



## SONI TSO Annual Compliance & Assurance Officer Report 2021

Period 1st January 2021– 31st December 2021

1<sup>st</sup> June 2022

### Circulation

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**Contents**

Background & Scope ..... 2

    Background ..... 2

    Objectives & Scope ..... 2

Detailed Observations..... 3

    Independence of the Compliance & Assurance Officer ..... 3

    Complaints ..... 3

    Condition 5 – Prohibition of Subsidies ..... 3

    Condition 11 – Restriction on the Use of Certain Information..... 4

    Condition 15 – Duty of Non Discrimination ..... 7

    Additional Assurance Related Activities ..... 7

## Background & Scope

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### Background

Condition 23B of SONI Ltd.'s Licence to Participate in the Transmission of Electricity (the Licence) requires the Compliance & Assurance Officer to report at least annually, to the directors of the Licensee on his activities during the period covered by the report and the investigations he has conducted and shall specifically include the Compliance & Assurance Officer's assessment of the compliance of the Licensee with the requirements of Conditions:

- Independence of the Compliance & Assurance Officer;
- Complaints;
- Compliance with Condition 5 Prohibition of Cross-Subsidies;
- Compliance with Condition 11 Restriction on the Use of Certain Information;
- Compliance with Condition 15 Non-Discrimination; and
- An explanation of the practices, procedures and systems adopted to effect compliance with such conditions

The Licence also requires that SONI Ltd. shall, following consideration of the Compliance & Assurance Officer's Final report and within one calendar month, or such other period agreed by the Authority, provide a copy of the Compliance & Assurance Officer's Final report, together with its response to that report to the Authority. Following approval of the Compliance & Assurance Officer's Final report by the Authority, SONI Ltd. shall publish it and any part of its response to the report specified by the Authority on its website once directed to do so by the Authority.

### Objectives & Scope

The objectives of this review are to provide assurance over compliance with Condition 23B of the Licence in the reporting period 1<sup>st</sup> January 2021 to 31<sup>st</sup> December 2021, specifically:

- Independence of the Compliance & Assurance Officer;
- Complaints;
- Compliance with Condition 5 Prohibition of Cross-Subsidies;
- Compliance with Condition 11 Restriction on the Use of Certain Information;
- Compliance with Condition 15 Non-Discrimination; and
- An explanation of the practices, procedures and systems adopted to effect compliance with such conditions

## Detailed Observations

### Independence of the Compliance & Assurance Officer

Condition 23B of the SONI Transmission Licence requires the licensee, in conjunction with the Republic of Ireland System Operator, to appoint a competent person who is a senior member of either its personnel or the personnel of the Republic of Ireland System Operator (the Compliance & Assurance Officer), for the purpose of verifying the licensee's compliance with its obligations under Conditions 5, 11 and 15 and to provide independent assurance of such verifications.

Additionally, the licensee is required to ensure that the Compliance & Assurance Officer is independent and has access to such staff, premises, systems, information, documentation, equipment, facilities and other resources as he might reasonably expect to require to fulfil the duties and tasks assigned to him.

SONI Ltd.'s Compliance & Assurance Officer is the Group's Head of Governance, Risk & Compliance, an employee of SONI Ltd and a member of the management team. The Compliance & Assurance Officer is responsible for scheduling compliance activities through an annual compliance monitoring plan and reporting on the outcome of these activities to the SONI Ltd Board.

In line with Condition 23B(2) the Compliance & Assurance Officer can confirm that during the reporting period (1<sup>st</sup> January 2021 to 31<sup>st</sup> December 2021) he has had access to such staff, premises, systems, information, documentation, equipment, facilities and other resources as he might reasonably expect to require to fulfil the duties and tasks assigned to him.

### Complaints

1. The Licensee shall provide a copy of any complaints received by it in respect of Condition 5, 11 and 15, to the Compliance and Assurance Officer as soon as reasonably practicable and in any event within one month of receiving any such complaint.

No complaints in respect of Conditions 5, 11 and 15 have been received in the reporting period (1<sup>st</sup> January 2021 to 31<sup>st</sup> December 2021).

### Condition 5 – Prohibition of Subsidies

#### Condition 5

The Licensee shall procure that the Transmission System Operator Business gives no cross-subsidy to, and receives no cross-subsidy from, any other business of the Licensee or of any affiliate or related undertaking of the Licensee.

