SONI TSO Governance Consultation Response

23 June, 2021

Introduction

Manufacturing NI represent some 550 manufacturing businesses across every constituency represented in the NI Assembly.

We are a wholly independent voice on behalf of manufacturers who are amongst the largest energy users in Northern Ireland. They ask that we work on energy issues to ensure competitiveness within the UK, on the Island and Ireland and in markets in Europe and globally as this impacts significantly on their ability to trade and sustain jobs. Our independence on energy issues is critically important to them and us. To deliver this on energy issues we engage but do not accept financial contributions from energy firms or have their representation on our Board or sub-groups.

Background

Manufacturing represents around 14% of local GDP and approximately 11% of total employment. With around 70% of manufacturing taking place outside of Belfast, it's impact on local economies is more pronounced with, for instance, more than 1 in 4 jobs in Mid-Ulster and more than 1 in 5 jobs in the new M&EA and ABC Council areas being a direct manufacturing job with a further 1.2 jobs per job supported in indirect and induced markets meaning that half of jobs in Mid Ulster and 4 in 10 jobs in Mid and East Antrim and Armagh Banbridge and Craigavon Council areas depend on the sector.

Manufacturing makes a substantial difference to the Northern Ireland economy. The sector directly provides c90k jobs and made a Gross Value Added contribution of almost £5 billion to GDP.

The impact of Northern Ireland's manufacturing sector is strongly felt throughout the economy supporting jobs across all Northern Ireland and in rural and urban areas alike. The contribution that the sector makes extends significantly beyond the jobs, economic activity and wages directly associated with the sector. There is an additional indirect impact in the supply chain as a result of the manufacturing sector's procurement of goods and services from other parts of the Northern Ireland economy. In addition, there is a further induced impact, comprising the economic benefits that arise as the people employed in the manufacturing sector and its supply chain spend their wages in the local consumer economy, for example at retail and leisure establishments.

Including all three channels of economic impact—direct, indirect and induced—the total contribution of manufacturing to the Northern Ireland economy is over £10 billion.

In total, it is estimated that more than 220,000 jobs; amounting to a quarter of all jobs in the Northern Ireland economy. For every manufacturing job in Northern Ireland, another 1.5 are supported elsewhere in the economy. By sustaining this level of employment, manufacturing directly contributes more than £2 billion in wages to its own staff, and a further £2.5 billion in wages through jobs supported outside the sector itself.

The manufacturing sector's impact goes well beyond its immediate or core economic impact. Wide-ranging benefits are created for the Northern Ireland economy as its activities boost economic activity elsewhere in the economy.

Consultation: Our Response

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

> ***We strongly agree with this vision of good governance. The UK Corporate Governance Code is regarded as a model of best practice internationally. Using this as a model is widely supported by Government, economic regulators and responsible businesses so we see no basis that this should not be adopted at the most appropriate route to take.***
>
> ***Some of our members operate under group structures and business more generally are familiar with this model which they understand can deliver best value. However, our largest concern is that under current arrangements with Eirgrid, there is, as a minimum, a risk that SONI could be subject to unconscious or inadvertent bias which may not always be in the interest of consumers in Northern Ireland. We are not confident that in decision making that SONI are viewed as equal partners with Eirgrid. Therefore the model implemented must have at its heart strong safeguards which ensures transparency, independence and equality.***

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

> **Experience, some of which is highlighted in the consultation, tells us that the Regulator and ultimately the consumer who pays for all of this is not adequately protected by the existing licence and that change is required.**

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

> **From our reading we would agree that the Regulator has adequately assessed the potential for harm. Whilst we appreciate the concern about barriers to competition, our focus of concern is on the potential disconnect between Northern Ireland's energy policy (existing and emerging) but in particular inappropriately higher prices.**
>
> **Energy policy is a devolved issue for the NI Executive. It is therefore critical that market players, such as SONI, are focused solely on strategies identified and adopted by the NI Executive and Assembly and not on those elsewhere on the island. Of course what happens elsewhere in our market, or network planning etc has to be appreciated but the place for this is within the development and adoption of a NI policy. The risk with the current SONI governance model is that pressure or unconscious or unintentional bias is placed on the objectives of Irish policy. In practice this may be no more than simply a risk, but it is our view that it is important that a good governance model is provided to completely remove that risk.**
>
> **We are deeply concerned about the lack of transparency by the company (reported in the consultation) as the Regulator sought to secure information to assess the appropriate and efficient allocation of costs. This is most alarming for us when we see that in 2018 some £17m on NI consumers money was recharged**

without full transparency. This in itself would demand that a more appropriate governance model which has the confidence of consumers is created.

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?

No response.

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?

We do not believe that Option A, B or D provide the correct balance between the necessary confidence of transparency and independence required by consumers whilst at the same time locking in the benefits of shared capital and expertise.

For us, Option C strikes the best balance. There remains the provision for SONI to make the case what resources are provided by Eirgrid. Providing this justification would in itself ensure confidence and transparency.

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?

  Yes

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

  Yes

- 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?

  Yes

- 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?

  Yes

- The UKCGC makes reference to the need for specific sub-committees in exercising good governance. Should these sub- committees 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?

  Yes

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

> ***Our preference is for Option C and it is our view that these appointments should have independent oversight. There are functions such as the Office of the Commissioner for Public Appointments for Northern Ireland which have been established to provide transparency and confidence however we do not believe they have the specialism required to undertake this work and would likely rely upon others. So for us this should be operated through a process operated or with oversight from the Utility Regulator given their intimate knowledge of the sector and licensing requirements.***

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

> ***Yes***

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?

  Yes

- 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?

  Yes

- 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?

  We believe SONI should have its own published whistleblowing policy. From the consultation published, the reports that there were anonymous responses to the call for evidence makes it clear that SONI staff perhaps do not believe that the existing process is sufficient. A standalone SONI policy would go some way to overcome any reluctance.

- 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?

  Yes. As with the standalone whistleblowing policy above, this would increase consumer confidence that SONI is operating solely in the interests of Northern Ireland consumers.

- 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?

  Yes, as with the above this would increase consumer confidence that SONI is operating solely in the interests of Northern Ireland consumers.

- 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?

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

    In the scale of things, the cost of SONI would not be increased significantly but the impact of their work has a huge role in final delivered prices so consumers need to be confident that their interests are at the centre of all decisions taken.

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

    There should be no reason why the company could not provide this information to the Regulator and in some form to consumers who pay for all these costs – it is a frustration of consumers that many energy firms do not fully appreciate that 100% of their income comes from consumers. They are entitled to transparency given the monopoly role SONI and similar enjoy – there is no commercial reason to not provide this.

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?

    It is our view that there is no significant cost rise for consumers from the proposals.

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?

    We are content that the proposals (specifically Option C) provides a robust model. However building in a period of review will allow both SONI/Eirgrid and the Regulator a moment to see how any model is being delivered and sharpen should it be required.

Conclusion

We welcome this work by the Regulator and the chance to respond to the consultation.

No one should fear transparency, accountability and independence. That creates confidence from consumers, those who pay for this entire market. We are deeply concerned about some of the practices or barriers to transparency identified in the Call for Evidence and work undertaken by the Regulator on this project so far and believe that this alone demands the overhaul of SONI's governance model.

We are happy for this response to be published.