



## **SONI TSO Governance Consultation**

Submission by Prospect to the Utility Regulator of Northern Ireland

June 2021

## **Introduction**

Prospect represents 150,000 engineers, scientists, technical specialists and managers across the public and private sectors, and we are the largest union for professional engineers in the UK. For more than a century, Prospect, and its predecessor unions, has represented engineers, technical specialists and managers in the electricity supply industry, giving us a unique insight into the challenges and opportunities facing the electricity sector.

Prospect is the sole recognised trade union for staff at SONI Ltd., and more than 90% of staff are Prospect members. This response has been drawn up based on the experience and insights of those members and draws in part on the results of a survey of SONI staff conducted in May 2021 which was completed by roughly two-thirds of SONI staff.

## **SONI TSO governance**

Prospect welcomes the conclusions reached by the Utility Regulator in the consultation document published in April 2021. We agree that a real question mark exists over the current governance arrangements at SONI Ltd. As we outlined in our detailed response to the Call for Evidence in 2019, we believe that SONI has become fully subsumed into the EirGrid group, and no longer enjoys any substantive managerial independence. The extent to which Northern Ireland can be said to have an independent TSO is now very much in question.

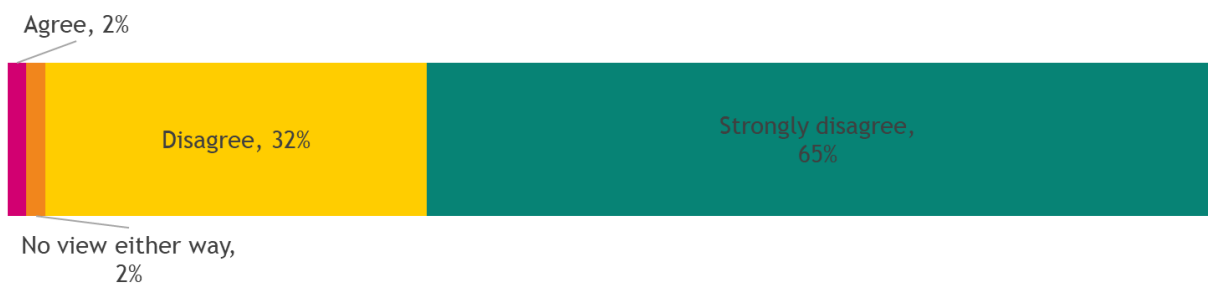
Prospect believes that SONI's complete integration into the EirGrid group, and its resulting lack of independence, is detrimental to the interests of Northern Ireland consumers for the reasons outlined by the Utility Regulator. The lack of transparency around shared resources and cost transfers between EirGrid and SONI means it is impossible to objectively determine whether network prices are appropriate and fair. The lack of an independent management and resourcing structure for SONI means that the specific interests of Northern Ireland consumers are not adequately represented in network planning and development decisions taken by EirGrid.

In our recent survey of SONI staff, 95% either disagreed or strongly disagreed with the notion that the current EirGrid structure operates transparently enough to allow for effective oversight by the Utility Regulator. The majority of staff also do not believe that EirGrid provides sufficient resources to allow SONI to carry out its licence functions, or to allow individual SONI staff to perform their roles effectively. In text comments, many survey respondents expressed frustration about the way that EirGrid has increasingly stripped resourcing out of SONI and left posts unfilled when staff have retired or otherwise left the business. Many respondents said they believed there was no longer sufficient staff with expert knowledge of the Northern Ireland electricity system within the EirGrid group, and those that remain are stretched beyond capacity, in clear violation of SONI licence requirements under the System Operator Agreement.