Nothing:

- (a) which the Licensee is obliged to do or not to do pursuant to the Licence or any other licence held by the Licensee under the Order; or
  - (b) which an affiliate or related undertaking is obliged to do or not to do pursuant to a licence held by it under the Order,
- shall be regarded as a cross-subsidy for the purposes of this Condition.

EirGrid Plc is structured on a group basis and contains a number of business units, operating under different licensing arrangements. To ensure that costs are appropriately incurred by each licence and business unit, EirGrid allocates costs to the correct business units and licences on a monthly basis.

The methodology for the reallocation of costs is outlined in the Cost Allocation & Recharge Policy, established in April 2014 and reviewed regularly. The policy identifies the following overarching principles, which apply to initial cost allocation:

1. Where costs are clearly incurred on a licensee basis, they are charged directly as such;
2. Where costs are incurred in providing for more than one licensee, cost allocation arrangements apply, as detailed in the policy; and
3. Market Operator costs are split 75:25 EirGrid MO:SONI MO, as per Specified Proportions in the Market Operator Agreement.

On an annual basis an Internal Audit is performed to assess the application of the corporate recharging policy operating within the Group, as documented in the Implementation of Cost Allocation & Recharge Policy. Substantive testing is performed on a sample of recharges across the six categories identified in the policy:

- Corporate Centre;
- Executive Directors;
- Managers
- Staff; and
- EWIC.

The most recent Internal Audit of the Application of Corporate Recharging Policy (issued in May 2021) applied an overall rating for the report as **SATISFACTORY**.

### Condition 11 – Restriction on the Use of Certain Information

#### Condition 11

##### General Restriction

1. Where the Licensee, or any affiliate or related undertaking of the Licensee, is in possession of any protected information, the Licensee shall (and shall procure that such affiliate or related undertaking shall) procure:
  - (a) that neither the Licensee nor any other person shall use that protected information for the purpose of obtaining any unfair commercial advantage in relation to the Transmission System Operator Business or any other business;
  - (b) that the protected information is not disclosed to any other person except with the prior consent in writing of each person to whose affairs that information relates; and
  - (c) that the protected information in the possession of the Separate Business is not disclosed to any other business of the Licensee (or of any affiliate or related undertaking of the Licensee) except with the prior consent in writing of each person to whose affairs that information relates.
2. The Licensee's obligation under paragraph 1 to procure any action on the part of an affiliate or related undertaking shall be taken, in relation to any affiliate or related undertaking which has control of the Licensee, as an obligation to use all reasonable endeavours to procure the taking of that action by obtaining (and enforcing) an appropriate contractual undertaking from that affiliate or related undertaking in respect of the protected information.
3. The Licensee shall implement such measures and procedures and take all such other steps as may be specified in directions issued by the Authority from time to time for the purposes of this Condition and reasonably considered by the Authority to be necessary for the purpose of securing compliance by the Licensee with its obligations under paragraph 1.

### Restrictions Regarding Personnel and Advisers

5. The Licensee shall ensure that protected information received by the Licensee (or any affiliate or related undertaking of the Licensee) is: (a) (except where one of the exceptions under paragraph 4 applies) not divulged by any business person to any person unless that person is an authorised recipient; and (b) not used by any business person otherwise than for the purpose of pursuing an authorised purpose or advising in relation to the pursuit of an authorised purpose.

6. The Licensee shall ensure that when any member of staff is to be transferred between the Transmission System Operator Business and any Associated Business or vice versa and an unfair commercial advantage could accrue to either or both businesses, the Licensee shall inform the Authority of the proposed transfer(s) and shall make the Authority aware of the steps being taken to ensure that no such unfair commercial advantage will accrue to either business. In particular (and as far as is legally possible) the transfer of any member of staff that has been involved in the establishment or operation of the Capacity Market to an affiliate to perform activities in relation to an Interconnector (where appropriate) shall be the subject to a cooling-off period of a duration to be agreed with the Authority unless the Authority determines that no cooling-off period is required.

A range of policies are in place within SONI Ltd to protect confidential information, namely:

#### - **Information Security**

Our Acceptable Use Policy is mandatory for all employees, business partners and contractors and covers access controls, information confidentiality, non-disclosure of data requirements and data transfer restrictions.

