



SONI TSO Licence Modifications Price Control 2020-2025

Consultation Paper
24 September 2021



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



Our vision

To ensure value and sustainability in energy and water.



Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.



Abstract

We are publishing a consultation on licence modifications pursuant to the SONI 2020-2025 Price Control final determination.

2020-2025 Price control is for the NI Transmission System Operator (SONI) for the period from 1 October 2020 onwards. The price control final determination sets the amount SONI will have to run their businesses and invest in the electricity transmission infrastructure.

Audience

The licensee affected, other regulated companies in the energy industry, government, other statutory bodies and consumer groups with an interest in the energy industry.

Consumer impact

The SONI TSO licence requires updating to reflect regulatory decisions and to ensure it remains up-to-date and fit for purpose.



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1. Executive Summary and Background

- 1.1 This consultation proposes amendments to SONI's Transmission System Operator (TSO) licence that are to be aligned with the final determination of the SONI 2020-2025 price control.
- 1.2 The changes to the licence largely reflect material amendments to the regulatory framework for the SONI TSO licence. The SONI 2020 to 2025 price control final determinations reflect significant consultation and engagement as part of price control process. The licence changes reflected in this paper are intended to deliver the requisite changes.

Purpose of Consultation and engagement to date

- 1.3 With this document we are consulting on a number of licence modifications we propose to make to the transmission licence for SONI (System Operator Northern Ireland).
- 1.4 We (the Utility Regulator, the Authority) consider that the licence modifications proposed in this document are required to comply with our legal and regulatory obligations (summarised in section Legal and Regulatory Framework below), to follow up on the 2020-2025 price control [final determination](#), published by the UR in December 2020. We also consulted on guidance ('UR Guidance consultations') relating to Uncertainty mechanisms, Evaluative Performance Framework and Conditional Cost Sharing.¹
- 1.5 The 2020-2025 price control final determination covers the period from 1 October 2020 to 30 September 2025. As part of this price control package, we made a number of proposals which are detailed in the 2020-2025 final determination and need to be implemented through licence modifications to bring them into effect and preserve the right of the licence holder.
- 1.6 The purpose of this document is to consult on the licence modifications to bring them into effect. This includes identifying the change, reason for such and the effect. The annex to this paper also provides consultees with the draft licence Annex 1 which is subject to modification.
- 1.7 We have consulted informally with SONI already by sharing a draft version of the licence modifications with it in July 2021. This provided SONI with an opportunity, as the licence holder, to make any initial comments and we have also discussed how these comments may affect the draft guidance referred to above. We will take full account of these comments, along with any further comments SONI may have, and those which other stakeholders may have, as part of this formal consultation process.

Legal and Regulatory Framework

- 1.8 SONI is the System Operator of the electricity Transmission system in Northern Ireland.
- 1.9 The role of the Utility Regulator is determined under legislation and its statutory

¹ <https://www.uregni.gov.uk/consultations/consultation-guidance-our-evaluative-performance-framework-cost-remuneration-and>



principal objective in relation to electricity matters is:

“To protect the interests of electricity consumers in Northern Ireland, wherever appropriate by promoting effective competition between persons engaged in or in commercial activities connected with the generation, transmission or supply of electricity”

1.10 Since the coming into effect of the Gas and Electricity Licence Modifications and Appeals Regulations (Northern Ireland) 2015 on 6 February 2015, the UR no longer require the consent of the licence holder to make a modification to their licence.

1.11 Licence modification decisions made under [Article 14](#) of the Electricity Order may however be appealed to the CMA by:

- The licence holder concerned;
- Any other licence holder materially affected by the decision;
- A qualifying body or associate representing a licence holder concerned or a licence holder materially affected by the decision; or
- The Consumer Council for Northern Ireland.

1.12 In the event an appeal is brought to the CMA, the CMA will provide confirmation that permission has been granted for the appeal to continue, following the guidelines and timelines under [Article 14](#) of the Electricity Order 1992.