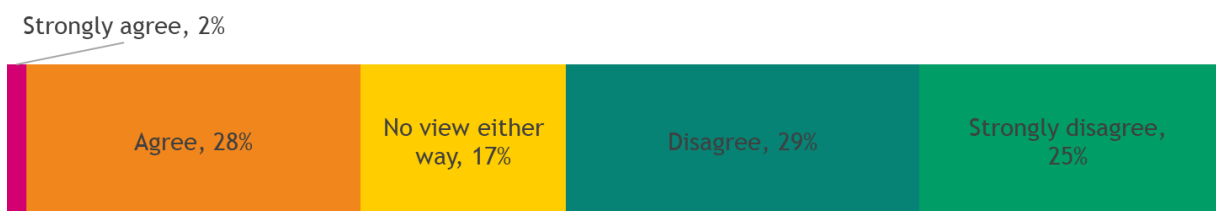
"The current EirGrid Group structure operates with a sufficient level of transparency and clarity to allow for adequate oversight by relevant NI bodies, in particular the Utility Regulator "



"EirGrid Group makes available sufficient resources to SONI (including management resources / structures, staffing levels, financial resources, etc) to enable SONI to effectively carry out its licence functions for the benefit the NI consumer? "

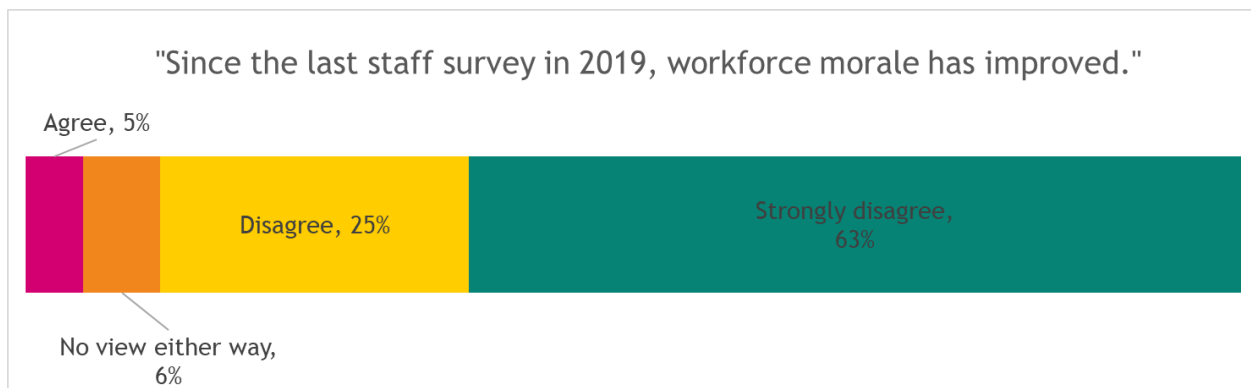


"Under the current EirGrid Group structure you (as a SONI employee) are able to carry out your role effectively and have access the resources and broader expertise within the organisation in order to do so."



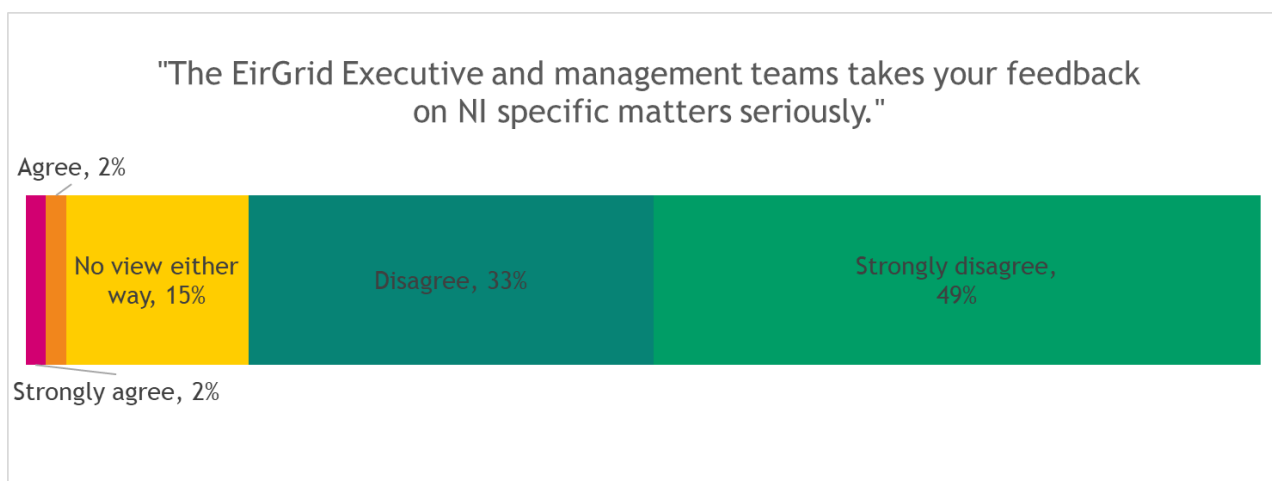
As we have outlined previously, the integration of SONI into EirGrid has had significant, negative repercussions for industrial relations at SONI. Over the last five years, industrial

