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25<sup>th</sup> March 2022

Dear Roisin

**Re. Consultation on modifications to the SONI TSO licence**

This response is on behalf Mutual Energy which exists to own and operate energy infrastructure in the long-term interest of Northern Ireland energy consumers. As the Utility Regulator (“UR”) will be aware, Mutual Energy owns and operates the Moyle Interconnector (Moyle) which links the electricity systems of Northern Ireland and Scotland, the Premier Transmission Pipeline System (PTPS), which consists of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP), the Belfast Gas Transmission Pipeline (BGTP) and the West Transmission Pipelines (WTP). These assets are operated by Moyle Interconnector Ltd, Premier Transmission Limited, Belfast Gas Transmission Limited and West Transmission Limited respectively under their separate licences within the Mutual Energy group. These are strategically important energy transmission infrastructure and Mutual Energy aims to manage them in the interest of Northern Ireland consumers to the highest standards of safety, reliability and efficiency.

Mutual Energy applies the UK Corporate Governance Code (“UKCGC”) so would agree with UR that this represents best practice for a regulated business taking an effective approach to balanced corporate governance. In that regard, we support the overall thrust of UR’s proposed licence changes in that they move SONI towards that best practice. We note that SONI’s response to UR’s April 2021 consultation on SONI governance proposals erroneously referred to Mutual Energy’s governance arrangements as somehow analogous to those of SONI within the EirGrid Group. Each of Mutual Energy’s operating businesses are regulated by the Utility Regulator, underpinned by Northern Irish consumers and financially ringfenced under the parent holding company Mutual Energy Ltd, so we do not recognise the equivalence.

We support the requirements in the proposed licence changes for SONI to reform its governance structure so that it is independent, transparent, accountable, and focused on delivering and protecting the needs of Northern Ireland consumers. As noted in the consultations to date, it is difficult to put a monetary value on the benefit that these changes bring but there is clear strategic benefit and associated economic value for NI to have a TSO with a board and management team that is focused on the needs of NI. Specific examples of where we see an NI focused team delivering value include:

- Delivering on Northern Ireland government energy policy. We now have an NI Energy Strategy which, inter alia, signals the intention to utilise NI's modern gas infrastructure, recognising the potential to generate and import zero carbon gases and commits to continued engagement with the gas sector to understand viable pathways to gas network decarbonisation. Recent SONI strategic publications on future network development pre-empted the energy strategy and assumed decommissioning of the gas network by 2050. An NI focused SONI team will increase the chances of successful delivery of the NI energy strategy's vision through effective sector coupling of gas and electricity.
- When delivering major projects including in conjunction with NI energy industry participants such as Mutual Energy subsidiaries, there is potential for a lack of joined up thinking and common objectives across the SONI/EirGrid organisation, perhaps due to conflicting priorities. This has the potential for inefficient delivery of projects and ultimately additional costs for NI consumers.
- Our experience with SONI and EirGrid's recent operational intervention in market determined NI to GB interconnector flows lacks transparency. In particular, it is not clear how SONI decisions are made and how NI customer's best interests are reflected in those decisions versus RoI customer interests. We would expect scenarios like this to be better managed by a dedicated SONI team

We provide the following comments on the detail of the proposals:

- The initial appointment process for the new board is not entirely clear. The consultation paper states that SONI will appoint the board but also makes reference to "an independent body to make Board member appointments" in the updated CBA but the role of that body is not clear.
- We do not support the proposed UR veto on board appointments. This veto has potential to be too subjective and intrusive for a private limited company. For example, a *"requirement is that the membership of the board of the Licensee must, at all times, reflect as a whole an appropriate mix and balance of skills, knowledge, experience and personal qualities necessary for ensuring the effective management and governance of the Licensee"*. This is sufficiently broad that any candidate could potentially be rejected by UR.
- It is appropriate the new board should manage its own replacements within the proposed framework, but we do see that there may be case for some UR role (preferably in a collaborative or consultative process alongside the current board) in appointment of the new SONI board.
- The estimated costs of the new structure set out in the CBA seem low (and perhaps these are based on an assumption that ample funding will be freed up with SONI operating outside of

EirGrid's shared resource model). SONI will need experienced senior staff with sufficient time to support the new board to properly determine whether delivery is optimal inside or outside of the shared resource model and develop derogation applications as appropriate. It is likely that it will take significant time for SONI to develop teams to take tasks in-house so UR should consider whether the timing allowed for either delivery or the derogation process is sufficient. If not, the default outcome may be that derogations must be granted because SONI does not have a credible option other than relying on the existing shared resource model (albeit with its own board).

- We note at paragraph 7.4 that the proposed licence changes do not specify a minimum number of SID's but this is implied by the requirement that no more than one-third of the SID appointments are due to expire at the same time. We suggest it would remove any ambiguity and cause no detriment to state that there is a requirement for at least 3 SIDs to be appointed.
- Paragraph 21 of the proposed licence condition 42 refers to "decisions" taken by "managers". All sorts of decisions are taken by managers, staff and contractors in the course of business so it would be helpful to define the materiality or type of decisions referred to here, otherwise ensuring compliance with this condition could be exceptionally onerous and/or open to interpretation.

### **Summary**

Mutual Energy broadly supports the licence changes proposed by UR and the objective to mandate governance that delivers independence of mind for SONI and associated benefits for Northern Ireland consumers. We have some concerns around the process for appointing SONI directors and believe that this should be done within a framework provided in the SONI licence but without the explicit requirement for UR approval, lest the UR be seen to be acting as a shadow director. Lastly, we would caution that the scale of effort, expense and particularly the time that will be required by SONI to comply with these licence conditions and effectively deliver its TSO obligations (particularly outside of EirGrid's shared resource model) should not be under-estimated and UR should consider whether the draft licence conditions allow for this.

We hope that this feedback is useful and would be happy to discuss any aspect of it.

Yours sincerely

*Unsigned - sent by email only*

MEL - personal data removed