

# NEWERA INFLUENCE ON EIRGRID GROUP

**Contents**

BACKGROUND..... 1

CONCERNS..... 3

GOVERNANCE..... 5

Eirgrid Economic Agenda..... **Error! Bookmark not defined.**

# BACKGROUND

This document takes a high level view only. It is recommended to read each of the linked documents in the footnotes for a fuller understanding.

New Economy and Recovery Authority's (NewERA) core role is to provide financial and commercial advice to Irish Government Ministers in relation to a number of major commercial State bodies<sup>1</sup>: Bord na Móna, Coillte, EirGrid, Eirvia (including Gas Networks Ireland and Irish Water), ESB and An Post. Each of these state bodies operate a number of sub companies/divisions<sup>2</sup> including in Northern Ireland. Where specifically requested by the relevant Government Ministers, NewERA's role also extends to other State bodies or assets<sup>3</sup>. As a dedicated centre of financial expertise NewERA brings an additional commercial focus to the oversight of State-owned enterprises.

NewERA is one of five core business units sitting under the umbrella of the Irish National Treasury Management Agency (NTMA)<sup>4</sup>. NewERA was formally established in June 2013<sup>5</sup> but had been in establishment on a non-statutory basis since 2011.

More detail on the NewERA Advisory functions can be seen in their annual report for 2017/18<sup>6</sup>.

## NewERA Approach: Active Ownership

NewERA's approach is to facilitate an enhanced level of active ownership<sup>7</sup> by the Irish State as shareholder in the Portfolio bodies. This is consistent with the approach taken in many OECD countries. To this end it has developed a Shareholder Expectations Framework<sup>8</sup> to provide formal clarity and guidance to these bodies in relation to the Government's strategic priorities, policy objectives, financial performance and reporting requirements. These are communicated

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<sup>1</sup> <https://www.ntma.ie/business-areas/newera/>

<sup>2</sup> <https://www.ntma.ie/business-areas/newera/newera-designated-bodies>

<sup>3</sup> [https://en.wikipedia.org/wiki/State-sponsored\\_bodies\\_of\\_the\\_Republic\\_of\\_Ireland](https://en.wikipedia.org/wiki/State-sponsored_bodies_of_the_Republic_of_Ireland)

<sup>4</sup> <https://www.ntma.ie/business-areas>

<sup>5</sup> <https://www.ntma.ie/news/ntma-amendment-bill-new-era-and-6-4bn-strategic-investment-fund>

<sup>6</sup> [https://www.ntma.ie/uploads/general/NewERA-Annual-Financial-Review-2017\\_18.pdf](https://www.ntma.ie/uploads/general/NewERA-Annual-Financial-Review-2017_18.pdf) p.5

<sup>7</sup> <https://www.ntma.ie/uploads/publication-articles/NTMAAnnualReportPresentation2016.pdf> p.25

<sup>8</sup> <https://www.ntma.ie/annualreport2017/newERA.html>

to the Chairperson and Board of each body by way of annual/biennial letters (Framework Letters<sup>9</sup>) from the relevant Government Ministers.

In the Framework Letters issued to date the three primary areas of focus for NewERA from a financial performance perspective have been:

- **Financial performance measurement:** setting out the NewERA methodology that will be applied by it in improving measurement and monitoring of financial performance of the Portfolio by the State in its role as shareholder. To do this, during 2016 NewERA finalised and communicated methodologies to calculate both return on invested capital and weighted average cost of capital on a consistent basis across the Portfolio.
- **Commercial equity valuations:** to facilitate the measurement of shareholder returns the Framework includes a requirement for the Portfolio bodies to undertake a commercial equity valuation on an annual basis. By the end of 2016, five of the six bodies had prepared equity valuations <sup>2</sup>.
- **Financial targets:** formulating financial targets in conjunction with the Portfolio bodies, with the objective of ensuring that the targets balance value creation with prudent financial management, facilitate appropriate levels of infrastructure investment and are well defined and capable of being monitored on an ongoing basis.

