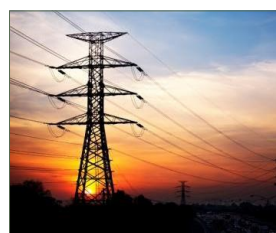


Statutory Consultation on Modifications
to Moyle Interconnector Transmission
Licence, necessitated by the
implementation of the Integrated Single
Electricity Market (I-SEM)

Consultation Paper
15 December 2017



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

In order to give effect to the Integrated Single Electricity Market (I-SEM), as contained in decisions of the SEM Committee, the Utility Regulator (UR) publishes a consultation on proposed licence modifications to the Moyle Interconnector Transmission Licence. These licence modifications form part of a broader framework of regulatory changes required to implement the I-SEM.

Key proposed modifications relate to the following conditions: “Interpretation and Construction”; “Maximisation of Capacity Receipts etc.”; “Availability of Resources and Undertaking from Ultimate Controller”; “Operation and Maintenance Standards, Availability and Quality of Service”; “The Licensee’s regulated revenue entitlement”; “Prohibited Activities”; “Requirement to give third party access pursuant to relevant access arrangements”; “Functions of the Authority”; and “SEM Trading and Settlement Code and GB Balancing and Settlement Code”.

Audience

This consultation document will be of interest to the Moyle Interconnector Transmission Licence holder as well as Transmission System Operators (TSOs), Market Participants and other industry and statutory bodies. A similar licence modification process is being conducted by the Commission for Regulation of Utilities (CRU) in parallel for the East West Interconnector.

Consumer impact

These modifications are necessitated by the implementation of the Integrated Single Electricity Market (I-SEM). Through the integration of the all-island electricity market with the European electricity markets, I-SEM is expected to deliver increased levels of competition which should help put a downward pressure on prices as well as encourage greater levels of security of supply and transparency.

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Executive Summary

The Single Electricity Market (SEM) for the island of Ireland went live on 1 November 2007 and comprises a centralised and mandatory all-island wholesale pool market through which generators and suppliers can trade electricity.

The European Union (EU) is building an internal market for electricity and gas which is underpinned by the implementation of the EU Target Model (arising from the EU's Third Energy Package). In order to ensure alignment with both the Target Model and the EU legislative requirements which take precedence over existing domestic legislation, the SEM Committee (SEMC) is committed to implementing the Integrated Single Electricity Market (I-SEM) on the island of Ireland.

To give effect to the I-SEM, the Utility Regulator (UR) is consulting on proposed modifications to the Moyle Interconnector Transmission Licence. These modifications reflect the new market arrangements which are due to go-live on 23 May 2018. The UR have fully engaged with Moyle Interconnector Limited (MIL), the owners of the Moyle interconnector, in relation to these proposed changes.

This paper details the proposed modifications. There are several key modifications which include:

- New (and modified) definitions required for I-SEM;
- Requirements to comply with new legislation;
- Changes to licence conditions relating to Moyle's revenue streams to reflect new sources of potential income and ensure that these are captured within the scope of the relevant licence conditions;

- Amendments to the prohibited activities licence condition to provide a mechanism for Moyle to obtain written consent from the Authority for certain trading activity;
- An obligation on the licensee to sign up to and comply with the Capacity Market Code insofar as applicable to it; and
- Amendment to the dispute resolution process to reflect the fact that disputes will be subject to the provisions of the Harmonised Allocation Rules.

Following completion of this consultation exercise, the UR will consider responses and representations made and publish its final decision as regards each of the proposed modifications.

1. Introduction

1.1 Background

The Single Electricity Market (SEM) for the island of Ireland went live on 1 November 2007 and consists of a centralised and mandatory all-island wholesale pool market through which generators and suppliers trade electricity. The all-island SEM is jointly regulated by the Commission for Regulation of Utilities (CRU) in Ireland and the Utility Regulator (UR) in Northern Ireland.

In January 2007, the publishing of a report from a European Commission inquiry into competition in electricity and gas markets found that insufficient or unavailable cross-border transmission capacity, along with different market designs, were hampering integration between EU Member States' markets. In response, the EU introduced a series of energy reforms.

Underpinned by the implementation of the EU Target Model arising from the EU's Third Energy Package, the reforms created a new legal framework to promote cross-border trade through the establishment of a number of legally binding network codes and guidelines. These not only promoted the creation of liquid markets and the efficient use of cross-border transmission capacity but also the integration of Member States' gas and electricity markets.

