

Implementing the Target Model in SEM ***SEM Market Integration Project***

Project Governance Arrangements

15 February 2013

1. Background

This document, outlining governance arrangements to guide the next stage of the Market Integration project, has been prepared jointly by both departments, DCENR and DETI and agreed with SEM RAs, Commission for Energy Regulation (CER) and Utility Regulator (UR). The document is published for information and the arrangements will be expanded upon when project office set up is established. These arrangements will be reviewed and will evolve as the project progresses.

For some time now the administrations in Northern Ireland and Ireland have cooperated actively on energy policy. There is top level political commitment in both jurisdictions to the development of competition in the energy sectors in the interests of delivering improved services and economic benefits to customers.

Competition on an island-wide and regional basis is likely to increase the choices available to customers and to support continued economic growth. Co-operation between Northern Ireland and Ireland on energy matters takes place under the auspices of a Joint Steering Group (JSG) established in July 2003. The group comprises of senior officials from the Department of Communications, Energy & Natural Resources (DCENR) and the Department of Enterprise, Trade and Investment (DETI) and the

offices of the two Regulatory Authorities, the Commission for Energy Regulation (CER) and the Northern Ireland Authority for Utility Regulation (NIAUR).

The all island electricity market or Single Electricity Market (SEM) has developed from the all island energy project. The aim of the project is to create a single market for natural gas and electricity on the island of Ireland. The project was started following a joint policy decision by the Minister for Enterprise, Trade and Investment in Northern Ireland and the Minister for Communications, Marine and Natural Resources to create the all-island energy market. The Development Framework for the All Island Energy Market was published jointly by the Departments and Regulators in November 2004.¹ In this document the All-island Energy Market, as defined by the Joint Steering Group (JSG) is set out as follows:

An All-island Energy Market should provide for competitive, sustainable and reliable markets in electricity and natural gas on the island of Ireland at the minimum cost necessary. It should operate in the context of the EU internal energy market and should deliver long-term economic and social benefits that are mutually advantageous to Northern Ireland and the Republic of Ireland. Customers, irrespective of where they live, should be free to source their energy needs from suppliers and service providers anywhere on the island and generators be able to participate freely regardless of the jurisdiction.

The Governments of the United Kingdom and Ireland signed a Memorandum of Understanding (MoU) on the Single Electricity Market (SEM) in December 2006. The document describes the arrangements in relation to the establishment of and operation

¹ http://www.dcenr.gov.ie/NR/rdonlyres/BCF98EC4-7321-4E3F-8685-BFFCA2BF2DF4/0/All_island_Energy_Market_Development_Framework.pdf

of a single wholesale electricity market in Northern Ireland and Ireland. SEM arrangements were designed to:

...promote the creation of a single competitive, sustainable and reliable market in wholesale electricity in Northern Ireland and Ireland within the context of the European Union's policy on the creation of an EU-wide internal market for electricity, while aiming to minimise the cost of establishing such a market.²

Subsequent legislation in Northern Ireland and Ireland then established the SEM Committee, a committee of CER, NIAUR and an Independent Member, to enable effective decision-making on single electricity market matters and to make provision for the objectives of Ministers and RAs with regard to matters which affect, or are likely to affect the SEM.³

2. SEM and the Electricity Market Integration

The EU Third Energy Package, adopted by the Government of the United Kingdom and by the Government of Ireland in 2009, provides for the creation of the internal electricity market through Network Codes that are annexed to Regulation 714/2009/EC. The impetus for an expeditious completion of the internal market for energy was given by the decision, in the European Council Conclusions of 4 February 2011 to achieve the completion of the internal market for energy by 2014:

The internal market should be completed by 2014 so as to allow gas and electricity to flow freely. This requires in particular that in cooperation with ACER national regulators and transmission systems operators step up their work on market coupling and

² <http://www.dcenr.gov.ie/NR/rdonlyres/4AC2096B-EB0D-417B-BB61-21971367B31E/0/SEMMOU.DOC>

