those statements have been properly prepared in accordance with this Condition and give a true and fair view of the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, the Separate Business;
- (d) take all appropriate steps within its power to procure a report by the Auditors and addressed to the Authority verifying whether the obligation to avoid discrimination and cross-subsidies specified in paragraph 3 of Article 31 of the Directive has been respected; and
- (e) deliver to the Authority a copy of the Auditors' reports referred to in subparagraphs (c) and (d) and the accounting statements referred to in subparagraph (b) as soon as reasonably practicable, and in any event not later than six months after the end of the financial year to which they relate.

#### Accounting Policy and Practice

- 4 The Licensee shall not, in relation to the accounting statements in respect of a financial year, change the bases of charge, apportionment or allocation referred to in subparagraph 3(b) from those applied in respect of the previous financial year, unless the Authority shall previously have issued directions for the purposes of this Condition directing the Licensee to change such bases in a manner set out in the directions or the Authority gives its prior written approval to the change in such bases. The Licensee shall comply with any directions issued for the purposes of this Condition.
- 5 Where, in relation to the accounting statements in respect of a financial year, the Licensee has changed the bases of charge, apportionment or allocation referred to in subparagraph 3(b) from those adopted for the immediately preceding financial year, the Licensee shall, if so directed in directions issued by the Authority for the purposes of this Condition, in addition to preparing accounting statements on those bases which it has

adopted, prepare such accounting statements on the bases which applied in respect of the immediately preceding financial year.

- 6 Accounting statements in respect of a financial year prepared under sub-paragraph 3(b) shall, so far as reasonably practicable and unless otherwise approved by the Authority having regard to the purposes of this Condition:
- (a) have the same content and format (in relation to the Separate Business) as the annual accounts of the Licensee (and any affiliate or related undertaking of the Licensee) prepared under ~~Part 15 Article 234 and, where appropriate, Article 235~~ of the Companies ~~Act 2006(Northern Ireland) Order 1986~~ and conform to the best commercial accounting practices including International Accounting Standards and International Financial Reporting Standards issued by the International Accounting Standards Board and adopted for use in the European Union;
  - (b) state the accounting policies adopted; and
  - (c) (with the exception of the part of such statements which shows separately the amounts charged, apportioned or allocated and describes the bases of charge or apportionment or allocation respectively), be published ~~bywith the annual accounts of~~ the Licensee.

#### Provision of Accounts to the Department

- 7 The Licensee shall, where requested to do so by the Department, provide to the Department a copy of its accounting records for the period specified in the request.

#### Interpretation and Construction

- ~~8~~—References in this Condition to costs or liabilities of, or reasonably attributable to, the Separate Business shall be construed as excluding taxation, capital liabilities which do not relate principally to the Separate Business, and interest thereon, and references to any accounting statement shall be construed accordingly.

## **Condition 20. Operation of the Transmission System and the System Security and Planning Standards**

- 1 The Licensee shall plan, operate, and shall co-ordinate and direct the flow of electricity onto and over, the transmission system in an efficient, economic and coordinated manner.
- 2 In complying with its obligation under paragraph 1, the Licensee shall at all times do so in accordance with

the Transmission System Security and Planning Standards, the Distribution System Security and Planning Standards, the Grid Code and the Transmission Interface Arrangements, as appropriate to the purpose under consideration, and in accordance with its role under the Transmission Interface Arrangements, and taking into account the Transmission Owner's obligations in relation to developing and maintaining the transmission system in accordance with the Transmission Owner Licence.

### **Revision of Arrangements**

- 3 The Licensee shall in consultation with the Transmission Owner and, to the extent that they are liable to be materially affect thereby, other electricity undertakings and the Republic of Ireland System Operator, periodically (and at any time when requested to do so by the Authority) review the Transmission System Security and Planning Standards and their implementation in so far as relevant to the transmission system. Following any such review, the Licensee shall send to the Authority:
  - (a) a report on the outcome of that review;
  - (b) any revision which the Licensee proposes to make to the Transmission System Security and Planning Standards from time to time (having regard to the outcome of that review); and
  - (c) any written representations or objections from the Transmission Owner, the Republic of Ireland System Operator or electricity undertakings (including any proposals by such persons for revisions to the documents that were not accepted by the Licensee in the course of the review) arising during the

consultation process and subsequently maintained.