A key focus for NewERA has been to advise on appropriate dividend targets for the Portfolio bodies such that there is an appropriate balance between the payment of dividends and re-investment in the business. Dividend targets are now in place with relevant bodies. These dividend targets<sup>10</sup> provide greater clarity to both the bodies themselves and the State as shareholder.

While SONI Ltd's license prohibits issuing dividend payments<sup>11</sup> to Eirgrid officially, SONI makes up around 25% of revenue for Eirgrid. Eirgrid have paid a dividend to the Irish State of €4m<sup>12</sup> for each of the last 2 years.

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<sup>9</sup> <https://govacc.per.gov.ie/wp-content/uploads/Model-Shareholder-Expectation-Letter.pdf>

<sup>10</sup> [https://www.ntma.ie/uploads/general/NewERA-Annual-Financial-Review-2017\\_18.pdf](https://www.ntma.ie/uploads/general/NewERA-Annual-Financial-Review-2017_18.pdf)

<sup>11</sup> <https://www.uregni.gov.uk/sites/uregni/files/media-files/SONI%20TSO%20Consolidated%20Feb%202019.pdf> p.35 condition 4.

<sup>12</sup> <http://www.eirgridgroup.com/annual-report-2018/>

## CONCERNS

The primary concern is that the ownership of NI companies, which perform a public service (such as SONI, NIEN, ESB Coolkeeragh, etc...), by the Irish State is directly undermining the economic and political future of NI. Companies of National importance to NI should ultimately be owned by NI plc.

NewERA are a voice in all Irish State companies ears, compelling them to do more for the Irish economy, and seek to have more employment and opportunities for inward investment in ROI e.g. from Data centres etc. While the principle of NewERA is sound for the benefit of Ireland, problems are starting to arise for Northern Ireland through the ownership of a growing number of companies ultimately now under the direct control of the Irish State.

NewERA and its parent NTMA work to align all the state assets to work more closely together for the shared goals of the Irish State's policies. Policy examples include the Statement of Strategy 2019-2021<sup>13</sup> and Project Ireland 2040<sup>14 15</sup>. The first year annual review of Project Ireland 2040<sup>16</sup> should also be read as it ties some of the wider work together.

This could/can be to the detriment of NI goals/targets and economy, as NI does not have a voice in any of this. A lot of Irish policies are set from the EU outwards. This will widen the concerns of lack of NI political input into strategic objectives following Brexit.

Northern Ireland has been presented for the past 10+ years as facing a looming energy shortage to justify the need for the new North South Interconnector (NSIC)<sup>17</sup>. Meanwhile in Ireland, the electricity system is presented as stable and able to support large amounts of renewable energy. There are concerns that the NSIC is not required for the benefit of NI but rather the benefit of ROI. The push for the NSIC is directly and firmly pushed by Eirgrid through extensive lobbying of politicians, government departments and business groups. As per the All-island Generation Capacity Statement for 2017<sup>18</sup>, NI has a major shortage of supply, yet in the 2018<sup>19</sup> report, the shortage has disappeared and it is Ireland that has the shortage.

For international companies looking a presence on the island of Ireland – which region looks more favourable? All major datacentre investments over the past 10+ years have been in ROI not NI. Ireland is setting itself up to be more attractive for investment than NI.

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<sup>13</sup> <https://www.gov.ie/en/publication/87d424-statement-of-strategy-2019-2021/>

<sup>14</sup> <https://www.gov.ie/en/policy/project-ireland-2040-policy/>

<sup>15</sup> <https://www.gov.ie/en/collection/580a9d-project-2040-documents/>

<sup>16</sup> <https://assets.gov.ie/8474/9a190e7f68844cc18b53ddd2db0790bd.pdf#page=1>

<sup>17</sup> [https://issuu.com/designtactics/docs/soni\\_north\\_south\\_interconnector\\_-\\_a](https://issuu.com/designtactics/docs/soni_north_south_interconnector_-_a)

