

SONI TSO Price Control 2020 – 25

SONI Comments on Draft Guidance Documentation

22 October 2021



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1. Introduction

- 1.1 The SONI TSO Licence Modifications make reference to three guidance documents:
- Requirements and Guidance on Conditional Cost Sharing;
 - Requirements and Guidance on the Evaluative Performance Framework; and
 - Requirements and Guidance on Uncertainty Mechanisms.
- 1.2 At the time of publication of the UR Consultation on SONI TSO Licence Modifications, SONI has not been in receipt of a finalised version of the guidance documents. The UR however did provide a further updated draft version of these documents to SONI on 28 September 2021.
- 1.3 As highlighted in our response to the UR consultation¹ ('the response paper') on the draft guidance documentation (in February 2021), SONI has reviewed this suite of updated draft guidance in the context of the recently published licence modifications to SONI's Transmission System Operator licence².
- 1.4 SONI acknowledges the changes the UR has made in the latest draft document addressing many of the concerns raised by SONI.
- 1.5 We consider the points below as practical suggestions to the guidance documents to ensure their interaction with the draft licence modifications is clearly understood.
- 1.6 We have also considered the interactions of the three sets of guidance with the annual tariff process and have suggested some changes to the timing of activities to ensure the new processes are aligned with the existing tariff process.
- 1.7 SONI would welcome further engagement with the UR on the substance of this paper to ensure that a sustainable outcome to these processes is achieved, which will allow us to focus on delivering value for consumers in Northern Ireland. SONI suggests that this could be best achieved via workshops and 'marking up' of the draft guidance to ensure the clarity required is achieved.

¹ [Consultation on Guidance for our Evaluative Performance Framework, Cost Remuneration and Uncertainty Mechanisms | Utility Regulator \(uregni.gov.uk\)](#)

² [Consultation launched on licence modifications to SONI's Transmission System Operator licence | Utility Regulator \(uregni.gov.uk\)](#)

2 Review of Requirements & Guidance Document on Uncertainty Mechanisms

Further information request by UR

- 2.1 SONI has reviewed the guidance and requests that paragraph 3.3 is updated to be consistent with the drafting in paragraph 3.10, otherwise SONI considers it may create some ambiguity.
- 2.2 Paragraph 3.3 advises that “if the submission does not contain the required detail, the UR will request this from SONI. If a resubmission is required, a decision will therefore be taken on the updated application within four months of the resubmission date”.
- 2.3 Paragraph 3.10 references footnote 4 where the UR advises “*UR would aim to undertake such a review and notify SONI within one month of application, if a full resubmission is required*”. SONI would appreciate more robust timings being advised as part of the guidance and for the wording in these paragraphs to be updated.

Reporting

- 2.4 The response paper highlighted that although the (presumed) processes by which variances in the Et and Vt items are reconciled into SONI revenue entitlement are different to Dt/Zt, the reporting has been replicated. Only actual amounts in the Dt/Zt items impact on the K-Factor related to the year in which they were occurred. SONI proposed in its response paper that the RIGs are used as the main reporting route for the Et and Vt items. However, para 2.2 step 7 remains unchanged with “*SONI detail the K-factor in the event of underspend (for Dt and Zt costs) or in the event of overspend or underspend (for Et and Vt costs)*”. This wording does not appear to align with the treatment of Et and Vt or K factor terms in the draft licence modifications. SONI would like to discuss this further to ensure that our understanding of the cost recovery mechanisms is correct.

Consultation on the application

- 2.5 SONI has given further consideration around paragraph 3.12 “Where appropriate, the UR and/or SONI will publicly consult on the application, though this is unlikely to be required in most circumstances”. Although this is an unlikely scenario, it raises concerns around the potential impact this may have on the four-month guideline for the approval process. SONI would welcome the opportunity to engage with the UR on this point to seek clarity around this activity being concluded within the four month timeline for the approval process. Should this activity delay any approval, it could result in either additional costs incurred due to the impact on having to revisit the planned programme of activities provided as part of the submission, as well as increased costs incurred by performing a consultation process that was not planned for as part of the submission.