With EU legislative requirements taking legal precedence over existing domestic legislation, in order to ensure alignment with the EU Target Model, the SEMC, the decision making authority for all Single Electricity Market (SEM) matters, committed to implementing what has been commonly referred to as the Integrated Single Electricity Market or "I-SEM" on the island of Ireland. The implementation of I-SEM requires the existing legal and regulatory framework, as well as industry processes, to be modified.

The I-SEM will more fully facilitate coupling with the electricity markets in the rest of Europe and will update and, in some respects replace, the current SEM arrangements. It will introduce:

- Day-Ahead and Intra-Day trading through designated Nominated Electricity Market Operators (NEMOs) in each jurisdiction;
- a new Balancing Market through which the TSOs will accept bids and offers from participants to move away from their traded position in order to

- balance generation and demand on a minute by minute basis;
- a new Capacity Remuneration Mechanism which will include the introduction of a new Capacity Market Code; and
- necessary changes to the Grid Codes and other impacted SEM regulatory arrangements.

Driven by the EU Target Model, on 17 September 2014 the SEMC published its decision on the High Level Design for the I-SEM (SEM-14-085a). Since then, the I-SEM project entered a 'design and implementation' phase. In order to ensure effective implementation, amendments to existing legislation and modifications to licences, codes and possibly other rules, are required in Ireland and Northern Ireland. Such modifications continue to be progressed by the RAs and SEMC (supported by industry).

On 23 February 2016, the SEMC published an 'Information Note on the I-SEM Regulatory Framework' (SEM-16-007) with the aim of the paper being to:

- provide clarity on the overarching regulatory framework comprising legislation, licence changes and market rules which will implement the market design referred to as I-SEM;
- provide insight on the provisional timeline and proposed consultation process regarding licence changes and the introduction of revised (and new) market rules; and
- provide initial thinking on NEMO regulation and enforcement.

Additional primary I-SEM arrangements are provided for in:

- legislation (the Single Electricity Market Act 2007 in Ireland and the Single Electricity Market (Northern Ireland) Order 2007 in Northern Ireland);
- licences for generators, suppliers, Transmission System Operators (TSOs), Distribution System Operators (DSOs), Market Operators (MOs) and Interconnectors in Ireland and Northern Ireland;
- a suite of arrangements (set out primarily in the Trading and Settlement Code, Bidding Codes of Practice, Grid Codes, Metering Codes and the Capacity Market Code);
- Access Rules and Charging Methodologies for both the Moyle and East West (EWIC) Interconnectors; and
- decision papers published by the SEM Committee and the RAs which include:

- I-SEM High Level Design Decision (SEM-14-085);
- High Level Design for the I-SEM (SEM-14-085a);
- I-SEM Energy Trading Arrangements Markets Decision Paper (SEM-15-065);
- I-SEM Roles and Responsibilities Decision Paper (SEM-15-077);
- Financial Transmission Rights (FTRs) Policy Decision Paper (SEM-15-100);
- I-SEM Capacity Remuneration Mechanism – Capacity Market Code (SEM-17-033)
- This list is not exhaustive. Further papers and information can be found www.semcommittee.com, www.uregni.gov.uk and www.cru.ie.

A key objective of the new I-SEM arrangements is the optimisation of cross-border assets such as interconnectors, of which there are presently two within the all-island market. These are the Moyle interconnector (which is owned and managed by Moyle Interconnector Limited (MIL) and links the electricity grids of Northern Ireland and Scotland), and the East West Interconnector (EWIC) (which is owned and managed by EirGrid Interconnector Designated Activity Company (EIDAC) and links the electricity grids of Ireland and Wales). Both interconnectors are 500MW High Voltage Direct Current (HVDC) links.

With the adoption of the European Target Model, a suite of European Network Codes have come into force. These have included the Capacity Allocation and Congestion Management (CACM) Regulation and the Forward Capacity Allocation (FCA) Regulation. The CACM Regulation establishes the rules for operating the pan-European day ahead and intraday markets while the FCA Regulation establishes the rules for calculating and buying interconnector transmission rights in forward markets.

In order to ensure the effective implementation of I-SEM, amendments to existing legislation and modifications to licences, codes and possibly other rules, are required in Ireland and Northern Ireland.

