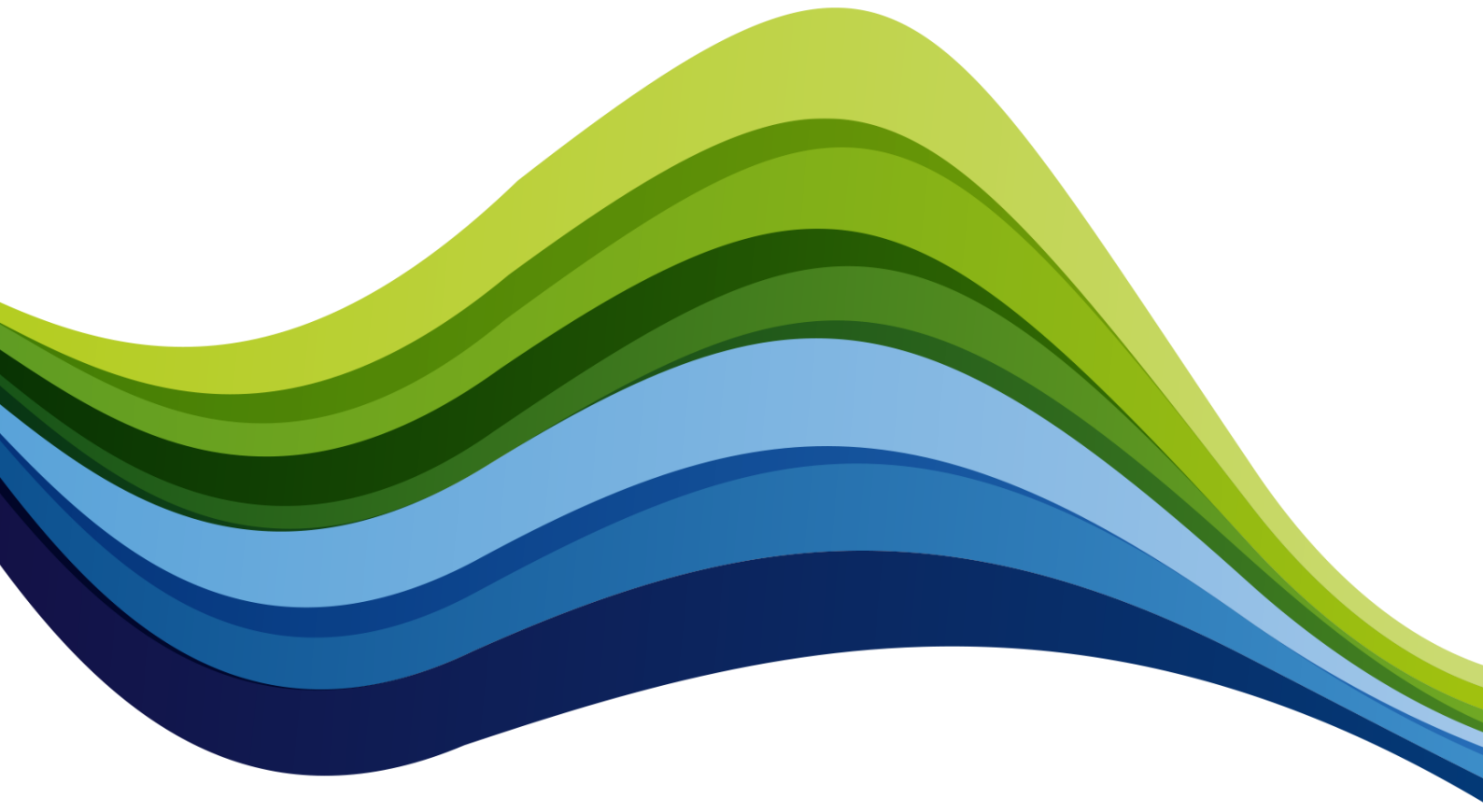
I-SEM

Roles & Responsibilities Consultation Paper

If you have any questions in relation to our response, please don't hesitate to contact me at connor.powell@sserenewables.com



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Dear Elaine, Leigh

Thank you for the opportunity to respond to the RAs discussion paper on Roles and Responsibilities within I-SEM. SSE is a utility with customers and assets in both Ireland and Great Britain – we have operated under a number of different electricity trading and transmission arrangements. We have tried to reflect this experience in our response.

Assignment and Designation

The introduction notes that:

"In order for each Member State to implement and comply with their obligations, CACM requires as a first step the assignment of roles and responsibilities to entities which are then charged with the development of methodologies, terms and conditions required to be submitted to regulators for approval prior to the coming into effect of the operation of the European Day Ahead and Intraday markets coupling."

Given that this is a regulatory, rather than legislative consultation, we would welcome confirmation from the RAs that both of the relevant Member States for RoI and NI have transferred responsibilities for assignment to the RAs, and share the form in which those responsibilities have transferred i.e.

- Does the appointment/designation relate to all of CACM or just certain articles?
- Is it evergreen, or does it have a timeframe/sunset clause associated with it?

It would be helpful for stakeholders to understand the vires of what has happened prior to this consultation; namely the transferring of responsibilities / powers granted to the Member State to the NRAs.