Types of General Uncertainty Mechanism

- 2.6 SONI has reviewed the guidance with regard to the types of uncertainty mechanism. Paragraph 3.19 advises there are two types of general uncertainty mechanism. However, paragraph 1.17 advises “*We refer to the Dt, Et, Vt, Zt uncertainty mechanisms as “general uncertainty mechanisms”*”. SONI considers paragraph 3.19 should be updated to reflect “four types of general uncertainty mechanism”.
- 2.7 SONI also seeks clarity around paragraph 1.5 and Figure 1 as there appears to be conflicting points. Paragraph 1.5 advises:
- “In the first instance it is for SONI to propose which of these mechanisms are appropriate for the additional cost allowances that it is seeking. We will specify the mechanism in any approval decisions.”*
- 2.8 However, Figure 1: Overview of the cost recovery process, advises that as the “UR assesses SONI’s funding request” prior to any approval decision, “*UR may engage SONI if it has concerns around the choice of funding mechanism (including by proposing potential alternative choice of mechanism and emerging support rationale regarding the choice)* “. SONI would appreciate confirmation from the UR whether Figure 1 is the applicable reference, rather than paragraph 1.5 which advises SONI will be advised of the mechanism in the decision. SONI would anticipate the non-applicable reference (either paragraph 1.5 or Figure 1) will require an amendment to reflect this prior to finalising the documentation.

References to Materiality Threshold

- 2.9 SONI notes the references to the ‘materiality threshold’ in the draft guidance. We have interpreted that the UR is using this term to reference the de minimis amount defined in the licence rather than the ‘materiality threshold’ as defined in the licence and Conditional Cost Sharing Mechanism guidance document. SONI considers that ‘materiality threshold’ term is being used for 2 separate processes.
- 2.10 As the licence takes precedent, SONI considers that any references to the ‘materiality threshold’ or the ‘de minimis value’ should be removed from the guidance (and refer to the licence) to avoid any confusion or misinterpretation.

Appeal Process

- 2.11 SONI has reviewed paragraph 3.17 which details the actions from the UR in the event it is minded to not approve a funding request. SONI appreciates the UR acknowledging the commercial sensitivity around potential requests and the UR’s agreement to engage with SONI on redactions prior to publishing a decision. However, SONI would appreciate further consideration and detail provided around the appeal process for any non-approvals.
- 2.12 In practice, the UR has recently introduced a stage where it shares a provisional decision with SONI before making a final decision. This allows SONI to respond with any concerns. SONI welcomes this approach and considers that it should be incorporated into the guidance documentation.

Pension Deficit Repair (PTRAt)

- 2.13 Paragraph 4.6 includes the statement “The adjustment can also be triggered by the UR should we consider that the improvement in the deficit position merits a reduction in the price control allowance”.
- 2.14 SONI considers that prior to triggering an adjustment that the UR would engage in discussions and work collaboratively with SONI before imposing a reduction in the price control allowance.
- 2.15 Paragraph 6.13 advises that PTRAt costs are “only subject to determination after a triennial actuarial valuation, it is only subject to one possible variation request over the five year period”. SONI anticipates that the same approach should apply to paragraph 4.6 and that this would transpire following a triennial review if the findings were appropriate in this regard.
- 2.16 Based on this, SONI requests that the wording of paragraph 4.6 is revisited to ensure there is consistency and transparency of approach

3 Conditional Cost Sharing Guidance

- 3.1 SONI has reviewed the updated draft guidance document, the “Requirements and Guidance on Conditional Cost Sharing”, and has detailed some points for the UR’s consideration below.

Verification of under-spend or over-spend

- 3.2 Under Paragraph 3.8, SONI understands that the UR may wish to review the way SONI has determined the costs, as specified in the guidance and Annex 1. SONI notes that there is an absence of estimated timings for these activities and it is unclear what impact this would have on the timescales for the overall process. There is a firm annual deadline for the tariff process, with the inputs to SONI’s revenue entitlement needing to be firm by early June. SONI considers that the UR has not factored in this activity to the overall timing of the annual processes.

Timings

- 3.3 SONI has reviewed the RAB Model excel sheet guidance in parallel to the Conditional Cost Sharing Guidance and notes that in the excel sheet some high level detail is given around timelines. SONI considers that it is important that these are fully aligned with the Requirements and Guidance on Conditional Cost Sharing.
- 3.4 SONI notes that the timescales expected to be adhered to by both SONI and the UR are detailed within the Section 3 The Annual Process, of the guidance. Figure 1 on page 10 gives details on the timescales involved, but SONI would consider that these should be detailed within the appropriate narrative in Section 3 in order to reduce any potential risk of ambiguity.
- 3.5 SONI has replicated a timeline from the CCS and RAB guidance and highlighted our concerns relating to fulfilling our regulatory obligations, specifically in relation to revenue entitlement submission and internal governance. See comments and notes in the diagrams below.
- 3.6 Furthermore, SONI also provided an additional revised timeline that we believe could rectify the scheduling issues. Again, we have provided notes/comments detailing changes in timeline and revised deadlines. We would encourage further engagement on the timing of all new mechanisms to ensure the annual tariff process is adhered to and adequate time is included to allow SONI to undertake its internal governance processes. We consider this to be achievable by updated the guidance to reflect the SONI proposals below.