- 4 Revisions to the Transmission System Security and Planning Standards proposed by the Licensee and sent to the Authority pursuant to paragraph 3 shall require the Authority's approval before they may be made.
- 5 Having regard to any written representations or objections referred to in subparagraph 3(c), and following such further consultation (if any) as the Authority may consider appropriate, the Authority may issue directions requiring the Licensee to revise the Transmission System Security and Planning Standards in such manner as may be specified in the directions, and the Licensee shall comply with any such directions forthwith.

#### Derogation

- 6 The Authority may from time to time (following consultation with the Licensee, the Transmission Owner, (to the extent liable to be materially affected thereby) any electricity undertaking and the Republic of Ireland System Operator, and such (if any) other licence holders as the Authority shall consider appropriate) issue directions relieving the Licensee of its obligations under paragraph 2 in respect of such parts of the transmission system and to such extent as may be specified in the directions.

#### Publication

- 7 The Licensee shall give or send a copy of the Transmission System Security and Planning Standards, and of any revision thereto, to the Transmission Owner, the Authority and the Republic of Ireland System Operator. The Licensee shall also publish a copy of the document on its website.
- 8 The Licensee shall, subject to paragraph 9, give or send a copy of any of the Transmission System Security and Planning Standards to any person requesting it.
- 9 The Licensee may make a charge for any copy given or sent pursuant to paragraph 8 of an amount reflecting the Licensee's reasonable costs of the

document which will not exceed any amount specified for the time being for the purposes of this Condition in directions issued from time to time by the Authority.

#### Performance Standards

- 10 The Licensee shall, whenever requested to do so by the Authority, draw up and submit to the Authority for its approval a statement setting out criteria by which performance of the Licensee in maintaining transmission system security, availability and quality of service may be measured.
- 11 The Licensee shall within ~~62~~ months after the end of each ~~calendar~~~~financial~~ year submit to the Authority a report providing details of the performance of the Licensee during the previous ~~calendar~~~~financial~~ year against the criteria referred to in paragraph 10.

#### Transmission System Development and Maintenance

- 12 The Licensee shall cooperate with, and assist, the Transmission Owner in complying with its obligations under the Transmission Owner Licence regarding the development and maintenance of the transmission system.

### **Condition 39. Dispatch Balancing Cost Incentive – Reporting**

- 1 The Licensee shall, acting in conjunction with the Republic of Ireland System Operator, prepare and, by no later than 31 March of each year, submit to the Authority in respect of the relevant year ending on the immediately preceding 30 September (the **Reporting Year**), a report which:

  - (a) relates to the Dispatch Balancing Costs arising in respect of the operation of the All-Island Transmission Networks; and
  - (b) includes, as a minimum, the information specified in paragraph 2, (the **Annual Out-turn Report**).
- 2 The Annual Out-turn Report shall:

  - (a) detail, for each type of activity or charge defined as a component of Dispatch Balancing Costs, the actual costs incurred by the Licensee and the Republic of Ireland System Operator in the Reporting Year respect of that component;
  - (b) provide, for each type of activity or charge defined as a component of Dispatch Balancing Costs, a comparison between the actual costs (as detailed in accordance sub-paragraph 2(a)) incurred in the Reporting Year and the Approved Forecast Costs for the Reporting Year;
  - (c) set out:

    - (i) the Licensee's and the Republic of Ireland System Operator's proposals in respect of adjustments to be made to the Ex-Ante DBC Target for the Reporting Year for the purpose of determining the Ex-Post DBC Target for that Reporting Year;
    - (ii) the factors taken into consideration by the Licensee and the Republic of Ireland System Operator in making the proposals referred to in sub-paragraph 2(c)(i);
    - (iii) the impact of the proposals referred to in sub-paragraph 2(c)(i) on the Ex-Post DBC Target for the Reporting Year; and
    - (iv) the Licensee's and the Republic of Ireland System Operator's proposals in respect of the amount to be calculated as the DBC Success Amount or the DBC Failure Amount (as the case may be) for the Reporting Year.
- 3 The Annual Out-turn Report prepared and submitted to the Authority under paragraph 1 shall be in such form and contain information in respect of such additional matters as may, in each case, be specified in a direction issued to the Licensee by the Authority.
- 4 The Licensee shall, acting in conjunction with the Republic of Ireland System Operator, no later than twenty working days after the end of each quarter year ending on 31 March, 30 June, 30 September and 31 December, prepare and publish a report in



respect of the operation of the All-Island Transmission Network which, as a minimum, provides the information specified in paragraph 5 (the **Imperfections Cost Report**).

