

# SONI Ltd Response

## Utility Regulator's Draft Corporate Strategy 2019-24 Consultation

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30 January 2019



# Introduction

SONI Ltd (SONI) is licensed as Transmission System Operator (TSO) and Market Operator (MO) for Northern Ireland and is owned by EirGrid plc (the licensed TSO and MO in Ireland). We operate a safe, secure and reliable power system in Northern Ireland and have managed record levels of renewable generation on the system in recent years.

SONI welcomes the Utility Regulator's review of its current five-year corporate strategy in order to inform its strategy for 2019-24, particularly in the context of a fluid, challenging and currently uncertain energy arena. We see the Utility Regulator's next five-year strategy as a constructive step towards providing regulatory strategic direction for the short-medium term which also supports longer-term developments. We encourage the Utility Regulator's intent to adopt regulatory best practice with the aim of ensuring a regulatory regime which is predictable and which minimises uncertainty. We are committed to working with the Utility Regulator's office in order to deliver the outcomes anticipated.

The EirGrid Group of businesses, which in addition to SONI Ltd includes EirGrid plc and EirGrid Interconnector Designated Activity Company (EIDAC), is currently also developing its own strategy for the 2019-24 period. The SONI component of the Group strategy could become a key focus for Northern Ireland during a period of political uncertainty, both on a domestic and European level, as recognised by the Utility Regulator. Our strategy will encapsulate feedback and input from the Utility Regulator, remaining cognisant of the need to align objectives for SONI with those of the Utility Regulator, insofar as possible, and to ensure that desired outcomes for Northern Ireland consumers are achieved.

In its draft Corporate Strategy for 2019-24, the Utility Regulator has outlined its strategic objectives, key outcomes, key success measures and the regulatory approach which will be promoted to enable achievement of the strategy. The Utility Regulator has specifically asked for views regarding a number of considerations. These include:

- Whether it has taken account of key strategic issues and context in developing its draft strategy;
- Its proposed strategic objectives, key outcomes and success measures; and
- Any other significant relevant issues or suggestions that it should be aware of in finalising its draft corporate strategy.

Within this paper, SONI has responded to each of the above. Our responses have been prepared in the context of the role of the Utility Regulator in regulating all aspects of the SONI businesses and that of its affiliates, whether specifically in Northern Ireland or across the island of Ireland through the exercise of its functions as part of the SEM Committee.

# SONI Ltd Response

## Key strategic issues and context

As a general observation, the Utility Regulator's draft corporate strategy illustrates the multiple challenges and issues which need to be addressed across each of the utility sectors which the Utility Regulator regulates while addressing the social, economic and environmental considerations of the strategy. We appreciate that discussions regarding the UK's exit from the EU are ongoing and are not likely to have concluded before the Utility Regulator is finalising its Corporate Strategy; however, we are encouraged that a number of key themes were discussed with stakeholders to influence the new strategy which cover a wide range of dynamics in spite of political uncertainty.

Notably, the Utility Regulator's Draft Corporate Strategy has had to be prepared in the absence of an energy framework for Northern Ireland beyond 2020. SONI, like the Utility Regulator, has been an advocate for progressing such a framework. We are reassured that the Utility Regulator has been regularly engaging with the Department for the Economy in order to remain involved and informed of any proposals. Clear strategic direction is paramount for the regulated utility entities in Northern Ireland in order to plan and manage effective and efficient utility services.

Although not alone in its concerns, the absence of an Executive for Northern Ireland has had a detrimental impact on planning decisions for key infrastructure projects which SONI is involved in and has been affected by. This has been recognised in the Utility Regulator's Corporate Strategy and we welcome further initiatives to help progress these necessary programmes of work. We are particularly enthused by the proposals that, in terms of revised regulatory approach and outcomes in the medium- to long-term, the Utility Regulator notes that *'this may mean that we become more aware of, and responsive to, changing expectations and position ourselves much more as an enabler in delivering a transformative agenda'*. Commonality of objectives and a concerted joint effort amongst key stakeholders will be paramount to realising implementation of key projects to fruition.

