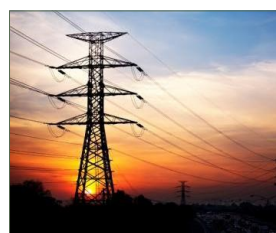


SONI Transmission System Operator Licence

Licence Modification Decision Paper:

Dispatch Balancing Cost Incentivisation
and SONI SSS/TUoS tariff restriction

5 August 2015



About the Utility Regulator

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

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

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

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

Our Mission

Value and sustainability in energy and water.

Our Vision

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

Our Values

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

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

The key elements of this decision relate to licence modifications for:

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

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

Audience

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

Consumer impact

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

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Executive Summary

On 29 June 2015, the UR consulted, under and in accordance with Article 14(2) of the Electricity Order, on proposed modifications to the SONI Transmission licence.

The key elements of the licence modification consultation related to:

- a) The introduction of a Dispatch Balancing Cost incentivisation mechanism following the decision made by the Single Electricity Market (SEM) Committee; and
- b) Clarification for tariff setting in the absence of price control modifications.

At the close of the consultation two responses had been received. One from SONI Ltd and the other was a confidential response. Both responses focused primarily on the proposed modification relating to the clarification of tariff setting in the absence of price control modifications.

In responding to the consultation, SONI highlighted its role in collecting revenue, through SONI TSO tariffs, for other licence holders such as:

- NIE: Transmission entitlement as approved by the Utility Regulator and collected through Generator Transmission Use of System (TUoS) and Supplier TUoS;
- EirGrid: a portion of the all-island Generator TUoS that Northern Ireland generation pays for use of the all-island network;
- Moyle Interconnector: revenue shortfall through the Collection Agency Income Requirement (CAIRt) provision within the Collection Agency Agreement between Moyle and SONI.

The Utility Regulator agrees with both respondents and has revised the modification to allow sufficient flexibility to enable SONI TSO to collect the appropriate revenues on behalf of other licence holders.

Also included within this decision paper are modifications for the SEM Committee decision on Dispatch Balancing Costs Incentivisation together with a number of other small amendments.

This decision paper is therefore also a publication under Article 14(8) of the Electricity Order for the purposes of the modifications shown in Appendix 1 attached.

The modifications to the SONI transmission licence will take effect 56 days¹ from the date of publication of this decision paper.

¹ Article 14 (10) of the Electricity (Northern Ireland) Order 1992(2)

1. Introduction

Purpose of this Paper

- 1.1 On 29 June 2015, the UR consulted, under and in accordance with Article 14(2) of the Electricity Order, on proposed modifications to the SONI Ltd Licence to Participate in the Transmission of Electricity. The key elements of the licence modification consultation related to:
- a) The introduction of a Dispatch Balancing Cost incentivisation mechanism following the decision made by the Single Electricity Market (SEM) Committee; and
 - b) Clarification for tariff setting in the absence of price control modifications.
- 1.2 Having considered the consultation responses, this paper outlines the Utility Regulator's decision in respect of the SONI TSO licence modifications consulted upon. Marked-up extracts detailing the final changes to the SONI TSO licence are published on the Utility Regulator website, and are included in Appendix 1 of this Decision Paper.

Background and Summary of Changes Proposed

- 1.3 In 2012 the SEM Committee introduced an all-island incentive² on both SONI TSO and EirGrid TSO in relation to the management of Dispatch Balancing Costs (DBC). The SEM Committee's decision recognised that licence changes would be necessary to the SONI TSO licence in order to implement the reporting and incentive mechanism.
- 1.4 The proposed DBC incentive modifications introduce a new Condition 39 entitled 'Dispatch Balancing Cost Incentive – Reporting' which sets out the

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

reporting requirements for both the Annual Out-turn Report and quarterly Imperfections Cost Report. Also amendments to paragraph 2 of Annex 1 entitled 'Restriction of SSS/TUoS charges: basic formula' were proposed to provide the DBC incentive payment/penalty mechanism applicable to tariffs.

- 1.5 The SONI TSO licence sets out the maximum regulated revenue for tariffs and charges until 30 September 2015. After this date there is limited clarity and protection for consumers for tariffs commencing 1 October 2015 onwards. In the absence of price control licence modifications for 2015 – 2020, the Utility Regulator proposed a mechanism to protect consumers and improve clarity on the setting of tariffs.
- 1.6 Modifications to Condition 2 'Preparation of Accounts' were proposed in order to update the legal references to the Companies Act.
- 1.7 A modification was proposed to paragraph 1 of Condition 20 'Operation of the Transmission System and the System Security and Planning Standards'. This amendment extends paragraph 1 to include the words "... in an efficient, economic and coordinated manner" resulting in a clear and direct licence obligation in relation to planning and operating the transmission system. It also aligns with the National Grid licence.
- 1.8 Modification to paragraph 11 of Condition 20 'Operation of the Transmission System and the System Security and Planning Standards'. The Utility Regulator proposed to change the reporting year from financial year to calendar year, which aligns with the EirGrid TSO licence. It is also proposed to extend the deadline to six months for the submission of the performance report to the Utility Regulator.

2. Summary of Responses Received

2.1 Two responses were received to the SONI TSO licence consultation. The SONI response is summarised below and also published alongside this decision paper. A confidential response was also received and included in the Utility Regulator's consideration of this decision. Both responses focused primarily on the proposed modification relating to the clarification of tariff setting in the absence of price control modifications.