5 The Imperfections Cost Report shall:

- (a) detail the actual Transmission Constraint Costs incurred in the relevant quarter and reasons for such costs;
- (b) set out difference between the actual Transmission Constraint Costs incurred in the relevant quarter and the costs forecast (by the Licensee and the Republic of Ireland System Operator) to be incurred as Transmission Constraint Costs for that relevant quarter;
- (c) explain the impact of the actual Transmission Constraint Costs on Approved Forecast Costs and/or or Achieved DBC for that relevant quarter;
- (d) describe the measures taken, or to be taken, by the Licensee and the Republic of Ireland System Operator to minimise Transmission Constraint Costs and their impact on Dispatch Balancing Costs; and
- (e) provide information in respect of any other matter as may be specified in a direction issued to the Licensee by the Authority.

6 The Licensee shall publish the Imperfections Costs Report on its web-site and in such other manner as the Licensee considers appropriate for the purpose of bringing it to the attention of interested parties.

7 In this Condition:

- (a) "**Approved Forecast Costs**" means the costs approved by the Authority and the Commission for Energy Regulation (following a submission from the Licensee and the Republic of Ireland System Operator) as the Dispatch Balancing Costs likely to be incurred by the Licensee and the Republic of Ireland System Operator in the Reporting Year; and
- (b) Each of the terms "**Achieved DBC**", "**DBC Success Amount**", "**DBC Failure Amount**", "**Dispatch Balancing Costs**", "**Ex-Ante DBC Target**", "**Ex-Post DBC Target**" and "**relevant year**" shall have the meaning given to that term in Annex 1.
- (c) "**Transmission Constraint Costs**" means costs incurred (or as the case may be forecast to be incurred) by the Licensee and the Republic of Ireland System Operator in consequence of instructions given by:
  - (i) the Licensee pursuant to its operation of the central dispatch and merit order systems and processes established in accordance with Condition 22; and
  - (ii) the Republic of Ireland System Operator pursuant to any equivalent or corresponding activities.

## ANNEX 1 Charge Restrictions

### 2. Restriction of SSS/TUoS charges: basic formula

The Licensee shall, in setting the SSS/TUoS charges, use its best endeavours to ensure that in any relevant year the regulated SSS/TUoS revenue shall not exceed the maximum regulated SSS/TUoS revenue which shall be the aggregate of:

(A) the maximum core SSS/TUoS revenue in relevant year t ( $M_{TSO_t}$ )

Plus

(B) the  $CAIR_t$  amount.

The maximum core SSS/TUoS revenue shall be calculated as follows:

$$M_{TSO_t} = A_{TSO_t} + B_{TSO_t} + D_{TSO_t} + K_{TSO_t} + \text{INCENT}_t$$

where:

$A_{TSO_t}$  means:

- (a) the cost of System Support Services in relevant year t including amounts payable by the Licensee to any person for the provision or use of any System Support Services provided over any interconnector in relevant year t; plus
- (b) amounts payable to the Transmission Owner Business for the provision of transmission services in relevant year t; plus
- (c) amounts levied in relevant year t on the Transmission System Operator Business by the Market Operation Activity in accordance with Annex 1 of the Northern Ireland Market Operator Licence;

$B_{TSO_t}$  means the allowed SSS/TUoS revenue in pounds millions in relevant year t which is calculated as follows:

In the tariff period/years 1 April 2010 to 30 September 2015 the  $B_{TSO_t}$  term shall equal the amounts in the SONI Price Control 2010 – 2015 Decision Paper April 2011:

Opex consisting of payroll/HR, IT Comms, other opex; ongoing pension and pension deficit; depreciation on non-building and building assets; and return on non-building and building assets shall be indexed by  $RPI_t$  in the relevant period/year n with respect to RPI at April 2010 (222.8).

