Mutual Energy Limited
First Floor The Arena Building
85 Ormeau Road, Belfast BT7 1SH
Tel: + 44 28 9043 7580   Fax: + 44 28 9024 9673
Web: www.mutual-energy.com

Mr Ciaran MacCann
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

By email only

14th September 2020

Dear Ciaran

Mutual Energy welcomes the opportunity to review and comment on the Utility Regulator's ("UR") draft price control determination 2020-2025 for SONI ("DD"). From my participation in the SECG and the wealth of material published as part of the determination, it is clear that a huge amount of effort has gone into trying to deliver a step-change in the regulatory approach. Given the level of detailed analysis that the regulator has undertaken, my feedback is high level and focuses on the overall outcomes.

The coming years are critical for the energy transition in Northern Ireland as we look towards the UK's commitment to net zero greenhouse gas emissions by 2050 and in the near future the Department for the Economy's updated energy strategy for Northern Ireland. It is well established that SONI's role in this process will be key, not least in facilitating the connection of clean technologies and managing a system with much higher levels of renewables penetration than today.

We would expect that, for SONI to deliver on leading whole system collaboration and coordination alongside a more challenging system operation role, we would see an increase in its costs so were surprised that the overall cost allowances are pretty much flat in comparison to SONI's spend in the previous price control period. From review of the DD it is apparent that this is a consequence of UR's assessment of the quality of SONI's business plan proposals and in many cases, UR has stated that insufficient justification of initiatives and costs has been provided by SONI. It is not in current consumers or future generations' interest if work that can progress the energy transition stalls due to a communications breakdown over the justification of costs that are a small part of bills but could deliver initiatives that produce benefits substantially outweighing them. If both parties have ambition to push forward the transition, UR and SONI should work together so that SONI can better understand precisely what evidence or justification they need to provide so that UR is confident that it is in NI consumers' interest to approve appropriate initiatives ex ante so that work is not stalled. I believe this view is consistent with that expressed by members at SECG meetings.

With reference to Annex 6 of the DD, F.1 Renewables Strategy and F.2 Control Centre Tools appear to be two key areas where funding has not been allowed at this stage but that could benefit from improved two-way communication between SONI and UR. We don't disagree with UR's assessment and note that any allowances will be dependent on a separate regulatory process on system services but these look like areas that could and should be progressed before that regulatory process concludes (on the basis that this will not be complete in a matter of months). If UR and SONI can agree on an appropriately costed and justified program of 'pre regulatory decision on system services' work, this will obviously speed up the delivery of the system services initiatives.

We note that a need to improve stakeholder engagement is recognised by UR, the SECG and SONI itself although no allowances were provided for SONI's proposed initiatives (H1-H6 in Annex 6) as they were viewed variously as BAU, the wrong type of engagement or without obvious benefit. Given that this is recognised as an area for improvement, UR and SONI should consider what activities are appropriate and at what cost, recognising that benefits will almost certainly be intangible or difficult to define. For example, if we look at public perceptions of National Grid, it anecdotally appears to be viewed positively as '<u>the</u> National Grid', which no doubt eases its engagement with the public.

On the theme of intangibles, staff morale has been an issue within SONI in recent times, with the SONI staff strike in 2019 having direct implications for Mutual Energy's business. We note that it appears from table 19 of Annex 6 that UR has given SONI a reduced cost per FTE in this DD than in 2015-20 price control. While a variety of benchmarks are quoted, we would expect the last price control and actual spend (if available) to be the more relevant than relatively generic ASHE benchmarking and comparison to market operator price controls where differing skills, experience and qualifications are required. Whatever the factors behind staff discontent, reducing allowances may bring these issues to the fore again.

We welcome UR's proposal to introduce an evaluative performance framework for SONI and strongly support incentivising people and organisations to out-perform baseline expectations. It is a positive that performance and outcomes will be assessed more, as opposed to focusing on costs. We make the following remarks on these proposals:

- UR have proposed a symmetrical risk/reward of +/- £1m dependent on SONI's performance. UR's economists will be familiar with the principle of loss aversion which means this is effectively a negative incentive. This could lead to low levels of ambition from SONI as it seeks to minimise the potential loss which is at odds with a desire to see an enhanced role in the energy transition. There is probably limited risk in mirroring Ofgem's approach with a higher upside, given that any award is ultimately at UR's discretion.

- UR propose to establish a "SONI evaluation panel" comprising individuals with a range of relevant knowledge and perspectives. I am not convinced that this is appropriate - individuals will always have vested interests or biases which will skew any assessment and, while this may also be the case if UR performs or leads the evaluation, UR are best qualified to fulfil that role as part of their statutory obligations with respect to regulating SONI. From experience with the SECG, this may be a demanding role for people to fulfil on a voluntary basis, particularly when one considers the volume of documentation related to the price control process.

- There seems to be significant volume of work for both SONI and UR in implementing this framework. To maximise the potential benefits and provide clear direction, UR (and the evaluation panel as relevant) should approve the annual forward plan that SONI aims to deliver against – there is little point SONI performing well against an underwhelming plan but a concise and high quality plan with clear objectives will benefit the industry as a whole.

We hope these comments are useful. There is clearly some distance between what SONI believes it needs to spend in the next price control period and what UR is in a position to allow. We hope that SONI and UR can liaise in the intervening period so that SONI can provide appropriate evidence and justification in order to advance its activities beyond business as usual as we look towards an accelerated energy transition.

Yours sincerely,

Paul McGuckin

Head of Markets and Regulation