



SONI: Article 14(8) Notice and Licence Modifications Decision

Decision on Licence Modifications for the SONI Price Control 2020-2025

Decision Paper
19 November 2021



About the Utility Regulator

The Utility Regulator (UR) 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 today publishing a decision on licence modifications pursuant to the SONI 2020-2025 price control final determination.

The 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. Introduction

Purpose of this document

- 1.1 This document represents a final decision regarding the licence modifications required to enact the SONI price control 2020-25 final determination (FD). A consultation on the changes to the TSO transmission licence was published on 24 September 2021. Two responses were received from stakeholders in October 2021.
- 1.2 The purpose of the document is threefold:
- a) Details stakeholder responses and how the UR has taken account of consultation views.
 - b) Provides reasons for any differences between the consultation and the licence modification decision and sets out reasons and effects.
 - c) Provides the final decision on the modifications.
- 1.3 This decision also provides details on the date upon which the licence changes will become effective for the licensee (depending on whether an appeal is brought forward or not).

Consultation

- 1.4 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 framework for SONI.
- 1.5 In order to implement the policy decisions set out in the final determination (including FD Annexes 2 to 5), it is necessary to make extensive changes to Annex 1 of the TSO licence. As a consequence, the UR published a statutory [consultation](#) on the issue in September 2021.
- 1.6 The consultation outlines in specific detail the changes, rationale and impact of the amendments.

2. Consultation Responses

Views & Responses - SONI

- 2.1 Two responses to the consultation were received. These include feedback from SONI and the Consumer Council (CCNI). Responses are published alongside this decision paper.
- 2.2 The most material response was received from the TSO. The table below sets out SONI's concerns, the UR response and the action arising. Comments are generally in order of the various sections in the SONI response i.e. statutory notice, commercial impacts, price control process and lack of clarity etc. However, given the repetition set out in SONI's response we have not always dealt with the response in this way.

Table 1: SONI Views and UR Responses

	Consultation Response	UR Views	Decision
1	<p>The notice refers to an irrelevant section of the Electricity (NI) Order 1992. (Article 8.1 relates to Prohibition on unlicensed supply, etc.) and omits the correct legislation.</p> <p>SONI considers that the Article 14 Notice published by the UR on 24 September 2021 to be invalid because it refers to legislation that is irrelevant to this process. [SONI Response, p15, paras 3.1 to 3.4]</p>	<p>SONI is correct that the Article 14(2) notice referred to an irrelevant section of the Electricity Order. It referred to SONI's licence being held under Article 8(1)(b) of the Order. This was a typo. The intended reference was to Article 10(1)(b) of the Order.</p> <p>However, the typo had no practical detriment to the process. It would have been clear to all consultees, not least to SONI, which licence was being referred to. No party was disadvantaged in its understanding of the consultation or ability to respond. As the consultation properly fulfilled the obligations required under Article 14(2), UR does not agree that the incorrect reference invalidates the original notice.</p>	<p>A further consultation is not required.</p>
2	<p>SONI is concerned about the inclusion of this wording "<i>The Article 14 Notice states that the Final Determination (FD) provides a full statement of the effects and reasons of the changes and should be treated as incorporated into the 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.</i>" This is because SONI feels that it implies that the obligation to codify the price control decisions into the licence is being bypassed. [SONI Response, p15, paras 3.5 to 3.6]</p>	<p>UR disagrees with the SONI conclusion. The notice indicates that the, "<i>principal purpose of the proposed modifications is to implement and give legal effect to the...final determination</i>" and that the FD is, "<i>embodied in the modifications</i>". The consultation set out the reasons, effects and by default, the licence obligations required of SONI. The draft licence also referred to Price Control Decision Paper as necessary and in a proportionate manner.</p>	<p>A further consultation is not required.</p>

3	<p>The errors identified undermine the legal integrity of the process undertaken by the UR. The sanitisation of this process will require a new Article 14 Notice and consultation to be initiated. [SONI Response, p16, para 3.8]</p>	<p>UR does not consider that the incorrect legal reference undermines the integrity of the process. Consequently, a new consultation should not be required.</p>	<p>A further consultation is not required.</p>
Consultation Response		UR Views	Decision
4	<p>Until the publication of the Final Determination in December 2020, SONI's understanding was that it would be able to claim 100% of any efficiently incurred overspends via the conditional cost sharing mechanism. [SONI Response, p16, para 3.10]</p> <p>It then goes on to say that the UR provided SONI with clear assurances in the Draft Determination that the baseline would be uplifted for efficient increases in costs on the basis of paragraph 6.65 of Appendix A to Annex 5 of the Draft Determination. SONI also state that the approach proposed by the UR in its Draft Determination was that all costs under the price control (except System Services, TNPP work, TUoS and CAIRt) would be subject to the conditional cost sharing mechanism (see Figure 8 of the Draft Determination).</p> <p>SONI goes on to say that in the Final Determination, the UR changed this position relating to the costs under the price control and altered the mechanism such that a subset of costs would sit outside the Conditional Cost Sharing arrangements and only be subject to mechanistic cost sharing and so this contradicts the principle set out in Paragraph 6.65 of Appendix A to Annex 5 of the Draft Determination which therefore no longer applied. [SONI Response, p17, paras 3.12 to 3.14]</p>	<p>SONI is incorrect to say that at the time of its DD response it would be able to claim 100% of any efficiently incurred overspends via the conditional cost sharing mechanism or that we changed position as to whether the ENTSOE and CORESCO costs would be subject to the CCS and that we were inconsistent with FD.</p> <p>The first excerpt from which SONI quotes from the DD (paragraph 6.65 of Appendix A to Annex 5) says that UR would consider evidence of cost increase "<i>due to the efficient costs of justified improvement in performance</i>" but there is nothing to suggest a guarantee of an allowance for 100% of cost increases. We also point SONI to other paragraphs: paragraph 6.63 of the DD described the circumstances in which SONI could fully recover additional costs under the conditional cost-sharing approach and this required that over-spend was due to the efficient costs of justified improvement in performance.</p> <p>Another example, is Table 1 of Appendix A in Annex 5 from the DD. It said that as a matter of principle if there was "<i>Bad luck from unanticipated increases in costs due to external factors not anticipated when ex ante baseline set</i>" the cost-sharing incentive rate (i.e. 25%) should apply. Again, there is also nothing to suggest in the DD Figure 8 that SONI should get a able to claim 100% of any efficiently incurred overspends for ENTSOE or CORESCO costs via the conditional cost sharing mechanism.</p> <p>SONI then goes on to say that we changed the sub-set of costs applying to the CCS which meant the DD paragraph 6.65 no longer applied at FD. While we changed position from DD to FD in response to a SONI concern around how the costs should be assessed in the CCS (the issue of granularity of assessment) we did not do so between DD and FD on our position that the ENTSOE and costs should be treated under the CCS in any case.</p>	<p>No change required.</p>

