

Single Electricity Market Operator

ROI: The Oval, 160 Shelbourne Road,
Ballsbridge, Dublin 4
Tel ROI: 1800 778 111
Fax: +353 1 6615375
VAT No: IE 6358522H

NI: Castlereagh House,
12 Manse Road, Belfast, BT6 9RT
Tel NI: 0800 077 8111
Fax: +44 2890 707 560
VAT No: GB 945676869

www.sem-o.com



Elaine Gallagher
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Leigh Greer
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

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Re: SEM-15-060: Modification of the Trading & Settlement Code to Implement I-SEM

Dear Elaine and Leigh,

We are writing in response to the publication of the SEM Committee's information note on the proposal to develop the I-SEM through the modification process to the SEM Trading & Settlement Code. Market Rules for SEM consist of the latest approved Trading & Settlement Code, Agreed Procedures and any approved Modifications ("Market Rules"). SONI and EirGrid are jointly required under their Market Operator licences to administer the Trading and Settlement Code, including the modifications process.

In this role, we are of the view that amending the current Market Rules to the extent required to comply with the new EU Network Codes is the most pragmatic way of dealing with the changes required for the I-SEM, rather than drafting new rules, which would include establishing a new governance structure, from scratch.

Transitioning the Market Rules from SEM to I-SEM will be a large-scale project and buy-in from all stakeholders is essential. We agree with the SEM Committee that it would be in the interests of all stakeholders (RAs, TSOs, Market Operators, Interconnector Owners and Market Participants) in terms of seeking to achieve the most efficient use of resources, to build on the Market Rules currently

in place, with the Modifications Committee managing the transitioning process by making use of the existing governance arrangements of the Modifications Committee and working groups.

To take just one example, Sections 1 and 2 of the current Trading & Settlement Code which include interpretation and legal and governance provisions (such as governing law and jurisdiction, obligations on parties, modification process, dispute resolution, force majeure, confidentiality and other legal boilerplate clauses) could remain largely the same for I-SEM. It may also be possible to retain rules setting out principles that would still be applicable in I-SEM, or rules that are not system specific.

As the review process will need to consider all the provisions within the current code, including those that are now redundant or time-expired, the process would also present an opportunity to review and "tidy up" the Trading & Settlement Code, by deletion of redundant sections and removal of appendices which are no longer relevant. For example, Sections 7, 8 and 9 which deal with interim and transitional arrangements from the old market to SEM could be deleted.

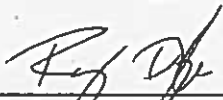
There are, however, three important issues that need to be reflected in the work programme and terms of reference for the process:

1. The timeline proposed in the information paper is extremely ambitious with a lot of work to be completed within a relatively short period of time. This will require resources being available across all parties in the industry to actively support and engage in the process. The RAs, TSOs, Market Operators, Interconnector Owners and Participants will have to devote personnel who are knowledgeable and capable of delivering the revisions to the Market Rules by Q4 2016.
2. Some 46 outstanding issues that need to be resolved during the implementation phase of the I-SEM are listed in the SEMC decisions published on September 11th relating to the Energy Trading Arrangements Building Blocks and Markets consultations, and the AOLR. These can be found in the appendices to each document. A number of these items need to be clarified before the scope of the IT systems for TSOs and Participants are finalised. Uncertainty will reduce the efficiency of implementation and will increase risk to timely delivery and / or implementation costs. These issues include the rules around determination of imbalance pricing, detailed algebra for imbalance settlement, and a number of issues relating to the operation of the power system (such as rules around Physical Notifications, the process for separating energy actions from non-energy actions, etc.). The agreed project timeline for implementation of the I-SEM requires that any IT systems required for the new market arrangements will be contracted in Q4 2015 while the timeline for development and agreement of the market rules will be Q4 2016. Given the timelines for implementation of the I-SEM and the outstanding design issues which must be resolved for system implementation, it is essential that these design issues are resolved in Q4 2015 to avoid potential delays or increased costs for I-SEM. Therefore, the proposed Working Groups should be established immediately and address these key items as a matter of priority on an accelerated timeline.
3. It should also be remembered that the Modifications process can only deliver changes required to the Trading & Settlement Code and Agreed Procedures. Rules that sit outside the T&SC will need to be addressed through a parallel process, perhaps with a series of Rules Liaison Group meetings. Additional rules will need to be developed for participation in the day-ahead and intraday markets, including settlement of these. It should be expected, as is practice elsewhere in Europe, that any designated NEMO will operate a dedicated rulebook

for their platforms and modifications to the Trading & Settlement Code should not create any inconsistencies in this respect. Equally, it is likely that the rules for the auction of reliability options and Financial Transmission Rights will be handled through separate rulebooks. With respect to Financial Transmission Rights, this may also include settlement rules relating to these. The framework for the AoLR will also need to be established in a parallel process. Modifications to the Grid Code need also to be considered for the implementation of the I-SEM.

To conclude, to facilitate the efficient development of the new market rules for I-SEM building on the current Market Rules will save time and deliver on the requirements of the new arrangements. This will involve amending the current rules to the extent required to comply with the new EU Network Codes. We agree with the SEM Committee's proposals that the Modifications Committee manage the transitioning process from SEM to I-SEM market rules, using the governance arrangements in place for the Modifications Committee and working groups.

Yours faithfully,



Rodney Doyle
Director, Market Operations

