

NIRIG & IWEA Response to SONI Governance: A Call for Evidence

01 October 2019

The Northern Ireland Renewables Industry Group (NIRIG) and the Irish Wind Energy Association (IWEA) welcome the opportunity to respond to this call for evidence on SONI's governance arrangements.

NIRIG is a collaboration between IWEA and RenewableUK and is the voice of the renewable electricity industry in Northern Ireland. IWEA is the representative body for the Irish wind industry, working to promote wind energy as an essential, economical and environmentally friendly part of our low-carbon energy future. Together we represent a large majority of the renewable industry supply chain on the island.

The Irish government has recently published its Climate Action Plan which sets out an ambitious 70% RES-E target by 2030. While no target has been set for Northern Ireland as of yet, given that the UK has set a goal of net-zero greenhouse gas emissions by 2050, we believe that Northern Ireland will have its own part to play in this and should set a 70% RES-E target for 2030 accordingly.

NIRIG and IWEA strongly believe that close co-operation between System Operators, Regulators, Policy Makers, Generators, and Service Providers will be essential to meeting our renewable electricity ambitions for 2030 and beyond. As such we would have concerns that any strategic or operational separation between SONI and EirGrid would pose a risk to all-island cooperation and would have a negative impact on policy areas that have benefited consumers on the island over the last number of years.

As we operate an all-island electricity system, and electricity is generated and supplied via an all-island market, policy divergences between jurisdictions could pose a risk to the efficient running of the Single Electricity Market (SEM) and to the operation of the all-island system. The consultation notes that EU Exit has the potential to create policy divergences and that the strategic policy direction in NI could differ from that in Ireland in future. If anything, this emphasises the need for closer cooperation and integration between EirGrid and SONI, rather than potential separation. The benefits that have resulted from joint cooperation and integration in operational matters and the co-development of policy areas such as the capacity market, I-SEM and Delivering a Secure, Sustainable Power System (DS3) are shared across consumers on an all-island basis. Misalignment or divergence in policy areas such as these has the potential to impact consumers and market participants in both Ireland and Northern Ireland. As such, we argue that potential divergence and uncertainty in the working relationship between SONI and EirGrid would actually reduce confidence in the policy framework for market participants going forward.

While we feel that SONI and EirGrid are best placed to provide information on the exact details of their operating agreement and staffing arrangements, and any clarifications that may be required to SONI's

licence, the consultation rightly points to synergies that exist between SONI and EirGrid in terms of their strategic direction, sharing of staff and economies of scale which have benefited consumers.

For example, the DS3 programme is an area of all-island co-operation between SONI and EirGrid, with shared staffing and resources, that has facilitated the integration of renewable generation on the island, minimised curtailment and delivered benefits to consumers by helping to reduce wholesale electricity prices. Analysis carried out by Baringa Partners LLP¹ estimates that successful integration of wind in Northern Ireland between 2000 and 2020 will result in a total net benefit to Northern Irish consumers of £135 million, primarily from lower wholesale prices. This analysis also estimates that wind generation avoids 9 million tonnes of power sector CO₂ emissions. DS3 has maintained curtailment levels below 5%, incentivised units to reduce their min-gens and allowed more room for wind on the system, all of which has facilitated this achievement.

DS3 is an extremely coordinated and detailed programme of work across a range of workstreams which would have been difficult, and more costly, to achieve if this had been pursued at an individual TSO level. For instance, close alignment between SONI and EirGrid in relation to technical performance criteria and evaluation, as well as test procedures and signal specifications, for DS3 System Services have been of particular benefit to our members. This close alignment has helped speed up the process of developing suitable control and testing schemes enabling qualified parties to provide system services in both jurisdictions. As we transition into the next phase of renewable integration with a view to 2030 targets and beyond, it is critical that close integration and cooperation between SONI and EirGrid continues at this level.

The Capacity Remuneration Mechanism (CRM) and I-SEM are also examples of policy that have been progressed by SONI and EirGrid under the current framework which are delivering benefits to all-island consumers. For instance, it has been estimated by the Regulatory Authorities that the transition to the CRM for the first T-1 auction saved over €200 million for all-island consumers.

It appears that both TSOs have been able to benefit from leveraging each other's knowledge, expertise and resources in the delivery of policy. As we are a relatively small power system, with a small resource base, it makes sense to pursue efficiencies and optimisation of resources where this can be achieved, rather than doubling up on work areas that ultimately raise costs for consumers.

