

SONI Response to **RP7 PRICE CONTROL DRAFT DETERMINATION**

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Introduction

As Northern Ireland's Transmission System Operator, SONI welcomes the opportunity to respond to the Draft Determination for the NIE Networks RP7 Price Control. This is an important consultation for all stakeholders and customers in Northern Ireland to ensure that significant progress is made towards the realisation of a net zero system.

As Transmission System Operator, SONI collaborates closely with NIE Networks across a number of functions. We expect this collaboration to be closer than ever during the RP7 period.

We have commented on the elements of the price control that are relevant to SONI. We have based our response on the sections as set out in the draft determination document.

SONI notes and agrees with the Strategic context for RP7 as described in the draft determination paper. More specifically, we welcome the Utility Regulator's comments in relation to the importance of the investment set out in RP7 as a crucial enabler of the Energy Strategy legislative targets set by the Climate Change (Northern Ireland) Act 2022. We also welcome the acknowledgement on the need for a more anticipatory approach to investment, noting the challenging timescales, with appropriate safeguards to protect consumers. It is important the RP7 final determination, and the operational structure of the funding mechanisms reflect these important strategic considerations.

The 2030 targets are hugely challenging in both their scale and complexity. Achieving these targets will require a continuation of the close collaboration that has delivered the progress made to date alongside timely reform, innovation and agility in policy and practice. Well managed strategic investment in the grid, system operations and electricity markets now will provide Northern Ireland with the opportunity to achieve the 2030 targets and also reach a net zero power system in the decades beyond.

The substantive policy direction and the required measures to deliver Northern Ireland's renewable energy targets are largely in place. The key focus needs to be on removing barriers which risk falling short and proactively identifying opportunities to accelerate delivery.

When considering the current landscape and progress towards the 2030 targets, it is important to consider the unprecedented scale and complexity of the challenge. The 40% SEF target was enabled through innovation within the power system's existing operational and infrastructure limitations. Doubling the amount of renewable integration in less than ten years requires a fundamental overhaul of the electricity system at every level. In addition, the complex and decentralised nature of the electricity system in Northern Ireland means that a transition of this scale must balance the needs and priorities of a wide range of stakeholders.

The collective challenge is further exacerbated by the significant anticipated growth in demand over the coming decade. To ensure the grid is prepared for this modernisation and growth, significant strategic projects are already underway through the Transmission Development Plan for Northern Ireland where SONI are working very closely with NIE Networks on optimising these plans.

SONI has progressed the vitally important second North South Interconnector project despite legal challenges and is in the process of finalising the land access to the level required to enable construction to commence. This has required close collaboration with our project partners (NIE Networks, EirGrid and ESB Networks) to bring the project forward for the benefit of consumers in both jurisdictions.

Working with our partners in NIE Networks, SONI has resolved challenges in relation to the connections policy for small-scale renewable generation to balance the need for more connections with the importance of protecting the security of the grid.

The substantive policy measures for meeting the 2030 targets are set by the Northern Ireland Energy Strategy. SONI's role is to ensure the transmission system can facilitate a renewables-based electricity supply in a coordinated and efficient manner while ensuring a safe, secure, and reliable power supply for homes, farms, and businesses across Northern Ireland. This transformation of the power system is unprecedented in scale and requires fundamental reform at every level, but notably in three core areas:

Network infrastructure – a significant programme of network infrastructure needs to be built and upgraded to accommodate increases in electricity demand and integration of renewable energy in a way which protects security of supply.

System Operations – how the electricity grid is operated must be fundamentally reformed to deal with more variable, weather-dependent forms of generation, in a way which maximises the use of renewables but protects security of supply for consumers. This will include new arrangements between SONI as TSO and NIE Networks as DSO.

Markets – the electricity markets need to incentivise the right generation, in the right place and at the right time. Noting the lack of investment in renewable generation since the closure of the last support scheme, it is vital that the renewable energy support scheme is delivered expeditiously and fundamentally aligns with the needs of electricity consumers in Northern Ireland.

Networks Costs

SONI notes the benchmarking assessments undertaken by the UR. We also note that there is further work needed in relation to the benchmarking. SONI considers that it is important that the datasets being used are comparable and that adjustments are considered where there are differences between the network in Northern Ireland and GB.

