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Re: Response by SONI to Information request under Condition 7 of the SONI Transmission System Operator Licence and Justifications queried by the Utility Regulator

Dear Jenny

I refer to your letter of 29 January 2020 with respect to SONI's response to the Utility Regulator's paper *SONI Governance: Call for Evidence* (Call for Evidence). You asked us to respond by providing further details on (i) Information sought under Condition 7 of the SONI Transmission System Operator (TSO) Licence, such queries numbered 1 to 17 of the Letter and (ii) other justifications sought from SONI and numbered separately in your letter of 29 January 2020. I hereby attach our response.

At the outset, I wish to state that I believe that it would have been helpful to have had the opportunity to engage with the Utility Regulator in the four months following our response to the Call for Evidence prior to you both issuing and publishing your recent correspondence. Such engagement would have afforded us the opportunity to explain the current operation of the business and to have enabled us to assure you that, under its current operation, the interests of Northern Ireland customers are explicitly protected and Northern Ireland concerns and specificities taken into account.

The current all-island arrangements, whereby SONI Ltd. and EirGrid plc have come together under a single governance structure, have delivered significant benefits to Northern Ireland. This includes delivery of the DS3 programme which has enabled Northern Ireland's 40% renewables target to be met and the Single Electricity Market arrangements, delivered jointly by SONI Ltd. and EirGrid plc, has brought benefit to Northern Ireland through lower electricity prices and enhanced security of supply.

We are currently in the process of restructuring our organisation to ensure these benefits continue to be delivered and with the explicit objective of improving both efficiency and performance whilst at the same time driving enhanced accountability. Our new organisation responds to the 21st century challenge of



delivering a transformed and decarbonised power system and we are engaged in examining the appropriate structure across all functions.

My appointment as Managing Director of SONI Ltd. constitutes clear evidence of the EirGrid plc Board's recognition of the need to drive improved accountability for the SONI business as well as ensuring a voice for the business, economy and stakeholder community in Northern Ireland. The importance of this focus is also evident within EirGrid plc, with the recently concluded review of the EirGrid plc Board committee structure which includes the establishment of an EirGrid plc Board Committee on Northern Ireland and all-island issues. There is also the continued commitment to have at least two independent non-executive directors of Northern Ireland background on the Board of EirGrid plc; there are currently three such Directors.

In addition, as part of our reorganisation, we are continuing to ensure our focus for Northern Ireland through the office of the SONI MD. We are currently engaged in examining the appropriate structure at the next level across all functions, including and specifically the office of the MD of SONI. This process while ongoing, has to date lead to the incorporation of specific roles and accountabilities in respect of Northern Ireland regulation and strategy formulation in a jurisdictional context. This will ensure that SONI Ltd. is well placed to support the Department for the Economy in developing a Northern Ireland Energy Strategy and to subsequently work with Northern Ireland partners to deliver it. Engagement with all key Northern Ireland stakeholders around SONI strategy and policy advocacy which supports businesses is also acknowledged as an important role for the SONI MD.

We do however operate within an all-island power system and market framework and this is the agreed policy of the Northern Ireland Executive and the Government of Ireland. We are, therefore, concerned that the legitimate and understandable desire to ensure Northern Ireland interests are adequately represented is somehow conflated with the governance of SONI Ltd., a body corporate, and a body corporate which, through its regulated licences, operates in conjunction with EirGrid plc in an all-island context.

We would be equally concerned were the Utility Regulator to somehow reach a conclusion that certain measures are considered necessary without any direct evidence of harm or need for such measures.

Finally, and perhaps most significantly, we are concerned that should it be felt that it be necessary that measures be taken, such as some of those set out as options in your Call for Evidence, that they would effectively call into question both the Single Electricity Market (SEM) and the all-island arrangements.

It is our firm view, both given the historical context, but even more importantly, the potential impact, that these issues are matters for the SEM Committee, as opposed to matters solely for the Utility Regulator.

We consider that it would be helpful and would assist your own Office in the consideration of these matters if we set out again some of the background.

Background to SONI Ltd., its governance and the Call for Evidence

SONI Ltd. is an incorporated body (Company number NI038715). It is a wholly owned subsidiary of EirGrid UK Holdings Ltd., itself a wholly owned subsidiary of EirGrid plc. SONI Ltd., the body corporate, has been certified by the European Commission as being an independent Transmission System Operator (TSO).

As a privately-owned limited company, SONI Ltd. engages in both regulated and unregulated activities. It is free to do so provided always that it does not engage in activities specifically prohibited under any regulated licence it holds.

SONI Ltd. holds regulated licences with respect to its functions as SEM Operator¹ and Transmission System Operator² and it is, through these licences, which themselves have a statutory underpinning, that SONI is regulated by the Northern Ireland Authority for Utility Regulation (Utility Regulator).