Interplay with the UR Guidance consultations

1.13 In response to UR Guidance consultation a stakeholder made a limited number of points concerning aspects of the consultation content which it felt it could not fully respond to without visibility of the draft licence modifications. We recognise that in a very limited number of instances visibility of the draft licence may be necessary to fully respond to the UR Guidance consultation. We are, therefore, willing to accept additional responses on such matters relating to the draft Guidance should a stakeholder wish to do so within the timescales set out below for responding to this consultation for licence modification. We expect these to be limited. We plan to publish our final guidance alongside our decisions on these licence modifications.

How to Respond

1.14 The Utility Regulator welcomes all stakeholder views and comments on the proposals set out in this consultation paper.

1.14. The consultation period will close on **25 October 2021 at 10am**.

Responses should be sent to:

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Tel: 028 90316661

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E-mail: Electricity_Networks_Responses@uregni.gov.uk

- 1.15. Responses to this consultation may be made public by the Utility Regulator. If you do not wish your response or name made public, please state this clearly by marking the response as confidential. Any confidentiality disclaimer that is automatically produced by an organisation's IT system or is included as a general statement in your fax or coversheet will be taken to apply only to information in your response for which confidentiality has been specifically requested.
- 1.16 Information provided in response to this consultation, including personal information may be subject to publication or disclosure in accordance with the access to information regimes; these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA). If the information provided in the response is to be treated as confidential, please be aware that, under the FOIA, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
- 1.17 In view of this, it would be helpful to receive an explanation regarding any information provided as confidential. If the Utility Regulator receives a request for disclosure of the information, full account of your explanation will be taken but an assurance cannot be given that confidentiality will be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Authority.



2. SONI TSO Proposed Licence Modifications

- 2.1. The 2020 to 2025 SONI price control final determination set out changes to the regulatory framework for SONI. The changes to the licence are significant and reflect the extent of changes to the regulatory framework for SONI. The draft licence has been published alongside this paper.
- 2.2. In order to implement the policy decisions set out in FD (including FD Annexes 2 to 5), it is necessary to make extensive changes to Annex 1 of the TSO licence. In this chapter, we take each of the 11 paragraphs of the TSO licence Annex 1, largely in turn, and describe the rationale for, and effects of, the modifications we are proposing.
- 2.3. The chapter outlines in more detail the changes, rationale and impact of the amendments. All changes relate to the *Annex 1 Charge Restrictions* section of the TSO licence.
- 2.4. For ease of understanding, this paper, for the most part, identifies changes in the order found in the licence. All licence references refer to the updated numbering post changes. The paper also details other minor changes which are not related to the final determination but are considered appropriate.



Definitions

2.5. We have made various changes to the definitions section. The reason for modification is to update the list of definitions by adding new and/or expanding existing definitions to reflect the amendments or introductions made as part of our other licence modifications made within the Restriction of SSS/TUoS charges required to give effect final determinations. We have also removed or amended redundant definitions in order to improve clarity. The changes are detailed in the table below.

Table 1 – Amendments to the Definitions

	Licence Reference and Change area	Reason	Effect	FD Reference
1	Annex 1, Definitions, Capital Expenditure	The reason for a new definition of capital expenditure is to provide clarity on capital expenditure for the purposes of the licence.	This makes understanding of what constitutes capital expenditure clearer when referred to within the licence Annex 1	N/A
2	Annex 1, Definitions, Connections Income Attributable to Overheads	A new definition has been included for connection income attributable to overheads given concerns around the potential for double recovery of costs.	Has the effect of preventing double funding for costs which may be recovered from both the price control and connection charges.	FD, Annex 3, para 2.128, p26
3	Annex 1, Definitions, CPIH	The reason for new definitions for the new inflation measure CPIH and confirmation that April 2019 is the price base for this control period is to reflect licence modifications within Restriction of SSS/TUoS sections of the licence in line with our final determinations.	Replace RPI with CPIH as the means of inflationary uplift.	FD, paras 8.9 – 8.18, p66-67 and Annex 5.
4	Annex 1, Definitions, DBCs	The definitions around DBCs, ex-ante targets and ex-post adjustments have been removed as the DBC incentive is no longer required.	Tidies the licence by deleting definitions relating to the INCENT term which is no longer required.	N/A
5	Annex 1, Definitions, Maximum Core Revenue	The reason for the new definition to distinguish between SSS/TUoS revenue and Moyle revenue collected via the CAIRt term.	This improves clarity	N/A
6	Annex 1, Definitions, Operating Expenditure	The reason for the new definition of operating expenditure is to provide clarity on operating expenditure for the purposes of the licence.	This makes understanding of what constitutes operational expenditure clearer when referred to within the licence Annex 1	N/A