5	<p>During this consultation period, SONI has been informed of an estimated increase in our ENTSO-E annual membership fee from less than £100k to approximately £350k per annum to reflect increased scope and cost reallocations. This may increase further as the full outworking of National Grid's resignation emerges. The provision included in the price control baseline is £75k per annum, or £350k over the five years. [SONI Response, p17, para 3.17]</p> <p>The costs of the services to be provided over the remainder of the price control are still being developed, however the uplift to cover the provision of new services is expected to be measured in the hundreds of thousands of pounds. [SONI Response, p18, para 3.19]</p> <p>The Final Determination contains narrative specifically relating to licence fees, ENTSO-E and CORESO costs that SONI will be able to make a submission for additional allowances under the Dt uncertainty mechanism in the event of material cost increases. [SONI Response, p19, para 3.22]</p>	<p>We have considered SONI's points on materiality further. The same point was raised in its response to the UR guidance consultation, but SONI has now responded to the UR licence modification consultation with new cost information. We do not consider it proportionate to re-open the price control in the FD on this basis. We note that SONI still says that costs are being developed. We also note that the costs asserted by SONI in its response form a small proportion of the price control costs set at FD, especially after taking account of the mechanistic cost sharing which applies to the allowed costs at FD which allows SONI to pass-through 75% of over-spends to consumers. We also note that we have alternative mechanisms for SONI to justify additional efficient expenditure via uncertainty mechanisms subject to the relevant justification being provided.</p> <p>We also note that SONI has asserted there is an increase in scope. Our guidance allows for an uplift for changes in scope and explains that the starting position for determining the type of mechanism for the treatment in the price control (for example, in this case an ex-ante baseline with mechanistic cost sharing).</p>	No change to the licence.
6	<p>This proposed approach also appears to contradict the relevant Network Codes, which all contain an obligation on the UR to allow recovery of the efficiently incurred costs of these activities. [SONI Response, p18, para 3.21]</p>	<p>There is no contradiction. The UR allows that these efficiently incurred costs are recovered by SONI where SONI has provided appropriate justification and we have uncertainty mechanisms for additional justified expenditure.</p>	No change required.
7	<p>The drafting in the proposed licence modifications to the ENTSO-E membership costs in paragraph 8.1 have been deleted. [SONI Response, p19, para 3.23]</p>	<p>Removing the references to ENTSO-E membership costs from paragraph 8.1 is consistent with the approach that these costs are recovered via baseline allowances.</p>	No change to the licence.
8	<p>We request that the UR rescinds its decisions of 15 July 2020 and 16 April 2021. [SONI Response, p19, para 3.24]</p>	<p>UR sees no reason to rescind these decisions.</p>	No change required.

9	<p>SONI considers this as a material issue. Furthermore, the current drafting is erroneous due to the following reasons:</p> <ul style="list-style-type: none"> • Failure to provide regulatory certainty and expose SONI to risks and costs exposure; • Failure to achieve stated objectives; • Failure to account for the roles and responsibilities of SONI; and • Acted ultra vires by failing to consult on the change of approach on ENTSO-E membership and CORESO allowances. [SONI Response, p20, para 3.25] 	<p>We have responded to its detailed points above which underpin SONI's arguments and points. We disagree with SONI.</p>	<p>No change required.</p>
Consultation Response		UR Views	Decision

