

NORTHERN IRELAND ELECTRICITY LTD PRICE DETERMINATION

Summary of hearing with SONI held on 8 July 2013

Background/opening remarks

1. SONI told us that its role was as the electricity transmission system operator and market operator for Northern Ireland. Up until 2009 SONI was a subsidiary of Northern Ireland Electricity (NIE). It was then purchased by EirGrid—the equivalent system operator and market operator in the Republic of Ireland.
2. SONI employed about 110 people which included about 20 people working on its market operator function. SONI's system operator income was derived from a 'system support service tariff' which was set and approved by the regulator.
3. SONI had two licensed activities: one for its system operator activities with the current price control concluding in 2015 and a separate licence for its market operator activities which had a separate price control that concluded on 30 September 2016. Its all-Ireland market operator activities were regulated jointly by UR and CER, each exercising their respective functions through the SEM Committee.
4. One of SONI's key challenges was to run a relatively small electricity transmission system with increasing amounts of renewable generation, mainly wind. The amount of wind generation it could currently allow on to the system would be up to 50 per cent of system demand at any time. SONI was engaged in a programme to raise the figure to 75 per cent. SONI considered that if it could achieve the 75 per cent figure, then the 2020 40 per cent target for demand met from renewable generation could be met.
5. SONI had formal links in with other organizations; with NIE, through the 'Transmission Interface Agreement', with the Power NI Power Procurement business, which was previously part of NIE and was now part of the Viridian Group, and also with generators. SONI also operated the Moyle Interconnector with Scotland through an Agency Operating agreement and it had a number of agreements with EirGrid through which it operated other functions, including market operator functions.

Planning powers

6. SONI was entering into a process with NIE and the regulator to agree a definition of the planning function to align with the European Commission's determination on the certification of SONI as a TSO and the decision to transfer the investment planning function from NIE to SONI. SONI indicated that alignment with the model and functions carried out by EirGrid in the Republic of Ireland, closer alignment being contemplated by the European Commission decision, would reduce boundary issues to the benefit of customers.
7. The European 'Third Energy Package' was the main driver for SONI taking over planning functions. SONI would take the opportunity to engage with the regulator on various aspects of the Third Energy Package, in relation to the process leading to SONI acquiring the planning function. The Regulator had proposed that SONI would take over the planning function by April 2014. Since the NIE new price control would run up until 2017, NIE would have taken many investment decisions by April 2014. When SONI took over responsibility for the investment planning function it would then

review NIE's proposals to determine appropriate investments. SONI would need an amendment to its price control to allow it to discharge the investment planning function.

8. SONI accepted that there was still uncertainty over investment decisions made before SONI assumed its planning functions. Where projects were underway there would be limited opportunity to influence these. It was not clear what would happen if its view on investment decisions for the rest of the control period was substantially different from what had been agreed for NIE in this determination.
9. SONI noted there were potentially difficulties arising from SONI planning the transmission network and NIE the distribution network. SONI had identified the transmission roles it would like transferred to it for the benefit of customers in Northern Ireland. SONI was able to view investments in a holistic fashion to make sure it was prioritizing expenditure based on as strategic a view as possible.
10. SONI had gone through a period where it had been difficult for it to get a clear view of NIE's investment plans. SONI believed the process NIE went through to produce submissions for the RP5 price control had created a focus on what needed to be done and had given it a clearer view of what NIE's proposals were for the next five years. SONI noted there were a number of special protection schemes and arrangements in place on the understanding that a specific investment would be made to remedy the system limitation. It was concerned about how the multiplicity of special protection schemes would react with each other and whether there would be unintended consequences if investments were not made in a timely manner.
11. SONI said that there had been clearly identified corridors of weakness on the Northern Ireland network which were, to an extent, inhibiting connection of generation. In Fund 3, restricted areas were identified and there had been plans for them to be remedied, but the whole process had been delayed. The Fund 3 cost benefit analysis was only carried out very recently and this was the first time SONI was invited to provide an input into the cost benefit of the proposals.

Investments in the transmission network

12. SONI's objective was to make sure that any transmission development was undertaken in a cost-effective and timely manner. If that was achieved by NIE as the transmission owner SONI believed competitive pressures on costs would be useful. If it were the case that SONI could go to somebody other than NIE to do the job, it would issue a contract or tender for the particular project and then once the project was completed NIE would take ownership of the asset and SONI would continue to operate it.
13. SONI said that at present there was no contestability for any transmission asset installation in Northern Ireland. It thought that having the ability to offer transmission works on a competitive basis would benefit the overall industry model in Northern Ireland.
14. SONI told us that it was effectively a requirement, as part of the European Commission decision, that arrangements be put in place to facilitate the involvement of other parties to provide transmission services in the event that NIE were not in a position to provide them, or not providing them to a satisfactory standard.

