SEMOpx Price Control
Draft Determination Consultation Paper
A response by EirGrid plc and SONI Ltd.

This document sets out the views of EirGrid plc and SONI Ltd on the points made by the RAs in the SEMOpx Price Control Draft Determination Consultation Paper (SEM-17-053)

07 September 2017
Contents

1. Introduction ................................................................................................................................. 2
2. Opex ............................................................................................................................................... 3
   2.1 Facilities Costs/Overheads........................................................................................................ 3
   2.2 Disallowance of Market Surveillance Support Costs............................................................... 5
   2.3 Removal of Management Fee/RAB WACC Approach............................................................. 6
   2.4 Cost Uncertainty ....................................................................................................................... 9
5. Performance Standards for SEMOpx ............................................................................................ 10
6. Other ........................................................................................................................................... 11
   6.1 Independence .......................................................................................................................... 11
   6.2 Licence Codification .................................................................................................................. 12
1. Introduction

EirGrid plc, the designated NEMO for Ireland, and SONI Ltd, the designated NEMO for Northern Ireland, through a contractual joint venture intend to operate the SEMOpx. In this document the name ‘SEMOpx’ is used as shorthand for EirGrid plc and SONI Ltd in their respective capacities as designated NEMOs.

SEMOpx welcomes the opportunity to respond to the Commission for Energy Regulation (the ‘CER’) and the Utility Regulator Northern Ireland (the ‘UR’), collectively known as the Regulatory Authorities (the ‘RAs’), consultation on the SEMOpx Price Control Draft Determination (SEM-17-053) (the ‘Consultation Paper’).

SEMOpx’s price control submission represented, and continues to represent, the best estimate of the expected expenditure required for providing a power exchange for the wholesale integrated electricity market for the island of Ireland over the period May 2018 (I-SEM Go-Live) to end September 2019 (the end of the current designation period). It is crucial that sufficient revenues are allowed in order to provide this service to the I-SEM. SEMOpx is currently the only designated NEMO in I-SEM.

Whilst there are a number of aspects of the draft determination which are welcome, SEMOpx wishes to see the following amended in any final decision.

- The current proposed regulatory framework, which is premised on an entire absence of remuneration is not sustainable, is not financeable and fails to remunerate SEMOpx for the provision of NEMO services to the I-SEM market. The rationale on which the RAs have arrived at this position, by reference to the totally separate TSO licensed businesses is flawed and represents an error in the context of the statutory framework which provides for the standalone financeability of individual licensed entities. The risks are not clearly set out and there is no suggestion that SEMOpx is a risk free business nor would it be in consumers’ interests that it were treated as one. As such that set out simply cannot stand.

- The overheads associated with the SEMOpx business need to be provided for. In particular the RAs have, perhaps inadvertently, not compared like with like when assessing SEMOpx overheads against those of other licensed businesses within the EirGrid Group. Once the overheads are provided on a like for like basis any differential is significantly reduced.

- Market Surveillance costs must be provided for as they have been disallowed on a misunderstanding of the arrangements.

- Performances Standards must be carefully considered and should not apply from I-SEM go live.
2. Opex

SEMOpx welcomes the RAs proposal to provide labour costs consistent with that sought by SEMOpx and the RAs statement that “We conclude that given the business position of SEMOpx the level of resourcing, utilising internal efficiencies is reasonable.”

As noted by the RAs, “The efficient costs assume an ability to utilise a single team across a number of activities shared with SEMO. [...] which would not be realised if there was a requirement for the two activities to be kept separate. [...] we are not of the view that any such separation is required [...].” SEMOpx welcomes the recognition of these savings and would also highlight that a notable portion of the cost savings are driven by centralised systems and associated IT support arrangements which are provided across the Group. Any requirement that would prevent such an arrangement would in turn lead to increased costs.

