

Proposed Electricity Transmission Licence for Transmission Investment LIRIC Limited

SONI Response to the Consultation

July 2024



Table of Contents

1	Introduction	4
1.1	Context.....	4
1.2	Structure of SONI's Response	4
1.3	Further Engagement.....	4
2	Key Points	5
3	Area 1: Relevant post-Brexit legal framework.....	7
3.1	Context.....	7
3.2	Implications for the licencing framework	7
3.3	Clarification required in this area.....	8
4	Area 2: Potential implications of named connection point	9
4.1	Context.....	9
4.2	Potential implications for the grid connections framework.....	9
4.3	Clarification required in this area.....	10
5	Area 3: Potential implications of condition 7: provision of information to other persons.....	11
5.1	Context.....	11
5.2	Potential implications for SONI	11
5.3	Potential implications for competition with Greenlink.....	12
5.4	Clarification required in this area.....	12
6	Area 4: Potential implications of proposed market registration roles.....	13
6.1	Context.....	13
6.2	Potential implications for the interconnector.....	13
6.3	Potential implications for SONI	13
6.4	Clarification required in this area.....	14
7	Area 5: Absence of a regulatory framework for the provision of system services	15
7.1	Context.....	15
7.2	Potential implications for SONI and for competition in the system services market	15
7.3	Clarification required in this area.....	16
8	Area 6: Absence of clear operational framework.....	17

8.1	Context.....	17
8.2	Potential implications for system security and stability	17
8.3	Potential implications for SONI	17
8.4	Clarification required in this area.....	17
9	Area 7: Potential impact of SONI's price control 2026-31	19
9.1	Context.....	19
9.2	Potential implications for SONI's financeability	19
9.3	Clarification required in this area.....	19
10	Conclusion.....	20

1 Introduction

1.1 Context

SONI welcomes this start of the process to establish a regulatory framework for a merchant interconnector in NI. We are responding to this consultation as both the transmission system operator and as the party that is facilitating the connection of this interconnector into the transmission system in Northern Ireland.

SONI will play a significant role in the integration and operation of any new interconnector, and we will rely on the legal and licencing frameworks to provide a clear allocation of roles and responsibilities, without ambiguity around the interfaces. It is therefore important to us that our TSO licence dovetails with the licence held by a new interconnector.

We have reviewed the proposed licence to assess the impact that it would have on SONI and our ability to discharge our obligations. We have met with UR during this consultation period to raise the questions that we have about how the proposed conditions will be implemented in practice and the need for alignment with SONI's licence. In this response we set out these questions and the potential implications for SONI if the licence is issued as extant.

We will be happy to meet with UR to further explore the options for alignment between our licence and that of the proposed interconnector to ensure that the framework continues to facilitate market integration, system stability and appropriate allocation of risk and responsibilities.

1.2 Structure of SONI's Response

SONI has identified seven areas where we will require further information and clarification before we can fully assess the impact of the proposed licence on the operation of the transmission system and our ability to discharge our own responsibilities. In this response, we summarise these briefly along with our key points and then address each of the seven areas in turn in more detail.

1.3 Further Engagement

Without the additional information that we identify in this response, SONI is not able to fully assess the implications of the proposed licence. Consequently, we would like to flag that we could not support the licence being issued as extant at this time.

We would therefore welcome further engagement with the Utility Regulator where these issues can be explored in more detail and resolutions identified. We will of course be happy to engage with the developer of the interconnector as part of this process.

2 Key Points

SONI has reviewed the consultation paper and proposed licence. We have also attempted to identify the interfaces with our own responsibilities and activities that are not currently included in that framework. As a result, we have identified some areas where we require additional clarification and information before we can fully assess the implications of the proposed licence framework.