The governance of SONI Ltd. must be considered in this context. In particular, it should not be considered in the context of any of SONI's specific licences or specific licensed activities. SONI Ltd. is concerned that, in the consideration of the functions of SONI Ltd., there is somehow a distinction being placed between SONI Ltd. and the Single Electricity Market Operator (SEMO) when SONI Ltd. is a part of SEMO and SONI Ltd. itself holds a SEM Operator licence.

The statutory functions and duties of the Utility Regulator are set down in legislation and are limited to the regulation of the functions carried out by SONI Ltd. under its respective licences. The exercise of such functions the Utility Regulator should be proportionate and should consist of measured actions in response to harm identified and following consideration and open consultation on any potential course of action.

¹ As granted by the Department of Enterprise, Trade and Investment in exercise of the powers conferred by Article 10(1)(d) of the Electricity (Northern Ireland) Order 1992 (the Order) to SONI Ltd; a licence authorising it to act as SEM operator within the meaning of Article 8(6) of the Order.

² As granted by the Department of Enterprise, Trade and Investment, in exercise of the powers conferred by Article 10(1)(b) of the Electricity (Northern Ireland) Order 1992 to SONI Ltd; a licence authorising it to participate in the transmission of electricity.

Where such matters are deemed by the SEM Committee of the Utility Regulator to materially affect the SEM, then decisions in respect of such matters shall be taken by the Utility Regulator's SEM Committee³.

SONI Ltd. is concerned that the approach followed by the Utility Regulator is one in which a preferred outcome appears to have been predetermined by the Utility Regulator without full, open consultation and without a demonstrated need for such outcomes evidenced by identified harm.

This approach appears to be proposed in the separate letter, of 4 February 2020, from the Utility Regulator, to EirGrid plc, where it clearly states:

“following our review we will propose appropriate licence conditions. [...] The outcome of this process is highly likely to require governance and possible structural related changes.”

Moreover, and for the reasons set out below in terms of both their historical treatment and because any actions taken would materially affect the SEM, SONI Ltd. is further concerned that the Utility Regulator appears to be conducting this review by reference to fulfilment of its functions solely in respect of the customers of Northern Ireland when it should, in fact, be conducting it through its SEM Committee in the context of the protection of the interests of customers of both Northern Ireland and the Republic of Ireland.

The governance of SONI Ltd. cannot be considered absent this all-island context. As we have already set out above, the all-island arrangements, as initiated, are designed to bring about benefit to Northern Ireland customers.

At the time of the proposed acquisition of SONI Ltd. by EirGrid plc, the SEM Committee⁴ determined that the purchase of SONI Ltd. and the exercise of certain regulatory functions (in this instance to include decisions on the

³ As set out in the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 – Article 6(3) <http://www.legislation.gov.uk/nisi/2007/913/article/6>

⁴ The term “the SEM Committee” is used in this correspondence both to refer to (i) the SEM Committee of the Utility Regulator, and (ii) the SEM Committee of the Utility Regulator acting together with the SEM Committee of the Commission for the Regulation of Utilities as the context may require. For the avoidance of doubt “the SEM Committee of the Utility Regulator” consists of (i) not more than three persons from the Utility Regulator, (ii) not more than three persons from the Commission of the Regulation of Utilities and (iii) an independent member pursuant to Schedule 2 of the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007.

purchase of and governance requirements within SONI Ltd. and associated changes to the governance of EirGrid plc) constituted SEM Matters⁵.

As set out in our response to the Call for Evidence, the SEM Committee determined that the various licences held by SONI Ltd. and EirGrid plc should be modified to take account of EirGrid plc's ownership of SONI Ltd. and to ensure that consumers of electricity in both Northern Ireland and the Republic of Ireland continue to be protected.

The revised SEM arrangements, introduced in 2018, brought about increased market and system integration through assignment to each of SONI Ltd. and EirGrid plc the function of balancing market operator under their respective TSO licences. Effectively, an increasingly significant number of direct SEM-related functions are now carried out by SONI Ltd. under its TSO licence, in tandem with and in addition to those carried out under its SEM Operator licence.

Therefore, even if governance and possible structural changes in relation to SONI Ltd. had not been considered to be a SEM matter at acquisition (which is not the case, as they were), then, given the level of integration brought about by the I-SEM, they would clearly be considered to be a SEM matter today. Given this, the exercise by the Utility Regulator of its functions in this regard should, in accordance with the legislative framework, be carried out through its SEM Committee.