³ Section 4 of the Electricity Regulation (Amendment) (Single Electricity Market) Act 2007: <http://www.oireachtas.ie/documents/bills28/acts/2007/a507.pdf>

guidelines and on network codes applicable across European networks. Member States, in liaison with European standardization bodies and industry, are invited to accelerate work with a view to adopting technical standards for electric vehicle charging systems by mid-2011 and for smart grids and meters by the end of 2012. The Commission will regularly report on the functioning of the internal energy market, paying particular attention to consumers including the more vulnerable ones in line with the Council conclusions of 3 December 2010.⁴

As the SEM is an island system with central dispatch, and will require greater changes than other electricity systems in the EU, the system received an extension on the deadline for compliance to 2016. In order to meet the requirement of these Network Codes, the Departments have tasked the SEM Committee to oversee a project that will ensure the electricity market in Northern Ireland and Ireland is compliant with the relevant EU legislation and Network Codes. Compliance with internal market rules is not an end in itself. It should achieve better outcomes for EU citizens, such as contributing to economic growth, jobs, secure energy at affordable prices and sustainability in energy use, by enabling electricity and gas to flow more freely.

3. Roles and responsibilities within project governance structure

Government Ministries have policy and legislative responsibility for electricity markets and, having adopted the EU Third Energy Package legislation, have clearly committed to achieving the internal market for energy which necessitates changes in existing SEM market arrangements. With the approval of the Department of Enterprise Trade and Investment (DETI) and the Department of Communications Energy Natural Resources (DCENR) the SEM Committee has established an All-Island Project Team led by the Regulatory Authorities and involving SEM TSOs and the SEM Market Operator, given

⁴ European Council Conclusions, 4 February 2011:
<http://register.consilium.europa.eu/pdf/en/11/st00/st00002-re01.en11.pdf>

the explicit role given to TSO in the Third Energy Package with regard to compliance with the Network Codes. The Project Team reports in the first instance to the SEM Committee, which may, when required, recommend market change to DETI and DCENR.

The Departments have tasked, and will monitor progress of, the all-island Project Team, acting under the aegis of the SEM Committee and the Regulatory Authorities, to deliver a project that will achieve EU electricity market integration through compliance with the Target Model by the required deadline of 2016. Accordingly, Departments have identified the need to establish a clear governance structure to allow for effective monitoring of progress and engagement with all key stakeholders.

It is proposed that a number of bodies/groups will be established, some falling under the guidance of the Joint Steering Group of the Departments to monitor governance arrangements, reporting, project supervision and completion is achieved.

These are outlined below. In addition to the roles and responsibilities outlined here, Departments will be responsible for delivering any legislative change necessary to underpin compliance.

1. DCENR/DETI Steering Committee (sub-committee of Joint Steering Group, JSG).

Purpose:

- A sub-committee of the JSG, acting as the forum for interaction between Departments and SEM Committee Project team (as required) on the project.

Key Responsibilities:

- Monitor progress of Project Team in reaching compliance and report to JSG.
- Responsible for review and coordination of necessary legislation.
- Other Member State issues that arise in particular those arising from the UK – Ireland Steering Committee.

Membership:

- Department of Enterprise, Trade and Investment (DETI).
- Department of Communications, Energy and Natural Resources (DCENR).
- SEM Committee Project team to attend as required.

Informed by:

- SEM Committee Project Office and Project Team
- UK – Ireland Steering Committee

Meeting Schedule:

- Quarterly.

2. UK/Ireland Steering Committee (subgroup of FUI Group)

Purpose:

- A sub-group of the France-UK-Ireland (FUI) group, the committee will meet to discuss overall policy issues related to the internal market for energy in the regional context of UK-Ireland and the FUI group.⁵

Key Responsibilities:

- Identify areas of policy compliance and explore how these will be addressed
- Explore areas of Cross Border cooperation and compliance requirements
- Liaise with larger FUI Group or the NWE regional group as appropriate

Membership:

- DCENR, DETI to chair the group.
- DECC.
- Regulatory Authorities (CER, UR, OFGEM,).

Informed by:

- SEM Committee Project team
- DCENR/DETI steering committee

Meeting Schedule

- Meetings to be held biannually or more frequently if necessary.