The UR in Northern Ireland and the CRU in Ireland, collectively referred to as the Regulatory Authorities (RAs), are publishing similar consultations on proposed modifications to the Moyle and EIDAC interconnector licences. This consultation document details proposed modifications in respect of the Moyle interconnector.

1.2 Document structure

- Chapter 1 (Introduction) outlines the purpose and structure of this document, the approach taken to engagement and the statutory licence modification process being followed by the UR;
- Chapter 2 (Proposed Modifications) sets out a summary of the proposed modifications;
- Chapter 3 (Moyle Interconnector Licence Modifications Proposals) outlines the reasons and effects for each of the proposed modifications; and
- Chapter 4 (Next steps) provides information on the deadline for receipt of representations in respect of the modifications.

1.3 Purpose of the Consultation

Pursuant to Article 14 of the Electricity (Northern Ireland) Order 1992 (as amended) (the Order), this document consults on the proposed modifications to the Moyle Interconnector Transmission Licence (the **Moyle Licence**). These modifications are considered necessary to give effect to I-SEM and, in particular, to comply with SEMC decisions relating to it.

The UR has separately published a notice pursuant to Article 14 of the Order stating that it proposes to make a number of modifications to the Moyle Licence, required to implement the I-SEM, stating the effects of the modifications and the reasons supporting them. The notice includes a call for representations to the UR with respect to these proposed licence modifications.

This UR consultation paper is published in order to provide background information and the detailed rationale in respect of the proposed licence modifications set out in the notice. Any representations regarding the proposed licence modifications are welcomed and will be taken into account by the UR when reaching its decision on each of them. Details of how to submit representations can be found within the notices published in accordance with the statutory licence modification process.

In the interest of transparency and in line with best practice regulation, we

consider it important to give MIL appropriate notice of any licence modification which we intend to make and offer adequate opportunity for engagement on such proposals. As such, the UR has already undertaken engagement with MIL on the proposed licence changes. This has enabled an explanation of the reasons underpinning the proposed modifications and has allowed the UR to gain an understanding of MIL's perspective on the impact of such proposed changes.

1.4 Licence Modification Approach

The statutory consultation on licence modifications required to implement I-SEM is subject to the statutory process in Northern Ireland.

In Ireland and in Northern Ireland, separate and distinct licence modification processes exist based on jurisdictional legislation, namely Section 20 of the Electricity Regulation Act (1999) (the Act) in Ireland and Article 14 of the Order in Northern Ireland. These respective statutory provisions determine the procedures that must be followed in relation to proposed licence changes in each jurisdiction and include the timeline for submission of representations.

The timeframe for the submission of representations on the proposed modifications to the Moyle Licence is 28 days from the date of publication of the statutory notices. Representations are due no later than 17:00 on Wednesday 17 January 2018. We will give consideration to all representations made during this period before reaching and publishing our decision. The effective date for the licence modifications that we decide to make will be at least 56 days after publication of the licence modification decision.

Any representations regarding these proposed licence modifications should be sent in writing or electronically by no later than 17:00 on Wednesday 17 January 2018 to:

Ian McClelland
Utility Regulator
Queens House
14 Queen Street

Belfast

BT1 6ED

Email: isemicences@uregni.gov.uk

To enable ease of publication on our website, our preference is for responses to be submitted electronically via email.

We normally publish all responses to consultations on licence modifications on our website. If you do not wish your response or name be made public, please state this clearly by marking the response as not for publication. Please note that any confidentiality disclaimer that is automatically produced by an organisation's IT system or is included as a general statement in your fax or coversheet will be taken to apply only to information in your response for which confidentiality has been specifically requested.

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes; these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA). If you want the information you provide to be treated as confidential, please be aware that under the FOIA, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the UR.

1.5 Timetable

As noted above, this consultation is subject to the statutory process in NI. The deadline for receipt of responses or representations to UR in respect of the proposed modifications is 17:00 on Wednesday 17 January 2018.

2. Proposed Modifications

2.1 Summary of Licence Modifications

When identifying modifications necessary for the implementation of I-SEM, the UR's approach has been to focus predominantly on those modifications which are required to facilitate the implementation of I-SEM and in accordance with EU legislative requirements. The reasons for (and effects of) the proposed modifications to the Moyle Licence are described in detail in Chapter 3. They are also summarised in the table below for ease of reference.

