

## SONI TSO Governance Consultation Proposals

### Introduction

RenewableNI (RNI) is the trade association and voice for the renewable electricity industry in Northern Ireland. We represent over 30 businesses, fostering knowledge exchange, sharing best practice and supporting policy development. Engaged in wind, solar, tidal and battery storage, our members make up a large majority of the renewable industry supply chain.

RNI is itself a collaboration of RenewableUK (RUK) and Wind Energy Ireland (WEI) and is therefore experienced in balancing accountability to its parent companies and delivering for NI. Informed by that experience we believe the synergies of such collaboration greatly outweighs any potential conflict of interests.

RNI sees the value that the Single Electricity Market (SEM) has brought to consumers across the island, but in particular to consumers in NI who would otherwise suffer from the lack of economies of scale of a small consumer base. The benefits of the SEM are enhanced by interconnection with Great Britain (GB) and will be increased further by the development of the second North-South Interconnector.

RNI priority in respect of the operations of the Transmission System Operator (TSO), SONI, relate to the need for grid investment to reduce constraint and curtailment in NI and to enable the connection and facilitation of greater levels of renewable generation. While not diminishing the need for the TSO to act, and be seen to be acting, in the best interest of the NI consumer, it is investment in a modern, flexible, integrated system that will deliver the maximum benefit.

The SONI and EirGrid collaboration has been successful in delivering 70% System Non-Synchronous Penetration (SNSP) with a 75% trail now underway. In 2020 49% of NI's electricity was generated by renewables while a net saving to the consumer has been realised, as evidenced by *The Wind Dividend* report.

However, constraints and curtailment continue to rise with total dispatch down reaching 15% in 2020 with a resultant revenue loss of £25m to renewable generators. The consumer is not insulated from these costs as generation that would otherwise have been provided by clean, indigenous renewables was replaced instead by powered by imported polluting fossil fuels.

RNI would like to see the TSO being held accountable for targets on dispatch down, renewable penetration and system emissions as well as delivery of Associated Transmission Reinforcements (ATRs).

We are concerned that some of the Utility Regulator's (UR) proposals will hinder these objectives and in some cases, result in additional cost to the consumer with little or no benefit.

We outline our position in more detail below, in response to the question posed in the consultation paper.

1. Do you agree with our vision for good governance and our assessment of whether SONI meets this vision?

RNI recognises the Utility Regulator's (UR) important role in providing oversight and accountability of monopoly bodies, such as SONI, which deliver services to the public. This includes ensuring that shareholder interests are not being prioritised at the (unreasonable) expense of consumers and in this regard it is important that SONI is well governed, transparent and accountable.

2. Do you agree with our analysis of the effectiveness of the existing licence in mitigating the majority of concerns raised within the CfE?

RNI has no comment to make.

3. Have we adequately assessed the residual potential for harm given the current drafting of the Licence and statutory duties?

The UR has outline three areas for potential harm which we provide feedback on below.

**i. Higher prices for NI consumers**

RNI believes that this is an unlikely outcome and that the reverse is more likely to be true. The ability of SONI to 'tap into' EirGrid staffing resource and expertise is more likely to result in greater efficiency and benefit for NI consumers. Shared procurement across the organisation has the potential to reduce costs for consumers as to would the ability to share admin resources. Other examples such as common branding across the EirGrid group will again reduce costs.

For this reason RNI opposes options C and D as we believe that they would have a detrimental effect on the TSOs ability to share resources and maximise the benefits that their collaboration can bring.

RNI accepts however that as a regulated body, SONI must be able to account for costs and evidence savings. In this regard, a joined up approach between the UR and the Commission for the Regulation of Utilities (CRU) would be beneficial in ensuring that reporting requirements in NI mirror those in ROI to avoid unnecessary administrative burden.

**ii. Misalignment in network development**

It is counterintuitive in RNI's opinion that EirGrid's ownership of SONI would result in misalignment in network development. The successful operation of the SEM relies on a whole island approach to network development. The North-South Interconnector is a good example of a project that is mutually beneficial, although it could be reasonably be argued that this investment will provide greater benefit to NI's otherwise smaller network.

Investments such as Greenlink and the Celtic Interconnector will benefit NI consumers and help facilitate increased renewable penetration across the island. In every sense our needs in NI are linked to those of consumers in ROI and the SONI/EirGrid relationship mirrors that.