In terms of Northern Ireland consumers, SONI recognises that consumer interest in energy has increased with a more developed understanding of energy efficiency and sustainability. However, we consider that significant knowledge gaps still exist in terms of critical roles and underlying value placement for the services received. We are encouraged that in its draft corporate strategy, the Utility Regulator has acknowledged the need to better inform consumers to help them participate in utility markets (under Objective 1), the initiative to carry out price control reviews to make sure that network costs are efficient (under Objective 2) and the desire to achieve an outcome of greater customer focus for all network utilities (under Objective 2). SONI agrees that each of these components are important, and we note that it is of equal importance that

consumers only pay what is necessary for the services they receive. However, commercially viable and financeable arrangements are required through regulated price controls in order to ensure that the deliverables expected from relevant regulated entities are practically and financially feasible.

## **Proposed strategic objectives, key outcomes and success measures**

SONI acknowledges that the Utility Regulator's three strategic objectives for 2019-24 differ from those set for 2014-19. SONI welcomes such revision, particularly the focus on empowering consumers and enabling 21st century networks, security of supply and a low carbon future. In our view this evidences an implicit appreciation by the Utility Regulator of evolving attitudes and behaviours, and also recognises the fast pace of change in the energy industry.

Two-thirds of the Utility Regulator's key success measures to achieve key outcomes relate to SONI in either its capacity as TSO or MO for NI. Given this magnitude we have responded to each of the Utility Regulator's three strategic objectives in turn:

### **(1) Promoting markets that deliver effective competition, informed choice and fair outcomes**

SONI supports this objective. We welcome the components highlighted by the Utility Regulator to enable achievement of this objective and note that key success measures include enhanced market analysis and monitoring, increased efficient deployment of interconnector flows evidenced by harmonisation across the interconnectors between GB and the SEM, and efficient wholesale energy prices that benchmark favourably with comparator markets.

The 2014-19 period undoubtedly experienced many successful outcomes, including Go-Live of the new wholesale single electricity market (referred to as the 'I-SEM') on 1 October 2018 after a number of years in development and introduction of the capacity market to provide a basis for managing long-term security of supply risks. The I-SEM project was a complex undertaking with collaborative effort by the Utility Regulator, SEM Committee, SONI Ltd and respective counterparts in Ireland. We are confident that a continued cooperative approach to see through implementation of the new market arrangements will allow the Utility Regulator's objective to be achieved.

### **(2) Enabling 21st century networks**

The UR's corporate strategy paper notes that it will achieve this objective by carrying out price control reviews to make sure that network costs are efficient, and by making sure that the regulatory framework facilitates innovation and development by network utility companies.

SONI will be subject to a price control review process for the next TSO price control (which is due to commence in October 2020 and will therefore span much of the 2019-24 corporate strategy period), with engagement having already commenced. Any investment decisions within the SONI 2020 price control will be informed by the Utility Regulator's final corporate strategy and the wider legislative and regulatory framework. We are therefore encouraged that the Utility Regulator notes facilitation of innovation as an enabler of achieving this objective. This in itself will require a change in regulatory approach and further clarification about how such changes will be driven/ accommodated to achieve value and favourable outcomes for NI consumers would be worthwhile noting in the Utility Regulator's final corporate strategy.

It is also important in achieving this objective that the UR ensures that regulated companies can finance their activities and innovate effectively; this is not explicitly recognised in the draft corporate strategy but is a vital component of network development and management. SONI is committed to working with the Utility Regulator to aid with the realisation of key success measures such as delivery of innovation plans as part of the price control review and publication of cost and performance reporting.

### **(3) Enabling security of supply and a low carbon future**

We welcome the key success measures of this objective which include increased levels of renewable generation and facilitating the delivery of the second north-south interconnector. We also recognise that planning permission decisions, outside of the Utility Regulator's remit, are required for key infrastructure projects such as the North-South Interconnector and the Belfast Power CCGT project. It is, however, important that the industry has the Utility Regulator's assurance of support and commitment to facilitate such decisions.