Licence Type	New / Modified	Condition	Indicative Change
	Modified	N/A - Table of Contents	Correction of typographical error in word 'Priority' in Condition 9C. Changes to the names of Condition 17 and Condition 19.
Moyle IC Licence	Modified	Condition 1: Interpretation and construction	<p>A number of new definitions are to be added to give effect to the modifications to the other licence conditions proposed for I-SEM.</p> <p>New Definitions:</p> <ul style="list-style-type: none"> • Capacity Market Code • Electricity Market Regulation • Financial Transmission Rights (or FTRs) • Forward Capacity Allocation Regulation (or FCA Regulation) • I-SEM Go Live • Harmonised Allocation Rules • Long term transmission rights • Network Codes • SEM Committee <p>Modified Definitions:</p> <ul style="list-style-type: none"> • Relevant access arrangements • Use of Moyle interconnector

Licence Type	New / Modified	Condition	Indicative Change
			<p>Paragraph 8 of Condition 1 (which relates to the continued effect of relevant legal instruments) is also proposed to be modified to refer to “I-SEM Go Live”.</p> <p>One typographical error has been corrected under the definition of ‘subsidiary’. This comprised the removal of a single parenthesis.</p>
Moyle IC Licence	Modified	Condition 2: Maximisation of Capacity Receipts etc.	This Condition is to be modified to update the objective of maximising revenues to include potential new revenue sources under I-SEM, other than the Collection Agency Income Requirement.
Moyle IC Licence	Modified	Condition 9A: Availability of Resources and Undertaking from Ultimate Controller	It has been proposed that paragraph 1(b) of this Condition is modified so that the obligation on the licensee to secure that it has sufficient resources to perform its obligations also applies in relation to its obligations under the European Network Codes, the Harmonised Allocation Rules and any other laws, in addition to the ‘domestic’ legislation currently referred to.
Moyle IC Licence	Modified	Condition 12: Operation and Maintenance Standards, Availability and Quality of Service	This Condition is to be amended to allow the TSO to enter into agreements, on behalf of the licensee, with additional third parties as required under the I-SEM arrangements. This includes for activities such as interfacing with transparency platforms and capacity allocation platforms.
Moyle IC Licence	Modified	Condition 13: The Licensee’s regulated revenue entitlement	Paragraph 1 is to be revised to include new revenue streams available under the I-SEM arrangements, in particular those obtained under the Capacity Market Code.
Moyle IC Licence	Modified	Condition 14: Prohibited Activities	Condition 14 is to be modified to permit the licensee to undertake (what would otherwise be regarded as) prohibited activities provided written consent is granted by the Authority. This may permit the licensee to utilise mechanisms for risk minimisation, such as hedging contractual imbalances.

Licence Type	New / Modified	Condition	Indicative Change
Moyle IC Licence	Modified	Condition 17: Requirement to give third party access pursuant to relevant access arrangements	<p>With the modification to interconnector access arrangements under I-SEM, this Condition is to be subject to minor amendment to reflect the new position (i.e. the move away from sale of physical capacity to financial transmission rights).</p> <p>A further amendment is to reflect that Moyle will be entitled but not obliged to refuse to enter into an agreement for use of the interconnector where the applicant does not satisfy specified regulatory obligations (which shall also include the Capacity Market Code).</p>
Moyle IC Licence	Modified	Condition 18: Functions of the Authority	Condition 18 is to be amended to reflect the fact that under I-SEM, dispute resolution in relation to Financial Transmission Rights, fall under the Harmonised Allocation Rules and these will have primacy over existing dispute provisions (in circumstances where HAR provisions are engaged).
Moyle IC Licence	Modified	Condition 19: SEM Trading and Settlement Code and GB Balancing and Settlement Code	This Condition is to be updated to require that the licensee shall accede to and comply with the Capacity Market Code insofar as applicable to it.

3. Moyle Interconnector Licence Modification Proposals

3.1 Introduction

With a key objective of the new I-SEM arrangements being the optimisation of cross-border assets, new and additional provisions will be required for interconnectors to fulfil this purpose. No longer will the licensee offer interconnector users the ability to purchase physical capacity but will instead move to an arrangement where Financial Transmission Rights (FTRs) are offered. Further changes will also include the collection of congestion rents and participation in the Capacity Market.