Timeline detailing the new mechanisms and the interaction with the Annual Tariff Process

		Existing Processes			New Processes					
Month	Weeks	RIGS - SONI Actions	SONI Revenue Entitlement	Uncertainty Mechanism Reports	CCS & RAB Spreadsheet Steps	CCS Timeline - UR Actions	CCS - SONI Actions	RAB Spreadsheet - UR Actions	RAB Spreadsheet - SONI Actions	EPF - EPT Calculation - UR Actions
January	1									Value of EPT for year t is known (based on published FWP Financial Incentive Decision)
	2	SONI submits the RIGS 31 January			Step 1					UR will take 6 weeks from publication of SONI Annual Performance Assessment Report - for the UR and Stakeholders to make submissions.
	3						SONI submits its CCS assessment 31 January			
	4									
February	1									
	2	SONI responds to any input data			Step 2	UR undertake verification of under-spend or over-spend Mid – February (Two weeks)				
	3				Step 3	Application of materiality threshold - End February (Two weeks)				
	4									
March	1									
	2									
	3				Step 4A	Draft assessment of CCS by the UR All of March (Four weeks)				UR Publish the Panels Report on SONI's Performance Assessment
	4			SONI submits report for existing and forecasted claims using the uncertainty						
April	1				Step 4B		SONI provides feedback on UR draft decision Early April to Mid-April (Two weeks)			UR to engage with SONI to advise minded to position and reasoning
	2									
	3									
	4				Step 5	Decision on cost sharing adjustments End April / Early May (Two weeks)				UR publish decision on EPF Performance financial incentive for year t-1
May	1									
	2									
	3				Step 6 & 7	UR makes its decision within 10 weeks of RIGS submission and by the end of May at the latest. NOTE 1		UR issue draft of the model to SONI incorporating inflation adjustments, actual spend from RIGS, CCS decisions and any interim UR allowances which can be submitted and approved at any time throughout the year (before end of May). NOTE 2		
	4		First Estimate of Maximum Revenue required - GTUoS Input							
June	1				Step 8		SONI Incorporates CSBA values into revenue submission		SONI raise any comments or issues with the RAB model (early June).	
	2									
	3		SONI Internal Governance for FINAL SSS submission early July NOTE 3		Step 9			Step 9: UR issue a final model with depreciation and return to be used in tariffs and K-factor calculations (mid-June). NOTE 3		
	4									
July	1				Step 10				Step 10: SONI submit tariffs (early July). NOTE 4	
	2									
	3									
	4									

Note	Date Reference	CCS RAB Step	Comments
Note 1	May Wk 2/ 3/4	Step 6/7	Process indicates a minimum of 14 weeks from RIGS submission - Guidance suggests this should be 10 weeks. This would suggest UR would have made decision by Mid April
Note 2	May Wk 3/4	Step 6/7	We propose this starts earlier and is a shorter window. End of June does not allow time for SONI internal sign off of Revenue
Note 3	June Wk 3/4	Step 9	SONI require RAB Spreadsheet decision from UR before internal governance completed and revenue entitlement submission.
Note 4	July Wk 1	Step 10	This should read SONI submits Revenue Entitlement for approval

Proposed NEW Timeline detailing the new mechanisms and the interaction with the Annual Tariff Process