	Licence Reference and Change area	Reason	Effect	FD Reference
7	Annex 1, Definitions, Overhead Costs	Overheads are being specifically defined given the new CIOt term and reference to connection income attributable to overheads.	This new definition provides clarity on the cost categories which can be reasonably attributed to overheads.	N/A
8	Annex 1, Definitions, Requirements and Guidance on Uncertainty Mechanisms	The reason for replacing 'excluded SSS/TUoS' with 'Uncertainty Mechanisms' is because the costs under the existing definition are not 'excluded' from the scope of the SSS charges.	The amendment will improve clarity and better reflect our approach of remuneration of costs incurred by SONI up to an approved cap as this applies to opex and capex. The definition also explains the wider scope of this guidance which will cover existing and new mechanisms as well as the pension deficit and network planning mechanisms.	FD, para 5.66 & p44 and Annex 3, para 2.148, p29
9	Annex 1, Definitions, Requirements and Guidance on Conditional Cost Sharing (CCS)	New definition of CCS guidance is required to support licence modifications within Restriction of SSS/TUoS in line with our final determinations	The definition for the CCS guidance places obligations on SONI as stated therein the definition. It also defines the materiality threshold as £500,000 for conditional cost sharing.	FD, para 5.22 & para 5.37, p37-39 and Annex 3
10	Annex 1, Definitions, Requirements and Guidance on Evaluative Performance Framework (EPF)	New definition of EPF guidance is required to support licence modifications within Restriction of SSS/TUoS in line with our final determinations.	The definition for the EPF guidance places obligations on SONI as stated therein the definition.	FD, chapter 4, p26-33 and Annex 2
11	Annex 1, Definitions, Special Project Costs	Amends the definition of these costs to remove the cap in certain instances.	This gives the UR the option to remove the cap if this is considered appropriate.	FD, Annex 3, para 4.16, p38
12	Annex 1, Definitions, Others	Definitions have been removed as they are no longer required i.e. SEM Decision Paper, SO Interconnector Trade, Testing Charges, Uninstructed Imbalances etc.	Tidies the licence by deleting definitions which are no longer required.	N/A



	Licence Reference and Change area	Reason	Effect	FD Reference
13	Annex 1, para 1.2, Relevant Years	Relevant Years is updated to reflect the 2020 to 2025 price control period and expanded upon to include to t-6 to support calculation of TNPP and Special Projects RAB values which draw on figures from the 2015-20 price control period.	Ensures that licence is consistent with TNPP and special projects RAB when they started from zero.	N/A

Restriction of SSS/TUoS charges

2.6. This part of the licence sets out the amount of allowed revenue recovered through charges and the calculation methodology. Significant changes have been made to this section which are summarised below:

Table 2 – Amendments to the Charging Restrictions

	Licence Reference and Change area	Reason	Effect	FD Reference
1	Annex 1, Para 2.2, Maximum Core Revenue	Formula changes are made to include new terms for pension deficit repair costs (PRt), opex cost sharing (CSBt), evaluative performance (EPt), capping on the net reward/penalty (NIAt), network planning scoping and feasibility studies (SFt), depreciation and return for buildings and non-buildings (BNBt) and adjustments for connection revenue (CIOt) to support UR final determinations. Old terms are removed as no longer required.	The formula for the maximum core revenue has been substantially updated to include new terms: PRt, CSBt, EPt, NIAt, SFt, BNBt and CIOt. The old Blt and INCENTt terms have been removed and so tidy up the licence.	Various references (see below)



