

Jody O'Boyle  
Utility Regulator  
Queens House  
14 Queen Street  
Belfast BT1 6ED

22 January 2018

Dear Jody,

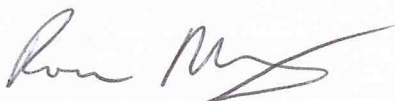
NIE Networks welcomes the opportunity to respond to the Utility Regulator's (UR) consultations on the Requirements and Guidance on Transmission Network Pre-Construction Projects (TNPPs) and on excluded SSS/TUoS costs and the proposed licence modifications for the SONI Price Control Final Determination.

TNPPs are completed jointly between NIE Networks and SONI in accordance with the Transmission Interface Arrangements (TIA). We note that the UR plans to further consult on the TIA separately. However, in developing the proposals for treatment of costs for TNPPs we consider that the roles and responsibilities within the TIA should be considered. It is important that any proposals for cost treatment for TNPPs consider the relevant functions of both companies and regulatory treatment of pre-construction costs in both price controls.

Please find attached a response paper detailing NIE Networks' detailed comments on the Requirements and Guidance on TNPPs consultation paper. We have no comments on the specifics of the licence modification drafting, however our general comments attached are applicable to the suite of consultations.

There are a number of aspects that the UR will have to consider before finalising the treatment of costs for TNPPs and NIE Networks would welcome further engagement to clarify any of the comments put forward in our response paper.

Yours sincerely,



Ronan McKeown  
Transmission Interface Manager

## Requirements and Guidance on Transmission Network Pre-construction Projects and on excluded SSS/TUoS costs– UR Consultation Document

### NIE Networks' Response

22/01/2018

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## 1 GENERAL COMMENTS

- 1.1 While NIE Networks acknowledges that this consultation paper has the objective of developing a framework which will set out a detailed process for SONI to recover its efficiently incurred pre-construction costs, as required by the Order of the Competition and Markets Authority, the paper raises issues of interest to NIE Networks. It is essential that when developing and implementing new regulatory arrangements for one Transmission Licensee, the impact on the other needs to be carefully considered in order to maintain efficient and economical transmission arrangements for consumers in Northern Ireland.
- 1.2 Given that the consultation paper focuses on SONI cost recovery mechanisms, an uninformed reader could get the impression that it is only SONI that undertakes pre-construction activities and incurs pre-construction costs, and that SONI is solely accountable to the UR for the identification and development of projects. The Transmission Interface Arrangements (TIA) sets out roles for both SONI and NIE Networks in the identification and development of projects and so such an impression would obviously be wrong. There is a strong interaction between the transmission licensees in the early stages of a project and care needs to be taken to ensure that unintended consequences are not introduced, for example the introduction of conflicting incentives when developing projects.
- 1.3 NIE Networks will continue to incur pre-construction costs, both on projects which proceed to completion and those which do not. While setting out proposals for recovery of SONI's costs on aborted projects, the paper is silent on how NIE Networks' incurred costs are recovered in relation to projects which are abandoned. What are the UR's proposals for recovery of legitimate costs incurred by NIE Networks during the early stages of developing a project should SONI decide not to take the project to completion?
- 1.4 There are also issues of accountability raised by the paper. NIE Networks' position has consistently been that each Transmission Licensee should be accountable to the UR for its own actions. The consultation paper is proposing new reporting requirements covering, for example:
- Progress and status of TNPPs
  - Project plans
  - Costs and divergences from forecasts, and
  - Project variation requirements.
- 1.5 NIE Networks does not anticipate that SONI should be reporting on behalf of NIE Networks. Can the UR confirm that position?

- 1.6 We note that under the current SONI licence modification consultation there is a proposal to introduce a document called “Requirements and Guidance on Transmission Network Pre-construction Projects”. This document defines the information to be submitted by SONI to the UR. We would suggest it is likely that while some of the information will originate from SONI, some will originate from NIE Networks. Should that be the case then NIE Networks’ information should be submitted directly from NIE Networks to the UR.
- 1.7 NIE Networks would request the UR to consider why two transmission licensees should have different processes and treatment for pre-construction allowances. Pre-construction works are uncertain in their nature and the application of the 50:50 sharing mechanism in the NIE Networks RP6 Price Control would appear not to align with the UR’s proposed treatment of SONI’s pre-construction costs.
- 1.8 NIE Networks recognises that the scope of this consultation paper does not consider the TIA and that a separate consultation will be carried out. However, NIE Networks considers that it is difficult to detail the pre-construction cost treatment without consideration of the roles and responsibilities defined in the TIA for pre-construction activities.
- 1.9 In summary, NIE Networks is keen to ensure that its statutory and licence duties are fully reflected in any enduring project development arrangements introduced as part of this UR consultation paper, including arrangements defined in any SONI licence modifications. It is vital that SONI and NIE Networks can continue to co-operate and carry out their respective duties in an efficient and economical manner.

## SPECIFIC COMMENTS

### Requirements and Guidance on Transmission Network Pre-construction Projects and on excluded SSS/TUoS costs Consultation Paper

#### Section 1

Paragraph	Comment
1.17	NIE Networks notes the paper proposes a future consultation on amendments to the TIA. NIE Networks would welcome early discussion on the UR's proposed approach to the consultation.