The values to be indexed in n period/years are:

n	1	2	3	4	5	6
	£m	£m	£m	£m	£m	£m
Payroll/HR	2.1	4.7	5.1	5.1	5.1	5.2
IT Comms	0.7	1.9	2	1.7	1.7	1.7
Other Opex	0.6	1.3	1.4	1.4	1.4	1.4
Ongoing Pension	0.3	0.8	0.7	0.7	0.8	0.8
Pension deficit	0.13	0.03	0.03	0.03	0.03	0.03
Depreciation Non-Build	1.478	3.069	3.288	3.39	3.499	3.499
Depreciation Building	0	0.025	0.101	0.101	0.101	0.101
○ Total	5.308	11.824	12.619	12.421	12.73	12.73

Where the period/year n in question is that shown in the table below:

n	Period/Year
1	April 2010 - September 2010
2	October 2010 - September 2011

3	October 2011- September 2012
4	October 2012 - September 2013
5	October 2013 - September 2014
6	October 2014 - September 2015

where:

$RPI_t$  means the Retail Price Index (1987 = 100) published or determined with respect to April in relevant year t;

i.e RPI in the relevant year  $n = 2$  means the value of RPI in April falling within the relevant year  $n=2$  (i.e. the Retail Price Index as at April 2011 which is 234.4)

The  $B_{TSO_t}$  term shall include a Weighted Average Return on Capital (WACC) which shall be calculated on the average Regulated Asset Base (RAB) for each period/year of the price control such that the rate of return is Average RAB x WACC. The values of the average RAB for each period/year on which the rate of return is calculated are contained in the following table:

n	1	2	3	4	5	6
	£m	£m	£m	£m	£m	£m
Average RAB (excl. building)	9.132	16.888	14.79	12.265	9.74	7.171
Average RAB (building)	0	0.621	1.836	2.381	2.28	2.178
Average Total RAB	9.132	17.509	16.626	14.646	12.02	9.349

The WACC for each period/year shall be calculated according to the following formula:

$$WACC = (r_e / (1-t)) \times (1 - g) + (r_d \times g)$$

where

$r_e$  = cost of equity

$r_d$  = cost of debt

t = taxation

g = gearing  
and for each period/year the values of these are given in the following table:

n	1	2	3	4	5	6
Cost of Equity	6.17%	6.17%	6.17%	6.17%	6.17%	6.17%
Cost of Debt	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Gearing	0.55	0.55	0.55	0.55	0.55	0.55

Except that for t taxation, the value shall be given by the main rate of corporation tax in existence at the commencement of the period n.

The Weighted Average Return on Capital calculated on the Average RAB values contained in the SONI Price Control 2010 – 2015 Decision Paper April 2011 shall be April 2010. uplifted by  $RPI_t$  in the relevant period/year n with respect to RPI at April 2010.

$D_{TSO_t}$  means the aggregate of the allowed charge in relevant year t for excluded SSS/TUoS costs as defined in paragraph 8.1 of this Annex and the allowed change of law revenues as determined by the Authority in accordance with paragraph 6.1

$CAIR_t$  has the same meaning as is given to that expression in the Moyle Interconnector Collection Agency Agreement in respect of relevant year t;

$K_{TSO_t}$  means the correction factor (whether a positive or negative number) to be applied to the maximum core SSS/TUoS revenue in relevant year t derived using the following formula:

$$K_{TSO_t} = (M_{TSO_{t-1}} - R_{TSO_{t-1}}) (1 + I_t / 100)$$

Where:

$M_{TSO_{t-1}}$  means the maximum core SSS/TUoS revenue in relevant year t-1

$R_{TSO_{t-1}}$  means the regulated SSS/TUoS revenue less the Moyle revenue which is attributable to the financing and other costs associated with the Moyle Interconnector (as referred to in the definition of the term  $CAIR_t$ )

$I_t$  means the average specified rate.

In relevant year t ending 31 March 2010  $K_{TSO_t}$  shall be as submitted by the Licensee to the Authority and approved by the Authority (with such adjustments as the Authority reasonably considers appropriate in the circumstances.)

INCENTt means:

(a) where the Achieved DBC for the relevant year is below the Ex-Post DBC Target for that year, the amount (converted into pounds sterling at the Applicable Exchange Rate) that is equal to 25% of the DBC Success Amount (being a positive figure);

(b) where the Achieved DBC for the relevant year is above the Ex-Post DBC Target for that year, the amount (converted into pounds sterling at the Applicable Exchange Rate) that is equal to 25% of the DBC Failure Amount (being a negative figure);

where:

(c) DBC Success Amount means the amount that is equal to 10% of every 2.5% by which the Achieved DBC is below the Ex-Post DBC Target provided that:

a. where the Achieved DBC is 7.5% or less below the Ex-Post DBC Target, the amount shall be calculated as zero;

b. where the Achieved DBC is 20% or more below the Ex-Post DBC Target, the amount shall be calculated on the basis that Achieved DBC is 20% below the Ex-Post DBC Target.