While RNI accepts the **potential** for conflict in policy direction between the ROI government and the NI Executive, the reality is that the direction of travel across this island, across the two islands and across Europe is in one direction; decarbonisation of power delivered by a greater penetration of renewables, zero carbon system services and increased interconnection. It is hard to imagine an actual scenario were policies across the island would come into conflict and therefore RNI does not believe that an unreasonable burden should be placed on the TSO to protect against a risk that is highly unlikely to materialize.

### iii. Barriers to competition

It is fundamental to the UR's role that it can ensure that there are no anti-competitive practices and RNI therefore recognises the need for the UR to have sufficient visibility of SONI's operations in this regard.

Again however, while recognising the **potential** risk, RNI sees neither evidence or likelihood that would give rise to concern in this area.

4. Are there other committees or working groups not identified in the paper that readers are aware, that span both TSOs and that should be considered as part of any governance proposals?

RNI has no suggestions in this regard.

5. Do you agree with the areas for discussion on which we have focused and do you agree with the consultation options we have proposed in respect of the creating an effective SONI Board? If so, which of the four options do you favour?

Option A: A SONI Board with EirGrid NEDs which draws from the Non-Executive Directors of EirGrid plc considered by EirGrid to have 'NI background and standing' but which is supported

by a small independent tier of dedicated managers specified within the Licence who oversee delivery of SONI licence obligations via the shared resource model with EirGrid.

Option B: An Independent SONI Board, a fully independent board for SONI as defined by UKCGC and which is supported by a small independent tier of dedicated managers specified within the Licence who oversee delivery of SONI licence obligations via the shared resource model with EirGrid.

Option C: Standalone SONI within EirGrid Group (with provision for exceptions) an independent board for SONI which is supported by a dedicated SONI management and staff team who deliver SONI licence obligations independently of EirGrid's shared resource model. With the approval of the UR some of these staff or services may be contracted from EirGrid and managed similar to third-party contracts with defined contracts, SLAs etc.

Option D: Standalone SONI within EirGrid Group (no exceptions) a fully independent board for SONI which is supported by a dedicated SONI management and staff team who deliver SONI licence obligations independently of EirGrid's shared resource model.

RNI recognises that as a provider of an essential public service that it is correct that SONI is well governed, transparent and accountable and therefore welcomes the UR's review. However, we are concerned that in the context of the climate emergency, requirements for major changes could add unnecessary delay.

We also believe that NI consumers have availed of many benefits from the collaborative approach between the two TSOs and are concerned that options C and D are likely to be counterproductive and hinder the efficiencies and economies of scale that the integrated nature of the two TSOs brings.

**RNI proposes the adoption of Option A**, which would increase the ability of SONI to make independent decisions where necessary while giving EirGrid, its owner, sufficient oversight of its operation which seem immensely reasonable. It would be bizarre to insist on a form of governance whereby the UR has greater oversight than SONI's owners which would be the case in Option B, C and D.

RNI notes that the UR intends to initiate a further review two years after the implementation of any proposals. It is RNI's view that choosing the least disruptive option and then assessing benefits and harm of the changes would be a pragmatic approach. Further changes could then be implemented if deemed necessary. RNI strongly believes that evidence of actual harm should be required before any requirements for SONI to become standalone should be implemented.

6. Irrespective of the option chosen, do you agree with our proposals in respect of the SONI Board that:

- There should be a non-executive Chair of the SONI Board?

RNI supports this proposal.

- The SONI MD should report to the SONI Board and not to the EirGrid CEO?

RNI agrees that the SONI MD should have full and transparent oversight of the management and discharge of SONI TSO licence functions and the allocation of resources available to SONI TSO. However, that the SONI MD is an employee of EirGrid is a necessary consequence of EirGrid's ownership of SONI. It would again seem bizarre that an employee of EirGrid would not be accountable to the CEO.

That said, it is necessary for the roles of the roles of the SONI Board and the EirGrid CEO to be clearly defined in respect of SONI. For example, the SONI MD should be accountable to the Board for SONI's delivery on behalf of the NI consumer. However it is reasonable that the SONI MD be accountable to the EirGrid CEO in respect of their conduct within the role.