Additionally, all new employees/business partners/contractors are required to complete information security awareness training immediately following commencement.

#### - **Confidentiality Policy**

This policy sets out EirGrid Group's position on confidentiality and provides guidance on protecting and safeguarding such information as required by the statutory obligation to preserve the confidentiality of commercially sensitive information obtained.

#### - **Codes of Conduct**

The Directors' Code of Conduct establishes a set of ethical principles underpinning Directors' conduct, promotes and maintains confidence and trust, prevents the development, continuance or acceptance of unethical practices and provides a frame of reference for decision-making. The Directors' Code of Conduct is applicable to all directors of EirGrid plc, to all directors of subsidiary companies of EirGrid plc i.e. including SONI Ltd. and to all EirGrid appointed directors to Joint Venture entities and was reviewed and approved by the EirGrid Board in April 2021.

The Employee Code of Conduct forms part of the terms of employment of all employees. The general principles underlying the code, which applies to all employees of the EirGrid Group, irrespective of level or location, are integrity, loyalty, legal & regulatory compliance, confidentiality, and fairness. The Employee Code of Conduct was reviewed and approved by the EirGrid Board in May 2020.

#### - **Anti-Corruption**

The Protected Disclosures Policy documents the Group's commitment to conducting its business to the highest standards of integrity, fairness, honesty and in compliance with statutory and regulatory obligations. It addresses the requirements as laid out in the Employment Rights (Northern Ireland) Order, 1996, as amended by Public Interest Disclosure (Northern Ireland) Order 1998 and the Public Interest Disclosure (Prescribed Persons) (Amendment) Order (Northern Ireland) 2012. The Protected Disclosures Policy was reviewed and approved by the EirGrid Board in March 2021.

## SONI TSO Annual Compliance & Assurance Officer Report 2021

The Fraud Policy documents the Group's zero tolerance commitment to fraudulent or attempted fraudulent activity, in line with its core values of being transparent, collaborative, accountable and ambitious. It lays out the Group's commitment to investigate all frauds which are discovered or suspected, and take appropriate action against all parties involved in, or assisting with, committing fraudulent activity. The Fraud Policy was reviewed and approved by the EirGrid Board in March 2021.

Additionally, each employee signing a contract of employment that includes a section of confidentiality must sign a confidentiality agreement as part of contract of employment.

As far as SONI is aware, there are no compliance issues in relation to the use of information and the preservation of the confidentiality of Commercially Sensitive information held/obtained in the discharge of its functions as Transmission System Operator licensee.

### **Restrictions Regarding Personnel & Advisors**

A protocol for staff movements is in operation which applies to all staff movements into or out of the EIDAC business operations to ensure that the above licence condition is met in the context of the management of conflicts of interest.

Specifically, prior to the appointment of any EIDAC resource (recruitment process, internal transfer or agency staff selection) the Compliance & Assurance Officer shall determine if Condition 11(6) has been satisfactorily met.

To facilitate the decision-making process, the Compliance & Assurance Officer shall be furnished with:

- CV of proposed candidate;
- Role profile of relevant EIDAC post; and
- Role profile of relevant TSO post.

If required, the Compliance & Assurance Officer may also request the attendance of the relevant EIDAC or TSO recruiting manager.

The Compliance & Assurance Officer will seek to determine:

- i. Could the transfer result in an unfair commercial advantage or what may be perceived an unfair commercial advantage to either or both businesses?
- ii. Does the transfer involve a member of staff that has been involved in the establishment or operation of the Capacity market?

If the Compliance & Assurance Officer determines that the response to both the above questions is "no", then Condition 11(6) has been met and HR shall be notified to progress the recruitment/transfer.

If the Compliance & Assurance Officer determines that the response to either the above questions is "yes", then Condition 11(6) has not been met and two options shall be offered by the Compliance & Assurance Officer:

**Option 1** – the recruitment/transfer of the proposed resource is cancelled; and

**Option 2** – in line with Condition 11(6), Group Regulation notify the Regulatory Authorities of the proposed recruitment/transfer and provide details of steps/mitigations being taken to ensure that no unfair commercial advantage accrues or in the case of Capacity market involvement, a request for the determination of an appropriate cooling-off period.