We acknowledge that there is uncertainty over the third party costs at this time and welcome the RAs’ proposal that further consideration will be given to same in advance of the final determination and welcome the RAs proposal to treat costs outside of the control of SEMOpx (CACM, PCR, NEMO Committee etc.) as pass-through. We are however concerned in regard to a number of decisions and statements in the RAs Consultation Paper and have addressed these in turn below.

2.1 Facilities Costs/Overheads

In Section 1.1 the RAs state that

“[ ] the RAs are minded to reduce the requested Operating Expenditure by c.15%. These proposed reductions are based primarily on a reduction in the overhead allocation to SEMOpx, to align with the Price Controls enduring for the TSOs i.e. EirGrid and SONI. [ ]”

The proposed disallowance of revenues on the basis asserted above and further set out in Section 2.3 of the Consultation Paper is premised on a factual misrepresentation of the costs across the current price controls. The numbers set out are simply not analogous.

SEMOpx is therefore concerned by the RAs’ assertion in both the text of the document and the footnote on page 14 of the Consultation Paper that the costs are “reported on a consistent basis” when this is not in fact the case. Moreover, the fact that the price control arrangements are not consistent across the controls is noted by the RAs themselves in their previous determinations on SEMO1 for example where premises costs associated with MO operations in Ireland are provided for as these do not fall within the EirGrid TSO controls whereas no costs are included for premises costs for MO operations in NI.

SEMOpx outlines below for completeness why the comparative basis used by the RAs is factually incorrect and whilst it is not feasible or practicable to seek to back engineer out explicit like for like

---

1 Ref: SEM-16-043 Section 7.4
comparisons for each category have nonetheless endeavoured to adjust the information provided to give the RAs a closer comparator of costs across the Price Controls.

In particular:

- The structure of the respective PCs is not consistent and how the input data is requested, interpreted and presented is different in each case;
- HR and Procurement services are a direct service to the TSO (costs associated with same are within the ‘Staff costs’ in these controls but are overheads to MO (cost are thus in the Overhead or Corporate Services categories). Some legal and public affairs costs are similarly treated;
- The treatment of facilities costs is very different in respect of;
  - SONI TSO – Castlereagh House Control Centre is owned by SONI and dealt with under the RAB;
  - EirGrid TSO – costs are subject to lease treatment and thus appear in the Opex costs;
  - SEMO – as a hybrid arrangement only includes lease treatment of facilities associated with the 75% allocation of staffing to EirGrid MO; and
  - SEMOpx – as a hybrid arrangement will again have facilities treated consistent with the SEMO arrangements.
- The hybrid nature of the SEMO and SEMOpx costs base which is a combination of staff from EirGrid and SONI, a point in time EU/Sterling rate, and a hybrid inflation rate cannot be directly compared to the respective jurisdictional SO controls. This exchange rate volatility has always been recognised and adjusted for in the context of the SEMO business.

It is again noted that the figures are only suitable for high level comparative purposes, and as can be seen in Table 1 the different treatment of facilities (RAB vs Lease Agreement between SONI and EirGrid) is a notable driver of the differences in the SO controls.

<table>
<thead>
<tr>
<th>Average FTE Values</th>
<th>Existing EirGrid TSO</th>
<th>Existing SONI TSO</th>
<th>Existing SEMO (PC 13-15)</th>
<th>Existing SEMO (in wind-down PC 16-19)</th>
<th>SEMOpx 12 month equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost per FTE</td>
<td>112</td>
<td>104</td>
<td>112</td>
<td>99</td>
<td>120</td>
</tr>
<tr>
<td>Overheads per FTE</td>
<td>25</td>
<td>15</td>
<td>31</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>Adjustment of Overheads to enable comparison on a similar basis (ex. SONI)</td>
<td>-</td>
<td>-</td>
<td>-11</td>
<td>-11</td>
<td>-11</td>
</tr>
<tr>
<td>Overheads for Comparison</td>
<td>25</td>
<td>15</td>
<td>20</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>Payroll costs per FTE</td>
<td>87</td>
<td>89</td>
<td>82</td>
<td>68</td>
<td>84</td>
</tr>
</tbody>
</table>