#### Section 2

Paragraph	Comment
2.2 (b)	There may be transmission network projects that do not require consents and therefore do not require SONI to carry out any activities between the conceptual design and the commencement of construction. The wording should also be clarified to state, "...responsible for carrying out activities as defined in the TIA, required to progress the project from the conceptual design to, but not including, the construction stage;"
2.3	NIE Networks would like to clarify that transmission development is a responsibility under NIE Networks' Transmission Licence and SONI are responsible for Transmission Planning.
Fig 1	Figure 1 acknowledges that there is a role for NIE Networks in Transmission Network Pre-Construction Projects but is silent on how NIE Networks' costs might be recovered.
Fig 1	Figure 1 shows that where a project has commenced pre-construction but subsequently cancelled, the costs will be recovered through the SSS tariff. In this scenario, how will NIE Networks' costs be recovered?
Fig 1 and 2.9	NIE Networks would suggest that the need for development of the transmission network is not identified through the Transmission Development Plan Northern Ireland (TDPNI) by SONI. The TDPNI is prepared and published by SONI every year with input from the Republic of Ireland TSO and NIE Networks, acting as TO and DNO, and it indicates to market participants the main transmission infrastructure that needs to be built or upgraded over the next ten years. The need for these projects is identified by NIE Networks, SONI and the RoI TSO in the course of their duties, including for example TSO system studies as part of their planning duties and NIE Networks' asset condition assessments under our transmission development and maintenance duties.
2.9	NIE Networks contributes to the process of developing the TDPNI prior to consultation.
2.12	NIE Networks would like to understand the quantum of work envisaged at this stage and whether there is a dependency on NIE Networks to carry out works in order for SONI to complete the pro-forma. If works are required by NIE Networks at this stage, how would they be remunerated?
2.18	Para 2.18 refers to Annex A which sets out the principle steps in the development of a project. NIE Networks' considers that these steps (identification of need, shortlisting of options, option appraisal and selection of preferred option) cannot be undertaken economically and efficiently without the collaboration of the Transmission Owner and the Transmission System Operator. NIE Networks' participation in a fully inclusive process and reporting regime is essential.

Paragraph	Comment
2.18(a)	NIE Networks notes that the initial pro forma application requires SONI to list the options which were considered and to identify the preferred option. NIE Networks considers that under the modern planning regime the preferred option cannot be identified without considerable stakeholder engagement, often incurring significant cost. Perhaps the initial application should be limited to identification of need, consequences of a 'do-nothing' approach and estimations of the costs which will be incurred in identifying potential options, assessment of these alternatives and the selection of the preferred option.
2.18 (b)	NIE Networks seeks clarification on whether or not the estimated costs referred to in this clause are in relation to the pre-construction costs or the entire project and, if the latter, we would suggest these cost estimates can only be indicative. It should be noted that a true cost estimate can only be developed after the preferred option is selected and the pre-construction phase is complete. Also in this section, does the project plan relate to the pre-construction phase? If not, this would also have to be caveated that NIE Networks would require pre-construction works to be completed to have a full and complete project plan in place.
2.21(c)	The paper proposes that if there are changes in the scope and/or costs of the project such that SONI considers it might exceed the budget, SONI can apply for a project variation. NIE Networks would like clarification if this is just the SONI costs of the project. NIE Networks' current pre-construction approvals are ex ante and do not cater for variations. NIE Networks would consider that there should be alignment between the treatment of SONI and NIE Networks pre-construction allowances.
2.28	It is conceivable that, as recognised by Annex 1, paragraph 1.1 of the SONI Licence, NIE Networks may identify a transmission network project which is necessary for developing the Transmission System. For example, in relation to asset replacement. NIE Networks would like to understand how this might be treated if SONI does not secure UR approval. In such circumstances NIE Networks may require a derogation under Condition 19 of the Transmission Licence or an asset replacement project driven by need may need to proceed under the D5 mechanism.
2.29	NIE Networks considers that as there may be an impact on our pre-construction works, that the UR should notify NIE Networks of any approvals/rejections, ahead of publication.
2.31	This clause considers the possibility that SONI could proceed with pre-construction activities ahead of UR pre-approval, but will do so at its own risk. Should SONI do so it could introduce risk for NIE Networks as the TIA may require NIE Networks to also proceed with its pre-construction activities, incurring costs with no certainty of cost recovery. How would NIE Networks' costs be recovered under these circumstances?
2.33–2.42	It is proposed in these clauses that SONI is required to report to the UR separately on each of its approved TNPPs. This could require NIE Networks to produce additional reports to SONI, with a cost implication.
2.43	It is proposed in this clause that in the event that SONI considers that the approved cost cap set for a TNPP will be breached, it may submit an application to increase the cap. Could it be clarified if this solely relates to SONI cost increases? If so, what is the process for NIE Networks under similar circumstances?
2.50	NIE Networks is responsible for the activities described under b, c and d. This information will be included within the Transmission Project Instruction (TPI) and therefore access to the TPI might be the most efficient way for the UR to review this work. This is also discussed in para 2.53.
2.56	NIE Networks considers that as there may be an impact on our pre-construction works, that SONI should notify NIE Networks of any cancellations at the earliest opportunity.
2.67-2.69	NIE Networks considers that a separate approval process for SONI's TNPP costs should be in place and the transfer of costs to be treated exclusively, rather than through NIE Networks' Construction Approval. This will avoid any interdependencies and potential delays in the Construction Approval process.