The UR have reviewed the detail of the Moyle Licence in order to ascertain the level of required modification and have liaised with MIL in relation to these changes. The UR now proposes to modify the Moyle Licence and has sought to put forward those modifications required to facilitate the implementation of I-SEM. It should be noted that, as per the Moyle Licence, Condition 13 paragraph 2, the Moyle Direction (issued by the UR which sets out the maximum amount of revenues which MIL is entitled to recover from the sources described in Condition 13 paragraph 1) may also be modified as a consequence of the proposed Licence changes. This Direction (and any modifications to it) does not form part of this consultation.

3.2 Proposed Modification to the Moyle Licence

While there are no new Conditions being proposed for the Moyle Licence, there are proposals to modify existing Conditions in order to facilitate the implementation of the I-SEM as well as rectify previous oversights and to provide further clarity to requirements in specific licence conditions. Further detail on these proposed modifications and their supporting rationale, is provided below.

3.2.1 Modification of Table of Contents

Reason(s) for the Modification

In the Table of Contents there is a typographical error in the reference to Condition 9C. The error is present in the word 'Priority'.

The name of Condition 17 and Condition 19 are to be amended to reflect the modifications being proposed to these conditions. The modifications to those conditions are described in more detail below.

Effect(s) of the Modification

The typographical error will be corrected and the changes will be made to the names of Condition 17 and Condition 19.

3.2.2 Modification of Condition 1: Interpretation and construction

Reason(s) for the Modification

The proposed modification of Condition 1 includes a number of new definitions and modification of others in order to give legal effect to the proposed modifications of specific licence conditions (as set out below). These modifications are to facilitate the implementation of I-SEM.

Paragraph 8 is to be modified to include reference to "I-SEM Go Live" to facilitate the transition to the new arrangements.

A minor typographical error is also to be corrected. This is the removal of a single parenthesis from the definition of the word "subsidiary".

Effect(s) of the Modification

The proposed modifications will incorporate new definitions ("Capacity Market Code", "Electricity Market Regulation", "Financial Transmission Rights (or "FTRs")", "Forward Capacity Allocation Regulation (or "FCA Regulation")", "I-SEM Go Live", "Harmonised Allocation Rules", "Long term transmission rights", "Network Codes" and "SEM Committee"); and modify some existing definitions ("Relevant access arrangements" and "Use of Moyle interconnector").

Paragraph 8 of condition 1 (which deals with the interpretation of legal instruments) will also be modified to include reference to I-SEM Go Live.

The typographical error in the definition of “subsidiary” will be corrected.

3.2.3 Modification of Condition 2: Maximisation of Capacity Receipts etc.

Reason(s) for the Modification

This modification is to update the Condition to allow for the inclusion of revenue sources which Moyle may receive under the I-SEM arrangements.

Currently, a significant proportion of Moyle’s revenue originates from the sale of physical capacity to market participants, with explicit auctions allowing participants to purchase the right to use capacity on the interconnector (from between one year and one day ahead of delivery) and implicit auctions allowing market participants to indirectly purchase interconnector capacity which is linked to successful intraday energy market bids in the SEM.

Under I-SEM arrangements this will change, with the forwards electricity market being strictly financial. Financial Transmission Rights (FTRs) will be sold in respect of the interconnector. The form of FTR available in I-SEM (at least at the outset) will be FTR Options, a form of one way contract for difference which entitles the holder to receive the positive day ahead market spread in the direction of the FTR Option. The sale of FTRs will become an important new revenue stream for the licensee.

The definition of FTRs is being scoped, however, to cover both FTRs Options and FTR Obligations as, in its decision paper on FTRs (SEM-15-100), the SEMC decided that Interconnector owners such as Moyle will (as noted above) initially offer FTR Options at I-SEM go-live but also stated that this did not preclude a move to offering FTR Obligations at a later stage should there be market requirements for such products on the SEM-GB border or should there be moves in Europe towards such products. Clearly, some further consequential regulatory changes may be required at a later stage if such a change in approach was decided upon.

In I-SEM, the licensee will also be required to be party to and comply with the Capacity Market Code (insofar as applicable). This will permit them to participate in the Capacity Market in a similar way to generators, allowing them access to a

potential new revenue stream. In the current market, interconnectors do not receive capacity payments.

In light of the new potential revenue streams that will be available, Condition 2 is to be modified so that the obligation on the licensee to maximise revenues applies in this wider context and is not limited to revenues flowing from the access arrangements.