Table 1 – Average FTE Values

SEMOpx costs as noted in the Consultation Paper are premised on the assumption that costs are “provided on a combined basis between EirGrid as NEMO and SONI as NEMO on a 75:25 basis respectively”. Thus in seeking a comparator for overhead costs a blended EirGrid TSO (75%) and SONI TSO (25%) enduring proxy would be a better comparator. On the basis of the above this provides
<table>
<thead>
<tr>
<th>Overheads per FTE</th>
<th>Enduring TSO (75:25)</th>
<th>SEMOpx 12 month Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€22,500²</td>
<td>€25,000</td>
</tr>
</tbody>
</table>

Therefore whilst the RAs suggest there is an €11,000 per FTE gap between SEMOpx overheads and those across the other controls, once a like for like comparison is produced, recognising no absolute like for like comparison is possible this is simply not the case. This error must be corrected.

### 2.2 Disallowance of Market Surveillance Support Costs

The RAs state in the Consultation Paper that “from the ongoing review of I-SEM set up costs market monitoring systems are now considered out of scope and are planned to utilise systems operated by EPEX.” On this basis the RAs propose to disallow €43k from the costs submitted by SEMOpx.

There appears to be a misunderstanding of the arrangements being put in place to enable SEMOpx to fulfil its obligations under REMIT. While SEMOpx acknowledges that the build of a market surveillance system has been de-scoped from I-SEM implementation for Go Live, it is not the case that SEMOpx will “utilise systems operated by EPEX” and indeed it is expected that the system requirements will be considered for development as part of the I-SEM Day 2 project.

In accordance with Regulation (EU) 1227/2011, there is an obligation on SEMOpx to report under the Regulation on Wholesale Market Integrity and Transparency (REMIT). REMIT is aimed at detecting and deterring market manipulation and insider trading that could distort wholesale energy prices and therefore increase retail prices. The REMIT monitoring regime requires disclosure of price-sensitive information, and imposes direct obligations and prohibitions on market participants. It also imposes specific obligations on exchange operators in their capacity as persons professionally arranging transactions in wholesale energy products (PPATs). Any PPAT is obliged to:

1. establish and maintain effective arrangements and procedures to identify breaches of Article 3 (prohibition on the use of inside information) and Article 5 (prohibition of market manipulation) of REMIT; and
2. notify the Commission for Energy Regulation or the Utility Regulator (as the applicable national regulatory authority in the Republic of Ireland or Northern Ireland) where it suspects that a transaction might breach Article 3 or Article 5 of REMIT.

The goal of Market Surveillance and Reporting is to ensure proper oversight of the operation of the different market places for which EirGrid and SONI, in either their role as TSO, SEMO or SEMOpx, are responsible for administering, the licensees do not have an enforcement role in these matters. The key roles relate to observing market behaviours including:

- the identification of market dominance issues;

² Blended TSO(25,000*.75)+(15,000*.25)=22,500
identification of bidding strategies that are not consistent with SEMC policies; and
- testing for irregularities and reporting on these to the relevant authorities.

A summary of activities that will need to be done in SEMOpx in order to comply with REMIT include:

- **Day Ahead Market (DAM)** – review different approaches to obtaining a market schedule from SEMOpx to determine if dominant participants can foreclose the DAM based on market data access, impact of renewable behaviour, including impact of assetless traders;
- **Intraday auctions** – as above, but taking account of arbitrage opportunities between the DAM and Intra Day markets considering whether certain participants have advantages over others; and
- **Intraday continuous** – as above, considering capability of certain participants to manage forecast changes and whether these can be used to foreclose other participants.