relations have deteriorated sharply as HR decisions have been centralised to EirGrid executives who have become increasingly interventionist and combative. This has had damaging consequences for staff-management relations at SONI and has undermined workforce morale. In 2019, Prospect asked SONI staff to rate workplace morale and 90% of staff gave it a 1 out of 5 rating. In our recent survey, 88% of staff said they thought workforce morale had deteriorated further in the last two years.



Clearly industrial relations issues are not directly a matter for the Utility Regulator, but to the extent that governance arrangements at SONI are undermining the relationship between management and the workforce then this does have clear consequences for the smooth functioning of the TSO, and hence for the Utility Regulator and for consumers in Northern Ireland. At present, the poor state of industrial relations has created an atmosphere where skilled SONI staff with a unique and detailed knowledge of the Northern Ireland electricity system are unwilling to speak out and challenge decisions taken by EirGrid either for fear of negative consequences or a belief they will simply be ignored.

In our 2019 survey only 12% of staff said they felt confident giving feedback to managers or senior staff, while in our recent survey, 82% of staff said they did not think EirGrid management took the feedback of SONI staff on Northern Ireland matters seriously.



Such an atmosphere cannot be conducive to advancing the best interests of Northern Ireland consumers. Prospect believes that a governance structure that gives an appropriate level of autonomy to SONI and devolves management decisions to a Northern Ireland level would be a key step in improving the industrial relations landscape

at SONI. This would ensure that management structures are sufficiently rooted in, and responsive to, the Northern Ireland context. This would in turn ensure that SONI staff feel secure and empowered to fully contribute to decision-making about the future of the Northern Ireland electricity system.

In sum, Prospect agrees with the position taken by the Utility Regulator that the current governance relations at SONI are not fit for purpose and must be reformed as a matter of urgency. We are on the cusp of a period of substantial upheaval in the way the electricity system is used as we transition towards a low carbon future, and it has never been more vital that Northern Ireland has a TSO that can fully reflect the specific needs and interests of Northern Ireland consumers and businesses, and command the confidence of policy-makers in its ability to provide independent, expert advice.

## **Options for reform**

The Utility Regulator has presented four options for reform each requiring a progressively greater separation of SONI operations from those of EirGrid. Prospect agrees that the first option, Option A, is insufficiently different from the status quo and should be rejected. The Utility Regulator has indicated an initial preference for either Option B or Option C, but Prospect believes that Option B would not go far enough in creating a SONI governance structure that is fully transparent, independent, and responsive to the needs and interests of Northern Ireland.

Our concern around Option B is that, whilst an independent SONI board would be an important step in the right direction, it would not by itself be enough to ensure that SONI meets the good and independent governance standards that the Utility Regulator and Northern Ireland consumers require. In particular, the lack of a dedicated staffing structure would continue to leave major question marks over SONI's ability to provide sufficient technical expertise on the Northern Ireland electricity grid. This is especially true given the concerns raised by staff, referenced above, about chronic understaffing at SONI since its integration into the EirGrid Group.

Option B would also not address the issue about transparent cost allocation and the uncertainties about whether EirGrid's shared resourcing model actually delivers fair prices for Northern Ireland consumers. Whilst EirGrid continues to argue that a shared resourcing approach delivers efficiencies and savings for consumers and to run the Single Electricity Market, we note that the Utility Regulator has acknowledged the lack of evidence provided by the company to support these claims. It is particularly of concern, that EirGrid would argue that the operation of the Single Electricity Market is conditional on the current EirGrid operating model, when there is no evidence to support this claim. As long as there are clear processes in place, and a spirit of co-operation, between any two independent operators, there should be no reason why the Market should not continue to operate efficiently.