Renewable energy/Fund 3

15. Because of the Government's 40 per cent target there had been a rush of applications for connection to the system. All applications had to be provided with a connection offer and this led to a requirement to develop the network in line with the market's expectation that the infrastructure be available.
16. SONI believed that the growth in renewable generation would have a significant impact on the transmission network and that NIE's proposals demonstrated the extent of the upgrades and new builds required. The mechanisms used in Fund 3 did not support the longer-term objective of having a system in place that would accommodate those applying for connection. Fund 3 seemed to envisage approving projects on a one-off ad hoc basis rather than having a strategic plan of investment in the transmission network. A more coordinated strategic approach was needed. It thought that a longer-term plan to handle investments was needed (as applied in the Republic of Ireland).
17. SONI also said that there was uncertainty around the optimum mix of renewables and it almost seemed that the approach adopted by the regulator was one waiting for 'something to turn-up' to achieve the target with less investment.
18. SONI expressed concern about uncertainty in transmission and investment planning and was worried that a catch-22 situation could develop as a result of insufficient clarity as to the medium-term investment plans in Northern Ireland (ie generation would not go in without investment in transmission and distribution and consequently the lack of investment would appear to have been justified). However, it recognized there were issues around who should bear the risk, eg of stranded assets.
19. The problems around the investment strategy arose from both the regulator and NIE. SONI believed that the regulator had deployed a new language around how projects were to be justified and NIE had found it difficult to translate its engineering plans into the same terminology that the regulator used around risk to customer, weight of risk to various parties and the risks at different points in a project.
20. SONI stated that it would want to engage with the regulator so that the parties would have greater certainty that projects were required and strategic investments allowed.
21. SONI was already detecting signs from the renewable industry in Northern Ireland that some of the generators were deterred by the uncertainty that was already present because of the delay in putting in place price control arrangements.
22. SONI thought the current transmission system did not face fundamental issues, but it noted opposition (eg from opposition groups and landowners) on transmission development and considered that longer planning horizons were needed. Over the last five years it had seen a drop in demand for electricity and as a result the level of urgency around some investments was not what it would have been if they had seen, say, a 10 per cent growth per year in demand.

Objectives of the determination

23. Some of the analysis in the RP5 final determination did not need simply a case-by-case assessment but a wider strategic view within the Northern Ireland context. SONI expressed concern about the detailed control and assessment on the renewable fund proposals and the potential this created for delay.

Incentives and risk management

24. SONI was generally supportive of NIE's capex proposals for business as usual and the medium-term plans including the north-south interconnector.
25. SONI expressed concern about the fact that there was now the prospect of limited access on large parts of the transmission network and how the plans to resolve the problem had not come to fruition. SONI said it would get to a point where it would have nodes on the network that had no available capacity for a number of years and parties connecting would have no firm access to the transmission network.
26. SONI stated that it was looking for up-front clarity as to what projects would be acceptable (in relation to an overall plan) and recognition that many of the projects would probably be required to cover the vast majority of conceivable circumstances.
27. SONI told us that there should be a risk assessment in place around the risks that NIE would face relative to those faced by other transmission owners within other jurisdictions. SONI believed that this should be of interest to the Competition Commission and the regulator. The balance of anticipatory investment risk needed to be thought through in a manner that indicated who bore the risk. It contemplated whether a different balance of risk for Fund 3 projects might be a reason for considering a split cost of capital approach and noted this had been considered by the regulator at an earlier juncture.
28. In relation to coordination and planning of the whole system, SONI told us that there should be more meaningful engagement with the regulator and there was a lack of discussion between the parties around the decisions that were made based on information made available to the regulator. There also needed to be more engagement with stakeholders.
29. SONI believed that there had always been very good cooperation of system operators at the all-Ireland level, consisting of: control room interaction, the dispatching of generation and the management of work flows in the system which had all been carried out in a collaborative manner. SONI now believed that closer alignment on planning on an all-Ireland basis would benefit customers.
30. SONI expected that its taking on responsibility for planning from NIE would mean that there was potential for a more coherent and strategic investment plan for Northern Ireland and indeed the whole of the island of Ireland.

Reporter

31. If it were properly scoped, a Reporter would provide some helpful transparency but SONI did not believe a Reporter would be necessary for the function that SONI was undertaking as it considered the market was already transparent.
32. There was a good level of transparency between SONI, NIE and all stakeholders, but whether or not a Reporter would have a role depended on proportionality, the information required, by whom and for what purpose.