SONI is somewhat surprised at the reduction on IMFT&I related costs. It is important that the overall asset base is adequately inspected and maintained to ensure that customers continue to benefit from past investments.

The UR should also consider whether the historical benchmarking data is reflective of what the specific future needs of the Transmission and Distribution networks in Northern Ireland.

In addition, there does not appear to be any consideration of comparisons with Ireland.

Direct Network Investment

Noting their importance in the critical path for delivering the network infrastructure required to meet the statutory 80% RES-E targets by 2030, it is important the Utility Regulator is adequately resourced to deliver regulatory approvals in a timely fashion.

Furthermore, given the significantly challenging timescales, it is important that a flexible and innovative approach is taken to the regulatory approval process. For example, consideration might be given going forward to approvals for appropriately grouped projects.

In addition, in line with the acknowledgement on the importance of more anticipatory investment to facilitate the timely delivery of the networks required to meet the 2030 targets, it is important the approvals process facilitates this. Moreover, the movement towards more of plan-led approach would have the dual outcomes of delivering network infrastructure more expeditiously and increase consumer confidence and protections in anticipatory investment.

Furthermore, it will also be more important that the approvals process accounts for the requirement for new policy solutions such as landowner compensation and community benefit/gain, noting Northern Ireland as an outlier in both respects.

SONI welcomes the fact that the UR has included the full D5 estimates in its assessment of financeability and tariffs. We do however consider that the UR needs to further assess its position in relation to progressing pre-construction works earlier. We understand that the proposed approach by NIE Networks is new and innovative, however, in the context of clear legal targets, the time to progress projects is a more critical factor than may have been the case in previous price controls.

SONI is actively looking at the existing Transmission Network Pre-construction Project (TNPP) process under our price control and what steps could be taken to increase the speed of needs assessments, approvals process and delivery of pre-construction activities. The approach proposed by NIE Networks will need very close coordination under the Transmission Interface Arrangements (TIA) between SONI and NIE Networks, respecting the role of SONI as responsible for Transmission planning, however, we see merit on some of the pre-construction works progressing in parallel, in line with the proposed approach presented by NIE Networks. We recommend that the UR adopt the proposal as presented by NIE Networks. The UR could consider putting a check point in mid-way though the price control to assess the success and benefits of the proposed approach.

SONI notes the recently published 'Winser Report' and consider that many of the recommendations apply in a NI context, with specific recommendations relating to regulatory approvals for grid investment to be sought earlier for a strategic grid development plan such that regulatory approvals are removed from the critical path of grid delivery of individual projects. SONI has initiated a review of our processes and look forward to working with NIE Networks and the UR on what process improvements can be made. We consider many of these can be progressed under the existing price controls and enhanced in the next price controls.

In summary, we consider that the UR needs to consider fully all the options in terms of the acceleration of Network Investment. SONI would be keen to engage further with the UR and NIE Networks to explore options for investment ahead of need prior to the URs final determination for RP7.

ITO, DSO and Digitalisation

SONI acknowledges the approach used by the UR which allows for flexibility in the scope of expenditure beyond year 2 of the price control.

SONI has been working closely with NIE Networks to develop a TSO/DSO roadmap. SONI welcomes the inclusion of allowances for the TSO/DSO interface. It is important that the scope, timing, resourcing, and funding for this work is in place for both SONI and NIE Networks.

Metering Marketing Operations

Smart Meters

Demand side measures including smart meters are a critical factor in understanding how electricity consumers will contribute to peak demand in the future. It is vital the roll out of smart meters is implemented to enable SONI to plan and operate the power system most efficiently and economically as we transition to a net zero energy system in Northern Ireland. A Smart systems and flexibility plan will be developed and is presently being consulted on – smart metering should be a key part of any flexibility plan.

Demand flexibility has the capability to improve the adequacy of the electricity system by moving demand away from peak times and therefore reducing the need to invest in expensive generation plant. Smart meters are essential for the implementation of flexibility services and will ultimately reduce costs to the consumer.