These are just examples to make the point that the SONI MD must be accountable to both the SONI Board and the EirGrid CEO with a clear division of responsibilities being necessary to ensure efficient operation and to avoid confusion in respect to decision making.

- The SONI TSO Licence should be strengthened to explicitly protect the interests of NI consumers and balance their interests with those of other stakeholders, and require the SONI TSO to maintain managerial and operational independence as appropriate from EirGrid?

RNI supports the first part this statement, that the SONI TSO Licence should be strengthened to explicitly protect the interests of NI consumers and balance their interests with those of other stakeholders. However requiring full managerial and operational independence in our view would be counter productive, would hinder the efficient delivery of services across the two TSOs and risks adding costs to NI consumers as additional staffing capacity at senior level would be required.

- The SONI TSO Licence should also specify the scope and duties of the SONI Board ('matters reserved') and do you agree with those proposed duties?

RNI agrees that the SONI TSO Licence should also specify the scope and duties of the SONI Board.

- The UKCGC makes reference to the need for specific subcommittees in exercising good governance. Should these subcommittees be adopted for the SONI Board and should an additional sub-committee be required to discuss and approve NI network policy, development and investment plans and proposals?

RNI's view is that the SONI Board should decide whether it needs to create additional sub committees to fulfil its duties under the TSO licence.

7. In Options B, C and D, should the SONI Board no longer be appointed by shareholders? If so, who should appoint the Board?

RNI opposes these options therefore has no comment to make regarding the appointment of shareholders.

8. In regard to each option proposed, do you agree with our proposals in respect of SONI management and resources?

RNI is concerned that the UR's proposals for fully independent management of SONI will require significant additional staffing resource and a greater cost to the consumer. The sharing of management and staffing across the two TSO creates efficiencies that reflect the all island nature of the SEM.

9. Irrespective of the option chosen, do you agree with our proposals in respect of other governance arrangements that:

- The transparency between the operations of EirGrid and SONI TSOs could be sufficiently improved through a SOA and its associated governance, or are there further proposals you would make?

RNI agrees with this proposal.

- Whilst not a public document for commercial reasons, do you believe it appropriate for UR to require SONI TSO to draw up and maintain an SLA to provide greater transparency and accountability for the services provided from across the EirGrid group to SONI TSO or from SONI TSO to the EirGrid Group?

RNI agrees with this proposal.

- Do you believe that the current EirGrid whistleblowing policy is effective to the extent it is applied to SONI or should SONI have its own published policy with suitable escalation routes to the SONI Board?



RNI has no comment to make.

- Do you agree with the need for SONI to publish a policy in respect of resolving any conflicts of interest that may arise, either between SONI and EirGrid TSOs, or between the interests of consumers within Republic of Ireland and NI?

RNI agrees with this proposal.

- Do you agree with our proposals for a specific Compliance Plan in respect of the implementation of a more independent board and management, including an annual review by an independent Compliance Officer?

RNI has concerns in relation to this in that it relates to proposals that in our view would create inefficiencies and add cost for the consumer.

- Do you believe there is a need to amend the SONI TSO licence to require access on a non-discriminatory basis to UK companies who provide services to SONI through EirGrid joint procurement?

RNI supports this proposal.

## 10. Do you have any views on our analysis of the cost and benefits of the various options?

RNI notes that Option A appears to be the most cost effective and the least disruptive while delivering sufficient protection for the NI consumer.

## 11. We ask SONI to provide any information available quantifying cost efficiencies and synergies which it says arise from the current governance structure.

RNI agrees with this proposal in principle however believes the requirement should not be unnecessarily burdensome.

There is a prima facie case that sharing management resources rather than replicate every position in each TSO, will provide costs savings. Whether it provides the correct governance is the subject of this consultation but the UR's costings of its options demonstrates that greater independence results in greater costs. It follows that the reverse would also be true.

## 12. Do you agree that none of our proposed options for governance changes would not give rise to a material incremental impact on the TSO cost of debt, above that which has been allowed for under the 2020-25 TSO price control decision?

RNI has no comment to make.

**13. Does your view change on the above issues given our proposal to undertake a formal review of the effectiveness of any new proposals two years after implementation?**

As stated previously, the intention to review proposals after two years strengthens the case for a less disruptive approach that can be developed if necessary. It will be harder to reverse if it is found that a greater level of independence resulted in harm to the NI consumer.