	Licence Reference and Change area	Reason	Effect	FD Reference
2	Annex 1, Para 2.2(b)(i) to (v), Ex-ante Operating Expenditure	The reason for modification is to give effect to the UR decisions to allow recovery of ex-ante operational expenditure allowances which are subject to mechanistic (MCS) and conditional cost sharing (CCS). Introduction of the new Et term is made to give effect to the UR decision to allow for uplifts to the ex-ante baseline.	<p>The opex allowance (Bt) formula has been updated to incorporate the following:</p> <ul style="list-style-type: none"> • B_{0t} = Opex subject to CCS • U_{0t} = Opex subject to MCS • E_t = Uplifts to the ex-ante opex baseline allowed via the uncertainty mechanism and subject to MCS. • Amounts to be uplifted by CPIH. <p>This section also provides a table for the new price control allowances.</p>	<p>FD, paras 5.65 – 5.67, p44</p> <p>FD, Annex 3, para 4.16, first bullet, p38</p>
3	Annex 1, Para 2.2(c)(i) to (iv), Pension Deficit Repair Cost	The reason for modification is to give effect to the UR decision to retain the 10-year recovery period but allows for an uplift mid-period following the results of the triennial review.	The new formula for pension deficit (PR _t) includes the PDR _t term which reflects the pension deficit allowance at the FD and the PTR _A t term which allows recovery of adjustments to pension costs following the outcome of the next triennial review.	FD, paras 6.37, p53, Annex 4, para 6.1, p35 and Annex 3, para 2.148, p29.
4	Annex 1, Para 2.2(d)(i) to (iii), Opex Cost Sharing Amount	The reason for modification is to give effect to the UR decisions to have a 75% mechanistic cost sharing amount, and to provide for conditional cost sharing adjustments for certain costs that must be calculated in accordance with UR guidance on conditional cost sharing.	<p>A new term has been introduced for opex cost sharing (CSB_t). The formula replaces the 50% mechanistic cost-sharing amount with a mechanistic cost sharing at 75% rate and a new term (CSBA_t) for conditional cost sharing.</p> <p>The text for the actual opex (AO_t) also details the various cost categories which are excluded from the cost sharing. This incorporates a catch-all for any other costs which are recoverable under other licence terms.</p>	FD, para 5.22 & para 5.37, p37-39 and Annex 3.



	Licence Reference and Change area	Reason	Effect	FD Reference
5	Annex 1, Para 2.2(d)(ii)(B)(3) and Para 2.3(d)(iii), Manifestly Unreasonable Costs	<p>This drafting ensures that any manifestly unreasonable opex and capex costs are not included in the cost sharing calculations.</p> <p>The drafting follows the precedent set for NIE Networks by the CMA.</p>	<p>The effect of the drafting is to remove unreasonable costs from sharing calculations. This might include items which are not demonstrably inefficient but shouldn't be paid for by customers e.g. company fines.</p>	N/A
6	Annex 1, Para 2.2(e), Evaluative Performance Framework (EPF) Amount	<p>The reason for modification is to give effect to the UR final determinations for the EPF framework.</p>	<p>A new term has been introduced to allow for a reward or penalty amount under the EPF (EPt). The amount will be decided in line with the methodology set out in the EPF guidance which SONI must comply with as defined within the Definitions of the Annex 1 of the licence. It also determines that no reward or penalty will be given in the first two years of the price control.</p>	FD, chapter 4, p26-33 and Annex 2.
7	Annex 1, Para 2.2(f)(i) to (iv), Net Incentive Adjustment	<p>The reason for modification is to give effect to the UR final determination requirement that the combined value of financial incentives arising from EPF, mechanistic and conditional cost sharing is capped at +£1.25 and £-075m per annum.</p>	<p>The new term (NIAt) has been established to implement a cap/collar on the reward or penalty available in any given year. The term will only apply if the net incentive value (NIVt) is outside the +£1.25m to -£0.75m annual reward / penalty. The net incentive value is established by summation of the EPF reward, opex and capex cost sharing.</p>	FD, para 4.18, p28
8	Annex 1, Para 2.2(h)(i) to (ii), Network Planning Scoping and Feasibility Amount	<p>The reason for modification is to give effect to UR final determination to allow recovery of opex costs up to a cap for transmission network planning scoping and feasibility activities.</p> <p>The drafting also provides for a new uncertainty mechanism for uplifts in network planning costs should the work quota require more resource.</p>	<p>The new calculation term (SFt) provides for remuneration of actual network planning costs up to a cap. The change has been implemented in recognition that the volume of work fluctuates depending on the timing of network projects. The treatment also aligns the network planning treatment across opex and capex.</p>	FD, para 9.3, bullet 2, p68