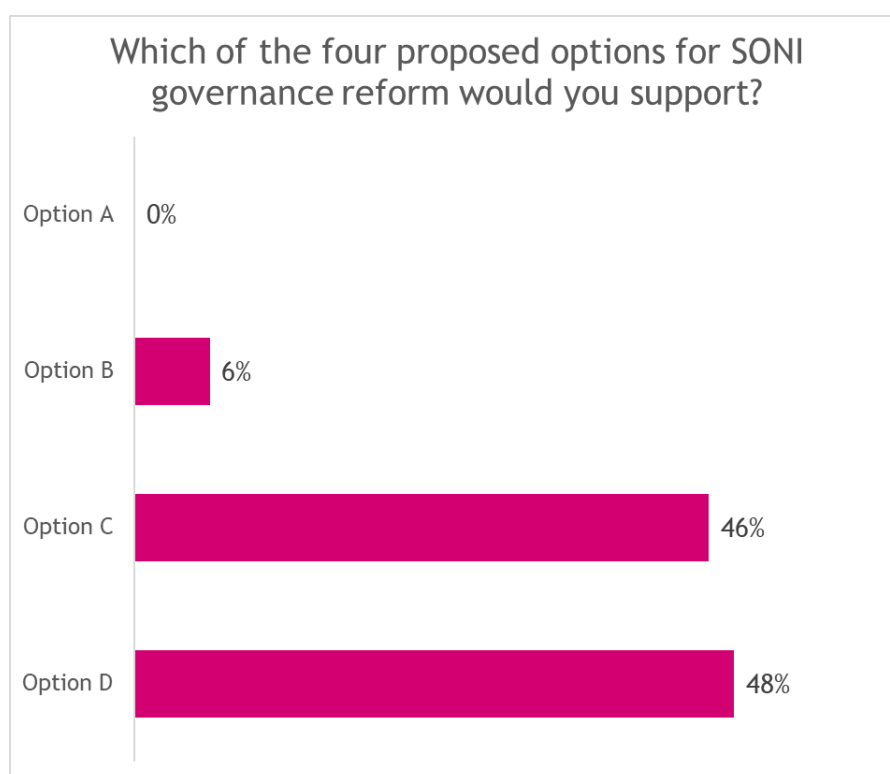
We note that the SEM Committee have previously highlighted concerns (<https://www.semcommittee.com/news-centre/mitigation-measures-potential-conflicts-interest-eirgrid-group>) around conflicts of interest within the EirGrid group, and issues with the operation of the SONI Board, and recognised the authority of the Utility Regulator of Northern Ireland to resolve these issues.

It should be noted, that during the protracted pay dispute process between Prospect and SONI, which led to a breakdown in industrial relations, including industrial

action almost to the point of strike action, a particular concern for Prospect was the high cost allocation within SONI budgets for 'EirGrid services'. We could not obtain information on what these services were, why they were at such a high level, or what benefit there was for the Northern Ireland consumer. It was a particular issue, at the root of the pay dispute, and to date, there has been no transparency over these charges.

Given the persistent information asymmetry in the relationship between the Utility Regulator and EirGrid, the former will always be ultimately reliant on data provided by the latter. And, given the misalignment of shareholder and consumer interests in a privately owned monopoly, there will always be an incentive for EirGrid to avoid full transparency about the true costs of resourcing for the Northern Ireland TSO. In the absence of ANY evidence of benefits to the consumer from shared resourcing, it is unclear why the Utility Regulator would opt for a governance model that increases the risk of higher than necessary costs to the consumer.

We believe that Options C or D offer the best chance to rectify the problems with SONI's current governance arrangements. In our recent survey of SONI staff, over 90% of respondents said they supported either Option C or D as the best way to reform SONI's governance structure.



In sum, Prospect believes strongly that SONI needs a fully independent board and senior management team, as well as a staffing structure that is outside of EirGrid's shared resourcing model. This is the only way to ensure that the costs of delivering TSO services in Northern Ireland are fully transparent, and that there is an independent staffing structure that can ensure sufficient levels of local technical expertise, be fully responsive to local needs in network planning decisions, and give confidence to Northern Ireland

policymakers that SONI is capable of giving objective, independent advice on the future development of the Northern Ireland electricity grid.