10	<p>SONI is in the position where year 1 and the vast majority of year 2 of the price control period will be completed without certainty in terms of revenue and therefore increased risk.</p> <p>Failure to provide or publish the guidance documents alongside the Final Determination denies SONI and all stakeholders the opportunity to ascertain the effects of the licence mods. Also means SONI has no appeal avenue. [SONI Response, p21, para 3.28 and p29, paras 3.68 to 3.69 and 3.74]</p>	<p>The delays to the price control licence modification decision do not lead to increased risk in terms of revenue uncertainty. The FD was set in December 2020 and so SONI would have had a clear understanding of its revenue entitlements and any other related price control decisions which affect this at this point.</p> <p>UR published draft versions of the EPF, CCS and uncertainty mechanism guidance in a consultation launched alongside the FD and in advance of the licence modifications. This consultation gave all stakeholders an opportunity to ascertain the effects of these documents.</p> <p>UR has been engaging with SONI on changes to the guidance resulting from the licence modification process. We also gave stakeholders a further opportunity to respond to the guidance consultation when we published our draft licence modifications. This was because a respondent had highlighted a limited number of circumstances which suggest stakeholders may have further comments in light of sight of the draft licence modifications. However, we do not agree that publishing a working version of the guidance would have been the appropriate course of action as we still needed to take account of further responses on the guidance and had not made a decision.</p> <p>SONI has offered no sound reasoning as to why we needed to publish a draft version of the guidance to understand the effect of the draft licence modifications which were clearly set out at consultation of the licence modifications. It is also worth noting that previous guidance documents such as the TNPP mechanism were finalised and published alongside the supporting licence modifications. SONI previously accepted this approach and the UR plans to follow a similar methodology on this occasion.</p> <p>We have finalised and published the guidance alongside the licence modification decision paper. In terms of appeal, SONI can both challenge the licence changes via a CMA appeal or later decisions on the guidance via Judicial Review (JR).</p>	<p>No change required (Guidance to be finalised and published alongside the licence decisions).</p>
11	<p>Based on the significant delay, SONI notes that the guidance documentation is unlikely to be in place to allow for the calculations of the Conditional Cost Sharing Mechanism terms to be undertaken for Year 1 of the price control.</p> <p>SONI considers that a pragmatic approach to this issue is to set both the CSBA_t and CSCA_{Rt} terms to zero for Year 1 of the price control. This should be included in the drafting of the licence. [SONI Response, p22, paras 3.40 to 3.41]</p>	<p>Whilst mechanistic cost sharing is a well-established element of the SONI price control, conditional cost sharing is new. Given the point that the CCS guidance has not been finalised, UR agrees that it is reasonable to set these terms to zero for the first year of the price control.</p>	<p>Drafting included in Para 2.2(d)(iii) to set CSBA_t to zero in Year 1 and Para 2.3(d)(iii)(C) to set the CSCA_{Rt} term to zero for Year 1 of the price control.</p>

12	<p>The Licence Modifications are based on the Evaluation Performance Framework being in place from October 2022 (start of Year 3). SONI do not feel that the transition year should be lost simply as a result of the delays of the price control process.</p> <p>SONI considers that it is in all parties (SONI, Independent Panel, Customers, Stakeholders and the UR) interests to have a full transition year without the application of financial incentives (as specified in the final determination). [SONI Response, p23, paras 3.47 to 3.49]</p>	<p>The transition year in year 2 has merit given the nature and importance of this change to the regulatory framework. We also determined to have one in the FD. However, we have amended the EPF guidance to reflect new timelines and the removal of the mid-year review given the delay.</p>	<p>Change to EPF guidance to reflect new timetable for transitional year 2.</p>
13	<p>SONI has commenced seven of the last twelve tariff years without a codified revenue entitlement, introducing atypical operating challenges to the business. [SONI Response, p24, para 3.54]</p>	<p>There is a roll-over mechanism provision in the TSO licence (Annex 1, Para 5.1) to ensure a stable revenue stream with the possibility of uplifts being provided [Para 5.2(a) to (d)] in certain circumstances.</p>	<p>Not applicable.</p>