	Licence Reference and Change area	Reason	Effect	FD Reference
			<p>The new term includes:</p> <ul style="list-style-type: none">• SFAt = Actual network planning, scoping and feasibility costs;• SFCT = Capped network planning allowance which is the sum of:<ol style="list-style-type: none">1) SFPt = Provisional allowance in FD;2) SFUt = Uplifted amounts as determined in accordance with the Uncertainty Mechanism guidance.	
9	Annex 1, Para 2.2(i)(i) to (v), K Correction Factor	These modifications link the previous price control to the new price control formulas.	The purpose of this drafting is to acknowledge that terms in the licence formula have changed and to ensure that the K-factor can be implemented correctly for the first two years of the new price control.	N/A
10	Annex 1, Para 2.2 (j) Supplemental revenue amount	The reason for modification is to update the amount allowed for asymmetric risk in line with the UR FD.	The effect is to replace £220,000 with £136,000.	FD, paras 7.46 to 7.47, p63 and Annex 5.



	Licence Reference and Change area	Reason	Effect	FD Reference
11	Annex 1, Para 2.2(k) Remuneration of the Buildings RAB and Non-buildings RAB	<p>The reason for modification is to change the way that capital expenditure, that is attributable to the buildings and non-buildings RABs, is to be remunerated as part of the calculation of maximum regulated revenue.</p> <p>The rationale for this modified approach is to enable the remuneration of capital expenditure associated with the buildings and non-buildings RABs (including the allowed return on these RABs) to adjust in light of (i) outturn capital expenditure; (ii) any approvals by the UR for additional ex ante allowances for capital expenditure relating to the buildings and non-buildings RABs; and/or (iii) any final determinations by the UR in relation to conditional cost-sharing.</p>	<p>This sets out the overarching methodology that should be used for how capital expenditure that is attributable to the buildings and non-buildings RABs is to be remunerated. The modified approach allows calculation of the allowed remuneration for buildings and non-buildings RAB by using a methodology that specifies how the opening and closing RAB each year is calculated and which applies a WACC to the average RAB value for each financial year.</p> <p>This brings more consistency to our RAB calculations by taking a similar approach to that used for TNPPs and supports our approach to cost remuneration and corporation tax. The changes also allow for the replacement of the existing method of using a hard-coded rate of return allowance for each year of the period and introduces robust calculation rules (including those for determining depreciation values as previously none existed in the licence).</p>	FD relating to cost remuneration and managing uncertainty and risk and return.
12	Annex 1, Para 2.2(o), Connection Charge Income	The reason for modification is to give effect to UR final determination to allow deductions from the calculation of Maximum Core Revenue in respect of income from connections charges. This is in order to provide flexibility for the price control to adapt if SONI's connection charges do make a proportionate contribution to overheads in the 2020-25 period.	The CIOT term has the effect of preventing double funding for costs which may be recovered from both the price control and connection charges.	FD, paras 9.7 – 9.10, p70 & p71
13	Various - CPIH	The reason for modification is to give effect to UR final determination to adopt CPIH.	The effect is to replace RPI with CPIH as a measure of inflation.	FD, para 8.18, p67.