For completeness, SONI Ltd. would like to clarify that, with reference to the treatment of 'independence' in SONI's licences (Condition 12 of SONI Ltd.'s TSO licence and Condition 10 of SONI Ltd.'s SEM Operator licence), in SEM-08-176 the SEM Committee specifically notes that:

*"Condition 12 of the SONI TSO licence (and Condition 10 of the SONI MO [Market Operator] licence) was drafted to ensure that SONI was managerially and operationally independent from NIE and its vertically integrated group of companies (with an equivalent Condition 10 of the MO licence)."*⁶

As a matter of some seriousness, SONI Ltd. wishes to advise that any alternative interpretation of the entirely analogous Condition 12 of the SONI TSO licence and Condition 10 of the SONI SEM Operator licence, to somehow

⁵ As consulted on in <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-08-176.PDF> and subsequently determined in <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-09-019.pdf>

⁶ SEM-08-176 Paragraph 33



require or contemplate a level of independence between SONI Ltd and EirGrid plc, would be directly damaging and against the interests of customers in both Northern Ireland and the Republic of Ireland. Moreover, any such requirement for independence of this nature could, and would be likely to, undermine the effective operation and viability of both the SEM arrangements and matters of all-island development. The implications would clearly be extremely significant and would need to involve not only both Regulatory Authorities on the island but, more importantly, the Northern Ireland Executive and the Government of Ireland.

We would suggest that these matters require careful consideration by the Utility Regulator, particularly in the context of the fact that the governance and organisational structures of both the SONI Ltd. and EirGrid plc businesses are evolving, as stated previously. Regarding the latter and as already stated, decisions to date have resulted in the appointment of a SONI MD and the establishment of an EirGrid plc. Board Committee on Northern Ireland and All-Island issues. I reiterate that both SONI Ltd. and EirGrid plc would welcome further engagement with the Utility Regulator on this matter.

In Annex 1 to this letter, we have provided responses to the queries raised by you and have included the requests from the Utility Regulator in bold for ease of reference. This correspondence is provided without prejudice and SONI Ltd reserves its position in relation to all such matters.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jo Aston". The signature is written in a cursive, fluid style. Below the signature is a solid horizontal line.

Jo Aston
Managing Director, SONI

Cc: Mark Foley

Annex 1 – Responses to UR Queries

(i) Information sought under Condition 7 of the SONI TSO Licence:

- 1. SONI to provide the corporate document or documents which set out the role and functions of the SONI Board, and any additional corporate policy document or documents which set out the circumstances in which any elements of the role and functions of the SONI Board will or may be exercised.**

SONI Ltd. is a body corporate and its role and functions and powers are prescribed by its constitution. The duties of the SONI Board are prescribed under Northern Ireland company law.

SONI Ltd. is a subsidiary of EirGrid UK Holdings Ltd, which itself is a subsidiary of EirGrid plc. It is important to distinguish between SONI Ltd, a corporate entity with the licensed functions which SONI Ltd. hold. The powers of SONI Ltd. as TSO and SONI Ltd. as Market Operator, acting through the joint venture referred to as “SEMO”, are specified in its respective licences.

As a privately owned limited company SONI Ltd. may engage in both regulated and unregulated activities, provided always it does not engage in those activities specifically prohibited under any regulated licence it holds. SONI Ltd. holds separate licences with respect to its functions as Market Operator and Transmission System Operator and it is through these licences which themselves have a statutory underpinning, that SONI is regulated.

The specific tasks undertaken by the SONI Ltd. Board are those reserved to the SONI Board in the Schedule to the Delegated Control Framework which is further discussed under Question 5 and the relevant extract from which is provided alongside this submission.

The corporate governance arrangements in SONI reflect the fact that it is a subsidiary company operating in a group context. Details of how SONI relates to the EirGrid plc Group structure were set out in detail in sections 3.2 and 3.3 of the SONI Response to the Call for Evidence.

2. SONI to set out the SONI Board’s role in procurement decisions for services SONI needs, irrespective of whether these are procured by EirGrid plc or from EirGrid plc.

The SONI Ltd. Board does not have a formal role in procurement decisions other than its overriding duty to act in the interest of its shareholder and other stakeholders. The oversight of procurement is carried out at management level throughout the Group. SONI Ltd. Board’s functions are those specified in the Schedule to the Delegated Control Framework which is provided under Question 5.

Procurement decisions within the EirGrid Group are in accordance with the Delegated Control Framework, where authority for decision-making is categorised according to the level of expenditure expected to be required.

As detailed in Section 3.5 of the SONI Response to *the Call for Evidence*, a *Cost Allocation and Recharge Policy* was developed jointly between SONI Ltd. and EirGrid plc. A particular focus of the policy is the treatment of costs associated with joint procurement exercises conducted on behalf of SONI Ltd. and EirGrid plc. This is similar to the procedure for telecoms costs which are jointly procured by SONI Ltd. and NIE Networks Ltd.

3. SONI advised the Utility Regulator in January 2020 that a new organisational structure will be introduced within EirGrid plc Group from 1 February. SONI to provide full details of the new management structure that will apply from 1 February 2020, including the job titles and responsibilities of all SONI employees, together with a full organogram showing all the parts of that management structure and all SONI employees in relationship to each other. SONI to also provide full details of the current management structure so that the changes can be compared.

The basis of operation of both the SONI Ltd. and EirGrid plc businesses is through cohesive all-island teams which are designed to deliver on the range of licence responsibilities across the licenced entities. Organograms of the previous and current structures are attached.