SONI's initial queries and concerns cover the following seven areas:

1. **Relevant post-Brexit legal framework:** the licence sits below the European Network Codes and the Trade and Cooperation Agreement in the legal hierarchy. The UR has consulted upon the allocation of responsibilities under the Network Codes, however has not yet reached a decision. Clarity around the responsibilities that the UR will allocate to a SEM-GB interconnector is essential before we can identify the remaining gaps in the interfaces between SONI and the interconnector that will need to be addressed by the licence. We look forward to working with the UR to close out this important workstream.
2. **Potential implications of a named connection point:** unlike other licences, the proposed interconnector licence specifies the point of connection to the Northern Ireland Transmission System. During the consultation period, SONI has issued an offer for this connection, however it has not been accepted. Other parties are interested in connecting at this point and we are unsure what rights may be conferred by this detail being included within the licence, irrespective of acceptance by the developer.
3. **Potential implications of Condition 7: provision of information to other system operators:** The Network Codes contain obligations to provide information to other TSOs however it is not yet clear which of these obligations will be placed upon SEM-GB interconnectors. We assume that the obligations set out in this condition would only apply to any remaining information that SONI would need to request. We cannot provide meaningful comments on the impact of this condition, either practically or financially, without first understanding the scale of the information that it would apply to. However, we would like to flag that, as currently drafted, this condition could introduce a complicated and costly interface between SONI and the new interconnector.
4. **Potential implication of proposed market registration roles:** Condition 19 of the proposed licence requires the new interconnector to ensure that SONI delivers specific roles on its behalf, however these activities are not within the scope of the permissions set out within our licence. The treatment of liabilities that arise from energy imbalances is also not specified. It therefore appears that this condition is not achievable as drafted. SONI will be happy to work with UR and the interconnector to support development of licence conditions that are consistent across both of our licences and look forward to responding to a consultation that considers the market registration responsibilities holistically.

5. **Absence of a regulatory framework for the provision of system services:** The consultation and proposed licence are silent around the regulation of any system services that could be provided by the new Interconnector. However, it will be competing with the Greenlink and EWIC interconnectors, who's licences contain a condition related to system services that mirrors the condition included in generation licences. SONI expects to be procuring system services from the new interconnector and therefore cannot support a licence that does not include the protections that we will need to ensure that these services are provided on reasonable terms.
6. **Absence of a clear operational framework:** the proposed licence does not include an obligation to enter into an operational agreement with SONI. This could be interpreted to mean that LirIC is given lead responsibility for dispatching the interconnector, with SONI's role limited to that of a potential "co-operator". Uncoordinated flows across LirIC have the potential to cause severe disruption to the transmission system in Northern Ireland, especially given that LirIC is being built to a capacity that exceeds the current largest single infeed onto our system. We cannot comment on the extent of the potential consequences of this without further clarity around how the UR envisages this operational interface.
7. **Potential implications for SONI's 2026-31 price control:** SONI appreciates the reasons why the UR is silent around whether the new interconnector will qualify for financial support from NI consumers, however we will require clarity around any role that SONI (and our contracts with NI suppliers) would have in facilitating that mechanism before we submit our business plan for 2026-31. This is to ensure that we will be able to secure the working capital that would be necessary to underwrite any cap and floor payments in the event of a shortfall in income to cover them.

In this response we have highlighted the areas that we consider to be most important for the establishment of a new framework that works for all parties and ensures a stable transmission system for Northern Ireland. The absence of comments on other areas should not be interpreted as endorsing those licence conditions because we will need to review the entire licence holistically once the additional information is available. Consequently, we would like to flag that we cannot support the licence being issued as extant at this time.

We are available to work with UR and the developer of the new interconnector to ensure that both licences are clear and compatible, with a view to ensuring a sustainable relationship between us and to facilitate a meaningful consultation on the arrangements that enables full participation by all impacted parties.

3 Area 1: Relevant post-Brexit legal framework

3.1 Context

As an interconnector between GB and the European markets, the over-arching legal framework applicable to the ownership and operation of the new interconnector is created by a combination of the outworking of the Trade and Cooperation Agreement, European legislation and local laws and licences.

The proposed licence sits below European Regulations, including the Network Codes, and any outworkings of the Trade and Cooperation Agreement in the legal hierarchy. In the event of any contradiction, the obligations that are set out higher in the hierarchy take precedence. Therefore, the legal framework that sits above the proposed licence must be considered when assessing the implications of the proposed licence for other TSOs such as SONI.

There are currently three organisations in Northern Ireland that deliver aspects of the TSO role that is defined in European legislation. The new interconnector would become the fourth to be allocated some of the TSO responsibilities defined in the European Network Codes. We assume would be broadly similar to those allocated to the Moyle Interconnector.

