

NIE Networks Proposed Transmission Licence Modifications

Response from SONI Ltd.

20 October 2015



Introduction

SONI welcomes the opportunity to respond to NIAUR's consultation on its proposed modification to NIE Network's licences. Given the recent re-allocation of responsibilities between SONI and NIE Networks, it is timely this consultation provides a chance to ensure that the outworking of that process feeds into the calculation of NIE Networks' revenues and the associated forecast submissions to be provided under both NIE Networks and SONI's Transmission Licences.

We present this response across four sections:

- First we summarise our key points;
- Secondly we highlight some apparent inconsistency between the proposed modifications to NIE Networks Transmission licence and the current allocation of responsibilities between NIE Networks and SONI around planning the transmission network;
- Thirdly we consider the practical implementation of some aspects of the proposed modifications, notably in regard to the interface between SONI and NIE Networks;
- Finally we make some general observations and request clarification of some issues that are also relevant to SONI.

SONI's comments focus on the proposed modifications to NIE Networks' transmission licence only.

Key Points

SONI would like to raise the following important points with regard to the proposed modifications to NIE Networks' transmission licence:

- Under the revised arrangements the submission of the transmission investment plan is the responsibility of SONI [proposed paragraph 12.24]. This is already a requirement under SONI's transmission licence, and duplication in NIE Networks' licence creates ambiguity around responsibility for transmission planning;
- Payments made by NIE Networks to SONI under section N of the TIA are not referenced in Annex 2, clarity around the treatment of these costs would facilitate the timely delivery of investment projects, however the detail of this arrangement is a matter for NIE Networks and NIAUR;
- The timeline specified for the calculation and approval of transmission tariffs [paragraph 12.7] does not align with the processes that SONI is obliged to follow to meet the requirements of regulatory decisions for generator and supplier TUoS tariffs. Reconsideration of this would be helpful;
- Overall the arrangements (particularly those outlined in paragraph 4.37) should aim to facilitate the development of the transmission network for the benefit of consumers. Clear accountability and seamless interactions between NIE Networks and SONI, including those defined in these licences, can contribute to this.

Transfer of Responsibilities

Timeline

It is our understanding that the Competition Commission (CC) delivered its final determination to NIAUR on 26 March 2014. Two days later, on 28 March 2014, NIAUR approved modifications to NIE Networks' and SONI's licences and the Transmission Interface Arrangements (TIA) between the companies. Therefore, it is clear that the CC determination reflects the previous industry structure. This means that some aspects of the proposed modifications do not align with the reallocation of responsibilities, effective from 1 May 2014.

Responsibility for Transmission Investment Plan

Under the revised TIA and Condition 33 of SONI's Transmission Licence, responsibility for the Transmission Investment Plan rests with SONI, consistent with Article 22 of the IME3 Directive. SONI also has the right to request amendments to the Transmission Asset Replacement Plan; including the option of referring a dispute to NIAUR for determination if NIE Networks does not agree to any request.

Therefore proposed paragraph 12.24, duplicates the obligation in SONI's licence and creates ambiguity around responsibility for and ownership of the plan. SONI would therefore like to take this opportunity to request a meeting to discuss these concerns and seek clarification of responsibility in this regard. It is important that these modifications are aligned with the role of the TSO under the arrangements approved on 28 March 2014.

Payments under Section N of the TIA

Under Section N of the revised TIA, NIE Networks is required to pay SONI's costs¹ associated with project development. This requirement is not referenced in the proposed Annex 2, which could result in complications/delays when these costs are invoiced by SONI. NIE Networks and NIAUR should therefore consider how these can be reflected in the final algebra within the Annex.

Allowed Capex for Transmission System Capacity or Capability

SONI has concerns about the consistency of the proposed paragraph 4.37 with SONI's obligations under statute, licence and the TIA. Our understanding is that SONI will instruct NIE Networks to undertake projects, through a Transmission Project Instruction.

¹ TIA Section N, paragraph 3

It would be helpful if the wording of this paragraph is updated to reflect SONI's role and the TIA more accurately.