The revised structure is designed to provide maximum effectiveness and efficiency across all of our licensed activities and to pool the business’ expertise and where appropriate enable Group synergies to be realised for the benefit of all customers on the island of Ireland.

Specifically, as part of our reorganisation, we are introducing additional focus for Northern Ireland within the office of the SONI MD. The new structure

brings together customer and stakeholder interactions, with a SONI Strategy and external communications team enabling and supporting Northern Ireland energy policy.

In addition the SONI MD Office will have responsibility for Northern Ireland regulation and the regulatory interface, and accountability for the overall commercial operation of the SONI business. This will ensure there is clear SONI accountability and a stronger SONI voice.

The SONI MD is a member of the EirGrid plc Group Executive. The SONI MD is also a member of a number of key governance committees (for example the SEMO and SEMOpx Governing Committees) and is a member of the SONI Ltd. Board.

In relation to real time operation, we have put in place a revised Operations function which brings together all of the real time day to day operations across system, market and interconnection activities. This provides a singular focus to all real-time activities in an ever-increasing complex and integrated system and market environment.

We have also brought together the longer-term evolution of the network including visioning the overall system for 2030 and delivery of the next phase of renewables integration.

Additionally, we have streamlined the front-end needs' identification and optioneering phases for new network solutions and brought together all elements of the infrastructure delivery cycle.

The detail of the next level of the organisational structure is currently under development and will continue to follow the principle of ensuring efficient and effective delivery such that value to customers in Northern Ireland and the Republic of Ireland is maximised.

4. SONI to confirm whether SEMO, EirGrid Interconnector DAC, EirGrid Celtic Interconnector DAC, and EirGrid Telecoms DAC are included in the revised integrated management structure.

SONI Ltd. can confirm that the integrated management structure applies to all Group entities. We would again point out that "SEMO" is not a legal entity or company structure in and of itself but rather the term employed in relation to the exercise by SONI Ltd. of its SEM Operator functions in conjunction with the Market Operator functions of EirGrid plc.

5. SONI to explain how the Delegated Control Framework works in practice in regard to SONI staff. Also provide a copy of the Delegated Control Framework.

As in any corporate entity, documented and unambiguous authority for decision-making is a critical element of internal control and of good corporate governance. In terms of the operation of the Delegated Control Framework (DCF), it is kept under review and is updated, as required. The requirements of the Delegated Control Framework are embedded into the Group's Enterprise Resource Planning (ERP) systems such that approvals for expenditure above specified thresholds are automatically directed to the appropriate line manager or Executive for approval. The operation of the DCF is also reviewed on a regular basis by both the Internal and External Audit functions.

The DCF relates to the internal functioning of the entire EirGrid plc business, including all of its subsidiary companies and multiple functions. SONI has included the relevant extract of the DCF which sets out the matters reserved to the SONI Ltd. Board. This information was previously provided in SONI's response to the Utility Regulator's Call for Evidence.

6. SONI to explain how decisions about allocation of staff resources to SONI from other companies in the group and from SONI to other companies in the group are made.

Staff allocation, like the treatment of resourcing in any corporate entity, is based on matching the skills and attributes required to do the job in question to those of the individual to perform the required tasks.

The management structure within EirGrid plc and SONI Ltd. businesses is based on tasks to be completed and business needs and not geographical location. Similarly, in the case of allocation of staff within the EirGrid plc and SONI Ltd. businesses, this is also based on business needs.

The regulatory framework provides for a certain level of restriction in staff movement in certain circumstances. Specifically, Condition 11 of the SONI TSO licence and Condition 21 of the EirGrid TSO licence, (the obligation to preserve the confidentiality of commercially sensitive information) specify:

"The Licensee shall ensure that, when any member of staff is to be transferred between the Transmission System Operation Business and any Separate/Associated Business or vice versa and an unfair commercial advantage could accrue to either or both businesses, the Licensee shall inform the Commission/Authority of the proposed

transfer(s) and shall make the Commission/Authority aware of the steps being taken to ensure that no unfair commercial advantage will accrue to either business. In particular (and insofar as is legally possible), the transfer of any members of staff that has been involved in the establishment or operation of the Capacity market to an affiliate to perform activities in relation to an Interconnector (where appropriate) shall be the subject to a cooling-off period of a duration to be agreed with the Commission/Authority. The Commission/Authority may determine in certain cases that no cooling-off period is required.”

Pursuant to the above licence obligations, appropriate protocols and procedures were developed and overseen both by the Head of Group Regulation and the Head of Group Internal Audit. The Head of Group Internal Audit has been appointed as SONI’s Compliance and Assurance Officer and provides an independent report to the Utility Regulator concerning compliance by SONI Ltd. with its licence requirements in respect of this Condition.