14	<p>We consider that the UR needs to revisit the calculation of the ARAt terms and reflect the cost of the additional risks that SONI is currently facing in the revenue entitlement. As SONI will be progressing these via the Dt and Zt terms, the costs of the asymmetric risk should be included in the ARAt term. [SONI Response, p21, para 3.34 to 3.36]</p> <p>In SONI's opinion, the UR has made an error with respect to the asymmetric risk allowance. This is based on the following:</p> <ul style="list-style-type: none"> • SONI will not be able to avail of the new Et and Vt uncertainty mechanisms during the first two years of the price control. • Uncertain projects such as the EBGL (Electricity Balancing Guidelines) or NEMO (Nominated Electricity Market operators) will have to be progressed via Dt/ Zt uncertainty mechanism. • The risk being carried by SONI is clearly much higher than the level of revenue provided via the ARAt term, with no offsetting factors. • The risk being attributed to SONI is contrary to the CMA's 2017 Decision. SONI considers that the UR's decisions creates a failure to provide regulatory certainty and expose SONI to risks. <p>SONI considers that the quantum of the ARAt term needs to be revised from £136k to £225k p.a. to take this into consideration as it is error not to do so. Therefore, SONI requests the calculation is updated and downward bias corrected as per the table. [SONI Response, p25 to p29, paras 3.58 to 3.64]</p>	<p>We do not agree that an amendment needs to be made to the asymmetric risk term as there is no error.</p> <p>It is worth noting that the allowance is based on forecasts which are always rather uncertain. At the FD, the UR accepted the TSO forecasts in these uncertain areas, which formed the basis of the allowance. The fact that some of the amounts have changed should not be detrimental to the consumer simply because the price control has been delayed.</p> <p>UR accepts that delays in the price control has meant that the December FD uncertainty mechanisms are not yet in effect from the licence modifications, however the following points also need to be taken into consideration:</p> <ol style="list-style-type: none"> 1) UR accepted the TSOs own forecasts in these uncertain areas of spend which formed the basis of the fixed FD allowance. 2) We said in DD and FD that our starting point for most of the projects SONI has identified is that they would be more suitable for an ex-ante allowance type uncertainty mechanism. While we recognise that SONI has not made any uncertainty mechanism submissions for these yet and so the facts of each case and circumstance are unclear, it is unlikely that these would be the type of projects which would be relevant to asymmetric risk which is for up to a cap mechanisms etc. 3) Even if they were relevant to asymmetric risk, whilst stating that there are no offsetting factors, in their tariff submission SONI has forecast TNPP spend in Years 1 and 2 at c. £3m compared with an FD estimate of c. £9m. This is by itself an offset of £6m. If the rates of TNPP underspend continue at the same rate as SONI expect for Years 1 and 2, the asymmetric allowance should actually fall. 4) We said in the FD that asymmetric risk needs to be considered in the round and set out our assessment that on this basis the overall framework is likely to be asymmetric in SONI's favour. SONI has not provided any further evidence to refute this. 5) SONI figures assume the approval of almost £10m over a number of large projects before the licence modifications come into effect. Such a forecast is somewhat improbable. <p>UR does not accept the claim that the FD decision is contrary to the CMA approach. It does in fact follow the same methodology with the UR accepting SONI's own forecast for these uncertain areas of spend which are undoubtedly hard to predict.</p>	No change.
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	Consultation Response	UR Views	Decision
15	SONI is concerned that the dates from which the guidance documentation applies from should be defined in the licence or guidance documents - this remains an unknown. [SONI Response, p30, para 3.70]	Obviously the new guidance documents cannot take effect until the relevant licence modifications do so. When we make changes in the guidance we will publish when the guidance will take effect.	No change.
16	<p>Guidance documents formed part of a consultation process, and therefore the appropriate next steps in SONI's opinion would be to then publish a decision or response paper alongside the finalised versions of the guidance documents. [SONI Response, p30, paras 3.71]</p> <p>Table 3: <i>Price control process timeline</i> indicates that the final stage in the process is 'Statutory licence modification statement and guidance decision'. SONI considers that this reinforces the obligation that the documents should be published, and the UR has not followed its own processes. [SONI Response, p30, para 3.72]</p>	We disagree that we have not followed appropriate process. The guidance will be finalised and published alongside the licence modification decision paper.	Guidance to be finalised and published alongside the licence decisions.
17	<p>SONI's rights and obligations are set out in the Licence which incorporates Annex 1 – this is the purpose of the Licence. It is not appropriate for the Licence to direct the licensee to search for unclear rights and obligations by reference to a reading of the Final Determination and numerous Annexes. SONI considers that the UR need to propose wording to fully transpose the Final Determination into the Licence. [SONI Response, p31, para 3.78]</p> <p>The open ended formal definition of "<i>Price Control Decision Paper</i>" means that subsequent decision papers relating to the price control can simply be incorporated by reference to the TSO Licence on an ongoing basis, without the need to implement any associated licence modifications and without offering SONI any opportunity to appeal such decision. [SONI Response, p32, para 3.80]</p>	<p>We do not agree that the licence modifications must be standalone, codify the final determination and never refer back to it and that the final determinations should be fully transposed into the licence.</p> <p>While we recognise it should be as freestanding as possible transposing the entirety of the FD into the licence is neither practical nor feasible. It also may be unhelpful to remove references in the vast majority of the instances that SONI cites as this provides important information and context relevant to the condition, puts constraints on UR where necessary to protect consumers and/or SONI, and to avoid double counting. UR has attempted to implement the main policy decisions via changes to the revenue formula and adoption of new supporting guidance documents. It is the UR view that, taken together, these establish both SONI's rights and obligations under the new regulatory framework in a satisfactory manner.</p> <p>UR does, however accept the point raised by SONI regarding the definition of price control decision paper once the licence modifications decisions are made. The definition shall be changed to exclude, "<i>as they may be supplemented or amended by any further decision paper on the same subject.</i>" These words were not part of the proposed licence modifications, but are in the existing licence, and UR is unaware that they have given rise to any difficulty in practice. However, in the light of the response from SONI, UR will modify the definition to remove the words.</p>	Price control decision paper definition to be amended.

18	<p>The Final Determination references an approach to adjustments to revenue based on non/partial delivery of deliverables, but it does not detail how these adjustments will be undertaken.</p> <p>This does not allow SONI the ability to quantify the risks that it is exposed to when making decisions. SONI considers this to be a fundamental gap in the codification of the licence and the lack of guidance or procedure as to how the UR would undertake this assessment creates a significant risk to SONI. [SONI Response, p32, paras 3.82 to 3.83]</p>	<p>SONI is correct that within the FD the UR set out a principle to remove funding for undelivered projects [See FD, Annex 2, paras 3.5 to 3.9]. However, we do not consider this needs to be codified in the licence. We also do not consider that it is proportionate to set out further guidance on this.</p> <p>We consider our FD decisions remain appropriate but we recognised in the FD that SONI would need to further develop its deliverables over time and that we expect development to be accounted for within our Evaluative Performance Framework (see EPF guidance). As a consequence, no specific mechanism was provided for in the licence modification consultation.</p> <p>We do not consider there is any material risk to SONI as it contends. SONI also points out that we have ignored best practice: we disagree with this and would point out that the approach we have taken is well-established.</p>	No change required.
19	<p>SONI considers that there is read across to the Ofgem RIIO-2 CMA referral as the current approach by the UR to a potential future undefined revenue adjustment leaves SONI exposed in a way that would undermine investors' confidence.</p> <p>SONI considers that the UR's proposition of adjustments based on performance would be interpreted in the same manner as the CMA provisional ruling in the above appeal. [SONI Response, p33, para 3.86]</p>	<p>UR does not consider the context to be the same as that of the Ofgem outperformance wedge.</p> <p>CMA has indicated that the problem with the Ofgem approach is that, <i>"There were a number of errors in GEMA's analysis of the extent to which operational outperformance in RIIO-2 should be viewed as probable."</i>¹</p> <p>In contrast, the FD proposals were expected to be undertaken ex-post with assurance that funded outputs would not be delivered within agreed timescales. The UR does not see any reasonable case for exposing consumers by allowing the TSO to retain monies which have not been spent and there is no improvement in quality.</p>	No change required.