As noted above while the development of a dedicated system has been de-scoped from delivery for Go Live, the obligations remain and it is not the case that SEMOpx will “utilise systems operated by EPEX”. EPEX has stated that they will not take responsibility for market monitoring as it is more appropriate for it to be done at a local level. EPEX will not be providing Market Monitoring Services or Tools to SEMOpx. Rather, EPEX will simply provide SEMOpx with access to data. SEMOpx must then have the systems to interface with the EPEX systems in order to obtain and interrogate the data for onward reporting.

As a result, the estimated amount of €43k (over the 16 month period) for SEMOpx will be required to either:

1. support existing systems which will facilitate a work around in the absence of a dedicated system for Go-Live; or
2. support a new market surveillance and reporting system once it is built (to be considered as part of the Day 2 project).

### 2.3 Removal of Management Fee/RAB WACC Approach

In Section 1.1 of the Consultation Paper the RAs state that;

“[ ] the RAs are minded not to permit SEMOpx’s proposed management fee, primarily on the basis that a return attributable to SEMOpx establishment costs will be garnered via the TSOs RABs at the respective prevailing WACCs of EirGrid and SONI.”

As noted by the RAs under Article 76(3) of CACM, NEMOs are entitled to recover costs which have not been borne by TSOs by means of fee or other appropriate mechanisms only if the costs are ‘reasonable and proportionate’. The RAs further state that “No reference is made to an appropriate level of return”. SEMOpx are concerned with the inference of the RAs statement here. Are the RAs seeking to interpret CACM as implying that NEMOs should not make a return, effectively operate on a ‘not for profit’ basis?
As noted at the outset of the Consultation Paper “it [SEMOpx] operates in an environment where competition amongst NEMOs is in place”. The operating model of NEMO in such a competitive market is a matter for the NEMO itself and to imply that CACM precludes a NEMO making a return is a perverse interpretation of the arrangements.

The RAs have set forth a number of arguments to underpin their positon on the application of a WACC/RAB approach as opposed to that of a Margin. However, there are number of fundamental flaws in these arguments; each of these has been addressed below:

- “It should be noted that as per SEM Committee Decision Paper 17-044, the setup costs of SEMOpx are being recovered via capitalised costs attributed to the respective parent companies of SEMOpx i.e. EirGrid and SONI. Such capitalised costs will earn a return on capital at the respective TSO WACC rates for EirGrid and SONI. [ ], the RAs are of the view that the application of a return via the RAB-WACC approach compensates for the level of residual risk borne by the designated NEMOs.” [Emphasis added]

SEMOpx acknowledges and supports the RAs proposed treatment of the SEMOpx’s setup costs (the costs associated with the establishment of SEMOpx and getting the market coupling systems in place). The proposed approach is consistent with the scope of CACM which permits such setup costs to be recovered via the TSOs. Article 76 of CACM states that “Subject to agreement with the NEMOs concerned, TSOs may make a contribution to the costs provided for in paragraph 1 subject to approval by the relevant regulatory authorities.”

This Article of CACM also provides subject to agreement with the NEMOs concerned, that the TSOs may make a contribution to costs related to the “costs of operating single day-ahead and intraday coupling", subject to approval of the RAs.

However, what is being proposed by the RAs is not that the TSOs make contributions to the operating costs but employ the return earned by the separately licenced and regulated TSOs to underpin and compensate SEMOpx “for the level of residual risk borne by the designated NEMOs”. Such a proposal would be a potential breach of not only conditions in the respective TSO and MO licences which preclude cross-subsidies between the licensees and any affiliate or related undertaking but indeed may be incompatible with the requirements of Article 6(1)(c) of CACM with respect to “cross-subsidisation.” Moreover, for SEMOpx to in effect operate and set its fees without the requirement for return, on the basis of the TSO price control arrangements could be construed as giving it unfair commercial advantage over other potential NEMO entrants.

- “Applying a margin approach to such a function carries the risk of “double counting.”

