

Response to UR Consultation for Assessment on the Need for a Regulated Operating Revenue Regime for Future Interconnection

SONI Response

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Introduction

SONI (System Operator for Northern Ireland) is Northern Ireland's electricity Transmission System Operator. Our role is to operate the transmission system (high-voltage electricity grid) to ensure power can flow safely, securely and reliably from where it is generated to where it is needed in homes, farms, businesses across Northern Ireland.

We are also responsible for planning the development of this system to meet Northern Ireland's future energy needs. In doing so, we work closely with the electricity DSO and Gas TSOs to ensure that the overall energy system can continue to meet the needs of consumers in Northern Ireland. We also hold a licence to operate the wholesale electricity market across the island, which we discharge through a contractual joint venture with EirGrid, known as SEMO.

As the System Operator, we do not generate or sell electricity and we do not own any assets associated with the electricity system. As such, we have no vested interest other than to deliver the best solutions for Northern Ireland's energy future and for the consumers who ultimately invest in that future

Our TSO licence currently establishes and defines our role as interconnector operator and administrator for the Moyle Interconnector.

We are happy to respond to this consultation. We summarise the key points of our response in the section below and then provide fuller answers to each of the questions. These answers leverage our expertise as operator of the Northern Ireland transmission system as well as our work as administrator of the Moyle Interconnector and Collection Agent for it.

We look forward to working with UR as it develops a robust framework for new interconnection that delivers for consumers in Northern Ireland.

Key Points

- We agree that it is important for the UR to assess the need for additional interconnection and, subject to appropriate funding being provided, we look forward to supporting this exercise.
- It will be important that all relevant licences in NI are updated to accommodate additional interconnection, this will be required whether LirIC receives public funding or connects without a subsidy. We would welcome the UR sharing its timelines for this exercise as part of its decision paper.
- We agree a thorough economic assessment of a potential floor and cap revenue regime for the LirIC interconnector needs to be undertaken. The current economic performance of the Greenlink Interconnector should be used as a comparable case study for the SEM.
- Subject to appropriate funding being provided, we look forward to supporting UR with the technical considerations in respect of; Transmission System Security Planning Standards, dynamic stability considerations, managing operational considerations, volumes of reserves to be held and ramping considerations.

Response to Consultation Questions

Q1. Do respondents have any views regarding additional interconnection in Northern Ireland that you would like to highlight? If so, please provide details.

The legacy arrangements for funding interconnection in Northern Ireland differ significantly from the cap and floor regime that is in place in GB and Ireland. The mutual model means that Northern Ireland customers fully underwrite it, with no contribution from customers in GB.

Northern Ireland contains only 2% of the UK's electricity customers but could end up funding 100% of the Moyle Interconnector and 50% of the LirIC Interconnector. These studies and assessments will therefore need to consider the net impact on customer bills here, not just the impact of the funding that might be provided to LirIC.

The Celtic Interconnector will introduce the potential for flows from France to travel to Scotland via Northern Ireland, and we could also host transit flows from Scotland to England, Wales and France. This wider impact on our transmission system might also be relevant to this process.

There are dynamic stability considerations, managing operational considerations, volumes of reserves to be held and ramping considerations.

There are existing ramp rate restrictions for the three interconnectors Moyle, Greenlink and EWIC so that generation on the SEM has the ramping capability to balance out a change in dispatch on these interconnectors. The commissioning of the fourth Celtic interconnector will increase the ramping requirements of generation on the SEM. At the same time, the proposed reduction in the MUON in the SEM will decrease the ramping capability of the system. This will likely result in an increased need for additional fast ramping capability to accommodate the Celtic interconnector. The fifth LirIC interconnector could result in a further need for fast ramping capability in the SEM.

The Transmission System Security and Planning Standards (TSSPS) currently sets the Largest Single Infeed (LSI) to 500 MW. A consultation on changes to the TSSPS was recently held which included a proposal to introduce a definition for a Largest Single Outfeed (LSO), to be initially set at 500 MW. This has not yet been formally adopted as the full process to update the TSSPS has not concluded.