<sup>18</sup> [www.eirgridgroup.com/site-files/library/EirGrid/4289\\_EirGrid\\_GenCapStatement\\_v9\\_web.pdf](http://www.eirgridgroup.com/site-files/library/EirGrid/4289_EirGrid_GenCapStatement_v9_web.pdf) p.53

<sup>19</sup> [http://www.soni.ltd.uk/media/documents/Generation\\_Capacity\\_Statement\\_2018.pdf](http://www.soni.ltd.uk/media/documents/Generation_Capacity_Statement_2018.pdf) p. 48

The NTMA bill (establishing NewERA) of 2013 states *“This Bill delivers on a key programme for Government commitment, and will ensure that available resources are maximised to generate economic activity and create jobs in Ireland”*<sup>20</sup>. This is referring to ROI, not NI.

In the recent capacity market auction, NI generation lost out while lots of new generation in the Dublin area won (mostly ESB generation). More recently

Eirgrid Group (which includes SONI) is referenced heavily throughout the NewERA documentation. NewERA picks the Eirgrid Group Board (including the NI board members), and the booklet linked below makes it clear that the board members are answerable to the Irish minister, and the Irish citizen.

The following is an extract for an advert for Eirgrid board members<sup>21</sup> and highlights how NewERA control this appointment in the following text:

### 3. Person Specification

The Public Appointments Service (the **“PAS”**), in conjunction with New Economy and Recovery Authority (**“NewERA”**)<sup>2</sup>, wish to identify suitable candidates for consideration for appointment to the Board by Minister for Communications, Climate Action and Environment (**“Minister”**) with the consent of the Minister for Public Expenditure and Reform.

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<sup>2</sup> The role of NewERA is to provide independent commercial and financial advice to the relevant Ministers in relation to the exercise of specific functions, including, pursuant to Section 19 of the National Treasury Management Agency (Amendment) Act 2014 “the appointment of the chairperson, members, directors or chief executive of the designated body”, with EirGrid being one of the designated bodies. Further detail on NewERA’s activities is set out in Part 3 of the National Treasury Management Agency (Amendment) Act 2014 and in the annual reports of the NTMA ([www.ntma.ie](http://www.ntma.ie)). n

NewERA, and the appropriate Irish minister, control the Eirgrid Group<sup>22</sup>. The Irish State generate a lot of income from their UK assets<sup>23</sup> - see table on next page. While SONI does not officially pay Eirgrid a dividend, they do have to pay inter-company cross charges which have amounted to millions over the previous years – evidence of which can be seen by examining the accounts for SONI Ltd.<sup>24</sup> The Stakeholder letter and expected dividends have been discussed at Board level<sup>25</sup> in Sep 2017.

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<sup>20</sup> <https://www.ntma.ie/news/ntma-amendment-bill-new-era-and-6-4bn-strategic-investment-fund>

<sup>21</sup> <http://www.stateboards.ie/stateboards/campaignAdvert/47075/booklet.htm>

<sup>22</sup> <https://www.ntma.ie/business-areas/newera>

<sup>23</sup> [https://www.ntma.ie/wp-content/uploads/2018/12/NewERA-Annual-Financial-Review-2017\\_18.pdf](https://www.ntma.ie/wp-content/uploads/2018/12/NewERA-Annual-Financial-Review-2017_18.pdf)

<sup>24</sup> <https://beta.companieshouse.gov.uk/company/NI038715/filing-history>

<sup>25</sup> [http://www.eirgridgroup.com/site-files/library/EirGrid/EirGrid-plc-Minutes-13-Sep-2017-\(redacted-1\).pdf](http://www.eirgridgroup.com/site-files/library/EirGrid/EirGrid-plc-Minutes-13-Sep-2017-(redacted-1).pdf)

## UK Bilateral Trade and Investment

An overview of the revenue generated by the Portfolio in the UK, the book value of its UK-based assets and associated sterling denominated debt is set out in the table below. It is important to note that although the financial information presented below relates only to the Designated Companies, other State companies such as those operating in the airport and port sectors may also be impacted financially given their connectivity with the UK market.