	Licence Reference and Change area	Reason	Effect	FD Reference
14	Various – drafting and naming	The reason for modification is to make minor drafting and naming changes to allow for the working of new licence arrangements (including to drafting changes to line up with similar changes made to the Definitions section of the licence) and in order to improve clarity.	The effect is to remove defunct terms such as INCENTt and Blt and make other naming and drafting changes to reflect and explain modifications to the licence and introduce further clarity (such as those set out in the Definitions section of the licence).	N/A

2.7. In addition to the changes mentioned above there is material changes to the RAB and depreciation sections of the licence. These are summarised below:

Table 3 – Amendments to the RAB Formulas and Depreciation

	Licence Reference and Change	Reason	Effect	FD Reference
1	Annex 1, Para 2.3 (a) Buildings and Non-Buildings Regulated Asset Bases.	The reason for modification is to set out terms for building and non-building RABs to support our adapted method of remunerating capital expenditure that is attributable to the buildings and non-buildings RABs.	The effect is introduction of two terms respectively for building and non-building assets.	N/A
2	Annex 1, Para 2.3(b) WACC Components	The reason for modification is to give effect to UR FD on the WACC and the use of formula to calculate the WACC supports our adapted method of remunerating capital expenditure that is attributable to the buildings and non-buildings RABs.	The effect is to set out the gearing (NGt), cost of debt (CODt), cost of equity (COEt) and corporation tax (CTt) rates. The drafting for corporation tax introduces a mechanistic adjustment for the statutory tax rate within the licence calculations. The value for pre-tax WACC is not hard-coded in the licence but calculated using formulae that takes account of the prevailing tax rate.	FD, para 7.15, Table 7, p58; and FD relating to cost remuneration and managing uncertainty (in relation to effect of calculating the allowed remuneration of building and non-building RAB)



	Licence Reference and Change	Reason	Effect	FD Reference
3	Annex 1, Para 2.3(c) Opening Asset Value	<p>The reason for modification is to calculate the opening RAB which is necessary to support our adapted method of remunerating capital expenditure that is attributable to the buildings and non-buildings RABs.</p> <p>The opening RAB values is now based on an agreed spreadsheet rather than hard-coded figures in the licence.</p>	<p>The effect is to introduce a term for the opening asset value which sets out its calculation.</p>	N/A
4	Annex 1, Para 2.3(d) Closing Asset Value	<p>The reason for modification is to calculate the closing RAB and give effect to the UR FD to allow recovery of ex-ante capital expenditure allowances which are subject to mechanistic cost sharing (MCS) and conditional cost sharing (CCS).</p> <p>It also gives effect to the UR FD to have a 75% MCS amount, and to provide for CCS adjustments for certain costs which must be calculated in accordance with UR guidance on conditional cost sharing. It is also necessary to support our adapted method of remunerating capital expenditure that is attributable to the buildings and non-buildings RABs.</p>	<p>The effect is to introduce a term for the closing asset value which sets out its calculation. The changes establish mechanistic and conditional cost sharing between SONI and customers for ex-ante capital expenditure allowances.</p> <p>Changes to the capital additions include new terms for base capex allowances subject to conditional (BC_Rt) and mechanistic (UC_Rt) cost sharing. There is also provision for uplifts to capex allowances during the period via the new V_Rt term.</p> <p>The formula for the closing asset value also includes the new CSC_Rt for the cost sharing amount. This amends the mechanistic cost sharing percentage from 50% to 75%; and allows for an additional conditional cost sharing amount (CSCA_Rt) in accordance with the UR's conditional cost sharing guidance. The AC_Rt also defines the scope of the respective costs subject to the conditional cost sharing.</p>	FD relating to cost remuneration and managing uncertainty