It is important that costs are appropriately allocated to the correct business units and licences. As such, both SONI Ltd. and EirGrid plc act responsibly to ensure that costs are allocated or recharged correctly. A Cost Allocation and Recharge Policy exists which documents the process and procedures that are followed, and which has previously been provided to the Utility Regulator. The Compliance and Assurance Officer audits the application of the policy and provides an independent report to the Utility Regulator concerning its application confirming that no cross-subsidy exists between the SONI Ltd. licensees and any other licensees within the business.

7. SONI to confirm which of the committees below have a role in regard to SONI licensed activities. For any committee with such a role, provide the composition and governance of each committee, including who chairs the committee and when it meets:

- **Management Infrastructure Committee**
- **Transmission Infrastructure Committee**
- **Grid Infrastructure Committee**

Each of the committees (the Management Infrastructure Committee, the Transmission Infrastructure Committee and the Grid Infrastructure

Committee) has a role with respect to SONI Ltd. licensed activities⁷. These committees are in place to consider and approve investment decisions in respect of development of network infrastructure projects. In the case of exercise of these functions on behalf of SONI Ltd., they do so in accordance with the guidance put in place by the Utility Regulator concerning the advancement of Transmission Network Preconstruction Projects (TNPPs).

Grid Infrastructure Projects Committee (GIPC)

The role of the GIPC is to assist the EirGrid plc Board in determining the general policy and strategy in relation to the development of the Grid, and to oversee the implementation of the grid development strategies in Northern Ireland and the Republic of Ireland.

The GIPC takes place at least quarterly and consists of four members of the EirGrid plc Board, with relevant Executives invited, as required. The GIPC Chair resides with a member of the EirGrid plc Board.

Transmission Investment Committee (TIC)

The role of the TIC is to ensure good governance in relation to network capital investment decisions and provide oversight in the monitoring and control of the network development in Northern Ireland and the Republic of Ireland. The TIC approves projects to the level of its authority and refers projects for consideration by the GIPC as appropriate.

The TIC comprises of the relevant members of the Group Executive with a rotating chair at meetings which are generally held on a monthly basis. Managers and staff from SONI attend TIC meetings as appropriate, depending on the jurisdiction of the projects under consideration.

Management Infrastructure Committee (MIC)

The role of the MIC is to provide support and assurance to the Transmission Investment Committee (TIC) regarding specific project proposals and the underlying policies, which provide the foundation for transmission investment decisions. This ensures the appropriate level of validation for developing the grid is implemented in Ireland and Northern Ireland.

⁷ The Management Infrastructure Committee and Transmission Infrastructure Committee are management committees, while the Grid Infrastructure Committee is an EirGrid plc board committee.

The MIC meetings take place on a monthly basis, comprised of the relevant managers with a rotating chair. The MIC approves projects to the level of its authority and refers projects for consideration by the TIC as appropriate. Managers and staff from SONI attend meetings as appropriate, depending on the jurisdiction of the projects under consideration.

8. SONI to set out the arrangements in place to manage conflicts of interest effectively (should any arise) within the integrated group structure.

The arrangements for managing conflicts, to the extent any such conflicts arise, have been prescribed in the SONI and EirGrid TSO licences following extensive consultation as part of the implementation of the revised SEM arrangements. This includes those in relation to staff transfers to and from the interconnection business as set out in response to Question 6.

A number of mechanisms also exist within the Group to ensure ethical behaviour is promoted and encouraged including in relation to ethical dealing, disclosure of interests and codes of conduct.

In addition, separate protocols are in the final stages of development in the context of the revised organisational structure. These protocols prescribe the conduct expected of employees operating within any section where a conflict or perceived conflict could be seen to arise.

9. SONI to provide a copy of its current whistle blowing policy. Also to set out how this policy is published within SONI and what systems, arrangements or checks are in place to ensure that the policy is given effect in practice.

As a corporate entity, SONI Ltd. is cognisant of the obligations placed on it under the Employment Rights (Northern Ireland) Order, 1996, as amended by Public Interest Disclosure (Northern Ireland) Order 1998 and the Public Interest Disclosure (Prescribed Persons) (Amendment) Order (Northern Ireland) 2012, pertaining to public interest disclosures.

The current Whistle-blowing Policy is available to all employees on the SONI Ltd. intranet site. The document provides details specific to Northern Ireland including, references to the relevant Northern Ireland legislation, independent Northern Ireland bodies from which guidance can be sought and where details of the Northern Ireland 'Prescribed Persons' can be obtained. The document is reviewed on an annual basis by the Group Head of Internal Audit and Compliance.

All Whistleblowing incidents are required to be notified to the EirGrid plc Audit Committee via the Group Head of Internal Audit and Compliance. A copy of the policy is attached.

10. Detail the risk identification and mitigation process for SONI risks (as distinct from group level risks).

SONI Ltd. risks are identified and mitigated through the management structure, having regard to both SONI's TSO and Market Operator licence obligations and to the exercise by the SONI Ltd. Board of its fiduciary duties in respect of SONI Ltd. and the EirGrid plc Board, as beneficial owner.