PORTFOLIO'S PROPORTION OF UK REVENUE, FIXED ASSETS & STERLING DENOMINATED DEBT						
2017/18 book value, €'m	BnM	Coillte	EirGrid	Ervia*	ESB	An Post
<b>Revenue</b>						
UK Revenue	nd	122	132	39	807	79
Total Group Revenue	395	299	579	473	3,229	840
<b>UK Proportion</b>	nd	41%	23%	8%	25%	9%
<b>Fixed Assets</b>						
UK Fixed Assets	nd	nd	27	350	3,063	nd
Total Group Fixed Assets	268	1,448	607	2,549	10,617	284
<b>UK Proportion</b>	nd	nd	4%	14%	29%	nd
<b>Sterling Denominated Debt</b>						
Sterling Debt	na	na	nd	113	1,713	na
Total Debt	120	162	339	1,186	4,758	49
<b>Sterling Proportion</b>	0%	0%	nd	10%	36%	na

Source: NewERA Analysis

## GOVERNANCE

The following screenshot shows with no doubt that SONI is 100% owned by the Irish State, as part of the Eirgrid Group, which brings questions regarding governance. Do they only act in the interests of Irish Government goals? This puts the Irish state in a powerful position to ensure all the economic growth is supported in ROI and can put ROI first when making decisions:



### KEY ACTIVITIES

- **EirGrid TSO:** Develops, manages and operates the high voltage electricity transmission grid in Ireland and is regulated by the Commission for Regulation of Utilities in Ireland ("CRU").
- **SONI:** Develops, manages and operates the high voltage electricity transmission grid in Northern Ireland and is regulated by Utility Regulator Northern Ireland ("URRegNI").
- **SEMO:** Operates the SEM across Ireland and Northern Ireland and is regulated by the SEM Committee.
- **EWIC:** Owns and operates the high voltage electricity link between Ireland and Wales, selling capacity through auctions.
- **Other:** Responsible for implementing the systems and processes needed for the introduction of new market arrangements under I-SEM. Also working to help deliver on 2020 renewable electricity targets through the programme for Delivering A Secure and Sustainable Electricity System (known as DS3).

**State Ownership:** 100%

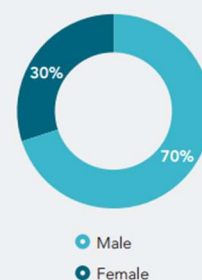
**Board Composition** (as at November 2018)

Chairperson: John O'Connor

CEO: Mark Foley

**Non-Executive Directors:** Tom Coughlan, Lynne Crowther, Dr Theresa Donaldson, Michael Hand, Eileen Maher, Liam O'Halloran, John Trethowan

**Employee Representative:** Shane Brennan



## – EirGrid Plc

EirGrid plays a number of key roles in the Irish energy sector – these are carried out through the following operating divisions:

- ▶ EIRGRID Transmission System Operator (TSO) develops, manages and operates the high voltage electricity transmission grid in Ireland and is regulated by the CER.
- ▶ SONI develops, manages and operates the high voltage electricity transmission grid in Northern Ireland and is regulated by the Utility Regulator Northern Ireland ("URegNI").
- ▶ SEMO operates the Single Electricity Market (SEM) across Ireland and Northern Ireland and is regulated by the SEM Committee.
- ▶ EWIC owns and operates a high-voltage electricity link between Ireland and the UK selling capacity through auctions.
- ▶ OTHER EirGrid is also responsible for implementing the systems and process needed for the introduction of new market arrangements under I-SEM. In addition, the Group is working to help deliver on 2020 renewable electricity targets through the programme for Delivering a Secure and Sustainable Electricity System (known as DS3).

