

NIE Networks RP7 Price Control: Utility Regulator Proposed Approach

SONI RESPONSE DOCUMENT

18 May 2022



SONI (System Operator for Northern Ireland) is the Electricity Transmission System Operator for Northern Ireland. Since 2014, SONI has been responsible for planning for the future of the grid and we also operate the all-island wholesale electricity market with EirGrid through the Single Electricity Market Operator (SEMO). We welcome the opportunity to respond to the Utility Regulator's Consultation on the proposed approach to the NIE Networks RP7 Price Control.

As stated in the consultation, NIE Networks is responsible for building and maintaining electricity transmission and distribution networks which allow consumers to access a secure supply of electricity. However, its work also includes:

- 1) Engaging Generators who sell electricity and other services into the Single Electricity Market or direct to supply companies; and
- 2) Collaborative working and engagement with SONI, which in turn is responsible for matching supply and demand for power across Northern Ireland as well as the design and operation of the transmission network.

The structure of this response has been prepared into two sections. Firstly, an overarching list of the pertinent issues SONI believes the UR must take into consideration when finalising its approach to the NIE Networks RP7 Price control, and secondly, some paragraphs of the consultation that we have provided specific comments on.

Overarching Comments

SONI believes the outcomes of this consultation could have material impact on its own operational activities and as such we have prepared the following high-level comments for the UR's consideration.

1) SONI/NIE Networks Roles

The approach paper generally infers that NIE Networks can make transmission investment decisions and that these can be included in RP7. Furthermore, we would add that the document suggests that NIE Networks is not restricted in Transmission investment or that RP7 can cover all Transmission investment unless the UR chooses to exclude it. This would be contrary to the transmission arrangements certified for Northern Ireland and the detailed ways of working defined in the Transmission Interface Arrangements. We would request further clarification and more precise drafting in the final approach paper. Examples include:

The Abstract Box states:

NIE Networks develops, maintains and operates the transmission and distribution networks which bring electricity to our homes, places of work and social activity

This is incorrect in the context of the Transmission Network responsibilities.

The Customer Impact Box States

It develops, maintains and operates the transmission and distribution networks which bring electricity to our homes, places of work and social activity.

This is incorrect in the context of the Transmission Network responsibilities.

Executive Summary Introduction state:

NIE Networks develops, operates and maintains the transmission and distribution networks which allow consumers to access a secure supply of electricity

This is incorrect in the context of the Transmission Network responsibilities.

Paragraph 2.19 (f) states:

The company must design and operate its networks to comply with codes of practice established under the licence

It should be clarified that this relates to the Distribution network

In addition, there are a number of references to System Services. It is important to note that the current arrangements are a SEM matter and will need to align with SEM Committee decisions regarding System Services, along with mandatory central dispatch for units with an installed capacity greater than 10MW and any smaller units participating in the SEM (Table 3.1)

Data and Digitalisation – There should be alignment with SONI (especially regarding new licence conditions) (see paras 3.60, 3.28)

Cyber security – There needs to be an awareness of new network code and potential interactions with SONI (see para 3.50 (h))

2) Transmission Use of System Charges (TUoS) Revenue recovery

The UR has stated, “As set out in our 2020 to 2025 SONI price control final determination, we plan to move TUoS revenue collection cashflow timing risk from SONI to NIE Networks in time for the start of RP7. NIE Networks’ business plan will need to take account of this risk transfer as will the RP7 price control package. We plan to consult on appropriate licence modifications for SONI and NIE Networks to implement this decision.” (Table 3.1)

However, paragraph 3.150 goes further and states:

As part of SONI’s 2020 to 2025 price control, we proposed to move the TUoS revenue collection from SONI to NIE Networks reducing SONI’s risk and overall costs to

consumers. We plan a further consultation on appropriate licence modifications with the intention of it being in place for the start of the RP7 time period.

The implications of this proposal has significant consequences in terms of risk, exposure and revenue allowances for both SONI and NIE Networks. It is imperative that tri-lateral engagement is implemented soon to discuss the issues and tangible repercussions of this proposition. It is our view that there would be no economic or material benefit to end consumers, should the risk and revenue exposure be moved from SONI to NIE Networks. We consider that these discussions should take place ahead of any consultation. We are keen to understand the timeframes that the UR is considering for the proposed consultation.

In addition, the wording (at para 3.150) could be construed to imply a more fundamental change to the TUoS charging arrangements, which would contradict the SONI price control decision. This should be clarified as a matter of urgency.

3) Transfer of Telecoms Assets

We would highlight that the price control approach does not currently reference the UR's intention to transfer the telecoms operations from SONI to NIE Networks. This is a significant project relating to sizeable Capex and Opex and should be considered as part of the RP7 approach.

Specific Comments

In addition to these high-level points, we have also commented on the following paragraphs within the consultation, as follows:

Table 3.1 – Summary Approach to RP7

Overall, we are content with the Summary Approach and the duration of 6 years. We would highlight again, the need to align with SONI where appropriate – E.g. Digitalisation and Data and the areas currently not being addressed within the table – transfer of Telecoms from SONI to NIE Networks.

Para 3.21 – 50/50 Cost Risk Sharing Mechanism

We note that SONI's Price Control utilises a 75:25 Cost sharing Mechanism as this was deemed more beneficial to the Company and Consumer. We think it is important that the UR provides clarification as to the ratio of risk share that is appropriate to NIE Networks.

Para 3.28 - Requirements for NIE Networks to Report *on how the company intends to enable whole system solutions including working with the Transmission System Operator (TSO) which will deliver long-term whole system thinking and value to consumers.*

We would emphasise again the importance of SONI involvement and material engagement with NIE Networks in terms of addressing this issue and look forward to continued engagement.

Para 3.39 – Publishing Final Determination and Proposed Modifications etc

It is important to highlight the significant delay imposed on SONI in its price control, where the licence modifications decision was made **11 months** after the publication of the SONI Price Control Final Determination. This meant that the price control did not ‘take effect’ until January 2022 rather than October 2020. SONI therefore had significant regulatory uncertainty for the first quarter of the price control period. The deferment in publishing the licence modifications had severe knock on effects in terms of SONI’s operational activities, and as such we believe that there are significant lessons to be learned (such as adhering to timelines) to ensure NIE Networks do not suffer unduly from similar circumstances.

SONI acknowledges that the price control timeline allowed for an additional 3 months for SONI to prepare its business plan and we consider there is merit in ensuring that sufficient preparation time for a business plan is catered for in the overall timeline.

Para 3.59 (h) – Publishing a Cyber Security Strategy

We would emphasise the importance in ensuring that any cyber security policy also complies with the relevant Network Codes.

Para 3.71 – Provision for NIE Networks Investment Plan

We would highlight that this investment plan should be in relation to Distribution projects/works only and not the Transmission Network. The roles and responsibilities for the development of the transmission investment plan are set out in the Transmission Interface Arrangements.

Para 3.105 and 3.106 – NIE plans for Innovation

In this Section the UR considers innovation for NIE to be considered as “BAU” – Business as Usual. We do not feel this is a realistic approach and would suggest that appropriate funding is awarded to allow for some element of trials and adoption costs for new technologies and initiatives.

Conclusion

In conclusion, SONI welcomes the opportunity to share its views regarding the Utility Regulator’s approach to the new RP7 Price Control. We recognise the important role SONI must play in supporting the implementation of an equitable and balanced new Price Control for NIE Networks over the next RP7 period. We look forward to further engagement with the UR and NIE Networks on the areas of concern we have highlighted in this response.