Not all of the information specified to be provided under this paragraph is within NIE Network's remit; therefore SONI does not consider it appropriate that NIE Networks is provided with editorial control over it. To ensure consistency with the arrangements post 1 May 2014, it would be beneficial if the requirements specified in Annex 2 were limited to information that NIE Networks produces itself and can therefore be held accountable for. NIAUR should liaise directly with SONI to obtain the information that SONI is responsible for.

Under the revised TIA, SONI has the ability to request amendment to or augmentation of the Asset Management Plan. It would be pragmatic for paragraph 4.37 (b) of Annex 2 to reflect this.

Practical Implementation

Tariff Process

The timeline specified in proposed paragraph 12.7 does not align with the processes that SONI is obliged to follow to implement RA decisions^{2,3} associated with the allocation of NIE Networks' transmission revenue between customers. These processes take a number of months to complete before approval and publication of SONI's TUoS charging statement. For supplier charges, this statement needs to be published more than one month before it comes into effect. We ask that this paragraph is revised to reflect the actual timelines followed under the annual tariff process. We will be happy to work with you to identify the time required.

Specific Project Allowances

We note the list of projects in Table 7 and that the revenue that NIE Networks will receive for these projects will be fixed, assuming that the scope of the final project (as determined by SONI) is equivalent to that considered by the CC. Therefore, SONI requires information about the scope of work included under each scheme, as this pre-confirmed cost will need to form part of our economic appraisal of alternative options. We will also require guidance about how the equivalence of scope is to be determined, given that SONI is now responsible for specifying the content of each scheme.

Equal Treatment of Costs

While the remainder of the annex focuses on applying a test of "not demonstrably wasteful or inefficient", paragraph 4.36 appears to propose to employ a different standard to determine NIE Networks' entitlement. No explanation is provided for this different treatment.

Three factors already limit NIE Networks ability to influence the cost of these projects:

- It has a very limited ability to influence the design of the schemes through the TIA;
- It is obliged to follow specific procurement processes under legislation;
- Under the TIA and D5 processes, it will be requesting funding for construction works after tenders have been received.

We therefore are concerned that this introduces further risk to the advancement of critical transmission investments, which could result in unnecessary delays to the projects and costs to customers. Concerns about the design of the scheme should be

² NIAUR decision on Supplier TUoS tariff methodology

³ SEM Committee Decision on Locational Signals in Generator TUoS tariff methodology

addressed to SONI as early as possible in the process, rather than to NIE Networks at the point of construction approval.

Process for Issuing Directions

Annex 2 introduces a number of opportunities for NIAUR to issue directions. Some of these could potentially impact on SONI as TSO. We therefore ask that it is clarified in the annex that directions will only be issued following consultation with all affected parties.

General Observations

Definitions

We have two observations on the proposed definitions in Annex 2.

- **Use of hyperlinks:** the use of hyperlinks in a licence, particularly where the linked document is updated on a regular basis, is unlikely to be sustainable. Overall, it might be simpler to remove these links for the final modifications to avoid confusion in the future.
- **Transmission Charges:** As NIE Networks does not invoice suppliers or generators for use of the transmission system, it would be helpful if the definition of Transmission Charges cross referenced the charges paid by SONI under condition 22 of NIE Networks licence.

Depreciation Profile

As SONI will be assessing the impact of new transmission investments on customers, it would be helpful if NIAUR would clarify the depreciation profile that will be applied to new investments. Is the 3% listed in table 5 intended to continue until these investments are fully depreciated (a 33 year life) or is the stepped profile over 40 years expected to continue?

Disapplication

The text included around disapplication is based on the “as consulted” version of the modifications to implement the Licence Modifications and Appeals Regulations. We assume that this will be updated to reflect any changes that result from that consultation process, otherwise please refer to our comments made in response to that paper, as we understand that NIAUR aims to make consistent changes to all relevant licences, including SONI’s.

Conclusion

SONI is keen to ensure that:

- the modifications are aligned with the revised responsibilities under the IME3 Certification process including the updated TIA; and
- the processes created by the modifications are workable.

To this end, SONI is happy to discuss the points made in this response,