The UR allocated responsibilities related to the Capacity Allocation and Congestion Management Network Code in October 2015¹ and issued a minded to decision on the Forward Capacity Allocation Network Code in September 2017². The exercise to allocate responsibilities under the other relevant codes commenced with a consultation³ in October 2020. SONI took part in intensive post-consultation engagement, which concluded in January 2022. However, the final decision on this allocation has not yet been issued by the UR.

3.2 Implications for the licencing framework

Without clarity around which network code obligations (if any) apply to an interconnector between NI and GB, there is uncertainty around:

- which gaps in the governance framework the licence is attempting to fill; and
- the legal context within which we can review the draft proposed licence.

While we have attempted to assess the effects of the proposed licence in a pragmatic manner in this response. We cannot undertake a full assessment of the effects that it would have

¹ <https://www.semcommittee.com/files/semcommittee/media-files/SEM-15-079b%20UR%20Decision%20Paper%20on%20TSO%20Responsibilities%20under%20Article%201%283%29....pdf>

² <https://www.semcommittee.com/files/semcommittee/media-files/SEM-17-068%20TSO%20Obligations%20under%20FCA%20Consultation.pdf>

³ <https://www.uregni.gov.uk/consultations/consultation-tso-network-code-obligations>

without the final decision on the allocation of TSO obligations under the remaining Network Codes.

3.3 Clarification required in this area

Before SONI can assess the full impact of this proposed licence on the safe, secure and efficient operation of the transmission system in Northern Ireland, we need to identify the gaps remaining in the interfaces between SONI and the interconnector after the Network Code obligations have been allocated. In particular, we require information around:

- which TSO tasks under the network codes the new interconnector will be expected to deliver alone;
- which TSO tasks will be discharged jointly with SONI;
- which TSO tasks (if any) SONI will be obliged to discharge on behalf of the new interconnector; and
- what information will be mandatory for the new interconnector to provide to other TSOs.

The UR decision on this allocation is an essential element of the overall statutory framework that SONI and the new interconnector will cooperate within. We look forward to working with the UR to close out that important workstream. However, without the UR decision on the allocation of TSO obligations SONI is not able to provide a fully informed response to this consultation and therefore unfortunately cannot support the proposed licence.

4 Area 2: Potential implications of named connection point

4.1 Context

There is considerable interest in connections to the NI Transmission System at present, with the Kilroot node particularly popular due to the strength of its links to the main demand centres. However, there is limited space available there at this time.

During the time when this proposed licence is being consulted upon, SONI has issued a connection offer to the new interconnector for this node. The interconnector developer has 90 days to accept this offer before it lapses. This means that, at the time we are submitting this response, SONI does not have a contract with the new interconnector for a connection at Kilroot.

There are other parties behind the interconnector in the queue for connection at the Kilroot node. Under normal circumstances, if the interconnector connection offer lapses, the next party in the queue would be offered the capacity that is released.

Unlike other licences issued by the UR, the proposed licence specifies the point of connection for the new interconnector to the Northern Ireland transmission system as being Kilroot. This is particularly significant because a contract for connection at that node has not yet been established and the licence is not documenting an existing set of circumstances.

The reasons behind the inclusion of this specific detail within a document as consequential as this proposed licence are not set out within the consultation paper. The UR's vires around the allocation of connection points is also not set out.

4.2 Potential implications for the grid connections framework

Article 8 of the Electricity (NI) Order 1992 clearly states that no person is permitted to participate in the transmission of electricity in Northern Ireland unless permitted to do so by a licence, and then only to the extent that the licence provides those permissions.

Because there is currently no contract in place between the new interconnector and SONI for connection at Kilroot, the proposed licence could be construed as only providing permission for the future connection at that one specific node.

It is SONI's understanding that the new licence would sit above our Transmission Connection Charging Methodology (TCCMS) in the statutory hierarchy because the TCCMS sits below our own licence conditions. Therefore, the specification of a connection point within the proposed licence could trump our usual method of processing of the connection queue at the Kilroot node, with knock-on effects for other parties seeking connection there.

Preconstruction work on that connection will only commence after the offer is accepted. Until all relevant consents are obtained, there remains a risk (however remote) that connection at

that specific node may turn out to be unfeasible. In that situation, the new interconnector would not be able to meet the terms of the proposed licence as extant.