Although Moyle can recover revenue shortfalls through its Collection Agency Income Requirement, this has been differentiated from the revenues acquired under typical interconnector activities.

Effect(s) of the Modification

The modification of paragraph 1(a) would ensure that Moyle's obligation to perform its functions in such a manner as it considers best designed to maximise its revenues also applies to the new revenue streams (including those outlined above) as well as existing revenue streams (other than via the Collection Agency Income Requirement)..

3.2.4 Modification of Condition 9A: Availability of Resources and Undertaking from Ultimate Controller

Reason(s) for the Modification

The Third Energy Package of European legislation created a requirement for European Network Codes which are broadly grouped into three areas: Grid Connection, System Operation and Market Guidelines. Under Market Guidelines, there are three Codes: The Capacity Allocation and Congestion Management (CACM) Code, the Forward Capacity Allocation (FCA) Code and the Electricity Balancing (EB) Code.

The CACM Regulation entered into force in August 2015 and establishes the rules for operating the pan-European day ahead and intraday markets. The FCA Regulation entered into force in September 2016 and requires the establishment of harmonised allocation rules for the allocation of long term capacity. (The allocation of capacity on the interconnector will fall under these codes / rules.) The Electricity Balancing Code has not yet entered into force.

Under I-SEM, therefore, the licensee will be subject to these additional legal requirements flowing from EU legislation. It is considered appropriate that the obligation on the licensee to ensure that it has sufficient resources to comply with prescribed legal obligations should include reference to these new EU legal obligations as well as existing legal obligations e.g. under national legislation.

Effect(s) of the Modification

The proposed additional wording to paragraph 1(b) will require Moyle to have sufficient resources to carry on the Interconnector Business in a manner that ensures compliance with these additional legal obligations (under Network Codes (including the CACM Regulation and the FCA Regulation), Harmonised Allocation Rules as well as obligations under prescribed national legislation.

3.2.5 Modification of Condition 12: Operation and Maintenance Standards, Availability and Quality of Service

Reason(s) for the Modification

Presently, the TSO can make arrangements for Moyle Interconnector Limited to enter into agreements with third parties for the use of the interconnector.

Under I-SEM arrangements, there may be additional third parties with which the TSO is required to make arrangements on behalf of Moyle. These third parties may not use the interconnector but may undertake activities necessary for the implementation of I-SEM – for example, transparency publications, capacity allocation platforms and capacity transparency platforms.

These future arrangements should be facilitated within this modified licence condition.

Effect(s) of the Modification

The proposed amendment will expand the scope of the agreements that the TSO can enter into on Moyle's behalf to include other third parties that may be applicable under I-SEM – for example, transparency platforms and capacity platforms.

It should be noted that the licensee is required under the licence condition to obtain the consent of the Authority to any amendments to the agreement it has

with the TSO. The proposed licence modification is expected to require a corresponding amendment to the agreement between the licensee and TSO which will require such approval.

3.2.6 Modification of Condition 13: The Licensee's regulated revenue entitlement

Reason(s) for the Modification

Under I-SEM arrangements, the licensee's revenue streams will change to incorporate new sources (in particular, from the sale of FTRs and participation in the Capacity Market). This modification is to ensure that the scope of the licensee's regulated revenue entitlement also includes revenue earned by these additional sources (as well as existing sources).

In particular, the scope of paragraph 1(b) will cover revenues earned from the FTR auctions and the provision of ancillary services. The addition of paragraph (c) to include revenues earned under the Capacity Market Code reflects the ability of Moyle to participate in this market and receive revenue in I-SEM.

Effect(s) of the Modification

The proposed addition of paragraph 1(c) will reflect Moyle's ability to earn revenue under the Capacity Market Code and ensure that such revenue is captured within the scope of the licensee's regulated revenue entitlement. Other revenue streams under I-SEM fall under existing provisions within this Condition. For example, paragraph 1(b) which relates to agreements for use of the Moyle interconnector will cover revenues earned from FTRs and the provision of ancillary services.

3.2.7 Modification of Condition 14: Prohibited Activities

Reason(s) for the Modification

The proposed modification would provide a mechanism for the Licensee to obtain written consent from the Authority to purchase / sell electricity (which would otherwise be a prohibited activity under the licence condition).

