

SONI Price Control 2020-2025

NIE Networks' Comments on the Utility Regulator's Consultation on Guidance for the Evaluative Performance Framework, Cost Remuneration and Uncertainty Mechanisms

15 February 2021

NIE Networks welcomes the opportunity to respond to the Utility Regulator's (UR) consultations on the three above-named guidance documents, which were published on 21 December 2020 in parallel with the UR's final determination in respect of SONI's price control for the period 2020-2025.

1. Evaluative Performance Framework

NIE Networks has the following comments on the guidance provided in this consultation.

Practical Issues

- Overall, NIE Networks is generally supportive of the UR's aim in providing stronger incentives for SONI to deliver high quality service. However, in line with our response to the UR's earlier consultation on SONI's price control draft determination, we have some concerns with the effectiveness of an incentive framework that relies on a highly subjective and qualitative assessment process.
- It is our view that the proposed process will present a significant practical challenge to establish in the manner envisaged by the guidance document. We note that the UR is proposing the introduction of the framework initially on a transitional basis, with financial incentives not applying until Year 3 of the price control. On this basis, we would suggest that the guidance should be subject to update based on the experience of the transition period prior to incentives being applied in 2022/23.
- It is also our view that this process will present a heavy administrative burden for both the UR and SONI on an ongoing basis, and we note that the UR has provided SONI with funding for additional resources for this function. In addition, it will be important that the additional resource impact for the UR is also considered, particularly in the context of the wider resourcing demands that the UR will face from the transition to net zero carbon.

Framework Scope/Design

- We note the suggestion¹ in the guidance document that Transmission Network Planning is considered outside of scope of the evaluative performance framework 'on grounds of proportionality at this time'. NIE Networks disagrees strongly with the proposal for Transmission Network Planning to be excluded from this framework. This omission would appear to be based on a misunderstanding of the very significant impact that SONI's performance in this role will have on grid developments that will be necessary to deliver the net zero carbon future expected to be outlined in the Department's new energy strategy for 2020-30. It is our view that Transmission Network Planning should be within scope of the performance framework and that the guidance document be clarified accordingly. Timely delivery of these projects which are critical to success, is dependent on SONI bringing forward proposals and consents in a timely manner.

¹ Reference paragraph 2.21 of the Guidance. Also paragraph 5.42 of the Final Determination.

- In our previous response to the UR's consultation on SONI's price control draft determination, we expressed concern that using System Minutes Lost (SMLs) as a performance metric could hinder our legitimate access to transmission equipment for the purposes of network maintenance, replacement or the provision of additional capacity/capability. We reiterate this point as it remains unclear² if or how SMLs might be used as part of the evaluative performance framework.
- In our response to the UR's consultation on SONI's price control draft determination, we commented that the proposed weighting for the 'Independent Expert' service item appeared high (at 22.5%) in comparison to the importance of other areas. We are therefore surprised that the UR now proposes³ to further increase the Independent Expert weighting to 25%, which is balanced by reducing the 'System Planning' weighting to 25% (from 27.5%). The reason for this change is unclear and we would ask the UR to reconsider.

2. Cost Remuneration – Conditional Cost Sharing Guidance

NIE Networks has the following comments on the guidance provided in this consultation.

- In the context of the future uncertainties brought about by the energy transition and associated stakeholder requirements, NIE Networks considers it appropriate that SONI has a price control mechanism to fund increases in its internal costs where these costs are designed to efficiently enhance SONI's performance beyond that assumed by the UR in setting its ex ante price control allowances. The mechanism proposed by the UR in this guidance allows SONI to automatically recover 75% of any such increase, whilst also affording SONI the opportunity to make the case for recovering the remaining 25%. NIE Networks supports this approach.
- Separately, the UR suggests that applying conventional price control cost incentives to SONI's internal costs could risk small savings in these costs being achieved at the expense of higher costs elsewhere in the system. On this basis, the UR proposes that SONI provide detailed evidence that any underspend in its internal costs are justified rather than simply being mechanistically rewarded.
- It is our view that this additional requirement is unnecessary in light of the introduction of the Evaluative Performance Framework (referred to above) which in principle should be capable of providing a balance of incentives between SONI's cost and performance and therefore prevent the outcomes that the UR considers to be at risk. Moreover, it is disproportionate and commits the UR to a further ongoing regulatory burden to assess SONI's cost performance at a micro-level at a time when the regulator itself has recognised⁴ the general need for a more pragmatic and outcome-based regulatory approach in the context of the energy transition.

3. Uncertainty Mechanisms

NIE Networks has the following comments on the guidance provided in this consultation.

- Firstly, NIE Networks in general welcomes the use of uncertainty mechanisms within network price controls and considers that these will become increasingly necessary to mitigate risks in forecasting detailed requirements within the uncertain energy landscape over the medium to long term.

² Reference Annex 3.

³ Reference paragraph 7.13.

⁴ Utility Regulator, Draft Forward Work Programme 2021-2022; Context, Page 10.

- More specifically, we agree with the UR's proposal to use two types of uncertainty mechanisms in the SONI price control.
- The Et and Vt terms appear intended for use when forecasting costs is more certain; and thus the granting of a fixed allowance on an ex-ante basis which is then subject to the cost sharing mechanism, seems appropriate. Whereas the Dt and Kt terms can be used for when forecasting costs is less certain; and so allowances are granted up to a pre-specified cap thus giving SONI greater certainty of cost recovery when undertaking projects whose costs are more uncertain. This also appears to be appropriate.
- Furthermore, these proposals give SONI flexibility to seek additional allowances using whichever of these terms that it feels is best suited to delivering the right outcomes for stakeholders. Again, this seems appropriate.