⁵ In 2006, the European Regulators Group for Electricity and Gas (ERGEG) launched seven electricity Regional Initiatives (RIs), aimed at bringing together NRAs, TSOs and electricity market participants on a voluntary process to advance electricity market integration on a regional basis. One of the regions is the France-UK-Ireland (FUI) region comprising of the UK, Ireland and France. Ofgem is the lead regulator for the FUI region. Under Third Package legislation ERGEG has since been replaced by the Agency for the Cooperation of Energy Regulators (ACER).

3. Regulatory Authority Project Office

Purpose:

- Responsible for the implementation of the European Target Model.

Key Responsibilities:

- Consultation on design changes and recommendations to SEM Committee
- Project Office resourcing.
- Project management.
- Oversight of organisation of required meetings.
- Liaise with TSOs and SEMO Target Model Implementation Teams
- Stakeholder engagement and management.
- Consultant management.
- Design Option Analysis
- Impact Assessment including costs

Membership:

- Single Project Manager.
- Utility Regulator (UR)
- Commission for Energy Regulation (CER).

Informed by:

- ACER, European Commission, ENTSO-E and European Network Codes
- DCENR/DETI steering committee
- Joint Regulatory arrangements with Ofgem
- Stakeholder Forums
- Technical input from independent consultants on market design

Meeting Schedule:

- Not Applicable – Project office will operate as a full time entity

4. Joint Regulatory Arrangements with OFGEM and SEM Committee

Purpose:

- SEM Committee and OFGEM to establish formal cross-border working arrangements to ensure the European Target Model is implemented in a coherent and compliant manner. As a condition of the exemption granted to Ireland and Northern Ireland from compliance with the Network Code on Capacity Allocation and Congestion Management (CACM) until 31 December 2016, the Regulatory Authorities of Northern Ireland, Ireland and Great Britain are required to report, at a minimum quarterly, to ACER on progress towards achieving full implementation of and compliance with the Network Code on CACM.⁶

Key Responsibilities:

- Ensure compliance with the Target Model and other regulatory requirements at Regional and European Level
- Formal Link between SEM and NWE region
- Quarterly reporting to ACER on progress towards achieving full implementation of and compliance with the Network Code on CACM

Membership

- OFGEM
- SEM Committee (Directors and Project Team).

Informed by:

- European Network Codes
- EU Regulatory Requirements

Meeting Schedule:

- Quarterly.

⁶ <https://www.entsoe.eu/resources/network-codes/capacity-allocation-and-congestion-management>

5. Stakeholder Forum on the Internal Electricity Market

Purpose:

- To act as a forum for discussion with stakeholders on matters pertaining to the internal market for electricity and related European Framework Guidelines and Network Codes.

Key Responsibilities:

- Discuss the latest developments with European Framework Guidelines and Network Codes which are being progressed as part of the EUs Third Package legislation to facilitate the completion of an internal market in electricity
- Contribute to and inform decision making on Target Model Compliance reporting to the Regulatory Project Office
- Market readiness for requirements of European Network Codes
- Coordination of industry concerns/issues
- Coordination of responses to Consultations
- Structured engagement with Industry

Membership:

- Regulatory Authorities (UR, CER), Chair
- DCENR/DETI
- Transmission System Operators (EirGrid-SONI) and SEMO
- Industry Stakeholders

Informed by:

- ACER, ENTSO-E and European Commission
- UK-Ireland Steering Committee
- Stakeholders

Meeting Schedule:

- Bimonthly or more frequently if necessary.

6. Stakeholder Forum on Implementing the Target Model in SEM

Purpose:

- To act as a Project Communications Forum to involve market participants and consumer groups in the development of the market design and implementation of the design.

Key Responsibilities:

- Communicate market updates
- Engage with market participants and consumer groups on development of the Market Design and inform Regulatory Authority Project Office
- Engage with market participants and consumer groups on the implementation of the proposed Market Design and inform Regulatory Authority Project Office
- Engage with the TSOs and SEMO implementation teams on the implementation of the proposed Market Design and inform Regulatory Authority Project Office

Membership:

- Regulatory Authority Project Office
- Market Participants
- Consumer Groups
- Transmission System Operators (EirGrid-SONI) and SEMO
- DCENR/DETI

Informed by:

- Regulatory Authority Project Office
- JSG

Meeting Schedule:

- Meetings / workshops will be determined by the Regulatory Authority Project Office as the project progresses.