Dispatch Balancing Cost Incentivisation Modifications

2.2 SONI welcomed the insertion of the new Condition 39 codifying the decision of the SEM Committee in respect of DBC incentivisation. SONI had no comments on this proposed amendment other than to suggest:

- a) the movement of '(Annual Outturn Report)' to the point immediately following the work 'report' in Paragraph 1; and
- b) the insertion of the word 'forecast of the expected' into the definition of Approved Forecast Costs in Paragraph 7.

2.3 SONI also welcomed the insertion of the incentive payment/penalty into Annex 1 of the SONI TSO licence. SONI noted that the terms 'Market Operator' and 'Single Electricity Market Operator' are not defined terms in the SONI licence and suggested these be replaced by "the Single Market Operator Business or the Republic of Ireland Market Operator Licensee".

Proposed Restriction on SONI TSO SSS/TUoS Tariffs

2.4 Both respondents raised concerns regarding this proposed modification. Given that one of the responses is deemed confidential, only the SONI comments are reflected below.

2.5 SONI are concerned that the proposed wording would fix all of the tariffs and charges levied by SONI for the period over which it applied. While other licence holders tend to only recover their own costs through tariffs, SONI also collects revenue for:

- NIE: transmission entitlement as approved by the Utility Regulator and collected through Generator TUoS and Supplier TUoS;
- EirGrid: a portion of the all-island Generator TUoS that NI generation pays for use of the all-island network;
- Moyle Interconnector: revenue shortfall through the Collection Agency Income Requirement (CAIRt) provision within the Collection Agency Agreement between Moyle and SONI.

2.6 SONI note that if the paragraph as drafted is implemented, this could give rise to a shortfall in revenue to Moyle, NIE, or EirGrid or indeed result in SONI being in breach of other aspects of its licence (e.g. the TIA).

Condition 2 'Preparation of Accounts' Amendments

2.7 SONI welcomed the update of Condition 2 to reflect updated legislation and had no comments on proposed changes to this condition.

Condition 20 'Operation of the Transmission System and the System Security and Planning Standards' Amendments

2.8 SONI welcomed the inclusion of the wording 'economic, efficient and co-ordinated' within Condition 20 and had no comments on the proposed amendment.

2.9 SONI welcomed the alignment of the timelines for the submission of the Transmission System Performance Report with that of the Republic of

Ireland System Operator under Condition 20, reflecting the interdependencies between the two jurisdictions in terms of system performance.

3. Decision on Licence Changes

- 3.1 This decision paper is also a publication under Article 14(8) of the Electricity Order for the purposes of modifications to SONI Ltd Transmission Licence.
- 3.2 SONI suggested some minor changes to the DBC incentivisation Condition 39. The Utility Regulator has considered both comments. The placement of "Annual Outturn Report" in paragraph 1 will remain as consulted upon so that it follows 1 (a) and (b) which outlines the content of the report. The definition of "Approved Forecast Costs" will remain unchanged from that consulted upon as the definition as written refers to "the Dispatch Balancing Costs likely to be incurred" and therefore the additional wording, proposed by SONI, of 'forecast of expected costs' is not viewed necessary by the Utility Regulator. The Utility Regulator's decision is that Condition 39 remains unchanged from that consulted upon thereby bringing into effect reporting requirements in respect of Dispatch Balancing Costs.
- 3.3 In respect of the DBC incentivisation modifications to Annex 1, SONI identified inconsistencies with the use of 'Market Operator' and 'Single Electricity Market Operator'. The Utility Regulator agrees with SONI's point and has replaced these references with the defined term 'Single Market Operator Business'. This modification to Annex 1 will bring into effect a mechanism within tariffs for the DBC incentive payment/penalty.
- 3.4 Following due consideration of both responses in respect to restrictions on the SONI SSS/TUoS tariffs the Utility Regulator has decided to revise the draft wording which proposed restricting increases to **any** of the tariffs or charges contributing to SONI TSO SSS/TUoS revenue above the levels applicable on 1 October 2014.

3.5 The modification has been revised from that consulted upon to allow sufficient flexibility to enable SONI to collect the appropriate revenues on behalf of other licence holders. The revised drafting specifically allows for increases to SONI SSS/TUoS tariff in relation to Transmission Use of System(TUoS), Moyle Interconnector CAIRt, System Support Services, Ancillary Services and Other System Charges as determined by the Authority or SEM Committee. The modification also now refers to the restriction applying "unless otherwise approved by the Authority except to such extent as has been approved in advance by the Authority".

3.6 The licence modifications relating to Condition 2 will remain unchanged from that consulted upon and have the effect of updating legislative references and improving transparency of financial statements.

3.7 The licence modifications relating to Condition 20 will remain unchanged from that consulted upon and have the effect of:

- aligning with the National Grid licence in terms of a specific reference to the need to plan and operate the transmission system "in an efficient, economic and coordinated manner"; and
- aligning with the EirGrid TSO licence by now referring to a calendar year and also providing a more reasonable timeline of six months for the submission of the Transmission Performance Report to the Utility Regulator.

1.1 Marked-up extracts detailing the final changes to the SONI Transmission Licence are published on the Utility Regulator website as Appendix 1 of this decision paper.

1.2 These modifications to the SONI Transmission Licence will take effect 56 days from the date of publication of this decision paper.