This is simply not correct and no evidence has been advanced to suggest it is the case despite SEMOpx seeking clarification of any analysis carried out during this consultation process. SEMOpx is simply seeking a margin/ management fee consistent with the operation of its business. It is notable that the RAs are not stating that to apply such an approach would result in double counting but simply, and
without basis, that they are concerned there is a risk that this would be the case. As set out there is not simply a risk of underfunding of this business – it is a certainty. There appears to be no consideration of capital employed, operational activities or risk in the RAs “analysis”.

- “SEMOpx is a function being carried out by SEMO which is part of wider TSO businesses. Therefore, it benefits from the capital raising ability of its parent entities via higher gearing and credit ratings.”

EirGrid plc. was designated NEMO for Ireland, and SONI Ltd, designated NEMO for Northern Ireland, in October 2015. Through a contractual joint venture EirGrid plc and SONI intend to operate the SEMOpx. In terms of licences, it is the respective Licensees, EirGrid plc and SONI ltd, that are obligated to carry out the NEMO functions and not SEMO.

SEMO is a separate JV of the corporate entities established to carry out Market Operator Activities, defined in the respective licences as “the business of the Licensee in undertaking the obligations imposed on the Licensee under, or as a consequence of, the Licence, [ ], but excluding the NEMO Activity.” [Emphasis Added].

Neither the MO licensees nor SEMO are an emanation of the TSOs. The statement makes no sense and is simply incorrect.

The corporate entities EirGrid plc and SONI Ltd are the licenced TSOs in Ireland and Northern Ireland respectively and licenced as MOs entirely separately. There is no requirement under statute, European regulation, directive or other that prescribes an MO to be an emanation of a TSO. Indeed if either EirGrid plc or SONI ltd ceased to be the licensed MO in their respective jurisdictions they would still remain the licenced TSO or vice versa.

Whilst it is legal and corporate entities which raise funding the requirement of the regulatory framework is to ensure each licensed entity is separately standalone financeable. It is the sum of financeable licensed entities which will equate to a financeable corporate entity.

- “The application of a margin approach may constitute a double reward when there is a return being earned on the TSOS RABs.”

This is not the case. The margin does not relate to the remuneration of return on tangible assets. Any margin would be calibrated appropriately.

- “SEMOpx does not bear all of the risks arising from its activities as there are provisions to allow the business to recover revenue shortfalls through the application of a correction factor at the end of the price control period.”

There is nothing in the statement above which suggests SEMO is a risk free entity and should not be remunerated for the operation of its business.
• “The RAs note that the proposed level of 10% is at the upper end of regulated margins which range from 0.5% to 12%, some of which apply to internal costs only”.

The range of margins presented are not all on a like for like basis for as noted by the RAs some apply to total turnover whilst others are applied to internal/controllable costs. Given the nature of its business SEMOpx is seeking a margin/management fee on the costs associated with the services provided. Moreover the nature of the businesses referenced are such that the margins are not a comparable benchmark for the SEMOpx business. For example SEMOpx does not have large upstream and downstream costs against which the lower end margins referenced would be typically applied.

• “[]return via the RAB WACC approach is of a sufficient level to cover the risks borne []”

As SEMOpx will, at least for the period under consideration as part of this control, be a zero RAB business, SEMOpx fails to understand on what basis the RAs can assert that return via the WACC RAB approach is sufficient. SEMO has requested any analysis which has led the RAs to this position. None has been provided. In any event the RAB WACC relates to an entirely different licensed entity so is outside the consideration of the regulatory framework for this licence.

• “In summary, taking account of the fact that the setup costs are being borne by the TSOs and will earn a return on capital through the respective TSO WACCs the RAs do not agree with SEMOpx’s assertion that a margin of 10% is required to compensate for the level of risk, given the decision to capitalise costs via the TSOS and the fact that the price control is being conducted on an allowed revenue regime.”