¹ See CMA Summary of Provisional [Determination](#), p7, para 25 (a).

20	<p>SONI highlights the following concerns with the outputs spreadsheet detailing the price control expected deliverables being incomplete and so not fit for purpose but then goes on to ask they are included and defined in the licence:</p> <ol style="list-style-type: none"> 1) The deliverables spreadsheet is incomplete. 2) The spreadsheet is highly granular and does not consider alternative solutions. 3) The template was not consulted on. 4) The deliverables are not specifically referenced in the licence modifications. SONI considers this to be ambiguous and therefore creates uncertainty. [SONI Response, p33, para 3.88 to 3.93] 	<p>UR agrees that SONI's deliverables had shortcomings or limitations in terms of accountability for an initiative, as there is a significant lack of detail from SONI on what would be delivered and by when. Noting the limitations in SONI's business plan we requested information from SONI during the price control process but it consistently failed to engage on or provide information.</p> <p>This was even the case in a less demanding form than originally requested in order to achieve a pragmatic way forward given the time constraints. In failing to cooperate SONI did not provide any appropriate reason for doing so. Accordingly we said in our FD that we should ensure that SONI does not benefit unduly from any resultant ambiguity when it comes to the assessment against the delivery for that initiative. This was, therefore, a very reasonable position for us to take given this context.</p> <p>While we do not have a policy position on whether these should or should not form part of the licence modifications as we have not needed to form such a position, it is plausible that given the above context, including or referencing these in the licence may actually provide more rather than less ambiguity. Therefore, we have not defined them within the licence and strongly disagree that including them would be in any way appropriate in this instance.</p> <p>SONI also says our approach is not good practice but does not explain why. As explained before, asking for more specification for deliverables has similarities to the approach required by Ofgem from its TSO National Grid. We note that National Grid took steps to refine its deliverables at the request of the regulator during the price control process but SONI failed to do so during its price control process.</p>	No change required.
Consultation Response		UR Views	Decision
21	<p>The term '<i>Manifestly Unreasonable</i>' has been introduced as part of the SONI TSO Licence Modifications. However, no definition has been provided within the Definition and Terms of the Annex document. Therefore, there are no set parameters by which to determine whether or not an item is "Manifestly Unreasonable". [SONI Response, p34, paras 3.94 to 3.95]</p>	<p>It is not considered necessary in this case to have a licence definition as the term is self-explanatory. The natural use is for blatant or obvious cases where it is plainly incorrect to include such costs under the sharing mechanisms.</p>	No change required.

22	<p>The reasoning that such a term is designed to create regulator parity with NIE Networks does not make sense. The term has existed within the DNO's & TAO licences for some time. As such, the Utility Regulator has had opportunities to amend SONI's licence to account for it, but has not. Further, it is not a replication of NIE's Licence condition which includes the requirement for the Utility Regulator to make a published decision. [SONI Response, p35, para 3.101]</p>	<p>The drafting was not necessarily to create parity with NIE Networks but rather to remove unreasonable costs from the sharing mechanism where they might arise.</p>	<p>No change required.</p>
23	<p>This new term appears to overlap with and therefore, contradict the existing DIWE condition and will lead to further disputes. [SONI Response, p35, para 3.103]</p>	<p>As stated in the consultation paper, <i>“the effect of the drafting is to remove unreasonable costs from sharing calculations.”</i> This was specifically targeted at items which may not be covered by DIWE, for example company fines.</p> <p>This clause simply ensures cover should an example arise which differs. We expect the instances it to be used are therefore limited and so dispute is potentially unlikely.</p>	<p>No change required.</p>
24	<p>UR has proposed the deletion of the 'INCENT' term and the definitions associated with the Dispatch Balancing Costs Incentive included in Annex 1. SONI notes that the deletion of these definitions and the INCENTt term does not appear to be referenced or signalled in the Final Determination. [SONI Response, p38, para 3.114]</p>	<p>As explained in the licence consultation, the deletion of the term tidies the licence by removing definitions which are no longer required. There would be no reason to discuss such 'housekeeping' modifications in the FD.</p>	<p>No change required.</p>
25	<p>SONI notes that the UR has not made reference to a SEM Committee decision in relation to this incentive arrangement. Indeed, the assumption made by the UR that this incentive is no longer required directly contradicts a letter received by the TSOs which was sent on behalf of the SEM Regulatory Authorities on 9 March 2021. [SONI Response, p38, para 3.118]</p>	<p>The SEM Committee (SEMC) has stated clearly in various papers that, <i>“the current incentive mechanism is no longer appropriate for the revised SEM”</i>.² The UR decision to remove this term is consistent with their approach.</p> <p>UR position is not in contradiction to the referenced letter from SEMC on 9 March 2021. The letter clearly states that the imperfection incentive is a matter of ongoing consideration with any potential <u>updates</u> requiring public consultation. Should SEMC decide a new DBC incentive to be appropriate, this can be incorporated into the SONI licence accordingly.</p>	<p>No change required.</p>

² See SEM-20-046, Imperfections Charge Consultation [Paper](#), p5, Section 1.2.