	Licence Reference and Change	Reason	Effect	FD Reference
5	Annex 1, Para 2.4 The Buildings RAB and Non-Buildings RAB Depreciation Amounts	The reason for modification is to introduce a calculation for the building and non-building depreciation to support our adapted approach of remunerating capital expenditure that is attributable to the buildings and non-buildings RABs; and to bring greater robustness by allowing depreciation calculation via a spreadsheet model from an extract of the FD financial model.	These changes specify the rules to determine the RAB and depreciation values in line with UR financial model methodology in each year depending on values for actual expenditure provided by SONI. The changes replace the existing method of using a hard-coded depreciation allowance for each year of the period and introduces calculation rules based on an agreed spreadsheet model which has been shared as part of this consultation.	FD relating to cost remuneration and managing uncertainty
6	Annex 1, Para 2.5 The Buildings RAB and Non-Buildings RAB Rate of Return Amounts	The reason for modification is to introduce a calculation for the building and non-building rate of return to support our adapted approach of remunerating capital expenditure that is attributable to the buildings and non-buildings RABs.	These changes specify the rules to determine the rate of return values. The changes replace the existing method of using a hard-coded rate of return.	FD relating to cost remuneration and managing uncertainty and risk and return.
7	Annex 1, Para 2.7 The Special Project RAB Depreciation amount	The reason for modification is to improving the robustness of the calculation of depreciation allowance by removing any ambiguity or suggestion that SONI depreciation allowance is indefinite (as opposed to up to the point where a RAB addition has been fully depreciated).	The effect is to remove drafting referring to straight-line depreciation within Special RAB depreciation DEP_SPt.	N/A

2.8. Some other minor changes have been incorporated in this section including name and drafting and cross referencing updates and changes (including those to reflect certain name and drafting changes made within the Definition section of the licence as noted above) and movement of the TNPP RAB to t-6, as the starting point, as this reflects the time when the opening RAB was zero.

Additional Approved Costs and Special Project Costs

2.9. Other changes adopted as part of the consultation mostly relate to the *Additional Approved Costs* section, formerly referred to as *Excluded SSS/TUoS Costs*. The amendments include the following:



Table 4 – Additional Approved Costs and Special Project Cost Licence Changes

	Licence Reference	Change & Reason	Effect	FD Reference
1	Annex 1, Para 8.1 to 8.11 Additional Approved Costs	The reason for modification is to give effect to the UR FD to allow for four types of uncertainty mechanism for uncertain costs in line with our uncertainty mechanism guidance and to move ENTSOE and CORESCO costs to the baseline	<p>The changes have the following effects:</p> <ul style="list-style-type: none"> Text relating to ENTSOE and CORESO fees has been removed from this section as it is no longer relevant. Drafting for ENTSOE ITC costs has been retained as this is still subject to the uncertainty mechanism. The drafting refers to the requirement to make claims in accordance with the guidance on additional approved costs. This guidance is being separately updated and consulted upon. SONI will be required to follow this revised guidance. Allows the UR to decide what licence term (Dt, Zt, Et or Vt) should be used for uncertain cost requests. It also allows recovery of costs under Dt, Zt, Et or Vt terms and how the UR will determine cost remuneration and the basis for cost remuneration under each. This allows UR to determine the scope of costs for each of Dt, Zt, Et and Vt. The Dt and Zt terms also provides for the possibility of removing the cost caps for certain projects should the UR approve. The Et and Vt terms provides the opportunity to uplift ex-ante allowances and be subject to normal cost-sharing arrangements rather than an up-to-the-cap arrangement as exists for Dt and Zt. 	<p>FD, para 6.18, p48</p> <p>FD, Annex 3, para 4.19, p39</p> <p>FD, Annex 3, para 4.16, p38</p>



