



Energy for
generations

**Response to:
Consultation on I-SEM Roles and Responsibilities**

SEM-15-016

April 17th 2015

Introduction

ESB welcomes the opportunity to respond to the Consultation on the I-SEM Roles and Responsibilities. General comments are given in Section One below. Section Two contains answers to the specific questions raised in the consultation paper.

1. General Comments

ESB supports the minded to position of the SEMC in relation to the assignment of new roles and responsibilities under I-SEM and agree that synergies exist in having a single entity perform the various market operator roles (including the NEMO role). However, notwithstanding the effective role performed by EirGrid/SEMO under SEM, we believe that conflict of interest exists between the market operator function and that of the TSO and that the SEMC should look to the existing governance structures in Europe as evidence of good practice to address this concern. Furthermore we believe the issue of conflicts of interest between ownership of EWIC by EirGrid and their role as TSO would be best addressed via a similar approach and that the matter should be consulted on by the regulatory authorities.

2. Answers to Consultation Questions

1. Do you agree that the TSOs should carry out the role of delivery body for the capacity mechanism?

ESB agree that the TSO is an obvious choice and natural fit to carry out the role of delivery body for the capacity remuneration mechanism (CRM). However, conflict of interest may exist between the TSO in this role of CRM delivery body, and their role more generally as TSO. An adequate level of business separation should be put in place between the CRM delivery body and the TSO.

2. Are there any synergies and economies of scope from having a single entity perform the I-SEM market operator roles, i.e. day ahead and intra day, imbalance settlement and capacity settlement? If so, how would these lower costs to consumers?

ESB agree that there will be synergies and economies of scope from having a single entity perform the Market Operator (MO) roles, especially for a market the size of I-SEM. However, we note that the NEMO role (for the Day Ahead and Intra Day market operations) cannot be exclusively awarded and so there is no guarantee that a single entity will perform all the roles in the I-SEM even if a single entity were to perform the imbalance and CRM settlement, and also be designated as a NEMO.

One area where savings may result, is if any credit arrangements could be streamlined as a result of a single entity performing various roles.

3. Do you think there are conflicts of interest arising from the same entity performing the market operator and TSO roles in the I-SEM? If so how would these increase costs to consumers and what mitigation measure could be put in place to deal with these?

Yes, ESB are of the view that conflicts of interest can arise as a result of the same entity performing the MO and TSO roles in the I-SEM.

Such conflicts ostensibly arise due to the differing objectives that exist between the market (to achieve an efficient dispatch) and that of the TSO (to operate a secure system while minimising constraint costs) which are not necessarily congruent, and where a decision to minimise constraint costs may not necessarily lead to lower costs for consumers. As such appropriate incentive frameworks must exist across the various market operator functions, that are distinct from incentives for the TSO function. In line with such incentives there should be an appropriate level of transparency and accountability around how decisions are reached.

Notwithstanding the issue of incentives and while we believe that the TSO/MO roles under SEM, in the form of EirGrid/SONI and SEMO, has been effective, we note also from Annex 1 of the consultation that in other European countries the NEMO is under a completely separate organisation structure to that of the TSO (albeit that the TSO retains ownership of a form). Given that the I-SEM project exists in order to conform with European requirements we believe a similar approach should be adopted for I-SEM, i.e. where the MO is a wholly separate entity, incorporating legal, financial, physical, staff and information separation. Such a structure will give the market confidence that any conflict of interest issues have been addressed.

The NEMO designation criteria in the CACM also require adequate business separation (as per 6.1(d) Table 4 in the consultation).

The conflict of interest discussion in the consultation is limited to that between the TSO and MO roles being carried out by the same entity. However there are other important conflicts of interest that may exist due to various I-SEM roles being carried out within the EirGrid Group. These include the role as CRM delivery body, (as noted in 1. above), and also the roles of Interconnector Owner, DS3 System Services Procurement Body and DS3 System Services Settlement. It is important that all these issues are considered when any business separation or other mitigating measures are being put in place.

4. Do you have any views on the RAs interpretation of the NEMO designation criteria?

Criterion 6.1(c) stipulates that applicants must show how they can implement the “most cost effective solution”. However it is not clear how this this will be determined in the absence of information on how a NEMO will charge and recover its costs. It is also not clear if applicants will then be compared against each other to establish which is the most cost effective option.

6.1 (c) also suggests that the SEM Committee expect that if SEMO are designated that they will be out-sourcing the market coupling functions, since they are not already carrying out such functions and it is “not cost effective to do so”. However, ESB believe it has not been clearly demonstrated that it would not be cost effective. It has emerged during the Euphemia testing that there are benefits to the local NEMO being a member of the PCR committee. Other benefits may emerge in the future. Therefore more consideration should be given to this issue before a final decision is made.

5. Do you have any views on the RAs proposed NEMO designation process?

Not much detail on the designation process, other than the list of criteria and the deliverable dates, has been included in the consultation .