26	<p>Under paragraphs 8.6 and 8.7, the drafting states that the UR will determine which of the four uncertainty mechanisms will be used for approval including the option of using a combination of the mechanisms.</p> <p>Out of the four mechanisms that the Utility Regulator has afforded itself, minimal detail is provided as to when one is to be used over another. SONI seeks clarification on the criteria the UR will use in making this decision. The licence modifications are silent on the risk profile being applied when SONI make a submission. It goes on to say that there is a lack of regulatory certainty as to how a submission will be treated, and therefore this exposes SONI to risks and cost exposure</p> <p>[SONI Response, p40, paras 3.123 to 3.127]</p>	<p>The drafting in the uncertainty mechanism guidance sets out clear detail on the choice of licence term. For instance;</p> <ul style="list-style-type: none"> • It is for SONI to propose which of these mechanisms are appropriate in the first instance. • Starting position would be that the mechanism applied should involve an approach to cost remuneration that is most aligned with that set out within the SONI price control. • However, there may be merit in allowing flexibility to depart from this starting point. • For instance, the approach of recovery of costs incurred up to a cap may make sense depending on the circumstances set out in the guidance. • Which specific licence provision(s) to use will also depend on the mix of operating expenditure and capital expenditure in the relevant costs. <p>It will be for SONI to propose the appropriate mechanism within the application and the UR to make a decision. The guidance should provide SONI with the requisite clarification required. There is no lack of regulatory uncertainty as SONI claims.</p>	No further clarification is expected to be required in the guidance.
27	<p>SONI remains unconvinced by the definition of actual operating (AOt) and capital expenditure (AC_Rt).</p> <p>The current drafting is such that SONI will be unable to recover the actual costs for activities that are not specifically defined within its Licence, even though some of these have been explicitly funded by the UR through this price control process. [SONI Response, p41, paras 3.129 to 3.134]</p>	<p>UR appreciates the concern raised by SONI that the current definition may be unnecessarily restrictive. However, the drafting refers to actual expenditure on activities which are, "<i>authorised by or subject to obligations under the Licence</i>".</p> <p>The second part of the statement refers to licence obligations. The first part refers to any activities which are by default the result of holding a transmission licence. Consequently, the definition is much wider than just licensed activities.</p> <p>Examples listed by SONI under para 3.131 of their response may not be specified in the licence but are authorised by virtue of being a TSO and therefore adequately captured in the existing definition.</p>	No change required.
Consultation Response		UR Views	Decision

28	SONI considers that the wording ' <i>up to an approved cap</i> ' with respect to uncertainty mechanism guidance is incorrect and does not reflect the range of uncertainty mechanisms referenced in Paragraph 8.6 and the guidance document. SONI requests that this is clarified by the UR. [SONI Response, p44]	This was stated as a typo in the consultation paper. UR agrees that this wording does not reflect the full range of uncertainty mechanisms covered by the guidance. However, no such restriction is placed in the definition in the proposed licence modification. As such, no change is required within the licence.	No change required.
29	SONI considers that part (e) of the CCS definition should be removed as the guidance document should be stand alone. [SONI Response, p44]	The guidance is a standalone document. However full detail on the policy is captured in the FD. As such, some references back to the underlying policy source is justified. This mirrors what has happened in the current <i>Dt Guidance Document</i> which refers back to the CMA determination.	No change required.
30	SONI considers that part (e) of the EPF definition should be removed as the guidance document should be stand alone. [SONI Response, p45]	As above.	No change required.
31	The term RPI is used in the calculation for the PCRt (2.6) and DEP_SPT (2.7) terms, however the definition is not included in the draft modifications. This needs to be added. [SONI Response, p46]	Agreed.	RPI definition to be reinstated.
Consultation Response		UR Views	
32	In the interests of transparency, SONI considers that the UR should publish a reconciliation between Table A and the tables included in the Final Determination. [SONI Response, p46, para 4.7]	Agreed. A reconciliation is published as an annex to this paper.	No change in the licence but the reconciliation is published in this decision paper.
33	To avoid ambiguity and to ensure the Final Determination is codified in the licence, SONI considers that the reasons & effects and the licence should detail the 'principles' and 'conditions' associated with the CSBt term. [SONI Response, p47, para 4.11]	This term is merely the summation of the mechanistic cost sharing amount and the conditional cost sharing amount, as set out in the revenue formula. It is not clear what further information is being sought here and why it would be practical to add it.	No change required.