The Group Risk Management Framework is administered by the Group Head of Internal Audit and Compliance and reviewed annually by the EirGrid plc Board Risk Committee and this is approved by the EirGrid plc Board. SONI Ltd. risks are captured within the integrated framework e.g. if a risk is identified and assessed as a higher impact and likelihood, controls and / or mitigations are identified and / or developed to ensure that the risk falls within an acceptable risk appetite. EirGrid plc operates a top-down / bottom-up approach to risk management, therefore, regardless of what level or where in the EirGrid plc business an individual risk resides, the framework enables risks to be escalated as required.

Risk registers are captured and held by SONI's Compliance and Assurance Officer which enables him / her to provide such necessary assurance concerning the management of SONI risks.

11. As per question set out in Section 8.25(v) of the Call for Evidence:

- **SONI to set out the nature and scope of the TSO functions that are integrated with EirGrid, including identifying which of these are SEMO functions, which are functions under the SOA, which are NI-only functions, and which are EirGrid-only functions.**

SONI Ltd.'s fulfilment of its TSO licence requires SONI Ltd. to work with EirGrid plc on a number of licence obligations. As per SONI's response to the Call for Evidence, there are 19 specific obligations imposed on SONI Ltd. under its TSO licence, which are structured on an all-island basis and which require SONI to act "*in conjunction with the Republic of Ireland System Operator*". The remaining licence conditions reflect the standard regulatory protections required for regulated entities and are not specifically related to SONI's TSO functions.

The purpose of the System Operator Agreement (SOA) is to ensure that both SONI, as the Northern Ireland TSO and EirGrid plc, as the Republic of Ireland TSO and SONI as the SEM Operator and EirGrid plc as the Market Operator are enabled to fulfil their functions insofar as they are reliant upon the other licensees to do so.

In relation to which of the TSO functions are Single Electricity Market Operator (SEMO) functions, given that SONI's TSO licence sets out its TSO functions and SONI's SEM Operator licence sets out its SEM Operator functions, SONI Ltd. is unsure what further clarification we can provide or is, indeed, necessary.

- **SONI to outline the process under which SONI staff/Board monitors that SONI is getting value for money for the services it receives from EirGrid. Also to set out what services are received; how frequently a review is undertaken of the effectiveness and value for money of services being provided to SONI and, provide a copy of the results of those reviews.**

As previously noted, the SONI Board has no formal role in reviewing procurement. Under the price control process, the Utility Regulator sets out the appropriate and efficient costs it deems necessary for SONI Ltd. to fulfil its obligations under its TSO licence ensuring consumers pay only that which the Utility Regulator deems appropriate.

SONI Ltd. benefits from economies of scale from its ability to make purchases and secure contracts on an EirGrid plc Group-wide basis. This ultimately benefits Northern Ireland consumers as SONI can avail of greater system functionality without any associated increase in cost. If SONI were to licence all the relevant services required under its TSO licence as stand-alone contracts (i.e. not under the EirGrid plc Group), there would be a significant increase in the running costs for the TSO, and these would ultimately fall on the consumer. This was further documented in SONI's price control submission to the Utility Regulator.

12. SONI to set out what has replaced the SLA and provide a copy of any current agreement with EirGrid plc established for the same purpose.

As per SONI's response to the Call for Evidence, the Service Level Agreement (SLA) is a legacy agreement which has since been terminated by the parties. As set out in response to Question 3, the current operation provides for cohesive operation and integrated teams across the Group and the requirements for such an SLA, or any equivalent, is therefore redundant.

13. SONI to provide a copy of any document outlining procurement strategy or policy whether at the EirGrid group or SONI level.

SONI's procurement process is carried out in line with the Utilities Directive [2014/25/EU](#), "*Procurement by entities operating in the water, energy, transport and postal service sectors*". All procurement activity above OJEU advertising thresholds is carried out in accordance with the Utilities Directive; procurement activity below OJEU advertising thresholds will give due regard to the EirGrid plc Group Procurement Guidelines. All procurement decisions consider the cost, quality and sustainability appropriately weighted with the objective that end user requirements are fulfilled while ensuring value for money is obtained.

The Procurement Manager discusses the procurement requirements with each department for the subsequent twelve months. The Procurement Manager reviews and collates all business needs and this forms the basis of the Procurement Plan and programme for the year. Where synergies are possible or contract aggregation appropriate across the group structure, the Procurement Manager or delegate will advise the relevant department as to the recommended procurement strategy.

A copy of the EirGrid plc Group Procurement Policy is provided.

14. SONI to provide a list of the services provided by EirGrid to SONI and identify whether these are procured on a shared-services-basis, through group level procurement, or jointly between SONI and EirGrid.

EirGrid plc and SONI Ltd. do not procure services from each other. For shared services, there is a Group recharging framework in place, covered in the Group Cost Allocation and Recharge Policy which has previously been provided to the Utility Regulator.