This call for evidence paper makes a number of assertions regarding "concerns" or "perceptions" raised by unspecified parties in relation to EirGrid dominance over SONI and possible disadvantages for Northern Ireland stakeholders and consumers. This is not the perception of NIRIG and IWEA, or our members. We call on the Utility Regulator to provide details and examples to support the claims made in this paper and we would like to highlight a number of areas in the consultation for particular comment.

1. Treatment of Stakeholders

"When SONI was acquired by Eirgrid concern was expressed that consumers in Northern Ireland must be treated on a fair and equitable basis with their counterparts in Ireland. Moreover, the close

¹ Baringa's 'The Wind Dividend' Report: <http://www.ni-rig.org/wp-content/uploads/2017/02/NIRIG-The-Wind-Dividend-Report-WEB.pdf>

relationship between Eirgrid and SONI since acquisition has given rise to a perception of Eirgrid plc dominance over SONI, and a suspicion that Eirgrid strategy has influenced SONI policies arising, for example, from the frequency with which Eirgrid staff represent SONI in dealings with NI counterparties, including the UR. There is also a perception that this dominance has an impact on pay and industrial relations. Some parties in Northern Ireland have therefore expressed concerns about whether other Northern Ireland stakeholders, including consumers, are being treated on a fair and equitable basis as compared to their counterparts in Ireland.”

NIRIG and IWEA Comments

Again, we highlight that this is not the perception of NIRIG and IWEA or our members. We view SONI and EirGrid as equal partners in the operation and development of the all-island electricity system. Close cooperation and integration between the TSOs have benefited stakeholders and we have already listed DS3, the CRM and I-SEM, as examples of this.

2. Decision Making

“In addition, in the case of SONI and Eirgrid – while, when independent of each other, additional comfort could be derived from the fact that there would be many decisions (particularly those decisions taken in conjunction with each other) in respect of which the actions of each TSO would be subject to highly-informed scrutiny by the other – there is a danger that this scrutiny is lost with Eirgrid ownership of SONI”

NIRIG and IWEA Comments

We argue that EirGrid ownership of SONI and close integration between the TSOs has helped the decision-making process in many cases and streamlined the delivery of policy. Pushing the separation of decision making would be viewed by NIRIG and IWEA as a backward step and lead to delays and inefficiencies in the future. Independence of the kind hinted at above, in the context of Brexit uncertainty and potential strategic misalignment, would only create divergence risks and impact the ability to deliver all-island policy and achieve renewable targets. The implementation of programmes such as I-SEM, DS3 and the CRM, as well as close operational and strategic alignment between SONI and EirGrid, are intended to benefit all-island consumers. It is not the view of NIRIG and IWEA, or its members, that actions taken by one TSO have disadvantaged stakeholders in another jurisdiction. Indeed, decisions and actions taken under the current framework have been for the benefit of all-island stakeholders.

It is also worth noting that SONI already remains independent of EirGrid in a number of areas, i.e. price controls, connection process, grid codes and compliance processes etc.

3. Strategic Direction

“In particular, as the energy transition gathers momentum, Eirgrid ownership of SONI, and in turn ownership of Eirgrid by the Irish government, could arguably have the potential to frustrate government policy in NI in the absence of robust independence arrangements. Practically, this problem could arise, for instance, because the strategic direction of the Eirgrid group is influenced by the direction of policy

in Ireland and SONI is so integrated into the Eirgrid group that it cannot depart from the group direction of travel, or at the operational level cannot create new ways of working with NIE Networks because it does not control the personnel, resources and systems needed to manage the energy transition in NI.”

NIRIG and IWEA Comments

Ireland has a 70% RES-E target and, while a RES-E target hasn't been defined yet for Northern Ireland, it is likely to be ambitious given UK decarbonisation goals. It is therefore important to again emphasise that the all-island electricity system and market are so integrated that policies in both jurisdictions need to align in order to deliver on renewable targets and achieve benefits for consumers. For example, the all-island Rate of Change of Frequency (RoCoF) project is a case of where policy divergence in one jurisdiction would severely impact the ability of the other jurisdiction to achieve policy targets.