		Existing Processes			New Processes					
Month	Weeks	RIGS - SONI Actions	SONI Revenue Entitlement	Uncertainty Mechanism Reports	CCS & RAB Spreadsheet Steps	CCS Timeline - UR Actions	CCS - SONI Actions	RAB Spreadsheet - UR Actions	RAB Spreadsheet - SONI Actions	EPF - EPT Calculation - UR Actions
January	1				Step 1					Value of EPT for year t is known (based on published FWP Financial Incentive Decision)
	2	SONI submits the RIGS 31 January					SONI submits its CCS assessment 31 January			UR will take 6 weeks from publication of SONI Annual Performance Assessment Report - for the UR and Stakeholders to make submissions.
	3									
	4									
February	1				Step 2	UR undertake verification of under-spend or over-spend Mid – February (Two weeks)				
	2	SONI responds to any input data concerns if required								
	3				Step 3	Application of materiality threshold - End February (Two weeks)				
	4									
March	1				Step 4A	Draft assessment of CCS by the UR All of March (Four weeks)				
	2									
	3									UR Publish the Panels Report on SONI's Performance Assessment
	4			SONI submits report for existing and forecasted claims using the uncertainty mechanisms						
April	1				Step 4B		SONI provides feedback on UR draft decision Early April to Mid-April (Two weeks)			UR to engage with SONI to advise minded to position and reasoning
	2									
	3				Step 5	Decision on cost sharing adjustments End April (Two weeks)				UR publish decision on EPF Performance financial incentive for year t-1
	4					NOTE 5				
May	1				Step 6 & 7	UR makes its decision within 10 weeks of RIGS submission and by Mid May at the latest NOTE 6		UR issue draft of the model to SONI incorporating inflation adjustments, actual spend from RIGS, CCS decisions and any interim UR allowances which can be submitted and approved at any time throughout the year (before Mid May).		
	2							NOTE 7		
	3				Step 8				SONI raise any comments or issues with the RAB model (End May). NOTE 8	
	4		First Estimate of Maximum Revenue required - GTUoS Input							
June	1				Step 9		SONI Incorporates CSBAT values into revenue submission	Step 9: UR issue a final model with depreciation and return to be used in tariffs and K-factor calculations (by Mid June) Note 9		
	2									
	3		SONI Internal Governance for FINAL SSS submission early July							
	4									
July	1				Step 10				Step 10: SONI submit Revenue Entitlement for approval (early July). Note 10	
	2									
	3									
	4									

Note	CCS RAB Step	Comments	Previous Deadline	New Deadline
Note 5	Step 5	Decision on cost sharing adjustments	May - Week 1	April - Week 4
Note 6	Step 6/7	UR makes CCS Decision	May -Week 4	May -Week 2
Note 7	Step 6/7	UR issues DRAFT RAB Spreadsheet Model	May -Week 4	May -Week 2
Note 8	Step 8	SONI raises any comments/issues with RAB model	June -Week 2	May -Week 4
Note 9	Step 9	UR issues FINAL RAB Spreadsheet Model	June -Week 4	June -Week 2
Note 10	Step 10	Revised Wording	July - Week 1	July - Week 1

Methodology - Service Performance in order to assess potential adjustments

- 3.7 SONI has reviewed the methodology in relation to the assessment of potential adjustments of an over-spend and an under-spend. This section references paragraph 4.10 to 4.12.
- 3.8 We note that bullet point one is incomplete and requires references to be included to the Requirement and Guidance on the Evaluative Performance Framework.
- 3.9 SONI's response to the UR Consultation on Conditional Cost Sharing Guidance (on 15 February 2021) highlighted that SONI believed that *"the use of performance metrics would over complicate what should be mechanistic calculations and increase the resource requirements within the UR and SONI without providing benefit for the NI consumer, and as such SONI would maintain the position that performance metrics are not included in the Conditional Cost Sharing mechanism"*. We note that the UR has not adjusted the guidance to reflect this concern.
- 3.10 The UR has introduced the concept of service performance into the latest Conditional Cost Sharing Guidance. This appears to be largely aligned with the approach used in the Evaluative Performance Framework Guidance. The Evaluative Performance Framework has an independent panel to assess SONI's performance. However, the Conditional Cost Sharing assessment will be undertaken by the UR during March each year. In contrast, the UR will then make its decision on the evaluative performance framework at the end of April following consideration of the recommendations of the independent panel.
- 3.11 The proposed approach therefore creates a risk that the findings of the UR for the conditional cost sharing assessment and the findings of the independent panel may be contradictory and the UR could be perceived to have already decided on the performance level ahead of the independent panel.
- 3.12 We strongly urge the UR to further consider the interaction and timing of the two sets of guidance as the current drafting raises doubt over the roles of the UR versus the independent panel. As previously highlighted, this could be alleviated by removing the service performance assessment from the conditional cost sharing guidance and thus ensures the integrity of the independent panel. SONI would welcome further engagement on this issue.

Other Points of Note

- 3.13 SONI notes an inconsistency in the drafting of paragraph 3.23. We consider this should reference the 'non buildings RAB' rather than the current reference to the 'buildings RAB'
- 3.14 SONI notes the term 'RAB Policy' is included in this paper, but it is unclear what this term means. SONI suggests that a definition of this term should be included to avoid ambiguity or misinterpretation.