I-SEM Operational Roles

Delivery Body for the Capacity Mechanism

Given that a number of the different functions for capacity mechanism delivery are explicitly linked to core TSO functions, SSE would not have any significant concerns with the TSO carrying out the role of delivery body for the capacity mechanism. We would note that the design of auction rules **(commercial)** must be strictly separated from the delivery body function **(operational)**, and that the RAs should not be in position where they are dependent on TSO information for the design of auction rules.

Synergies and Economies of Scope

We appreciate that there are substantial synergies arising from a single entity performing the I-SEM market operator roles, particularly in relation to:

- Market interface
- Credit/Collateral

The key is ensuring that the single entity performing these functions can actually capture those synergies and economies of scope, particularly if the entity chosen has a specific ownership structure that prevents it from offering standard commercial terms or applying a standard risk management approach[1]. If the RAs are unable to ensure that synergies can be fulfilled by the single entity, then assignment of roles should focus more on managing conflicts of interest.

Conflicts of Interest

The consultation paper notes that:

"There is currently no legal or functional separation between the Single Electricity Market Operator (SEMO) and the TSOs, whilst in every other EU market, the power exchange/market operator is legally and functionally separate from the TSOs."

And that:

"Specifically some market participants have pointed to a conflict between EirGrid as owner of the East West Interconnector and their TSO role as procurer of ancillary services, the provision of which the East West Interconnector could compete with other market participants for."

Concerns about functional and legal separation increase under I-SEM – **the TSO is not only procuring (an enhanced range of) ancillary services but explicitly participating in and procuring balancing energy through an actively traded market.**

The conflicts of interest that arise from ownership of EWIC and the TSO and MO function cannot be considered separate to the TSO certification process. In SEM, EirGrid Group has demonstrated that its interests as owner of EWIC cannot be clearly separated from its core TSO or MO functions. The SEM Committee noted in relation to one market modification proposal from the TSO that:

"The Modification Proposal appears to introduce new areas of discrimination in relation to a class of Parties (Interconnector Users and Interconnector Owners). The FRR does not go into detail on this point and the FRR does not explain why such discrimination would comply with the Code Objective "to ensure no undue discrimination between persons who are parties to the Code".

We recognise the RAs would like to quantitatively assess the impact of the conflict, but as demonstrated below it is difficult to 'quantify' these risks. Because the conflict posed by the

[1] The existing SEM trust arrangements are a solution to very specific legal issues, but they are also a solution to ownership (principal) issues.

unique lack of legal/functional separation between MO and TSO is so large, you can only produce a qualitative *value at risk* type assessment.

Step	Notes
1. Identification of the conflict	The TSO has no functional or legal separation from the MO, but under I-SEM is not only procuring (an enhanced range of) ancillary services but explicitly participating in and procuring balancing energy through an actively traded market.
2. Assessment of how the conflict could translate into higher costs for all-island consumers	The TSO has incentives (financial and non-financial) to pass balancing and system operation costs through to participants through the various different I-SEM markets. This could lead to substantial distortions in allocation of all-island market costs and incentives. The ability to act on this conflict also creates misincentives for agents carrying out their assigned (and critical) functions within the group entity. All of these could substantially impact all-island consumers.
3. Assessing the ability of the party to act on such a conflict	The TSO has no functional or legal separation from the MO, with agents having: • shared information • shared property and facilities • behavioural and financial incentives to act on conflicts • a common principal (owner)
4. Assessing the incentive of the party to act on such a conflict	The TSO and its agents have behavioural and financial incentives to act on existing (and under I-SEM) broadened potential conflicts.
5. Putting in place mitigation measures to deal with the conflict	Functional and legal MO and TSO separation should be considered. We would also stress that the potential conflicts for EirGrid as asset owner of EWIC should be considered and either eliminated or robustly managed as part of the I-SEM development process.

We are pleased to see that these conflicts of interest will be further considered and consulted on by the RAs later in the I-SEM process.

NEMO Designation

The approach to designation set out by the RAs for Ireland and RoI appears to be robust and fits the designation criteria under CACM. We would make a couple of additions to the applications defined within the consultation paper:

Criterion	CACM Article Criteria	Application of the Criteria in Ireland and Northern Ireland
6.1.(a) Adequate Resources	It has contracted or contracts adequate resources for common, coordinated and compliant operation of single market coupling	Applications should provide evidence of how they intend to provide resources to represent I-

	and/or single intraday coupling, including the resources necessary to fulfil the NEMO functions, financial resources, the necessary information technology, technical infrastructure and operational procedures or it shall provide proof that is able to make these resources available within a reasonable preparatory period before taking up its tasks in accordance with Article 7.	SEM at EU level. Applications should provide evidence of how they intend to coordinate market code development with any other designated NEMOs. We believe some wording is required to ensure that the NEMO is compelled to represent I-SEM at EU level, and to ensure that market code development is coordinated.
6.1.(h) Transparency and Confidentiality	It shall have in place appropriate transparency and confidentiality agreements with market participants and the TSOs.	Applications shall provide evidence of appropriate transparency and confidentiality agreements and controls/proposed transparency and confidentiality agreements and controls which the applicant intends to implement related to market information with market participants and TSOs. We believe some wording is required to ensure that the NEMO demonstrates more than the ability to put in place NDA agreements (or equivalents) – adequate controls are needed in order to manage potential conflicts of interest.