4.3 Clarification required in this area

SONI cannot provide an informed response around the inclusion of this level of detail within the proposed licence without first understanding UR's the reasons for it and the expected effects, particularly the effects on third parties behind the interconnector in the queue. SONI would therefore welcome clarification around the intention behind the inclusion of a specific connection point within the licence, especially because it precedes the establishment of any contract between SONI and the developer for connection at that node.

5 Area 3: Potential implications of condition 7: provision of information to other persons

5.1 Context

This condition appears to be based on the equivalent condition within the Moyle licence, which reflects the low-financial risk within its funding arrangements. This allocation of cost risk is part of the measures which underpin Moyle's access to low cost debt funding for the benefit of consumers in Northern Ireland. It is SONI's understanding that the new interconnector will have a very different risk profile to Moyle and will be expected to include an element of equity within its funding profile.

The Network Codes contain obligations to provide information to other TSOs, however it is not yet clear which of these obligations will be placed upon SEM-GB interconnectors. While we welcome the rights provided to SONI under this condition, we assume that the obligations set out here would only apply to any information that SONI would need to request that is not already covered by obligations set out elsewhere in the legal framework.

The condition includes a provision that would allow the new interconnector to charge SONI for every piece of information provided under this condition. In the worst case this could extend to the costs of systems to transmit the real-time data required for system operation and data necessary for the collation of the grid model that SONI would transmit onwards to the RCC. However, if the new interconnector is required to provide that information as standard under the allocation of TSO obligations, then SONI's costs could be limited to those associated with ad-hoc atypical requests. The mechanism by which SONI could recover these costs is not specified in the consultation paper.

We assume that no charges could be levied for data that the interconnector is required to provide under the Grid Code and Trading and Settlement Code, however confirmation around this would be helpful.

5.2 Potential implications for SONI

Without clarification of the scope of information covered by this condition or the cost recovery mechanism, it has the potential to create a significant administrative burden for SONI. This would include both the trail necessary to underpin information requests as well as the substantial work involved in requests to recover the costs incurred. SONI cannot influence or predict the costs that could arise here.

Furthermore, depending on the de minimis threshold and the cost sharing mechanism defined in SONI's price control in force at that time, we may not even have a viable route to recover these costs and could end up funding them from efficiency savings made elsewhere in our business. For example, if the cost is below the de minimis level we could not request additional funding for it and if we find efficiency savings elsewhere, we would not qualify for any uplift to

cover a percentage of the cost under the cost sharing mechanism. This does not appear equitable to SONI.

This condition could result in SONI being invoiced for the substantial costs that would be required to cover the installation of bespoke systems, with recovery delayed until subsequent tariff years. This would absorb working capital but the consultation paper does not explain how this would be treated.

5.3 Potential implications for competition with Greenlink

We note that the new interconnector will have a similar status in the SEM to the Greenlink interconnector. Greenlink does not have any mechanism that could be used to recover the costs associated with the provision of information. There is no reason provided within the consultation paper for the preferential treatment accorded to the new interconnector ahead of the other merchant interconnector operating in the SEM, nor are the effects of this approach considered.

5.4 Clarification required in this area

SONI requires clarification around the scope of information and data that is covered by this condition and how the costs that we would incur as a result of it would be funded.

We cannot provide meaningful comments on the impact of this condition, either practically or financially, without first understanding the scale of the information that it would apply to. However, we would like to flag that, as currently drafted, this condition could introduce a complicated and costly interface between SONI and the new interconnector and that we could not support its inclusion within the proposed licence as currently drafted.

6 Area 4: Potential implications of proposed market registration roles

6.1 Context

The allocation of roles and responsibilities for Interconnectors Owners, TSOs and the Wholesale Energy Markets are clearly defined in the SEM Design. Divergence from these roles will change the financial responsibilities and create liabilities for each party based on the approach defined by UR for the operation of the new interconnector. SONI, SEMOpx and SEMO need to offer a level playing field to all Interconnectors and have full sight of the financial implications of the proposed operating model.

Condition 19 of the proposed licence requires the new interconnector to ensure that SONI delivers specific roles on its behalf. These activities are not within the scope of the permissions set out within our licence, and therefore SONI would be acting contrary to Article 8 of the Electricity (NI) Order 1992 if it were to deliver them.

