

SONI Price Control 2010-2015

Response from Mutual Energy Ltd

March 2011

Mutual Energy welcomes the opportunity to comment on the SONI price control consultation. Within the Mutual Energy Group is Moyle Interconnector Ltd which owns the 500MW HVDC interconnector between Scotland and Northern Ireland. SONI acts as interconnector administrator for Moyle under the TSC and BSC, as well as being responsible for Moyle's operation and acting as Moyle's agent in allocating capacity on the interconnector. It is therefore of crucial importance to Moyle (and market participants and consumers) that SONI has sufficient resources to carry out these roles effectively.

Duration

We would be supportive of the price control period being 5.5 years. Given that we are already one year into the price control period, a duration of 3.5 years would not give SONI much clarity for the future while a 5.5 year period would align with neighbouring TSOs.

Staff

We note that the greatest area of contention within the consultation is around staffing levels, with the Utility Regulator ("UR") proposing that SONI is allowed less than 50% of the additional staff that it has proposed. We note that work by an external consultant to assess the appropriate headcount for SONI is ongoing but would stress our view that it is critical that SONI is adequately resourced to meet the challenges of implementing EU requirements and meeting the target of 40% wind penetration. Both of these are particularly relevant to Moyle with the former requiring the introduction of intra-day and day ahead trading (and possible market coupling) and the latter meaning that the interconnector will become increasingly important for managing the system.

As trading on the interconnector moves closer to real-time this will increase SONI's workload as changes to the scheduled interconnector flows at the day-ahead/within-day timeframe has the potential to adversely impact system security. We envisage that SONI will need to be much more active countertrading across the interconnector in order to minimise constraint costs. A number of issues in this area were flagged up during the intra-day trading work stream and it is important that SONI has the people to develop the tools needed to manage these issues.

Increased wind on the system and the volatility that this will bring is expected to significantly increase the frequency with which SONI will need to trade across the interconnector in order to manage the system in times of high wind and low demand. This type of scenario already presents difficulties with the current level of wind penetration and these will be multiplied as we move towards 40% wind.

The interconnector administrator role includes conducting capacity auctions and related activity on Moyle's behalf. Historically these have been restricted to annual and monthly auctions in order to reduce the administrative burden that they create. Quarterly and seasonal auctions from October 2010 have increased this burden and a substantial increase in auction activity is expected from October 2011 when a computerised auction platform is introduced. Also to be considered is that

SONI is to become the interconnector administrator for the East-West interconnector in 2012 which will double the interconnector administrator workload.

Meeting EU requirements for interconnection and the provision of network capacity for cross border flows will require much more co-operation and work with National Grid and Ofgem than has been the case to date. SONI needs to be capable to handle this increased workload. Additionally EU reporting is and will continue to be an increasingly substantial workload.

SONI's submission noted the requirement to employ replacements for control room staff as soon as possible and that there is likely to be an overlap between employment of new recruits and retirees. We would support this position as we are aware that the control room roles are particularly complex and it is essential that new recruits receive the best possible training in light of the expected increased volatility.

While the increase in staff numbers proposed by SONI is substantial, the consultation correctly notes that the costs to consumers that SONI can influence are significantly greater than its own costs. The risks to consumers of SONI being under-prepared to manage the system in the "new world" are much greater than the cost of ensuring they are appropriately staffed.

Capex

With regards to capex, we note that there is a significant divergence between SONI's submission and the UR's proposal. Without getting into the detail of the IT and telecoms requirements we would again stress our view that SONI needs to be appropriately resourced to meet the challenges ahead and that the risks of being under-prepared are significant.

We would agree with the UR view that it is difficult to approve £1.29m of non-identified capex at this stage however if projects are subsequently identified and justified they should be considered.

We note that there is a significant difference in the proposals in relation to building works. This requirement is essentially tied in with the need to increase staffing levels and the relatively low figure proposed by the UR would seem to assume that new staff are placed in temporary accommodation - this is likely to be a significant proportion of SONI's workforce. The poor condition of Castlereagh House could also be a factor in the difficulties in attracting staff.

Given that the increase in staff is likely to be for the longer term, that recovery of this cost could be spread over a long period (i.e. using a depreciation period greater than the current 10 years) and the fact that Castlereagh House will inevitably need to be refurbished in the near future, we feel that the UR should not rule out the refurbishment proposal until they see results of the feasibility study and breakdown of cost.

Incentives

We welcome the proposal to include incentives in SONI's price control and recognise that these should deliver efficiencies and savings. However we feel that the benefits realised could be greater if these were more fully consulted on and further clarity provided on the proposals. For example, in "Incentive 2" the parameters against which SONI are to be measured are not clear so it is difficult to assess whether it is appropriate. We believe that industry could add significant value in this area and that a wider consultation should be carried out.