The EU's Clean Energy Package sets strategic direction for renewables, including a focus on utilising innovative technologies to support the growth of renewables. DS3 (Delivering a Secure and Sustainable Electricity System) is a world leading project (conducted by SONI in Northern Ireland and EirGrid in Ireland) which led to an increase of non-synchronous penetration of intermittent generation on the transmission system from 50% to 65%. We are planning a further evolution of DS3 System Services that sets a clear path to the early 2020s. This will allow us to test new methods of integrating larger amounts of electricity from renewable sources. SONI will continue to work with the Utility Regulator (and with EirGrid and CRU in Ireland) to aid achievement of this objective. We would encourage an acknowledgement of the need for ambition to further enable security of supply and a low carbon future in the Utility Regulator's final corporate strategy so that the NI power system can undergo further transformation. To achieve this, additional investment in the operation of the system will be required.

A key workstream for SONI during the period spanning the Utility Regulator's corporate strategy will involve the development of future energy scenarios for Northern Ireland. This exercise will help to inform strategic thinking with stakeholder feedback on the

energy landscape over a longer period than 2019-24; the scenarios will illustrate a range of credible themes and developments with an increasing importance on decentralisation and decarbonisation. SONI will regularly apprise the Utility Regulator of key information which may help to contribute to fulfilment of its own objectives.

<p><b>UR Strategic Objective 1.</b> Promoting markets that deliver effective competition, informed choice &amp; fair outcomes</p>  <p><b>SONI Inputs to UR Key Success Measures:</b></p> <ol style="list-style-type: none"> <li>4. Enhanced market analysis and monitoring in place facilitating consumer protection, assurance of compliance and enabling enforcement as necessary</li> <li>5. Increased efficient deployment of interconnector flows evidenced by harmonisation across interconnectors between GB and the SEM</li> <li>6. Efficient wholesale energy prices that benchmark favourably with comparator markets</li> </ol>	<p><b>UR Strategic Objective 2.</b> Enabling 21<sup>st</sup> century networks</p>  <p><b>SONI Inputs to UR Key Success Measures:</b></p> <ol style="list-style-type: none"> <li>1. All network utilities deliver asset management strategies and long-term network development plans</li> <li>2. Innovation plans are delivered as part of price control reviews</li> <li>3. A review of electricity network tariffs is completed</li> <li>6. Cost and performance reports are published for all network utilities</li> </ol>	<p><b>UR Strategic Objective 3.</b> Enabling security of supply and a low carbon future</p>  <p><b>SONI Inputs to UR Key Success Measures:</b></p> <ol style="list-style-type: none"> <li>1. Level of investment in renewable generation to support Govt. targets</li> <li>2. Increased level of renewable generation, meeting electricity demand</li> <li>3. Facilitate the delivery of the second north-south interconnector</li> <li>5. Along with the Dept. for the Economy, Clean Energy package requirements are met by 2024</li> <li>6. Sufficient generation is secured to meet demand through the SEM Capacity Remuneration Mechanism</li> </ol>
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## Other comments

In order to provide certainty and plan effectively to achieve key objectives, it will be important to set realistic timeframes for attainable outcomes. It would be helpful if more detail could be provided in the final corporate strategy. In addition, strategic goals should be prioritised as necessary, and we appreciate that this may be on a fluid/reactive basis. We welcome the Utility Regulator’s acknowledgement that it may need to adjust its approach to keep up-to-speed with consumer expectations, anticipate change and respond to the next Strategic Energy Framework. Making connections between stakeholders and detecting linkages between key workstreams to support a strategic approach should aid favourable outcomes.

We note that the Utility Regulator’s draft corporate strategy has been prepared with an indication of directorate responsibilities. From our perspective as both TSO and MO for Northern Ireland, it would be beneficial if the Utility Regulator could identify where cross-

directorates working might be necessary to ensure that communication flows and decision-making are optimised.

As a general comment, SONI as the TSO for NI is the system architect of the NI power system which can/ will facilitate more efficient energy use and democratisation while maintaining secure power systems. We are keen to build on our working relationships with the Utility Regulator, SEM Committee and Department for the Economy to aid realization of the right outcomes for Northern Ireland consumers.