34	<p>SONI considers the wording in sub paragraphs A1 and A9 under the AOT term to be incorrect and confusing:</p> <ul style="list-style-type: none"> a) The Ex ante allowances for Operating Expenditure is specified in table A. b) SONI failed to find reference in the FD to the term '<i>cost categories for the Licensee's overheads or support functions</i>'. SONI considers that the licence modifications should be clear in terms of the intended treatment of costs. c) Wording suggests that costs relating to overheads or support functions cannot be assigned to transmission networks planning activities or connection charges. We seek clarification on the intended treatment of costs. [SONI Response, p47, para 4.12] 	<p>The sub paragraphs A1 to A9 refer to costs which are excluded from the main cost sharing arrangements as they may be funded by different licence terms. Taking the SONI points in order:</p> <ul style="list-style-type: none"> a) Table A establishes the base line allowance against which actual expenditure will be measured. This is an essential requirement for cost sharing. b) This drafting is a reference to overheads which may be recovered via connection charges. This is found in the FD, p70-71, paras 9.7 to 9.10. c) Drafting in paragraph A9 is again a reference to costs which may be attributable to connection charges. The key point is that if SONI has allocated and recovered overhead costs via connection charges, such spend would need to be removed from the AOT term to ensure no double counting via cost sharing. <p>UR does not consider that further change is required in the licence on this issue.</p>	No change required.
35	<p>SONI note the inclusion of the wording: 'any other costs recoverable by the Licensee under the terms of the Maximum Core Revenue calculation at paragraph 2.2 above besides the Bt and CSBt terms'.</p> <p>SONI would like the UR to indicate the scenarios where this drafting may apply to. As the use of 'catch all' terms should be avoided, SONI considers that this drafting should be removed. [SONI Response, p48, paras 4.16 to 4.19]</p>	<p>UR agrees with SONI that the list of exclusions seem comprehensive. There is no obvious example of '<i>any other costs recoverable....under the terms of the Maximum Core Revenue calculation.</i>'</p> <p>However, the catch-all drafting is simply to ensure that any unforeseen issues are correctly treated. Given that '<i>any other costs</i>' would be recoverable by SONI, there is no risk in this drafting to the TSO. It simply ensures no double-counting in the cost sharing calculations.</p>	No change required.
36	<p>SONI notes that the EPt term in the draft licence refers to guidance documentation '<i>Requirements and Guidance on the Evaluative Performance Framework</i>'. SONI notes that the UR can change this guidance with no mechanism for SONI to appeal these changes. As this guidance has direct implications on the revenue available to SONI, we consider that SONI is exposed. [SONI Response, p49, para 4.24]</p> <p>SONI considers that this risk can be mitigated by the inclusion of the commercial ranges of the incentive arrangements in the drafting of Annex 1 of the licence. [SONI Response, p49, para 4.25]</p>	<p>Assurance can be provided that information that the type of incentive arrangements SONI seeks to put in the licence through its example will not be changed between price controls as they are final determinations. We do not consider that SONI is exposed in the way SONI says it is as we have made final decisions.</p> <p>UR would however note that the net incentive adjustment (NIAt) is hard-coded in the licence so the exposure is limited to the reward / penalty set out under this term. Changes here will require a licence modification and could be subject to CMA appeal if unreasonable. UR does not consider the proposed SONI drafting to be that helpful without further explanation of the grading system and the EPF context.</p>	No change required.

37	<p>The guidance is unclear in terms of what happens if there is no evaluative panel in place (e.g. no quorum during the price control period). SONI considers that clarifications should be included in the licence and relevant guidance to reflect these concerns and ensure that all stakeholders understand the actions that take place in these scenarios. [SONI Response, p50, para 4.28]</p>	<p>We are setting up the panel and so will make sure this is in place for the start of the scheme. We may recruit replacement panel members to replace those that leave, in a timely way. Further changes to the EPFt term in the licence or guidance are not seemingly required.</p>	<p>No change required.</p>
38	<p>SONI requests the definitions contained within the Annex are revised to ensure that allowances for additional Opex costs, approved through the Dt uncertainty mechanism, are appropriately recovered by SONI.</p> <p>Presently the proposed treatment of Dt costs and allowances could impact the Kt factor in a manner that is unsound and indeed contradictory to the underlying logic and rationale attributed to approved Dt allowances. [SONI Response, p50 to p53, paras 4.32 to 4.42]</p>	<p>UR does not consider the proposed SONI changes to the Dt and K-factor mechanisms to be necessary. In the SONI examples provided, they are of course free to request uplifts to the caps in individual years where the phasing of spend has changed, mitigating the risk of loss.</p> <p>The proposed drafting also adds further complication to the K-factor process and is not considered necessary.</p>	<p>No change required.</p>
39	<p>SONI notes that the relevant published charging statements would need to be updated to include these costs before the connection income term could be used. This is to ensure the various revenue line items are cost reflective. [SONI Response, p54, para 4.48]</p>	<p>Point accepted.</p>	<p>No change required.</p>
40	<p>Whilst the terms BC_Rt and UC_Rt are understood, SONI is concerned that there is insufficient transparency as the figures in table E in Annex 1 are not directly presented in the Final Determination. [SONI Response, p55, para 4.59]</p> <p>The Reasons & Effects table does not cover how the allowances stated are derived in terms of the allowances for the non-building RAB as oppose to the Buildings RAB. In the interests of transparency, SONI considers that the UR should publish a reconciliation between Table E and the tables included in the Final Determination. [SONI Response, p55, para 4.60]</p>	<p>Agreed. A reconciliation is published as an annex to this paper.</p>	<p>No change in the licence but the reconciliation is published in this decision paper.</p>
41	<p>Under the term AC_Rt, SONI considers that a number of licence terms could be removed as they are not related to Capex. [SONI Response, p56, para 4.63]</p>	<p>Agreed. Various references to licence terms can be removed. Have retained the Market Operator costs as this has the potential to be a capital cost.</p>	<p>Update to Para 2.3(d)(iii)(A) sub-paragraphs.</p>