15. SONI to outline how it satisfies itself that the provision of these services is on fair commercial terms and no worse than market rates if SONI went to market on a stand-alone basis and contracted for services on arm's length terms. Specifically SONI to set out:

- **What is the framework under which SONI ensures that procurement of services from within the EirGrid Group is efficient?**

As outlined above, SONI Ltd. does not procure services from other licenced entities within the EirGrid Group. SONI Ltd., as the licence holder of the Licence to participate in the Transmission of Electricity and SONI Ltd., as the

holder of the SEM Operator Licence, adheres to the EirGrid plc. Procurement Policy which is carried out in line with the Utilities Directive [2014/25/EU](#), "*Procurement by entities operating in the water, energy, transport and postal service sectors*". For procurement initiatives that fall below the Utilities Directive threshold, the EirGrid plc policy is to continue to use competitive tendering and EirGrid plc Group Procurement Policy sets out the associated procedures.

- **How SONI ensures that services procured from within the group are at least as efficient as procuring those services externally.**

Please see question 14 for further information regarding the shared services between SONI Ltd. and EirGrid plc. In terms of efficiency and economies of scale, these shared services provide savings to the parties involved. This includes, but is not limited to IT services, system planning and cyber security, which are procured on an EirGrid plc Group-wide level. In all instances, it is the Utility Regulator, not SONI Ltd., which determines what is charged to Northern Ireland customers in tariffs and the Utility Regulator has provided for tariffs which see these savings passed on to Northern Ireland customers. Further details of these savings and of the efficiency of services procured, was set out by SONI Ltd. in its price control submission to the Utility Regulator.

- **How SONI demonstrates the efficiency and appropriateness of group projects for SONI specifically. For example if group proposes an initiative which will benefit the group overall is there a mechanism for SONI to demonstrate that it would be more efficient for SONI to not participate in the initiative or that a different initiative would be more appropriate?**

With regard to group projects, representation from SONI Ltd., whether it is at executive, managerial or other resource level, ensures and enables SONI Ltd. specific needs and value to be considered throughout the project life cycle.

As a regulated company, it is the price control process and the Utility Regulator's determination that decides efficient costs that represent value for the customer. It is then up to SONI Ltd. to deliver the necessary requirements.

- **What oversight is exercised by the SONI Board in relation to the procurement of services from within the group, and what sign-off is required by the Board for decisions made in respect of the procurement of services either from within the group.**

SONI Ltd. does not procure services from other Group entities. The SONI Ltd. Board does not have a formal role in procurement decisions, other than its overriding duty to act in the interest of its shareholder and other stakeholders.

Procurement decisions within the EirGrid plc Group, are in accordance with the Delegated Control Framework, where authority for decision-making is categorised according to the level of expenditure expected to be required.

16. SONI to confirm whether EirGrid staff providing services to SONI have had training in SONI's licence conditions and NI specificities, especially those providing legal or regulatory services.

All staff undertake induction and training to include the regulatory framework which underpins the operation of both SONI Ltd. and EirGrid plc including legislation, licences and industry codes. Staff undertaking legal or regulatory activities for SONI Ltd., are aware of the regulatory underpinning of SONI Ltd., including legislation and licence obligations, as well as specificities relating to the economic regulation of SONI Ltd. by the Utility Regulator and by the SEM Committee. SONI Ltd. has in-house legal and regulatory resources with specific SONI Ltd. licence experience.

SONI Ltd. has in-house legal and regulatory resources with specific SONI Ltd. Licence experience. As part of the new structure, a Northern Ireland Regulation team and a Strategy Team will be established in SONI Ltd., reporting to the SONI Ltd. Managing Director.

17. SONI to provide any information available quantifying cost efficiencies and synergies which it says arise from the current governance structure.

The current governance structure has evolved from the synergies evident in the market design of the revised SEM arrangements, consulted upon and approved by the SEM Committee, whereby the TSOs take a more prominent role in the balancing market, thus further integrating market operation and system operation.

By way of example and quantification of the cost efficiency derived from the integrated operational model, SONI Ltd. refers the Utility Regulator to the adjustment required to the SONI Ltd. Price Control revenues to enable SONI TSO, working with EirGrid TSO, to carry out a number of additional activities under the new Integrated Single Electricity Market (I-SEM) arrangements.

Under its decision, the Utility Regulator allowed SONI Ltd. revenues

equating to less than 25% of the overall requirement for the island. A standalone provision for SONI Ltd. would approximate to 3-4 times that allowed (i.e. would tend to equate to close to the totality of the costs across the island) which would lead to an increase to Northern Ireland customers of c.£3.6m (2018 monies) per annum for these activities alone.

Further examples were provided to the Utility Regulator as part of price control submission made by SONI Ltd.