4 Evaluative Performance Framework Guidance

- 4.1 SONI has reviewed the updated draft guidance document, the “Requirements and Guidance on Evaluative Performance Framework”, and has detailed some further points for the UR’s consideration below.

Timing of Financial Incentive

- 4.2 SONI has reviewed the draft guidance document but has not found clarity regarding the timescales involved for the provision of the financial incentive.
- 4.3 Paragraph’s 3.17 and 3.18 relate to “*Step 5: Determination of the forward plan incentive amount*” and Paragraphs 3.33, 3.34 and 3.35 relate to “*Step 10: Determination of the performance incentive amount*”. Both these paragraphs provide clarity around the decision on the forward plan incentive amount and performance amount, and around the SONI/UR engagement prior to publication of the decision. However, it does not detail the timings of when SONI can expect to recover the relevant financial incentive (positive or negative).
- 4.4 SONI requests that the UR gives consideration around this detail and captures this within the Requirements and Guidance on Evaluative Performance Framework document prior to being finalised.

Other Comments

- 4.5 A minor note in the draft Requirements and Guidance on Evaluative Performance Framework document is that the updates to section 4. The Evaluation of the Forward Plan need amendments to the numbering, as following sections 4.1 through 4.7 in the draft document, instead of moving to 4.8 it reverts back to 4.1.

Grading the performance

- 4.6 SONI previously discussed a potential gap in the guidance regarding the criteria where SONI may exceed expectations in two areas and fall short in one area. SONI notes that the UR has addressed this request in paragraph 5.35 and thanks the UR for their collaboration in this area.
- 4.7 Additional guidance has been provided in the format of a table with the associated relevant scoring methodology for reference by the panel as part of the forward plan assessment conducted by the panel. SONI would appreciate if the same guidance can be implemented for the performance review, and a tabular format provided in the guidance for the panels reference when assessing SONI’s performance. An example of such a table is provided below as a suggestion for the UR in this approach.

Performance Grade (Per TSO Role)	
Grade	Range
1 – Poor	e.g. Fallen short in most/all criteria & not exceeded any
2 - Lagging	e.g. Meets Expectations 2, 1 shortfall
3 - Baseline	met all criteria/balance of exceed and shortfall
4 – good	e.g. Exceed one criteria and meet 2, Exceed 2 criteria and 1 shortfall
5 - excellent	exceeded most/all criteria, none falling short

5 RAB Spreadsheet

- 5.1 Overall SONI welcomes the application of the RAB spreadsheet and guidance, however we would highlight our concerns over the suitability of referencing this document within Annex 1, rather than codifying the specific formulae within the annex as expected. Nevertheless, we appreciate that this chosen approach by the UR is a pragmatic compromise and should ensure that annual RAB related calculations and process will be more straightforward and without unnecessary complication.
- 5.2 As part of our review of the RAB spreadsheet we have the following comments for the UR to consider.
- 1) The spreadsheet doesn't currently reference or note the increase in materiality threshold to £500,000. This should be added to the Guidance tab or reference the figure in the licence.
 - 2) The Guidance tab should reflect the procedural steps if the materiality threshold is not met. I.E. if this happens then "*For the purposes of Annex 1 to SONI's TSO licence, the values of CSBA_t, CSC_BD_t and CSC_NB_t will be zero for financial year under consideration*". Should this occur it would be worth considering a second alternative timeline to expediate the now simplified annual process and issue the final model earlier (final model currently issued mid-June – Step 9) .
 - 3) Although elements of the CCS timeline have been built into the make-up of the Guidance tab, it is essential that the UR is cognisant of any changes to this and other annual operational timelines that are of relevance, and, as such, amends the Guidance Tab appropriately. This includes the Evaluative Performance Framework and SONI's all-island tariff and revenue entitlement regulatory obligations. This is discussed further in the Conditional Cost Sharing Guidance above.
 - 4) Inflation tab - RPI for 2020 onwards should be removed as it is not required.
 - 5) RAB Inputs tab - There should be a statement in the Licence and the Guidance Tab to state that the numbers (up to the year 2019/20) in this tab are historical, are hardcoded and cannot be changed.
 - 6) RAB NB tab - Cell O53 is hardcoded - the model needs updated to reflect correct inputs and formula (the value is correct).