This summary statement is simply nonsensical. SEMOpx would ask that the Regulatory Authorities further explain it and its relevance.

Given that the RA position is based on statements which do not themselves support the position outlined, it cannot stand. We welcome the RAs’ statement in the consultation paper that the management fee proposal “is still undergoing RA review” and would welcome the opportunity to engaging further with the RAs in this regard.

2.4 Cost Uncertainty

While it is acknowledged that the RAs intend to mitigate some risks including those posed by potential “market share” fluctuations and this is welcomed, the RAs clearly state that they do not intend to provide for adjustments to the Price Control due to Legislation or Regulation changes or major or exceptions changes in the market save where above a materiality threshold. However, no value has been ascribed to same by the RAs.

3 A large proportion of SEMOpx’s costs are third party costs rather than internal
We note that the RA’s position is premised on the assumption that greater clarity on third party costs should be known at the time of the final tariff proposal and hence allowed costs will be updated accordingly in the final determination. Notwithstanding the proposed update in costs, if third party costs are negotiated after the tariffs are finalised, these costs will then fall under the proposed ‘ex ante’ revenue cap and fluctuations in these costs will have to be managed by SEMOpx.

As recognised by the RAs, these third party costs are a notable component of the overall revenue requirement for SEMOpx. Explicit clauses in the draft contracts include provisions in areas such as “change of law” (which could arise as a result of Brexit), change in regulatory provisions and change in competitive environment which would give rise to multi NEMO arrangements. If any of these clauses are triggered, this could give rise to a change in Solution Design, implementation changes and a renegotiation of contracts in good faith. As a result, SEMOpx will be required to incur costs for such changes even where such changes are out of its control.

Exposure to such costs in the absence of clarity from the RAs as to SEMOpx’s ability to seek to reopen the control / tariffs to enable recovery of same leaves SEMOpx exposed to potential significant risks as the new market evolves.

5. Performance Standards for SEMOpx

EirGrid and SONI do believe it is important that a NEMO price control would appropriately incentivise the business to deliver high quality service levels. However, it may be difficult to initially assess appropriate metrics for incentivisation and KPIs given the requirement for sufficient bedding in period and given the proposed short price control period, May 2018 to October 2019 (i.e. 16 months); it will be challenging to decide on what these should be. Additionally, we should be mindful that it may be a competitive market during the first 16 months of operation, and maintaining competitiveness would therefore serve as a form of incentivisation.

The following KPIs have been proposed in the Draft Determination Consultation Paper:

1. Timely and accurate delivery of data publications;
2. Timely and accurate performance of market monitor;
3. Timely delivery of market results; and
4. General queries and customer service.

Given that the operation of SEMOpx is a new business for EirGrid and SONI, we agree with the statement in the Paper that the application of performance standards may necessitate a “bedding in” period. We believe that a bedding in period to the end of the first designation period (16 months) is the most appropriate. The uncertainty of a new business brings intrinsic risk which will need to be carefully managed. It is likely that reputational risk will outweigh any incentive rewards and SEMOpx resources will need to be focused on the management of performance standards embedded within third party service contracts. To give further context, no KPIs were applied for the first three years in SEM.
precedent is applied, once the SEMOpx business is stable (expected by the end of the designation period), KPIs can then be revisited.

The suggested KPIs above will be included in performance standards which are currently under development and will ultimately be obligations reflected in SEMOpx rules, Operating Procedures, Data Publication Guide and the RA’s requirement for the market surveillance role. SEMOpx will be heavily reliant on its service providers to deliver these performance standards and they will be included in Service Agreements with them which are still under negotiation.

