



**Response to Utility Regulator Corporate Strategy 2014-19  
and Forward Work Programme 2014-15**

**20 February 2014**

## **Introduction**

SONI welcomes the publication of the Utility Regulator's (UR) draft corporate strategy and the associated opportunity to contribute towards its further development. SONI is licensed as Transmission System Operator (TSO) and Market Operator (MO) for Northern Ireland. It is owned by EirGrid plc, the licensed TSO and MO in Ireland. This response is prepared in the context of the role of the Utility Regulator in regulating all aspects of the SONI business and that of its affiliates, whether specifically in Northern Ireland or across the island of Ireland through the exercise of its functions through SEM Committee.

The Utility Regulator has faced significant challenges in preparing this strategy given the complex statutory framework and wider environment within which it operates. This includes the need to balance the competing priorities associated with protecting consumers in Northern Ireland not only in their immediate local environment, but also in their wider position within the UK, in an all-island context and with continually evolving EU policy requirements. Whilst your cross-sectoral role adds further complexity to these challenges that you face, it also provides opportunities for synergies and facilitates benefits that would not be achievable in a more fragmented regulatory environment.

We welcome the identification within your strategy of the outcomes that you are aiming for through your work over the period up to 2019. It is real and measurable outcomes which will ultimately deliver benefits. This provides industry with an insight into the goals that you hope to achieve, not only through your own activities, but also through the activities that (while undertaken by others) are facilitated and incentivised by your organisation.

### **SONI as an enabler of delivery**

We note that there is significant commonality between the outcomes that you will progress over this period and the services that we are mandated to provide, either through statute, our licence or other approved codes. In particular, we are responsible for:

- Optimisation of the electricity transmission network and energy balancing costs;
- Innovation in the transmission of electricity through the DS3 programme<sup>1</sup>;
- Implementing compliance with EU electricity market integration requirements;
- Facilitating and advising in relation to long term security of supply in electricity generation;

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<sup>1</sup> Given the importance of DS3 in facilitating the integration of renewables we believe it should be explicitly acknowledged and considered in the finalised Strategy document.

- Increased utilisation of electricity generated from renewable sources.

From this, it can be seen that SONI will provide a significant contribution towards five out of the ten outcomes listed in the summary of your strategy document. We strongly welcome the UR's recognition in this document that a "collaborative and cooperative" approach is essential for the delivery of this strategy. We each have our respective roles, however we equally are committed to working with your office in this manner and believe it is vital for the delivery of these outcomes in the time available.

### **Planning for the Future**

Whilst we welcome the clear direction set by this strategy document we are equally cognisant of the need for flexibility that may emerge as policies are reviewed towards the end of this period. This will be particularly relevant when Northern Ireland begins to move beyond the delivery of the SEF and onwards towards the EU vision for 2030. Energy is a long term and capital intensive industry. Investment decisions taken today may, given both their scale and the consenting process take many years to realise; furthermore they would be expected to last many decades into the future.

We must plan for this future whatever the uncertainties about the precise scope and evolution of policies and the policy environment today. To that end the third pillar of your strategy is welcome but should go beyond looking solely at long term security to also consider the direction of travel in relation to wider aspects such as renewables policy and delivery of a flexible and fit for purpose generation portfolio and network infrastructure.

### **UR – A Best Practice Regulator**

We welcome your commitment to continue to strive for best practice in regulation. While it is helpful to learn from other UK regulators, we also encourage you to continue to be mindful of the special circumstances within which we work here in Northern Ireland.

We believe that the principles stated by the Department for Business, Innovation and Skills in April 2011 should also continue to be reflected in your approach to delivering your strategy. Of particular relevance in the context of delivery is the principle of efficiency, which BIS describes as "policy interventions must be proportionate and cost-effective while decision making should be timely and robust". Timely and robust decision making and proportionality in your approach to regulating should be at the heart of everything you do.

Your internal approach to efficiency will impact on us both in our role as a delivery partner and that of licensee. As you move forward into delivering your strategy, we trust that you will maintain the balance shown in this strategy document, and that it will be translated into a coherent approach and efficient allocation of resources between routine regulation and project activities.