The UR has not indicated within its consultation paper that corresponding modifications will be made to SONI's TSO licence to facilitate the proposed interconnector licence. It is standard regulatory practice to consult concurrently on the full suite of licence changes that are required to deliver an industry outcome. We are therefore unsure how this condition is intended to be delivered within the legal framework that applies to SONI.

The allocation of responsibilities within the proposed licence also creates confusion around how the interconnector flows would be traded and settled. Liability for imbalances arising from the new interconnector delivering energy into the SEM-GB arrangements is also unclear.

6.2 Potential implications for the interconnector

The new interconnector appears to be expected to take on an obligation under the proposed licence that cannot be fulfilled because of inconsistencies between that licence and SONI's TSO licence.

It is also unclear what liabilities arising from energy imbalances would be allocated to the new interconnector under the proposed licence.

6.3 Potential implications for SONI

The proposed licence appears to be allocating responsibilities to SONI via an extremely unconventional route and it appears likely that this approach would create compliance difficulties for SONI. The difficulties SONI faces under this approach are exacerbated because these roles may also come with significant financial liabilities.

Because these fall outside of the activities permitted by our licence, SONI's right to recover any costs incurred is also unclear.

6.4 Clarification required in this area

Based on the information currently available we could not support the drafting of Condition 19 as set out in the proposed licence.

SONI would welcome clarification around the approach that the UR intends to take to ensure that the new interconnector licence is compatible with our TSO licence. We also require clarification around how the energy flow would be traded and settled. The approach to the allocation of financial liabilities arising from energy imbalances is also essential before we can provide meaningful comment on the proposed arrangements.

SONI will be happy to work with UR and the new interconnector to support development of licence conditions that are consistent across both of our licences and look forward to responding to a consultation that considers the full suite of market registration and energy imbalance responsibilities holistically.

7 Area 5: Absence of a regulatory framework for the provision of system services

7.1 Context

The Moyle Interconnector licence does not currently contain any specific provisions around the sale of system services to SONI. However, the risks posed by this are of low materiality because:

- the technology selected for the Moyle interconnector means that it is only able to provide a very small range of system services.
- any revenue offsets the amount that would need to be claimed via the CAIRt mechanism, or is passed back to NI consumers via the CAIRt
- these are currently provided at regulated tariffs and therefore there is currently no risk of Moyle inflating prices.

The new interconnector is expected to be capable of providing a greater range of system services, similar to EWIC and Greenlink. SONI will be expected to procure system services from the interconnector on competitive terms.

The system services market is operated on an all island basis, therefore the new interconnector will be competing with the Greenlink and EWIC interconnectors. Their licences contain a condition related to system services that mirrors the condition included in generation licences⁴.

No reasons are provided in the consultation paper to support the differential treatment of the new interconnector and the effects of not including the safeguards provided by a licence condition that covers participation in the system services market are not set out.

7.2 Potential implications for SONI and for competition in the system services market

The condition included in other licences provides the TSO with recourse to a UR led dispute resolution process if the terms offered by the prospective service provider are uneconomic. Without a licence condition providing SONI with this right, the only recourse available to us would be to request that the UR uses its powers under the Competition Act to prevent any abuse of the dominant position that the new interconnector will have within Northern Ireland.

⁴ Condition 7 of the Generation Licences issued in Northern Ireland

Using the Competition Act as the only basis for intervention appears to be disproportionate. The omission of the standard licence condition also sets the threshold for regulatory intervention at a different level to that which applies to other market participants.

While we are aware that this standard licence condition may be reviewed by the regulatory authorities in the context of the ongoing development of new arrangements for the system services market, to date there has been no decision made around any updates to that condition. SONI assumes that any modifications as part of that process would only be made to licences that already include the standard condition.

7.3 Clarification required in this area

SONI welcomes clarification around why the UR has not included a condition related to the new interconnector's participation in the system services market within the draft licence or set out the mitigations inherent in the proposed framework that render regulation of this income stream unnecessary.

If the intention is not to include the standard wording within the interconnector licence, can the UR set out the process SONI should follow if the terms and conditions upon which the new interconnector offers system services to SONI appear to us to be inappropriate.