(ii) **Other justifications sought from SONI**

- 1. SONI advised Utility Regulator in January 2020 that the composition of the SONI Board has changed. SONI to explain why that the changes were made were beneficial in terms of protecting NI consumers and promoting transparency and good governance.**

SONI Ltd. is the licenced TSO and SEM Operator for Northern Ireland, and under Article 4 of the European Commission Regulation on Capacity Allocation and Congestion Management (CACM)⁸ SONI Ltd. was designated as NEMO for Northern Ireland by the Utility Regulator⁹ on 2 October 2015.

The composition of the SONI Ltd. Board, as advised to the Utility Regulator in January 2020, ensures that the directors with responsibility for the governance and oversight of the spectrum of activities, namely the market operation and system operation within the SONI Ltd. business, are represented on the SONI Ltd. Board.

- 2. SONI advised Utility Regulator in January 2020 that a new organisational structure will be introduced within EirGrid Group from 1 February 2020. SONI to explain why the changes to be made will be beneficial in terms of protecting NI consumers and promoting transparency and good governance.**

The premise for re-organisation was the imperative to deliver both the EirGrid plc and SONI Ltd. strategies. This was considered as an imperative, given

⁸ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1222&from=EN>

⁹ <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-15-073b%20UR%20NEMO%20Designation%20Decision%20under%20CACM.pdf> and <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-15-073c%20UR%20NEMO%20Designation%20Decision%20Appendix%201%20Designation%20Order%20to%20SONI.pdf>

the urgency around being able to accommodate the energy transition and our new purpose to transform the power system for future generations.

The revised structure is designed to provide maximum effectiveness and efficiency across all of our licensed activities and to pool the business' expertise and where appropriate enable Group synergies to be realised for the benefit of all customers on the island of Ireland.

The details of the new organisational structure are outlined in response to Question 3. As set out above, the new structure in terms of protecting Northern Ireland consumers, Northern Ireland specific strategy and regulatory functions, will be established reporting directly to the SONI Ltd. Managing Director. Also a review of the EirGrid plc Board and Governance Committees has seen the establishment of a Committee of the Board dealing with Northern Ireland and All-Island issues.

3. Does SONI consider that the new structure has any implications for SONI's certification as a TSO? Whether the answer is yes or the answer is no, please explain why SONI reaches this conclusion (and, if the answer is yes, to what extent and in what way the structure has those implications).

SONI Ltd. does not consider that the new organisational structure has implications for the certification of SONI Ltd. as a TSO, as the certification arrangements and certification process are designed to ensure that any TSO is independent of production, generation and supply interests.

Neither SONI Ltd. nor its parent, nor any affiliate directly or indirectly exercises control over an undertaking performing any of the functions of production, generation or supply. EirGrid plc has been certified, as an independent TSO, by the Commission for the Regulation of Utilities for Ireland (CRU) in compliance with the Decision of the European Commission (EC). SONI Ltd. has been certified, as an independent TSO, by Utility Regulator in compliance with the Decision of the EC^{10,11}.

The European Commission in its decision on SONI Ltd. Certification recognised “[] *that the links between SONI and EirGrid support regional integration and the effective independence of transmission system operation.*”

¹⁰ https://www.uregni.gov.uk/sites/uregni.gov.uk/files/media-files/SONI_Certification_26_June.pdf

¹¹ https://ec.europa.eu/energy/sites/ener/files/documents/2013_059_uk_en.pdf

4. Can SONI demonstrate how their duties under the SOA, compliance with which is a Licence obligation, are discharged in the integrated management structure?

The SOA pertains to SONI Ltd. (acting as TSO), EirGrid plc (acting as TSO) and SONI Ltd. (acting as SEM Operator) and EirGrid plc (acting as Market Operator), as required under the respective obligations under the System Operator Licences and the Market Operator Licences and is designed to enable each party to enable the fulfilment of the other parties' licence functions.

As previously noted by SONI Ltd. to the Utility Regulator in June 2013, having an integrated management structure and single governance structure in respect of the operation of all of the relevant licences overcomes many obstacles that could potentially be present under separate governance.

SONI Ltd. is confident it fulfils the obligations which the SOA is designed to enable it to fulfil, through the cohesive team structure it has outlined in response to Question 3.

To take just one example, SONI has in place a set of all-island Control Centre tools and all-island Control Centre systems, with staff trained to operate both systems but both systems also capable of operating separately, if there is a need for system separation for a period. A single market and single balancing arrangement require an all-island approach and lays out how dispatch should be undertaken and units compensated for their operation and any deviation. SONI has in place an all-island DS3 arrangement which compensates for system services and an all-island capacity mechanism which procures generation capacity on an all-island basis.

As a result, the arrangements are quite different today from those in 2007 when the SOA was first put in place. In addition, the integrated management and governance structure means that decisions can be taken more seamlessly today, to the benefit of customers in both Northern Ireland and the Republic of Ireland, than when SONI Ltd. and EirGrid plc were under separate ownership and separate governance.