LirIC accepted a Connection Offer based upon 500 MW MEC and 500 MW MIC, with the understanding that the Connection Assets will be designed and rated to 700 MW MEC and 730 MW MIC.

As part of the Connection Offer, SONI will offer the full 730 MW MIC following the completion of the second North South interconnector project and satisfactory outcomes of a number of technical studies. An increase in the MEC to 700 MW will require further technical studies to be completed and, should these be satisfactory, an application from LirIC requesting an increase in its MEC. Accompanying changes to the definition of the LSI and the proposed definition of the LSO in the TSSPS would also require satisfactory outcomes from these technical studies and then require a consultation before adoption.

Security of supply concerns in Northern Ireland are an important issue right now. It needs to be fully understood how much additional interconnection may be needed and whether this will alleviate security of supply concerns.

There are currently three subsea interconnectors linking the SEM to the GB energy market, the Celtic Interconnector will also link the SEM to European markets. The addition of the LirIC interconnector raises questions about market competition, sequencing of interconnector availability and whether LirIC would ultimately benefit the NI consumer. As the 'last' interconnector to join the SEM market, is it more likely that generated revenues would be lower than the floor and top-up payments need to be made to the licensee.

Fully understanding the fiscal terms of the cap and floor regime requires economic studies of existing case studies. Greenlink is a newly established SEM-GB interconnector with a cap and floor regime. This provides a strong case study of the cap and floor regime and how it benefits the SEM market and ultimately consumers.

Q2. Do respondents have any additional considerations they believe should be included within the step two workstream? If so, please provide details.

Our experience of operating the Moyle Interconnector and acting as its Collection Agent has shown us the importance of a workable and consistent legal framework that underpins our interactions is a clear and complete way. Based on that, we consider it essential that an equivalent legal framework is established for SONI and TI LirIC Limited (TI).

As TSO, Article 8 of the Electricity Order constrains our activities to those authorised by our licence, which currently only contains permissions in relation to the Moyle Interconnector. We are therefore surprised that table 6.3 in the consultation paper only refers to modifications to TI LirIC Limited (TI) licence and not the corresponding updates to SONI's TSO licence. These corresponding updates are equally essential for the delivery of a robust licencing framework and we consider it vital that both sets of modifications are delivered in parallel to allow a meaningful consultation.

This work should include resolution of the contradictions and inconsistencies between the current LirIC and SONI licences which we highlighted in our response to the initial consultation on the LirIC licence. To date there have been no discussions with SONI about resolving these inconsistencies and we would urge to UR to engage with us as soon as possible. These inconsistencies include:

- LIR IC's GB licence requires them to register in GB market while conversely LirIC's NI licence obliges them to appoint SONI to register on their behalf in GB. However, Article 8 of the Electricity (NI) Order 1992 would prevent SONI from registering LIR IC in GB unless this is added to the scope of the activities permitted by our licence.
- LirIC's NI licence says that SONI should "make arrangements for the entering into by the Licensee of agreements for use of the LirIC Interconnector with third parties, including associated activities such as transparency publications and interfacing with relevant capacity allocation and transparency platforms". This would need to be replicated in SONI's TSO licence to allow us to take on that role. The role itself will need to be aligned with SONI's wider system operation obligations and the wider legal framework that applies to trade across interconnectors between the SEM and GB.

This would be a new role for SONI that would need to be appropriately funded, resourced and any new risks remunerated. We currently are not exposed to any Collection Agent risks associated with the processing of support required by the Moyle Interconnector or any return of monies to Northern Ireland.

Q3. Are respondents aware of any other interconnector revenue models outside of those listed above? If so, please provide details for any other models considered to be available.

SONI are not aware of any other interconnector revenue models.

Q4. Do respondents agree with the criteria and principles to be applied during this assessment? If not, please provide details of other criteria/principles that may also warrant consideration.

SONI agrees that we are best placed to undertake some of the analyses that UR will require, however at present we have neither the funding nor the staff members that would be needed to deliver this work. We will engage separately with UR on this.

While the full scope of work to be allocated between SONI and other consultants is still to be determined, at this stage we can identify some of the questions that we think the investigations will need to answer.