	Licence Reference	Change & Reason	Effect	FD Reference
2	Annex 1, Para 8.4, Additional Approved Costs, De-Minimis Threshold	<p>UR has incorporated drafting which provides flexibility around the use of the £40k threshold in the case of opex arising from capital spend.</p> <p>The basis of the change is due to issues experienced in the current price control period where reasonable costs have been disallowed due to restrictions in the licence.</p>	<p>Whilst the threshold of £40k per annum remains, the drafting allows flexibility to set this aside for ongoing opex costs as a result of capital spend. For example, in the event of spend on a new IT system, ongoing licence costs of £10k p.a, could be provided for.</p>	N/A
3	Annex 1, Para 9, Special Project Costs	<p>This section has been removed as it is incorporated under the new Additional Approved Costs section.</p>	<p>This tidies up the licence</p>	N/A

Other Issues

- 2.10. No change has yet been made to the definition of the *'Average Specified Rate'* as we did not make a final determination which requires a licence modification change. However, it is our understanding that the LIBOR is being discontinued and a new rate will need to be adopted. Separate work is being undertaken on this issue by UR which will consider this issue across other NI licensees (and not just SONI). Changes to the licence will be made following this wider review if necessary.
- 2.11. Change has also been made to paragraph 11 *'Reporting'* in order to extend the scope of reporting to account for new information around the EFP and CCS guidance documents.



Annex 1 – Article 14(2) Licence Modification Notice

THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION NOTICE UNDER ARTICLE 14(2) OF THE ELECTRICITY (NORTHERN IRELAND) ORDER 1992 (AS AMENDED)

MODIFICATIONS PROPOSED TO THE SONI LIMITED ELECTRICITY TRANSMISSION LICENCE

The Northern Ireland Authority for Utility Regulation (hereafter referred to as “**the Authority**”) hereby gives notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 (as amended) (hereafter referred to as “**the Order**”) as follows:

1. It proposes to make modifications to the conditions of the transmission licence (the “**Licence**”) held by SONI Limited (the “**Licensee**”) under Article 8(1)(b) of the Order.
2. The proposed modifications are set out at Annex 2 to the document "SONI TSO Licence Modifications Price Control 2020-2025 – Consultation" (“**the Consultation**”), of which this notice also forms part, by way of a change-tracked document which shows the existing Annex 1 to the Licence marked-up with the changes that are proposed by way of modification. Annex 2 to the Consultation should be treated as incorporated into this notice by reference.
3. The principal purpose of the proposed modifications is to implement and give legal effect to the decisions as set out in the SONI price control [final determination](#) published by the Authority on 21 December 2020 following prior consultation (“**the Final Determination**”), and to make some minor incidental and consequential amendments flowing from or relating to those decisions.
4. The Final Determination provides a full statement of both the effects of the proposed modifications and the reasons for them, and should be treated as incorporated into this notice by reference. The Authority considers that the decisions made in the final determination, as embodied in the modifications, will ensure compliance with its duties at Article 12 of the Energy (Northern Ireland) Order 2003 during the period of the 2020-2025 price control.
5. The Consultation also summarises the key respects in which the modifications give effect to the Final Determination, and draws attention (non-exhaustively) to the principal parts of the Final Determination which provide a summary of the reasons and effects of the modifications. The Consultation should accordingly also be treated as incorporated into this notice by reference.
6. The Authority has, pursuant to Article 14(4) of the Order served a copy of this notice on the Licensee and sent a copy to the Department for the Economy and the Consumer Council for Northern Ireland.
7. Any representations in response to this notice shall be made to the Authority by no later than 25 October 2021 at 10am.
8. Contact details for making representations may be found set out in the Consultation.



9. Before determining the modifications to be made to the Licence in accordance with Article 14(8) of the Order, the Authority will consider any representations which are properly made and not withdrawn.

Dated this 24th day of September 2021

John French

For and on behalf of the Northern Ireland Authority for Utility Regulation

cc

Noyona Chundur, CCNI

Davina McCay, DfE and Martin McCourt, DfE

Alan Campbell, SONI Limited