The following statement was made by Eirgrid at the Seanad Select Committee<sup>26</sup> in June 2017 which made the ownership and control of SONI clear:

*"EirGrid Group owns the company which runs the grid in Northern Ireland, SONI, and we are a fully integrated business. Our Executive Team have responsibility on a 32 county basis, and we endeavour to deliver the synergies and savings to customers that operating on an all-island basis allows."*

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26

[https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/seanad\\_special\\_committee\\_on\\_the\\_withdrawal\\_of\\_the\\_united\\_kingdom\\_from\\_the\\_european\\_union/submissions/2017/2017-06-01\\_opening-statement-eirgrid\\_en.pdf](https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/seanad_special_committee_on_the_withdrawal_of_the_united_kingdom_from_the_european_union/submissions/2017/2017-06-01_opening-statement-eirgrid_en.pdf)

# EIRGRID ROI FOCUSSED ECONOMIC AGENDA

Promoting employment in ROI, which would almost certainly be to the detriment of NI, prime example of where this has occurred is throughout the ISEM project, where all external staff were hired in Dublin at additional costs when compared to the same resources in Belfast.

The following links highlight their focussed approach to job creation in Dublin and ROI.

1. <http://npf.ie/wp-content/uploads/2017/09/0638-EirGrid.compressed.pdf>

From the above link:

The White Paper is a key context for EirGrid's recently published Grid Development Strategy 2017 – available at [www.eirgridgroup.com](http://www.eirgridgroup.com). The Strategy is also set into the context of other Government policy, in particular including the **Action Plan for Jobs** and the IDA's 2015-2019 regional strategy.

2. <https://www.thejournal.ie/eirgrid-engineers-ireland-pylons-project-infrastructure-fdi-1265289-Jan2014/>
3. Extra interconnection for ROI, where are additional interconnector projects in NI? Only additional interconnector in NI is North South, which will presumably bring an income to Eirgrid and make NI greater dependency on ROI infrastructure:

<https://www.3dpersonnel.com/blog/2019/05/underwater-power-cable-from-ireland-to-france-closer-to-go-ahead>

4. <https://dbe.gov.ie/en/Publications/Publication-files/Green-Economy-Progress-Report-2013.pdf>

Eirgrid has many engagements in the economic sphere across ROI, examples below taken from the above link, there is no evidence this same effort is applied for NI:



#### Box 20: UCD Energy Institute

A new **UCD Energy Institute** was launched in September 2013. The Institute will be a transformational resource for energy research in Ireland and internationally. A critical mass of world-class researchers focussed on a small number of strategically important themes will work in partnership with industry and the energy policy community under the auspices of the Institute.

The Institute will operate at a larger scale than previously realised in the Irish energy research community, enabling access to global partnerships and initiatives of scale that were previously inaccessible. The Institute is developing a major initiative **Future Grid Test Bed – Ireland** in collaboration with **EirGrid**, **ESB** and the **Electricity Research Centre**. This activity will feed into an international collaboration with U.S. and Danish researchers to advance a global level Energy Systems Integration Project.

In the below excerpt from the Irish govt Green paper on economy progress, it is stated there is a single TSO in the Irish electricity market, forgetting the fact SONI also exists.

**Smart grids** involve the use of information and communication technology to accommodate large amounts of intermittent renewable energy and facilitate the management of energy demand. Ireland has a potential **first mover advantage** through existing expertise in ICT and the work of EirGrid in identifying and overcoming the operational challenges in managing high levels of intermittent renewable energy. The structure of our electricity market, with a single transmission operator and single distribution system operator, makes Ireland a natural testbed for the early deployment of the **smart grid** concept creating an opportunity for Irish based companies to generate new leading edge products and services.

### Other links:

AL Goodbody – Energy projects (<https://www.algoodbody.com/services/energy-natural-resources/energy-natural-resources-renewables-experience>)

Code of Practice for Government State Bodies (<https://govacc.per.gov.ie/governance-of-state-bodies/>)

Department of Public Expenditure and Reform – key publications

(<https://www.gov.ie/en/collection/1044c3-key-publications/>)

NTMA Annual Report & Accounts 2018 (<https://www.ntma.ie/uploads/publication-articles/NTMA-Annual-Report-2018.pdf>)

The Irish Times – Article on State companies still highly exposed to UK as Brexit looms

(<https://www.irishtimes.com/business/state-companies-still-highly-exposed-to-uk-as-brex-it-looms-1.3717611> )