The role of the Compliance & Assurance Officer is to ensure an independent assessment of licence compliance specifically in relation to Condition 11(6) further to a decision being taken by the business. Should the Compliance & Assurance Officer consider the decision taken by the business to result in breach of Condition 11(6) the Compliance & Assurance Officer shall recommend the transfer not be progressed. Should the business dispute the recommendation, the issue shall be escalated to SONI MD.

During the reporting period, no SONI related staff transfers took place.

### Condition 15 – Duty of Non-Discrimination

#### Condition 15

1. In undertaking the Transmission System Operator Business, the Licensee shall not unduly discriminate as between any persons or class or classes of persons (including itself in undertaking any activity other than the Transmission System Operator Business).

SONI has a number of reporting and monitoring obligations. The goal is to increase integrity and transparency of wholesale energy markets. This fosters open and fair competition in wholesale energy markets, benefitting final consumers of energy.

With regard to our duty of non-discrimination within the SEM independent audits of the Market and Scheduling & Dispatch processes are performed on an annual basis and reported to the Regulatory Authorities<sup>1</sup>. Capacity Market Auctions are also subjected to independent audits and reported to the Regulatory Authorities.

The Compliance & Assurance Officer maintains an Annual Compliance Monitoring Plan which continually assesses whether the compliance framework operates as intended and includes a review of licence obligations to keep commercial information confidential and to ensure that it does not discriminate unfairly/ unduly in operating its business. An element of this framework includes ensuring that the above reporting requirements are honoured, which has been the case during this reporting period.

SONI is not aware or been advised of any incident/occasion where it has been accused of or found to have acted in an unduly discriminatory fashion.

### Additional Assurance Related Activities

The Internal Control Framework in operation within the business is subject to an annual review of effectiveness by the Head of Governance, Risk & Compliance.

The scope of the internal control framework operating within SONI Ltd. comprises of but is not restricted to:

- Governance framework;
- Internal Audit activity;
- External Audit activity; and
- Group Risk Management Framework.

#### Governance Framework

For the reporting period the SONI Ltd Board met on 8 occasions. Key matters considered included:

- SONI MD Operations Report capturing key SONI risks and issues;
- SONI Ltd Management Accounts;
- Annual Compliance & Assurance Officer Report for SONI TSO;
- Oversight of impact of SONI TSO 2020-2025 Price Control and associated Implementation Plan;
- Oversight of Utility Regulator SONI Governance Consultation;
- Transmission Interface Agreement amendments;

<sup>1</sup> As the Market and Scheduling & Dispatch processes and Capacity Auction arrangements are carried out jointly by EirGrid plc as licensed TSO for Ireland and SONI Ltd as licenced TSO for Northern Ireland – single reports in respect of these activities are submitted to the Commission for Regulation of Utilities in Ireland and the Utility Regulator Northern Ireland (together the 'Regulatory Authorities').

- SONI TSO Connection Policy;
- SONI Ltd Tax Policy;
- NI Energy Strategy;
- NI Security of Supply;
- SONI & NIEN Land Rights Code of Practice;
- Key TAO interactions;
- Approval of Regulatory Accounts;
- Approval of Statutory Accounts; and
- Active management of Brexit and Covid-19 related issues.

### **Internal Audit Assurance**

An Annual Internal Audit Plan is created to ensure maximum value is driven from the assurance process and each individual engagement links directly to strategic objectives and key risks facing the Group and its entities. The Head of Internal Audit reported on all issues arising from engagements to each Audit & Risk Committee and provided a summary of key issues within the quarterly progress reporting process. Each individual internal audit report was uploaded to the Diligent Boards platform Resource Centre enabling visibility to all SONI Ltd. Board Members throughout the year.

### **External Audit Assurance**

External Audit assurance relates specifically to the annual report and financial statements of SONI Ltd. During the 2020/2021 financial year, external audit attended all Audit & Risk Committee meetings and provided updates on key matters as follows:

- 2020/2021 Audit Plan;
- Update on key financial regulations; and
- Audited financial statements for 2020/2021.

### **Group Risk Management Framework**

The Group Risk Management Framework has been developed to ensure that risks are identified, assessed and managed effectively and in line with risk appetite. Effective reporting of risk throughout the Group is a fundamental element of the Risk Management Framework. The Framework specifies high-level, minimum requirements and processes for risk management across all risk types. The requirements are implemented through the risk policies and procedures that govern the management of individual risk types and/or risk management processes.