## **Reforming SONI's Board**

As noted above, Prospect members believe that a fully independent SONI board and senior management team will be crucial in providing leadership, vision, stability, and accountability of the TSO function for the benefit of Northern Ireland. Expanding the role of the SONI board and reforming its composition is therefore crucial.

At present, as the Utility Regulator has itself noted, the SONI board currently lacks any independence from EirGrid. The existing SONI board consists of six members, three executive and three non-executive directors.<sup>1</sup> Two of the SONI directors are EirGrid executives who report to the EirGrid CEO, while all three of the non-executive directors sit on the EirGrid board.<sup>2</sup> This composition raises real questions about the extent to which the SONI board can act independently in the interests of Northern Ireland.

Prospect fully supports the view that the composition and functions of SONI's board should follow minimum standards of good practice such as those detailed in the UK Corporate Governance Code (UKCGC). To that end, we believe the majority of board members should be fully independent of the EirGrid board, similar to the relationship between the boards of NIE Networks and its parent company ESB, an arrangement which has worked successfully and ensured that NIEN can act independently in the interests of Northern Ireland stakeholders.

Prospect also believes that SONI board composition should reflect the interests of a broader range of stakeholders, beyond EirGrid shareholders. This is the spirit of the 2018 reforms to the UKCGC which placed greater emphasis on the interests of the 'wider community' in board decision-making.<sup>3</sup> Mutual Energy offers a prominent Northern Ireland example of a company that operates successfully in the interests of a broader range of community stakeholders.<sup>4</sup>

In line with this, Prospect believes there is a strong case for appointing at least one workforce representative (outside of the SONI executive team) to the SONI board, to represent the interests of SONI staff. Such a step would be fully in line with the recommendations of the UKCGC on workforce representation, and would give the local SONI workforce a stronger voice in corporate governance, whilst also increasing the transparency and accountability of the board. Given the recent deterioration in industrial relations outlined above, a worker representative on the SONI board could also help to improve communication and trust between the top levels of the company and the workforce.

Prospect supports the Utility Regulator's proposals to revise SONI's TSO license to ensure that a much broader range of issues become fully reserved matters for the SONI board, including responsibility for license obligations, financial management, and internal operational policies. Such a step would be essential if SONI's board is to be imbued with

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<sup>1</sup> <https://www.soni.ltd.uk/about/our-leadership/>

<sup>2</sup> <https://www.eirgridgroup.com/about/our-leadership/>

<sup>3</sup> FRC (2018) UK Corporate Governance Code (<https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>)

<sup>4</sup> <http://www.mutual-energy.com/publications/governance-documents/>

sufficient powers to act in the interests of Northern Ireland stakeholders, and it would go a long way to allaying the concerns of SONI staff about the current board's subservience to EirGrid management.

A key challenge in implementing proposals for a fully independent SONI board is ensuring there is a clear and transparent process for the appointment of future SONI board members. Prospect supports the idea of having an external vetting process for SONI board appointments to ensure they are sufficiently independent and can truly act in the interests of Northern Ireland stakeholders. This could be a role for the Utility Regulator to play, but Prospect believes that given the strategic importance of SONI to the Northern Ireland energy system and economy, there is scope for considering a public appointment process similar to that for Northern Ireland government appointments.<sup>5</sup> This would allow for full, public scrutiny of board appointments and ensure board members can properly represent the interests of Northern Ireland stakeholders.

## **Conclusion**

Prospect believes the case for major governance reform at SONI is pressing and compelling. As we have outlined in this consultation response, we strongly believe that in order to ensure SONI enjoys the full confidence of consumers, staff, and other key stakeholders, the Northern Ireland TSO must be given a fully independent governance structure, supported by an independent staff team. This is the best way to ensure that Northern Ireland has a TSO that is responsive to the needs of Northern Ireland consumers and ready to face the challenges ahead.

We welcome the opportunity to provide our perspective on this vital issue and look forward to further opportunities for constructive engagement with the Utility Regulator in future.

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<sup>5</sup> <https://www.nidirect.gov.uk/articles/public-appointment-application-process>