At a high level, the analyses will need to be structured to consider the difference between identifying if additional interconnection is needed and if this particular interconnector meets those needs. The questions that could be considered through this process include:

- Does Northern Ireland need more interconnection?
- If so, what is optimal size?
- Is an interconnector of LirIC's size and technical characteristics commercially viable without support?
 - Do the benefits to NI and the commercial viability of the project vary between connected capacities of 500MW and 700MW
- If it needs support, what is a realistic rate of return?
- What risk should be placed with the developer to justify this rate of return? Which risks are being placed with SONI (or other collection agent) and which, if any, with suppliers or consumers?
- Which revenue streams are being considered and what assumptions are made about their trajectory?
- Do the results change depending on the delivery date of the second north south tie line?
- Is there a net impact on the amount of support that NI customers would have to provide to the Moyle Interconnector if revenues move from it to LirIC?
- How do these results align with the Flexibility Needs Assessment?
- Ofgem are anticipated to set preliminary cap and floor levels for LirIC at FPA.
 - Will the UR decision on the need for an operating revenue regime be final by then?
 - Will the Ofgem terms impact the contract terms UR will set out for potential cap and floor levels?
- Will UR consult with Ofgem on their logic for cap and floor levels?
- Is there an open commercial negotiation process between UR and TI LirIC Limited (TI) to agree upon cap and floor levels, should the cap and floor revenue regime be accepted?
 - What considerations will be made for risked economic scenarios to allow for negotiation?

- Have development risk workshops been included to the timeline for the assessment of the operating revenue regime?
- Will TI LirIC Limited (TI) provide an open book economic workshop to demonstrate their revenue model?
- Considering the cost and technical assessment criteria. It is essential to request all past costs from TI LirIC Limited (TI) to fully understand the life cycle economics of the LirIC interconnector project. CAPEX costs and the treatment of these within the fiscal regime for depreciation purposes can have a considerable impact on the rate of return, and NPV. Full life-cycle and point-forward economics should both be considered as the economic model determining suitable cap and floor levels.
 - Is there different tax treatment for fixed vs variable operating expenditures
- It may be beneficial to agree on the economic assumptions from the Ofgem model; inflation, escalation, discounting, FX, real vs nominal
- Market modelling and system impact assessment study the increased interconnector capacity of up to 700MW. LirIC accepted a Connection Offer based upon 500 MW MEC and 500 MW MIC, with the understanding that the Connection Assets will be designed and rated to 700 MW MEC and 730 MW MIC, with full connection offered following the completion of the second North South interconnector project and satisfactory outcomes of a number of technical studies. Economic models should take into consideration any associated risks to delivery of North-South 2.

Q5. Do respondents support the proposed parallel work to be commenced in Q3 2026 regarding the development of a regulated operating revenue regime framework? If not, please provide supporting details.

We note the references in the paper to the system operator being the collection agent for this funding in GB. If this approach is to be adopted in Northern Ireland, changes to SONI's licence will need to be made to facilitate it. In addition, if SONI is expected to carry any risk around this activity, the UR will need to undertake an assessment to ensure that we remain financeable.

Conversely, if LirIC is expected to take a similar set of risks related to tariff income as Moyle, then that should be aligned with their expected rate of return. We would encourage the UR to commence discussions around this as soon as possible to ensure that these activities do not end up on the critical path.

We are aware that funding provided via SONI can, under certain circumstances, meet the definition of State Aid or a Subsidy. If the funding is to pass via SONI, we would welcome assurance from UR or DfE that either this does not constitute a Subsidy/State Aid under the relevant legislation or that all necessary permissions have been granted by the relevant authorities.

We support the collection of all relevant cost information data, potentially including awarded contracts for pre-construction and construction works for the LirIC project. If TI LirIC Limited (TI) commence preparations for Ofgem's FPA stage between Q3 and Q4 2026, then the complete project cost profiles inclusive of historical costs to date, could be firm by mid-2026. CAPEX cost profiles will potentially be the most sensitive economic driver to the revenue model.