



**Response to Consultation on Implementation of Articles 13
and 15 of the Energy Efficiency Directive (2012/27/EU)**

4 April 2014

Introduction and Context

Thank you for providing SONI with an opportunity to respond to your consultation on the implementation of the above Directive. SONI believes that this Directive should be implemented in an efficient manner, and given that the current ways of working in NI are broadly compliant already, there should be minimal intervention or changes to legislation and licences.

We have reviewed your paper carefully, and although we would not comment on the legal aspects of the implementation, we have some observations to make on how you intend to implement the Directive and some of the possible operational implications. These are identified below, on a chapter by chapter basis.

In the context of the Single Electricity Market, and the requirement that the provisions in this directive are transposed in Northern Ireland and Ireland by June 2014, SONI believe it is important to keep in mind the all-island dimension and, where appropriate, adopt a consistent approach to transposition and implementation. This could help to minimise market and operational distortions on the power systems across the island.

As part of the EirGrid group, SONI is aware that EirGrid is working with the Department of Communications, Energy and Natural Resources (DCENR) and the Commission for Energy Regulations on the transposition of the relevant provisions of this directive in Ireland.

Chapter 1 – Article 15 (1)

We note that under this article you intend to extend the remit of NIAUR. This extension of its duties should either result in an increase in the resources provided to the organisation (funded by customers of licensed companies) or a reprioritisation of its workload. As this change is not anticipated to increase costs to consumers, we must assume that NIAUR's workload will be reprioritised to allow it to extend its reach to broader energy efficiency measures. We trust that this will be consulted upon as part of its forward work plan for 2015.

With respect to paragraphs 2 (d) to (e), we are unsure about which aspect of the current method of calculating TLAFs that you consider to be non-compliant. At present TLAF's are only allocated to generators whose output influences flows on the transmission network. This therefore incentivises generation to connect closer to demand. We will be happy to engage further with both yourselves and NIAUR to resolve any concerns that you may have in this regard.

We note that you intend to place a duty on NIAUR to require licence holders to ensure that the TSC reflects other forms of storage. The work to incorporate these into the TSC is already ongoing, and we assume that this increase in NIAUR's duties is purely administrative. Modifications may also be required to the Grid Code to facilitate these forms of storage.

Chapter 2 – Article 15(2)

Based on the wording of your consultation paper, we assume that the technical information necessary to undertake the assessment will be provided by NIE to NIAUR, and that data that are held by SONI will not be required.

EirGrid is assisting the DCENR with the equivalent assessment in Ireland. Given the intention (stated later in your paper) that SONI should be incentivised to consider energy efficiency when designing the network, there may be synergies and efficiencies to be achieved if SONI assists NIAUR in a similar manner.

Chapter 3 – Article 15 (3)

No comment

Chapter 4 – Article 15 (4)

We would like to clarify SONI's current incentives and obligations in this regard. SONI's current price control neither explicitly nor implicitly incentivises SONI to make changes to its methods of operating the system, or the mandatory codes that underpin them, to improve energy efficiency. Instead, SONI is obliged, via both its licence and the Grid Code, to achieve the lowest cost of producing electricity.

To ensure consistency with the Directive, NIAUR should be obliged to consider methods of incentivising the parties planning network developments to reflect the potential for improving energy efficiency in the design and operation of the electricity transmission network. Importantly, in the case of SONI, it should not be incentivised to produce plans and designs at the lowest possible cost to itself, as would be the case if this work were incentivised through the traditional RPI-X approach. Rather SONI should be provided with sufficient resources to allow it to examine the options for network configuration to optimise the whole life cost of the assets to consumers and to obtain the maximum improvements in energy efficiency (where cost effective).

Chapter 5 – Article 15 (5)

SONI considers that the requirement to afford priority dispatch to HE CHP units, while ensuring the continuity of heat supply, could have a range of unintended operational implications that need to be understood.

SONI has a licence requirement to dispatch electricity generation in the first instance and has no remit in the area of heat supply. Depending on how this provision is implemented, the requirement to provide priority dispatch, while factoring in the need to ensure the continuity of heat supply, could limit the operational flexibility of these plants on the power system considerably. SONI would also highlight the need to consider the existing renewable policy objectives (as required by Article 15) and the possibility that HE CHP with priority dispatch (including the requirement to maintain heat supply) will

impact on our operational capacity to manage the power system with increasing amounts of variable renewable generation (wind, tidal and biomass), with the likely impact of increasing curtailment. As the Energy Efficiency Directive is designed to encourage the deployment of increasing amounts of HE CHP, this operational impact could increase considerably in the future. More than 800 MW of HE CHP has already applied for certification within the SEM to date.

Chapter 6 – Article 15(6)

The remarks made here about balancing services do not accord with SONI's understanding of the arrangements. The SEM is a mandatory balancing market, and TSO balancing decisions are made based on bids submitted into the market by participants. This is transparent, non-discriminatory and open to scrutiny.

However, this may change under the new I-SEM arrangements. The changes proposed to NIAUR's duties are relevant to the high level design of the new market arrangements that is currently ongoing. The draft decision made by the SEM committee, due to be published in June, should be consistent with this pending obligation.

The other system services and the methods by which SONI procures them may change as a result of the DS3 process. These changes should be consistent with the Directive.

Chapter 7 – Article 15(7)

No comment.

Chapter 8 – Article 15(8)

While the Directive may require modifications to Condition 16 of our licence, we are of the opinion that the code itself and the associated modification arrangements are broadly compliant. The Grid Code already facilitates the central dispatch of demand side response units and demand-side units are able to participate and compete in the wholesale energy market. Suppliers are already represented on the Grid Code Review Panel. The constitution of the panel may need to be reviewed to allow a representative of Demand Side Response providers to also participate.

In 2013, SONI and EirGrid established a Joint Grid Code Working Group for Demand-Side Units. The chief purpose of the Working Group is to discuss possible Grid Code modifications in relation to DSUs that will support large-scale deployment and a medium-to long-term solution. The topics to be discussed include Grid Code DSU Performance Monitoring standards, the application process and the commissioning and testing. This Working Group forms part of the broader DS3 programme of work.

Chapter 9 – Article 13

No Comment.

Regulatory Impact Assessment

We do not currently envisage SONI incurring substantial additional costs as a result of the transposition of the Directive, however we assume that any costs that are incurred will be recoverable under the change of law provision in our licence. We also consider it important that SONI is provided with sufficient resources under its price control to allow it to plan, develop and operate the network in the most energy efficient manner and that the price control avoids perverse incentives that would reward SONI for cutting design costs at the risk of higher whole life costs for end users of the network.

Additional Clarification

We note that your consultation does not specify the timeframe that will be available for NIAUR to modify licences in order to comply with this Directive.

Given the protracted timeframes for recent modifications to our licence, and the associated uncertainty this creates, we would ask that these modifications are made within a concise and specified time, which cannot be extended, and are strictly limited to those that are essential to comply with this Directive.