8 Area 6: Absence of clear operational framework

8.1 Context

Clear operational arrangements between TSOs, including interconnector owners, are essential for the safe, secure and stable operation of the transmission system. SONI's initial review of the proposed licence has identified that the concept of an operational interface agreement between the interconnector owner and SONI has not been copied across from Moyle licence.

While the network codes contain obligations that require TSOs to enter into agreements such as the Load Flow Control Block Operator Agreement which defines technical restrictions such as the interconnector ramp rate that can be safely accommodated, it is currently unclear if the new interconnector is bound by any of these obligations under the post-Brexit legal framework. This is exacerbated by the absence of an allocation of TSO roles set out in the operational Network Codes in Northern Ireland.

8.2 Potential implications for system security and stability

It appears that the proposed licence provides the new interconnector with lead responsibility for dispatching the interconnector, with SONI's role limited to that of a potential "co-operator".

Uncoordinated flows across new interconnector have the potential to cause severe disruption to the transmission system in Northern Ireland, especially given that it is being built to a capacity that exceeds the current largest single infeed onto our system.

The consultation paper does not set out the UR's vision for the operational interfaces that will be created when a new interconnector joins the system in Northern Ireland. We are therefore unable to comment on the implications of this aspect of the proposed licence in any detail, beyond highlighting the lacuna that currently appears to exist.

8.3 Potential implications for SONI

In the absence of an operational agreement that sets out a clear allocation of responsibilities on each side of the interface between SONI and the owner of the new interconnector, we are unsure how we would continue deliver our own obligations as TSO.

8.4 Clarification required in this area

We cannot comment on the extent of the potential consequences of this without further clarity around how the UR envisages the operational interface between SONI and the new interconnector. We would welcome an explanation around why the obligation to enter into an operational agreement was removed from Condition 12. A description of how the UR intends

the regime for scheduling and dispatching flows over the new interconnector would also be very helpful.

We are not clear how the stability and security of the NI transmission system could be protected under the regime for the operation of the new interconnector set out in the proposed licence and therefore cannot support the drafting of Condition 12 as extant.

9 Area 7: Potential impact of SONI's price control 2026-31

9.1 Context

SONI appreciates the reasons why the UR is silent around whether the new interconnector will qualify for financial support from NI consumers. However, we do not expect the new interconnector to have a route to entering directly into contracts with NI Suppliers. SONI has existing contracts with NI suppliers which would provide a framework that could be used to process payments in either direction under any new mechanism.

If there is a possibility that SONI would have to take any collection agent risk under that mechanism from 2032 (the date assumed by Ofgem), we would need to secure the additional working capital facilities necessary to cover that risk during the final year of the upcoming price control. i.e. we would need to approach banks in late 2030/early 2031 to have the facilities in place by 2032.

9.2 Potential implications for SONI's financeability

This potential additional demand for working capital would need to be factored into the financeability assessments that we will be undertaking in late 2024, to ensure that the financial headroom necessary to accommodate a search for additional funding is included within our business plan submission for our next price control. This submission is due in March 2025.

9.3 Clarification required in this area

SONI would welcome clarification around some of the key aspects of the potential funding mechanism before the end of this financial year to allow us to reflect any additional risks within our business plan for 2026 to 2031.

The two aspects that we require information around are:

- What contractual mechanism does the UR propose to use to transfer funding to the new interconnector from NI consumers in the event that a cap and floor funding regime is deemed appropriate?
- What collection agent risk (if any) does the UR intend to allocate to SONI under any such regime?

10 Conclusion

This response is based on an initial review of the consultation paper and proposed licence. SONI clearly requires a substantial amount of additional information around the UR's intentions for the relationship between SONI and the new interconnector before we can submit a meaningful response to this consultation. We also require definition of the legal framework that this proposed licence fits within.

In this response we have highlighted the areas that we consider to be most important for the establishment of a new framework that works for all parties and ensures a stable transmission system for Northern Ireland. The absence of comments on other areas should not be interpreted as endorsing those licence conditions because we will need to review the entire licence holistically once the additional information is available.

We are available to work with UR and the new interconnector to ensure that both licences are clear and compatible, with a view to ensuring a sustainable relationship between us and to facilitate a meaningful consultation on the arrangements that enables full participation by all impacted parties.