The experience of both jurisdictions having the same 2020 RES-E target and using a strong TSO working relationship to act as the critical fulcrum in order to ensure the all-island grid and market could make successful progress towards meeting the 2020 targets is a major success story. All-island cooperation through DS3 has minimised curtailment which has facilitated Northern Ireland meeting its 2020 target ahead of schedule. As we move towards the next challenges of decarbonising the electricity system having this strong fulcrum will be even more important.

4. Shared Resources

“SONI's price control is intended to provide SONI with the resources it needs to undertake its licence obligations. However, this may be undermined to the extent that SONI staff become engaged in matters of specific interest to Eirgrid. Also, the functional model may require SONI to mirror the functional organisation of Eirgrid whereas, if SONI were focussed purely on NI, it is possible that it might have fewer functional /managed streams and fewer senior managers, within a structure in which staff would generally be less specialised”

NIRIG and IWEA Comments

Both TSOs are able to leverage each other's resources which makes sense in terms of efficiencies. However, it doesn't seem possible that SONI would be able to manage as an independent TSO with fewer staff as set out in this paragraph. There are many situations, such as the DS3 programme for example, where EirGrid staff have carried out analysis specifically related to the Northern Ireland system to benefit Northern Irish consumers. Our members are aware of other examples such as in grid connections and in network planning where SONI has been able to leverage EirGrid staff and expertise. It would be useful to understand from the System Operators, what percentage of overlap in responsibilities take place between NI and IE staff. If SONI were to operate in a purely focused NI facility, then the Utility Regulator will need to account for this in the subsequent Price Review period for Northern Ireland and allocate sufficient resources to deliver on the likely ambitious renewable targets for Northern Ireland over the next decade.

Again, we would like to highlight the fact that we are a relatively small system with limited resources and that the sharing of resources and expertise is a sensible approach in this regard. The resources needed by the TSOs are scarce and highly specialised, as such there is a much higher chance of successfully sourcing these resources between EirGrid/SONI.

Call for Evidence Questions:

1. Stakeholder Views on Decision Making in SONI

UR welcomed views on the following:

- *the extent to which the SONI board should have the ability to set strategy and policies for SONI;*
- *whether the SONI board should hold the SONI senior management team to account;*
- *whether the appointment of independent non-executives would be beneficial, including in respect of holding the senior management team to account and in setting SONI strategy and policies;*
- *the matters that stakeholders consider should be within the scope of the SONI's Board's decision making responsibility and why;*
- *the matters that it would be appropriate to be reserved for the Eirgrid plc board, and why; and*
- *the extent to which reinforcing the independence of the SONI Board and ensuring transparency around the scope of delegated and reserved matters would allay any perception that the SONI TSO is less than independent from Eirgrid TSO.*

IWEA and NIRIG Response

It is NIRIG and IWEA's view that it is for SONI itself to provide clarity as to the precise role and authority of the SONI board. However, it is the view of NIRIG and IWEA, and of our members, that actions and decisions taken by both SONI and EirGrid, under the current framework, have benefited all-island consumers. Our position is that this has not been negatively impacted by EirGrid ownership of SONI. Common purposes, values and strategies across both organisations would therefore appear to be a key enabler for the successful all-island cooperation that has taken place so far. Continued alignment going forward will be critical for achieving our decarbonisation goals.

2. UK Corporate Governance Code

UR welcomed views on the following:

- *whether it is appropriate to apply the principles in the Code to SONI, in whole or in part;*
- *the extent to which SONI could already be said to meet the principles contained in the Code;*
- *whether the principles, to the extent respondents consider they should apply, should be codified in the licence or could be implemented on a voluntary basis by SONI.*

IWEA and NIRIG Response

NIRIG and IWEA agree that there should be regular review of governance arrangements and that these should be in line with best practice. As some parties have apparently raised concerns regarding SONI

governance, it may be prudent to have more independent directors on the SONI board in order to ensure that everybody can have complete confidence in SONI governance arrangements. However, this should not be to the detriment of all-island cooperation and SONI/EirGrid strategic alignment. The call for evidence notes that the EirGrid board has a requirement for two independent directors of appropriate standing with extensive Northern Ireland backgrounds. It is also stated that one of these two independent directors would be deputy chair. NIRIG and IWEA would propose that these two independent directors should also be members of the SONI board. We also propose a similar arrangement for the SONI board with at least two independent directors nominated from the EirGrid board, one of which would be deputy chair. It is important to strengthen the linkages between both boards and to ensure strategic alignment across the island is maintained.

