

## UTILITY REGULATOR'S CONSULTATION ON SONI TSO GOVERNANCE

### NIE Networks' Response

25 June 2021

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#### Introduction

NIE Networks welcomes the opportunity to respond to the Utility Regulator's consultation proposals in respect of SONI TSO governance published on 2 April 2021.

NIE Networks is the owner of the electricity transmission and distribution networks in Northern Ireland and the distribution network operator. NIE Networks is responsible for developing, constructing and maintaining the transmission network. In its separate role as electricity transmission system operator, SONI is responsible for operating and planning the transmission network in Northern Ireland. SONI is therefore an important stakeholder for NIE Networks, with our ability to work in cooperation with SONI critical to the efficient delivery of electricity transmission infrastructure projects in Northern Ireland.

Going forward, both SONI and NIE Networks will continue to have crucial roles in delivery of the future transition of the energy system in Northern Ireland as an enabler towards a low carbon economy. In this context, NIE Networks and SONI will increasingly need to work in partnership to deliver outcomes that meet future Northern Ireland electricity system needs, as well as coordinating day to day operation of the distribution and transmission systems respectively.

Therefore, NIE Networks considers it important that SONI's governance arrangements should support and enhance arrangements in Northern Ireland aimed at:

- the timely and efficient delivery of transmission infrastructure projects
- the evolution to a low carbon economy
- the best outcomes for Northern Ireland customers and stakeholders

Our detailed response below is structured in accordance with the questions presented by the Utility Regulator in section 6 of its consultation paper.

## NIE Networks Response to the UR's Consultation Questions

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

**NIE Networks:** No response.

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

**NIE Networks:** No response.

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

**NIE Networks:** No response.

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?*

**NIE Networks:** We believe the determination of which Board committees are appropriate for SONI should be a matter for an independent SONI Board. Please refer to our response to Question 6 below.

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?*

**NIE Networks:** We believe Option B most appropriately reflects a balance between ensuring the appropriate independence and governance of SONI, while enabling SONI to benefit from the resources and capability within EirGrid group for the benefit of Northern Ireland customers. The extent to which SONI utilises those Group resources should, however, be a matter for the SONI Board to determine.

♦ *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. (NB: This falls short of full compliance with the UKCGC.)*

♦ *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.*

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?*

**NIE Networks:** We agree.

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

**NIE Networks:** We agree that the SONI MD's primary reporting relationship should be to the SONI Board, however we suggest that the option for a 'dotted line' reporting arrangement to the Eirgrid CEO should be left open. It is important that the SONI MD can be represented in the EirGrid Group structure so that he/she can influence Group strategy and secure access to Group resources in support of SONI's objectives.

♦ *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?*

**NIE Networks:** We do not agree. As set out above, we favour an independent SONI Board which should provide sufficient oversight of these matters. In that context, we do not believe it is necessary to introduce these requirements into the licence.

♦ *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?*

**NIE Networks:** We do not agree. Similar to the previous question, it is our view that an independent SONI Board should be able to determine what 'matters reserved' are appropriate. In that context, we do not believe it is appropriate to specify these requirements in the licence.

♦ *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?*

**NIE Networks:** It is our view that an independent SONI Board should have the scope to decide for itself what sub-committees are appropriate in exercising good governance. The UKCGC is considered best practice for publicly listed companies. However, it is not appropriate in all instances to apply the Code in full to a subsidiary company (even an independent one) within a Group structure. Inappropriate application of the UKCGC in this context could, in fact, be contrary to good governance as it could undermine the effective governance of the Group board.

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

**NIE Networks:** It is our view that shareholders should appoint the SONI Board while being cognisant of the requirements of the governance model to be applied.

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

**NIE Networks:** As set out in our response to Question 5 above, we favour Option B. Under this arrangement, the extent of the management and resource sharing model with Eirgrid should be a matter left for the SONI Board to determine consistent with SONI's TSO licence obligations and compliance plan.

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?*

**NIE Networks:** We agree that a SOA would improve transparency; and have no other proposals in this regard.

♦ *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?*

**NIE Networks:** We agree that a SLA would improve transparency and is an appropriate requirement in this regard.

♦ *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?*

**NIE Networks:** We believe that SONI should have its own published policy, with its content a matter to be determined and approved by the SONI Board.

♦ *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?*

**NIE Networks:** We agree that such a policy would improve transparency in this regard.

♦ *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?*

**NIE Networks:** We agree.

♦ *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?*

**NIE Networks:** We do not believe there is a need for this to be made a licence obligation.

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

**NIE Networks:** No response.

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

**NIE Networks:** Question for SONI only.

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?*

**NIE Networks:** No response.

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?*

**NIE Networks:** No, our views are unaffected by this proposal. However, we consider that such a review would be beneficial, adding further to stakeholder confidence that any new arrangements have been effectively implemented ahead of SONI's next TSO price control review.