## **Response to Specific Questions**

### **Question 1 Do you think we have chosen the right strategy objectives?**

We agree with the objectives stated in your draft strategy; these reflect an appropriate balance between the competing pressures that you face. It will be important that this balance is maintained throughout the period to avoid any unintended consequences that would emerge if one aspect were to be prioritised ahead of the others.

For example, it is important that electricity network costs continue to be set at a level that reflects not only the benefits that current customers receive from the assets, but which also reflects the value to future customers, minimises the costs associated with network constraints, ensures the long term security of supply and facilitates achievement of the renewable energy targets. Following the transfer of the investment planning function from NIE to SONI in line with the requirements of IME3, SONI will have a unique overview of the wider implications of investment decisions, including those in the wholesale market, and we work with you to ensure that an appropriate balance is maintained across your three objectives.

### **Question 2: Have we identified the most important strategy outcomes, are there others that we should have included?**

We agree with the overall outcomes that you have identified, however some of the outcomes overlap across your three objectives. One example is the regional electricity market, which is a key outcome for Objective 2 (competitive and efficient markets) and also contributes towards the outcomes listed under Objective 3, including long term security of supply and the renewable energy targets. We consider it essential that the interdependencies between your desired outcomes are reflected in your approach to delivering this strategy.

### **Question 3: What are your views on our key performance indicators, do you have any suggestions on indicators that should have been included?**

We welcome the inclusion of KPI's within your strategy, however we note that some of these will be more straightforward to measure and report on an ongoing basis than others. As many of your desired outcomes will be delivered by the regulated companies, it is essential that monitoring and reporting of these KPIs is focused on facilitating improvement, rather than becoming a disproportionate burden on both your resources and those of the companies that you regulate.

We would welcome early engagement with you to identify any impact that reporting will have on our business processes.

**Question 4: Do you have other comments or material suggestions that you would like to make about the document?**

As stated above, it would be helpful if your final strategy document referred to how you will implement the Principles of Economic Regulation established by the Department for Business, Innovation and Skills in April 2011.

Given the challenging nature of the outcomes that you will work towards over this period, we consider it essential that the allocation of the resources available to you reflects the strategic outcomes that you desire. Therefore the approach to routine regulation should be consistent with the wider outcomes that you aim to deliver and micromanagement and any associated micro-reporting should be avoided. It would be helpful if your final document clarified how you will ensure an appropriate approach to ongoing routine activities that is consistent with the outcomes that you are working towards.

**Question 5: Have we identified the right projects or have failed to include certain projects;**

SONI is a key delivery partner for two of your flagship projects (19 and 26), and we welcome the importance that you attach to these projects. We hope that SONI and the UR can work together in a constructive way that delivers the desired outcomes in an efficient and effective manner. To this end, we are currently working together to document the approach and ways of working that will be required to deliver the new wholesale market arrangements, and look forward to presenting this to the SEM committee.

We note that North-South interconnector only appears on your FWP in the context of security of supply. It is also essential to deliver other outcomes that you desire, such as efficient and effective competition in the electricity wholesale market and the achievement of the NI Executive's renewable energy targets. Given the significance of this project to all consumers, and its key role in delivering your statutory objectives, we would have expected it to be given greater prominence in your FWP and would expect it to have the status of a project in its own right. This should be reflected in the final version of the document.

The DS3 project is also vital for the delivery of the NI Executive targets for renewable energy. The UR will be required to make key decisions as part of this process during the coming year. This is a complex area with significant implications. The priority that the UR gives to these decisions should be reflected in the final version of the FWP.

We have one point of detail to make on your list of projects. We are surprised that project 15, contestability in connections, is limited to distribution connections only. Your recent decision paper on offshore connections refers to both transmission and

distribution connection in this context. We would have expected any limitations or prioritisations within the contestability space to have been consulted upon.

**Question 6: Do you have any other general comments on the draft FWP**

We note that currently your FWP contains a large number of retail market projects. Issues for end users are often the outworking of policy decision made earlier in the supply chain, for example in the wholesale market or networks context. As this strategy is implemented, we would expect that the more joined up approach you are adopting will deliver efficiencies and that the balance of your workload will shift towards strategic oversight.

In recent days the UR has announced the reorganisation of the organisation to align closer with these key objectives. It is important that in the matters discussed above are addressed as part of this reorganisation.