3. Transparency and Accountability

UR welcomed Views on the following:

- *whether stakeholders believe transparency in SONI's governance procedures be improved, and if so how; and*
- *whether there are specific areas where information flow could be improved.*

IWEA and NIRIG Response

NIRIG and IWEA, and our members, are strongly of the view that NI stakeholders and consumers are only benefiting from the close working relationship between SONI and EirGrid. This is also relevant for IE stakeholders and consumers. If anything, we feel that SONI/EirGrid have not highlighted enough the benefits that all-island cooperation has delivered. Our members, via direct interactions with SONI on connections and operations of windfarms, have always been strongly aware that SONI view the interests of the NI consumer as paramount. The call for evidence makes reference to parties raising informal concerns regarding SONI's relationship with EirGrid. This is not a concern of NIRIG and IWEA, or our members.

4. Flexibility for Future Arrangements

UR welcomed views on the following:

- *what enablers stakeholders consider will be important for SONI's role in the energy transition, and what barriers to these enablers might exist;*
- *what resources, including SONI personnel and systems will be necessary for the energy transition;*
- *whether local knowledge needs to be retained in SONI or whether this can be contracted in, and the extent to which such knowledge is important now and will be in future;*

IWEA and NIRIG Response

NIRIG and IWEA would generally comment that our members view that SONI and NIE Networks have a relatively good working relationship. We see that day to day in the delivery of grid connections for

renewable generators. It is important that this close and flexible arrangement is encouraged, and the working relationship maintained without resort to rigid formal arrangements which would only result in inefficiencies, increased costs and poorer service to stakeholders. This also holds for SONI/EirGrid working arrangements.

We do not view EirGrid ownership of SONI, or the current working arrangements, as a barrier to Northern Ireland managing the energy transition. As we have highlighted, the ability to leverage highly specialised resources and expertise across both TSOs is a clear benefit of the current arrangements and has facilitated Northern Ireland achieving its 2020 RES-E target. We note the recently launched all-island FlexTech initiative that is seeking to remove the barriers to further renewable integration and is already being progressed collaboratively by the TSOs and DSOs in both jurisdictions. It is important that work such as this is progressed on an all-island basis and we have already noted that it seems unlikely that SONI would be able to manage the energy transition, as an independent TSO, without significant increases in resources. The UR would need to account for this in the subsequent Price Review period for Northern Ireland and allocate sufficient resources to deliver on the likely ambitious renewable targets for Northern Ireland over the next decade. Again, as we are a relatively small power system, with a small resource base, it makes sense to pursue efficiencies and optimisation of resources where this can be achieved, rather than doubling up on work areas that ultimately raise costs for consumers.

5. Questions for SONI

UR welcomed views from SONI on the matters raised in the call for evidence.

IWEA and NIRIG Response

No comment.

Conclusion

NIRIG and IWEA strongly believe that close co-operation between System Operators, Regulators, Policy Makers, Generators, and Service Providers will be essential to meeting our renewable electricity ambitions for 2030 and beyond. As such we would have concerns that any strategic or operational separation between SONI and EirGrid would pose a risk to all-island cooperation and would have a negative impact on policy areas that have benefited consumers on the island over the last number of years. As we transition into the next phase of renewable integration with a view to 2030 targets and beyond, it is critical that close integration and cooperation between SONI and EirGrid continues at current levels.

The call for evidence makes a number of assertions regarding “concerns” or “perceptions” raised by unspecified parties in relation to EirGrid dominance over SONI and possible disadvantages for Northern Ireland stakeholders and consumers. This is not the perception of NIRIG and IWEA, or our members. We call on the Utility Regulator to provide details and examples to support the claims made in this paper. We also propose that an external audit is performed on areas of particular concern to the Utility Regulator, that would be transparent to stakeholders, and which would investigate some of the claims made in this paper in a fair and impartial manner.

Finally, we wish to thank the Utility Regulator for offering NIRIG and IWEA the opportunity to engage with you on this call for evidence.

If there are any comments or queries in relation to our feedback, please let us know.

Best Regards,

A handwritten signature in blue ink that reads "Steven".

Steven Agnew
Head of NIRIG

A handwritten signature in blue ink that reads "Noel Cunniffe".

Noel Cunniffe
Head of Policy, IWEA