(d) DBC Failure Amount means the amount that is equal to 5% of every 2.5% by which the Achieved DBC is above the Ex-Post DBC Target, provided that:

a. where the Achieved DBC is 7.5% or less above the Ex-Post DBC Target, the amount shall be calculated as zero;

b. where the Achieved DBC is 20% or more above the Ex-Post DBC Target, the amount shall be calculated on the basis that the Achieved DBC is 20% above the Ex-Post DBC Target.

In this paragraph 2:

**Achieved DBC**

means, in respect of any relevant year, the actual Dispatch Balancing Costs incurred on an all-island basis in that relevant year by the Licensee and the Republic of Ireland System Operator and included in the Annual Out-turn Report.

**Annual Out-turn Report**

has the meaning given to it in paragraph 1 of Condition 39.

**Applicable Exchange Rate**

means the annual average exchange rate for the conversion of euro into sterling as published by Thomson Reuters.

**Decision Paper**

means the decision paper issued jointly by the Authority and the Commission for Energy Regulation dated 5 June 2012 and entitled 'Incentivisation of All-Island Dispatch Balancing Costs'.

**Dispatch Balancing Costs**

means costs relating to or incurred in respect of:

- (a) the constraining on or off (as the case may be) generation sets pursuant to the central dispatch and merit order systems and processes established by the Licensee in accordance with Condition 22 or for the purposes;
- (b) the management of Energy Imbalances;
- (c) any Uninstructed Imbalance;
- (d) Testing Charges;
- (e) Other System Charges; and
- (f) any SO Interconnector Trade.

**Energy Imbalances**

means the imbalance between the (a) payments made by the Single Market Operator Business to generators for electricity sold from generation sets scheduled to operate in accordance with the Licensee's instructions pursuant to the processes and procedures for central dispatch and merit order, and (b) the payments received by the Single Market Operator Business from electricity suppliers in respect of the electricity purchased by such electricity suppliers.

**Ex-Ante DBC Target**

means, in respect of any relevant year, the Dispatch Balancing Costs approved by the Authority and the Commission for Energy Regulation for the purpose of their inclusion as a component in the Imperfection

Charge proposed to be levied on suppliers by the Single Market Operator Business for that relevant year.

**Ex-Post DBC Target**

means, in respect of any relevant year, either the Ex-Ante DBC Target adjusted in accordance with an Ex-Post Adjustment provided that where no adjustment is to be made it shall be the Ex-Ante DBC Target for that relevant year.

**Ex-Post Adjustment**

means the adjustment (if any) to be made to the Ex-Ante DBC Target applicable in respect of any relevant year, as determined by the Authority and the Commission for Energy Regulation in accordance with, and taking account of the factors set out in, the Decision Paper.

**Imperfection Charge**

has the meaning given to it in the Single Electricity Market Trading and Settlement Code.

**Other System Charges**

has the meaning given to it in the Single Electricity Market Trading and Settlement Code.

**SO Interconnector Trade**

has the meaning given to it in the Single Electricity Market Trading and Settlement Code.

**Testing Charges**

has the meaning given to it in the Single Electricity Market Trading and Settlement Code.

**Uninstructed Imbalance**

has the meaning given to it in the Single Electricity Market Trading and Settlement Code.



The SSS/TUoS charge restriction conditions outlined in this paragraph 2 do not apply to tariff years from 1 October 2015 onwards. In the absence of modifications to those provisions, the licensee shall not be able to increase (in nominal terms) any of the tariffs or charges contributing to its SSS/TUoS revenue above the levels applicable on 1 October 2014, unless:

1. otherwise approved by the Authority except to such extent as has been approved in advance by the Authority;

2. such increase is to ensure that the Licensee is able to collect the Collection Agency Income Requirement required by SONI to discharge its duties under the Moyle Interconnector Collection Agency Agreement in accordance with Condition 37 of this licence; and

3. such increase is to enable the Licensee to collect the TUoS revenue that the Authority has determined is payable to the Transmission Owner Business for the provision of transmission services;

4. such increase is to enable the Licensee to collect System Support Services, Ancillary Services, Other System Charges and TUoS revenue in respect of generation as determined by the SEM Committee.