

SONI price control approach consultation – 24 January 2019

Mutual Energy Ltd response

1. Do you agree with the proposed form, scope and duration of the control?

Form and duration seem appropriate, but scope is to be defined by SONI as part of its business plan (per page 9 of the consultation document). We see the latter point as being challenging in the absence of a strategic energy framework and scope should be informed by engagement with the DfE and UR along with other stakeholders.

We see merit in connections being within the scope of the price control in order to provide appropriate allowances and performance incentives as new connections will be an important part of the energy transition. We note that paragraph 16.3 of the 2015-2020 control determination noted that UR was expanding reporting in [Customer Connections] and “[t]his extends the focus from purely cost based and is useful for monitoring outputs and future consideration of incentives” and would suggest that this thinking is followed through.

2. Do you agree with the way SONI’s roles, services and activities have been defined (as set out on page 17 and Appendix C)?

The high-level definition on page 17 looks fine but Appendix C may be missing some detail in relation to SONI’s role for Moyle Interconnector Ltd (“Moyle”). As UR will be aware, SONI has a licence condition requiring it to enter into an Operating and Agency Agreement (“OAA”) with Moyle in relation to roles SONI performs on Moyle’s behalf (other than the collection agent function which is subject to a separate agreement). This includes physical operation of the interconnector and acting as contractual interface (the Interconnector Administrator role which is captured in Appendix C). SONI performs other tasks under the OAA such as declaring Moyle’s availability to the market (which it also impacts) and discharging transparency reporting requirements – these services/activities could be categorised under ‘contractual interface’ but should be considered Bt (opex and capex) for revenue recovery in order that performance can be incentivised.

3. Do you agree with our expectations as part of our test area on delivering value for money?

We agree with the principle that SONI should be demonstrating that is delivering value for money for NI consumers in a robust, convincing and clear way.

We note the statement “if SONI is delivering value for money, across the whole electricity system, this should mean lower bills for all services which its TSO consumers, customers and other stakeholders need and value”. Whilst lower bills may be indicative of value for money, cost should be balanced against quality considerations when deciding if something represents value for money. The regulator appears to expect a step-change in the quality of SONI’s business plan, its engagement with stakeholders and facilitation of electricity system wide change – these will all come at a cost but that cost is justified if accompanied by sufficient positive outcomes.

4. Do you agree with our framework approach and expectations as part of our test area on delivering services and outcomes (including our proposed framework for service quality and performance)?

A variety of approaches that may or may not be used are described so this question is difficult to answer at this stage but the high-level approach per page 27 of the consultation document seems appropriate. It will be key that SONI and UR's expectations are aligned ahead of business plan submission. The performance plan, commitments and specific metrics for performance evaluation should be defined up front as far as possible so that SONI has clarity on what the regulator wants to see, what will be considered high quality performance and that they will be rewarded (or penalised) as appropriate.

5. Do you have any initial views on how the service quality and performance framework could be implemented as part of our test area on delivering services and outcomes?

Taking a Moyle specific view on this, and again referring to SONI's role under the OAA, the current arrangements lack incentives on SONI to provide anything other than a minimal 'least cost' service. Where this service is not to an acceptable standard Moyle bears the consequences with little to no recourse to SONI other than referring the matter to the regulator e.g. if a penalty was issued to Moyle for failure to meet transparency obligations or SONI failed to make Moyle's capacity available to the market resulting in a loss of revenue. It seems appropriate that SONI's revenue recovery for performance of such roles should be captured under the 'Bt' category with an incentive on under/over performance on costs which could then be scaled up or down based on qualitative measures of quality of performance. The financial impact on Moyle (and thus NI consumers) of poor performance by SONI in its market facing role is likely to outweigh the cost of any performance incentive so we feel that there is a strong case for including such a mechanism in the performance framework. We would be happy to work with SONI and the regulator on developing specific measures of SONI's performance in these roles.

6. Do you agree with our framework approach and expectations as part of our test area on securing cost efficiency and managing uncertainty?

We generally agree with the regulators proposals with the following observations:

There appears to be a lot of emphasis on benchmarking in the regulators proposals (although it is noted on page 61 that benchmarking SONI is difficult). Whilst benchmarking is a sound established way of scrutinising costs, we do not believe that SONI should be penalised where appropriate benchmarks are unavailable. Benchmarking TSOs is very difficult because they operate at a national level so it is difficult to have a like for like comparison e.g. EirGrid and National Grid are fellow TSOs but unlikely to provide effective benchmarks due to different scale and location of operations. Analysis and other forms of evidence that costs are reasonable should be accepted in cases where it can be explained that they are more appropriate than benchmarking.

We note two references to "[ancillary services] being procured efficiently and costs will be kept to a minimum". We see that there is a performance element that should be considered in assessing SONI's procurement of ancillary services – the regulatory framework for this is established by the SEM Committee and SONI should procure ancillary services in line with that framework. There is potential for SONI to save costs by ignoring that framework which should not be considered a positive outcome by looking at costs in isolation.

7. Do you support the overall approach and expectations to financeability set out above, and elaborated on in the Reckon working paper, for the SONI TSO control?

We make no comment on this aspect.

8. Do you support our approach and expectations for remuneration of the SONI's equity capital and debt finance set out above, and elaborated on in the Reckon working paper, for the SONI TSO control (including whether we move to CPI or to CPIH indexation as part for the 2020-25 SONI price control)?

We make no comment on this aspect.

9. Do you agree with our expectations as part of our test area for engaging customers, consumers and other stakeholders?

We are supportive of the approach here. Such engagement will help ensure that SONI is focusing on the 'right' areas to the benefit of all. This engagement should include Mutual Energy as an important stakeholder.

10. Do you agree with our expectations as part of our test area on resilience and governance?

We make no comment on this aspect.

11. Do you agree with our expectations as part of our test area on accounting for past delivery?

Yes these expectations seem reasonable.

12. Do you agree with our framework approach proposals and expectation as part of our test area on securing confidence and assurance?

Generally the proposals and expectations appear reasonable.

We would have some concern around the proportionality of requiring SONI to publish its full business plan. This may lead to excessive time and effort being spent producing a polished 'product' for the consumption of the general public rather than a functional plan for the purposes of a price control and the consumption of an informed regulator.

It seems that this requirement is more common for network businesses (e.g. water utilities and electricity distribution companies) of much larger scale and means than SONI and that transparency and stakeholder engagement benefits could be achieved by regulatory publications (position/decision papers) that are informed by the SONI business plan. Notwithstanding this, we agree that this proposal would incentivise an improvement in the quality of the business plan.

13. Do you agree with our framework approach to setting clear regulatory expectations for SONI as part of its business plan and for assessing SONI's business plan, (including test area guidance and questions, categories and incentives to motivate SONI to produce a high quality business plan)?

We have no significant comment on the assessment aspect but it is key that SONI has clear appreciation of the regulators expectation and assessment criteria at the start of the business plan development process.

We are of the view that a good business plan should be its own reward (i.e. it increases a businesses chance of success) so would not normally support a separate financial incentive. However, given the step-change that the regulator wants to see, there is merit in taking forward a symmetric option to drive this change whereby a 'standing still' business plan incurs a penalty while an outstanding plan earns a material reward but with a clawback if the plan is not delivered on.

14. Do you agree that we have identified the right test areas and that these are structured in the right way?

We make no comment on this aspect.