SONI is disappointed that NIE Networks has not been given approval to proceed with the smart meter rollout programme as yet. Smart meters will be key to enabling consumers to be active participants in the energy transition. SONI would welcome a clear view from the UR on the planned approach and timing for Smart Meters in Northern Ireland. We consider that NI customers should benefit from the additional flexibility that will come from smart meters that is experienced in other jurisdictions. One example is the demand flexibility service¹ that was utilised in GB over last winter.

¹ [Demand Flexibility Service \(DFS\) | ESO \(nationalgrideso.com\)](https://www.eso.com/dfs)

Innovation and Incentives

The government of Northern Ireland has set ambitious targets for the expansion of renewable electricity. In Northern Ireland, in June 2022, the Climate Change Act (Northern Ireland) came into force. This legislation commits Northern Ireland to achieving emissions reductions of 48% from 1990/1995 level and net zero carbon emissions by 2050. Part of this legislation updated the requirements of the Energy Strategy in setting a new target of achieving at least 80% RES-E in Northern Ireland by 2030. The legislation also requires Northern Ireland to introduce carbon budgets, with the first budget to cover the period 2023 to 2027, and also requires that Northern Ireland publish a Climate Action Plan by June 2024.

Achieving these targets will require a significant electricity system transition, whilst retaining the essential reliability, resilience, and affordability of the Northern Irish electricity system. The journey to net zero carbon will see many transformational changes. The impacts of ageing infrastructure, the retirement and displacement of fossil fuel generators, an increase in renewable electricity supply, new technologies and storage, a rise in demand from large energy users and distribution connected customers, the social impacts of electricity infrastructure and a change in consumer preferences, behaviours, and expectations for their electricity supply are all factors that need to be considered in this transition. In essence, all parts of the electricity system need to innovate, and the scale and pace of this innovation will need to increase over the coming decade.

SONI's Innovation and Research Strategy outlines a roadmap to deliver increased innovation and a portfolio of Strategic Innovation Programmes to achieve government targets on RES-E and emissions. These Strategic Innovation Programmes include, but are not limited to:

- Enhance data-driven decision-making leveraging artificial intelligence capability.
- Flexible Network Strategy
- Champion the Emergence of the Energy Citizen
- Understanding pathways to 100% SNSP
- Plan for a net zero carbon, customer focused, export capable power system.

Delivering on the ambitious targets requires an accelerated understanding of the energy system over multiple time horizons and continual delivery of novel, whole system solutions to overcome the challenges ahead. The SONI Innovation and Research Strategy identifies the importance of co-ordination and collaboration with our industry partners.

Many of the focus areas of the NIE Networks innovation projects (outlined on page 21 of Annex N - Innovation) are aligned with the focus areas (Strategic Innovation Programmes) identified in the SONI Innovation and Research strategy document. This alignment is encouraging and, at the same time, expected given the nature of the TSO and DNO/DSO roles, the collective ambition to achieve decarbonisation and the ongoing engagements between the two companies via the Whole System Innovation Working Group.

In addition to the Whole System Innovation Working group, SONI and NIE Networks currently have ongoing activities, collaborations and mutual interests in the innovation space including Future system studies, Energy Cloud and Flexible connections related projects.

Due to the continued interactions between NIE Networks and SONI, it would be vital that any flexible funding mechanisms for NIE Networks going forward are aligned to the funding mechanisms for SONI to ensure efficient realisation of new technologies and innovations.

In relation to the funding mechanisms, UR's draft determination acknowledges the complexity of the energy transition and identifies the need for flexible funding mechanisms. SONI notes that UR's rationale behind the proposed funding mechanisms is "to provide flexibility as an appropriate way to deal with uncertainty. Innovation needs over a price control period are not always certain at the time of business plan submission. Nor is there always perfect information on cost of the solutions identified". SONI recognises the challenges associated with funding innovation and is supportive of a funding mechanism that has sufficient flexibility when it comes to innovation projects to enable a fast follower approach where appropriate.

SONI notes that the RP6 allowance was £7.65 million and that RP7 baseline request is £8.8 million. However, the RP7 baseline allowance is only £4 million. This would seem to be at odds with the scale of the challenge associated with the energy transition over the coming years and the acknowledgement in the draft determination that "we are in a time of flux and new future ways of working will be required to hit the aims of the Northern Ireland Executive's vision for the road to zero decarbonisation".

