

# BUSINESS ALLIANCE RESPONSE TO THE SONI GOVERNANCE CONSULTATION

JUNE 2021

The Business Alliance<sup>1</sup> welcomes the opportunity to respond to the SONI TSO governance consultation proposals.

Northern Ireland is about to embark on a substantial transformation on how and where our electricity is generated, transported, stored, and used on the journey to a zero-carbon economy. What is clear that the Energy Strategy, currently out for consultation, will need to be premised on an unprecedented level of ambition.

A key driver of change going forward will be the environment. It is likely the new Energy Strategy will have a strong focus on delivering a road map toward a zero-carbon economy, with the outgoing Economy Minister, setting a clear ambition of 70% renewable generation by 2030<sup>2</sup>.

Given the foregoing, the Business Alliance is conscious that both efficient regulation of generation and supply, and distribution and transmissions systems will be vital in the delivery of a successful energy transition.

The aims and objectives of the changes to SONI's current governance structure are said to be, *"designed to increase transparency, enable effective future regulation, and ensure the company is structured to ensure it is meeting the needs of Northern Ireland's domestic and business consumers."*

Having considered each of the options with due care and diligence, as a collaboration of business organisations acting in the interests of our members across the business community, the Business Alliance has drawn the following conclusions:

- As the sole electricity transmission system operator for Northern Ireland, SONI is a natural monopoly. As a result, it should be subject to much higher standards of corporate governance than a typical company.
- No less, the context in which it operates is a primary consideration for the business community. In that regard, we are particularly mindful of the energy transition. The UK has a set a statutory target of Net Zero emissions by 2050, whilst Northern Ireland, if legislated for as intended by a majority in the NI Assembly, will set its own

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<sup>1</sup> The Business Alliance is a partnership between the Confederation of British Industry Northern Ireland (CBI NI), the Centre for Competitiveness, the Institute of Directors Northern Ireland (IoD NI), and the Northern Ireland Chamber of Commerce and Industry.

<sup>2</sup> <https://www.economy-ni.gov.uk/sites/default/files/consultations/economy/energy-strategy-for-ni-consultation-on-policy-options.pdf>

very ambitious targets of Net Zero by 2045, going beyond the evidenced based target proposed by the UK Committee on Climate Change.

- Net Zero ambitions set particular challenges for businesses particularly against the background of the prevailing fragile nature of devolution, and an Executive with a poor track record for delivery in the green economy.
- Therefore, any consideration of any actual or perceived governance issues must be framed in the context of understanding the practical implications that any structural changes may have at such a pivotal time for the energy market.
- It should be acknowledged that SONI has enjoyed a strong track record to date and played an important role in the delivery of 50% renewable generation by 2020, ahead of target. It is our view that the EirGrid-SONI group model has been pivotal in this success. Therefore, with an ambition drive to at least 70% by 2030, we do have some reservations about wide sweeping structural changes at this time.
- In addition to questions around statutory and policy targets on the road to Net Zero, a second key consideration is what impact the current structure has had on the NI consumer. Whilst the UR has raised concerns about the risk of mis practice and harm to the consumer in its consultation document, it is our that no consumer harm has been identified, and this was confirmed by the UR before the Northern Ireland Assembly Committee for the Economy, no less than 2 months ago.<sup>3</sup>
- We do however acknowledge that good governance, particularly in this context demands not just evidence that the structure has not resulted in any harm to date but that it is sufficiently robust to safeguard against any potential harm to the consumer into the future. This is one area of concern that must be satisfactorily and proportionately addressed in any outcome.
- The current group structure and its operation of the all-island electricity system and wholesale market on an all-island basis also brings with it significant economies of scale. The greater the push towards a restructure that creates a model that has a negative impact on the gains made through economies of scale, the greater the concern we have about delivery for the consumer.
- At operational level (taking into account the foregoing about the limited knowledge pool, scarcity of adequately qualified resource and the benefits of economy of scale under current arrangements), the Business Alliance is concerned that desire to achieve optimal outcomes for operational independence on balance risks undermining current efficiencies and knowhow.
- SONI's board is currently entirely comprised of board members appointed by EirGrid, the 100% owner of SONI, explanations should be provided as to how provisions 9-11 of the UK Corporate Governance Code on board independence are satisfied.
- What is more, SONI's board has very limited powers and responsibilities reserved to itself as most decision-making rests with EirGrid's Executive Committee, which again leads to further questions on how SONI can for example, set strategy, or overseeing the execution of SONI's licence obligations.

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<sup>3</sup> Meeting of the Northern Ireland Assembly Committee for the Economy, 21 April 2021

- Regrettably however, in absence of a sufficient level of evidence around the purported financial costs or benefits of economies of scale gained or lost by the current structure, we are not in a position to give a firm view on the preferred options set out.
- Nonetheless, we, acting in the interests of our members would stress that our desire to ensure that the road to net zero is not undermined by a fundamental restructuring that goes beyond what is necessary and proportionate in addressing matters of independence, transparency and accountability.

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