This mechanism is considered necessary under the revised trading arrangements in I-SEM where it may be reasonable to allow the Licensee to engage in such a prohibited activity, for example where a physical trip of the Interconnector left the Licensee with an imbalance position in the I-SEM Balancing Market.

In any request for permission to engage in a prohibited activity the Licensee shall be expected to clearly outline the rationale behind the request and, in any written consent, the Authority shall clearly define the acceptable circumstances under which the Licensee may engage in such prohibited activity.

Effect(s) of the Modification

A modification is to be made to paragraph 2 to provide a mechanism for the licensee to obtain written consent from the Authority to purchase / sell energy which would otherwise be a prohibited activity. The exception to the prohibition which currently exists (where the purchase / sale is made as part of the Interconnector Business) is to be deleted to avoid any potential confusion.

The terms of paragraph 1 are also to be made subject to paragraph 2 to make it clear that the only circumstances in which the licensee can purchase / sell electricity is when it has obtained written consent from the Authority.

Obtaining written consent from the UR would offer Moyle a potential mechanism by which it can manage its exposure to contractual imbalances.

3.2.8 Modification of Condition 17: Requirements to give third party access pursuant to relevant access arrangements

Reason(s) for the Modification

Currently, market participants purchase physical capacity rights (through competitive capacity auctions) to enable them to obtain access to the Moyle interconnector and flow energy across it. The Moyle Access Rules set out the general terms and conditions that a user must accept in order to be able to do this.

Under I-SEM arrangements, physical capacity rights will no longer be sold but instead FTR options will be sold. These FTRs will not include the sale of physical capacity but will be a financial product only. Therefore, it is proposed that the title

of Condition 17 is amended to reflect the move from away from physical access.

The terms of the access arrangements that will apply from I-SEM Go Live have been revised in accordance with the procedures set out in the licence condition. The UR has approved the terms of the revised access rules (see decision of 20 November 2017¹).

Paragraph 2(b) is to be amended so that the licensee is not obliged to enter into any agreement with any party for use of the interconnector if they have not undertaken to be bound by the terms of the relevant Codes. This is to ensure parties who have not signed up to all Codes are not denied potential access.

The scope of the provision also requires to be updated to include reference to the Capacity Market Code as well as the Trading and Settlement Code (as this is another regulatory obligation) that applicants for access to the interconnector may be subject to.

Effect(s) of the Modification

The effect of this proposed amendment is to update the name of the Condition to reflect the scope of the revised access arrangements for I-SEM.

The modification to paragraph 2b would mean that the licensee is not obliged to allow use of the Moyle interconnector by anyone not bound by the terms of the relevant Codes (to include the Capacity Market Code). Currently, Moyle is not permitted to allow use of the interconnector in such circumstances.

3.2.9 Modification of Condition 18: Functions of the Authority

Reason(s) for the Modification

At I-SEM Go Live, a new dispute resolution process contained within the Harmonised Allocation Rules (HAR) will come into force. As a result, the Condition is to be modified to make the existing dispute resolution process subject to the new HAR provisions for those disputes which fall within the scope of the HAR.

¹ <https://www.uregni.gov.uk/publications/approval-moyle-interconnector-access-rules-and-charging-methodology-statement>

Effect(s) of the Modification

This proposed modification gives precedence to the dispute resolution process contained within the HAR over the existing dispute provisions in circumstances where the HAR provisions are engaged. This reflects the new arrangements that will apply from I-SEM Go Live.

3.2.10 Modification of Condition 19: SEM Trading and Settlement Code and GB Balancing and Settlement Code

Reason(s) for the Modification

Under I-SEM arrangements, interconnectors will be able to participate in the Capacity Market. As such, and consistent with the position taken in relation to generators and suppliers, the licence is to be modified to include an obligation to sign up to and comply with the terms of the Capacity Market Code (insofar as applicable to the licensee). (SEMC Decision Paper SEM-17-033 provides further details on the Capacity Market including in relation to the participation of interconnectors in the market).

Effect(s) of the Modification

The proposed modification would place an obligation on the licensee to sign up to and comply with the Capacity Market Code insofar as it is applicable to it in its capacity as the owner of the Moyle interconnector.

4. Next Steps

The deadline for receipt of responses or representation to this UR Moyle Interconnector Transmission Licence consultation is Wednesday 17 January 2018.

UR will give consideration to all responses and representations before publishing a final decision, and the licence modifications published in the UR's decision will take effect not less than 56 days after such decision.