We consider that the KPIs suggested are reasonable and appropriate to SEMOpx’s business once stable. However the following points should be noted:

1. KPIs should focus on what SEMOpx and its service provider can deliver and be cognisant of reliance on other European bodies such as the Market Regional Coupling (MRC).
2. The division of roles and responsibilities between the RAs and the Market Operator (in relation to SEMOpx and all other markets) in relation to market surveillance and monitoring is not yet understood or agreed. As referred to in Section 2.2, an interim solution will be put in place until an enduring solution is agreed with the RAs as part of the Day 2 project. Therefore, a KPI cannot yet be assessed and negotiated. This also applies to performance standards with service providers as they have not yet been negotiated and reflected in a contract.
3. It should be acknowledged that SEMOpx may be reliant on other external bodies (apart from SEMOpx’s service provider) for the delivery of KPIs. For example, if European designated bodies decide to change how auctions are run, the solution design and in turn SEMOpx Rules and Operating Procedures would need to be changed and updated. As changes and updates take time, this would have an impact on meeting agreed KPIs and it may be more appropriate to redefine KPIs.
4. Any external exceptional changes that could significantly impact SEMOpx’s business as usual operation such as, for example, regulatory changes or Brexit may have an impact on meeting KPIs. As a result, KPIs may need to be redefined and agreed with the RAs.
5. The Consultation Paper does not set a standard/threshold for the suggested KPIs. Nor does the Paper suggest an incentive mechanism. We would welcome the opportunity to discuss these separately with the RAs towards the end of the initial designation period.

6. Other

6.1 Independence

SEMOpx notes the RAs state in the Consultation Paper;

“For clarity, the RAs require that the operation of the functions of SEMOpx shall be consistent with the licence obligations in the EirGrid and SONI Market Operator licences, including requirements as to independence.”
The SONI MO Licence Condition 10(2) states:

“[ ] the Licensee shall ensure that:
(a) the Market Operation Activity and the NEMO Activity are provided with the premises, systems, equipment, facilities, property, personnel, data and management resources that are necessary for its efficient and effective managerial and operational independence from any Associated Business;
[ ]
(c) Decisions relating to the operation of the Single Electricity Market Trading and Settlement System are only taken by those persons who are employed by, and are engaged in the operation and management of, the SMO & NEMO Business;
[ ]”

The matter of independence between SONI MO and associated business has been a subject of ongoing discussion with the UR over a number of years. Notwithstanding the requirement of the licence, the CER and UR, through SEMC, approve SEMO revenues on the basis and clear understanding that the existing arrangements of shared premises and an integrated business remain.

Moreover in terms of systems, in keeping with the I-SEM Agreed Approach document a ‘central Systems solution’ has been developed for I-SEM which supports both the TSO and MO activities.

Consistent with the approach of the RAs in the determination of revenues for SEMO and the development of central systems for the delivery of I-SEM, and as reflected in the assumptions underpinning the cost submission (referenced in Section 3 of the Consultation Paper), SEMO and SEMOpx are operating on the basis that there are no restrictions concerning the sharing of premises, personnel or systems from each other or an affiliate or related undertaking.

In regard to clause ‘c’ as the RAs are aware, neither SEMO nor SEMOpx are companies in and of themselves. As such they do not have direct employees. They are joint ventures between EirGrid plc and SONI Ltd and staff fulfilling the activities of SEMO or SEMOpx are employees of either EirGrid plc or SONI Ltd. As such it is not possible for the Licensees to operate in accordance with this subcondition or for the Price Control to be established on the basis of same.

Noting the above, SONI would welcome engagement on this particular MO Licence condition with a view to ensuring it is fit for purpose in light of the RAs approach to the operation of SEMO and SEMOpx and noting the legal arrangements as they pertain to the employment of staff.

### 6.2 Licence Codification

SEMOpx would note that any revenue restriction will need to be consulted upon and codified in the SONI Market Operator licence in accordance with the discharge of the Utility Regulator, or its SEM Committee’s functions if it is to have effect, and that this is a separate process to this consultation.
paper. SONI looks forward to engaging with the Utility Regulator in this regard. In the absence of such codification the existing text as set out in Annex 1 of the SONI Market Operator licence will continue to apply.