In the draft determination "NIE Networks have suggested that the RP6 programme will deliver c. £10.9m in savings in the RP7 period. NIE Networks has advised that they have been able to reduce the ex-ante RP7 capital request because of the investment in innovation". SONI notes the positive outcome of innovation under RP6.

SONI notes that the RP7 request for the Network Innovation Fund (NIF) is £10.3 million, however, the RP7 allowance is only £4 million. SONI also notes, however, that no formal price cap is being proposed. While this would seem to be at odds with the scale of the challenge associated with the energy transition over the coming years, SONI acknowledge the thought-process followed to reach a decision and support the proposal of no formal price cap. This provides scope for, as of now, unexpected novel innovation projects to be initiated within the RP7 period.

NIE Networks are proposing "to submit proposals for additional funds under the NIF at the end of every financial year. They also propose the flexibility to have the option to submit proposals at any time if there is sufficient justification". From an innovation standpoint, SONI see significant merit in having the option to submit once off proposals at any point. This would allow quick initiation of projects to avail of first mover advantage, to adopt a fast follower approach or indeed to initiate and "fail fast". We do, however, appreciate that such an approach could be resource intensive for both NIE Networks and UR. One re-opener window at the mid-point of RP7 seems quite restrictive. Perhaps an annual re-opener option would allow for a balance between more flexibility for proposal funding and limiting resources necessary for reviewing and approving etc. The annual re-opener mechanism would also be in line with the CRU's Agile Investment Framework (AIF).

"NIE Networks also proposes establishing an 'Innovation Council' as part of the governance arrangements for the NIF. This would act as an advisory body for the development of new proposals which they may bring forward during RP7." In general, SONI would be supportive of this. SONI have had good experience of a similar council for DS3 in the past. SONI would be interested in understanding the terms of reference for this council and to then determine if there is merit in SONI being a member of the Innovation Council. NIE Networks and SONI have a good working relationship through the Whole System Innovation Working Group, and we welcome an opportunity to continue building engagements for the mutual benefit of the DNO and TSO.

"In addition to the Innovation Council, NIE Networks is expecting to submit to UR and publish an annual report on its innovation programme. It will also hold an annual open call for ideas from interested stakeholders". SONI welcomes and would be supportive of this.

Consumer Measures and Consumer Engagement

Consumers, customers, and local communities must be at the heart of the energy transition. Given the need to accelerate the delivery of the networks required to meet the statutory 2030 targets, it is even more vital that trust is established with customers and consumers to maintain and enhance their confidence. Likewise there is an ever growing number of stakeholders across the energy industry who also need considered.

As such, we welcome the measures outlined in RP7, particularly in relation to vulnerable customers and supporting customers through the energy transition. SONI particularly welcomes the latter measures which will support the behavioural change that will be required in the future. From a system perspective, these measures will support the future demand flexibility that will be vital to maintaining security of supply in a fundamentally renewables-based power system.

While SONI understands the need for and importance of targets and measures in consumer engagement, it is important that a proportionate, fair, and balanced approach is taken. It should be recognised that while consumers are obviously a very important stakeholder, the DNO/DSO is required to balance a wide range of considerations and stakeholder priorities, some of which can overlap/conflict. For example, the DNO/DSO has clear objectives and obligations to support the delivery of the statutory 2030 80% RES-E targets and there may be occasions where the need to meet longer-term societal objectives can conflict with the needs of individual consumers. It is important this balance is taken into consideration when identifying the appropriate metrics and targets.

Evaluative Performance Framework

SONI notes the introduction of the Evaluative Performance Framework. From our experience of implementing a similar framework, we consider there is significant merit in having the proposed 'trial year' to allow all parties to ensure the process runs as expected and the guidance is workable in practice.

The UR should ensure that adequate resourcing is accommodated in the price control to set up and run this new process. This should be in addition to any benchmarking based opex allowances.

SONI notes that the guidance proposed for NIE Networks appears less prescriptive than the guidance in place under the SONI Price Control. SONI would like to engage with the UR to consider the EPF guidance that is currently in place for SONI.