42	Incorrect references – Paragraph 2.3 (c) (i) has been duplicated. Amendment required to include Para 2.3 (c) (ii). [SONI Response, p57, para 4.69]	Point accepted.	Numbering to be amended.
43	Incorrect references – Paragraph 2.7 has been duplicated. Amendment required to include Para 2.8. [SONI Response, p57, para 4.74]	Point accepted.	Numbering to be amended.
44	Incorrect references – Paragraph 2.8 (b) (ii) (c) 2) states Special Project X has the meaning given to it in paragraph 2.7(f). SONI considers the correct reference should be Para 2.7 (b). [SONI Response, p57, para 4.75]	Point accepted. However, UR considers that the reference should be Para 2.7 (b)(C)(iv).	Numbering to be amended.
45	The deletion of the term 'to the extent possible' in paragraph 4.7 (c) is not explained in the Reasons and Effects paper. SONI notes that the timing of the three month statement is such that the audit for the regulatory accounts is not completed. SONI therefore cannot adhere to the latest drafting due to the timing of the reporting requirements. SONI therefore requests that the wording 'to the extent possible' is reinstated. [SONI Response, p58, para 4.78]	Point accepted.	Wording to be reinstated at para 4.7(c).
46	SONI has noticed that some text in this section of Annex 1 refers to out of date legislation and projects that have been delivered many years ago. This legacy text is contained in paragraph 6.3. While we are aware that this cannot be updated as part of the present exercise, without a repeat consultation, we suggest that this paragraph is reviewed and updated as part of a future consultation. [SONI Response, p58, para 4.80]	UR will consider whether to progress this via another consultation process.	No change required.
47	SONI notes that the wording in Paragraph 7.3 includes a reference to Condition 30 Paragraph 6. SONI considers that this reference is incorrect and should be updated to reflect Condition 30 Paragraph 7. [SONI Response, p58, para 4.81]	Point accepted.	Numbering to be amended.
48	Upon reviewing this section, SONI noticed that it makes reference to the Requirements and Guidance on Additional Approved Costs. This does not align with the definitions provided and as such should make reference to the Requirements and Guidance on Uncertainty Mechanisms. [SONI Response, p59, para 4.87]	Point accepted.	Wording to be amended to make reference to uncertainty mechanism guidance.

49	<p>SONI welcomes the additional drafting in relation to the treatment of opex associated with capex submissions via the uncertainty mechanisms. However, the current drafting states 'the Authority may choose not to apply the de minimis threshold to these opex costs'. SONI disagrees with this approach as it does not provide certainty in relation to how the UR should treat submissions of this nature. SONI requests that a more definitive statement is included. [SONI Response, p60, para 4.92]</p>	<p>Approval of all costs under these mechanisms is a matter for the UR to consider, including allowances below the de-minimis. As such, the current drafting is considered consistent as opex from capex is not guaranteed to be allowed under all circumstances. It does however provide the UR flexibility to provide such costs where they are justified.</p>	<p>No change required.</p>
50	<p>SONI is concerned about the inclusion of the 'in each Relevant Year' in this paragraph. SONI considers that the purpose of the de minimis clause is to prevent SONI from submitting smaller value items via the uncertainty mechanisms. The inclusion of 'each relevant year' may cause an incorrect treatment of allowances that fall across regulatory years (e.g. due to project phasing).</p> <p>The current treatment will create a perverse incentive to delay the submission of funding requests to avoid being penalise for phasing issues. This is not in the interests of customers. [SONI Response, p60, paras 4.93 to 4.94]</p>	<p>This threshold has been an established part of the TSO framework for some time. UR considers the materiality to be set at a relatively low level at £40k per annum for each project. Being set in nominal prices also means that the threshold has been progressively declining in real terms.</p> <p>To remove the relevant year clause would expose the consumer to a greater level of risk which would not be in their interest. Neither would this be reasonable in light of the additional risk being borne by the consumer with respect to the revised cost sharing incentive rate. UR does not see justification for the SONI proposal.</p>	<p>No change required.</p>
51	<p>SONI notes that the UR has recently introduced a process whereby it makes a provisional decision which it shares with SONI and allows SONI to respond before a determination is made and published. SONI welcomes this new approach and considers that this step should be captured in paragraph 8.6 or 8.7 to ensure the process is transparent and understood by all parties. [SONI Response, p61 para 4.98]</p>	<p>UR does not consider a licence amendment to be required as a provisional decision may not be required in all circumstances. However, this step should certainly be incorporated into the uncertainty mechanism guidance.</p>	<p>Update to guidance to account for provisional then final determinations.</p>
52	<p>SONI requests that the UR provides assurances, through additional narrative within these sections of the Annex, clarifying the treatment of approved allowances for projects anticipated to run beyond the end of this price control period. It is important that the UR provides certainty that allowances and expenditure for these approved projects will be treated in an identical manner in the period following 2024/25 until the projects are completed. [SONI Response, p61 para 4.99]</p>	<p>It is not clear what further certainty SONI requires here. It would be expected that these costs would be subject to similar treatment. However, it is not possible to predict the outcome of future price control deliberations and mechanisms at this time.</p>	<p>No change required.</p>

53	Based on the formulae throughout Annex 1, Dt and Et appear to be treated as Opex and Vt and Zt as Capex. However, the definitions states that each term can be Capex or Opex. Clarification is required on each term to ensure they are treated correctly via the formulae. [SONI Response, p61 para 4.102]	SONI's understanding of the additional approved cost terms is correct. The drafting in paras 8.8(a), 8.9(a), 8.10(a) and 8.11(a) is simply mirrored to reflect the classification of the scope of these costs. For confirmation, the Dt and Et terms cannot be treated as capex. Neither can the Vt or Zt terms be treated as opex.	No change required.
54	Under Paragraph 8.8 sub para (d), there is a reference to 2.2.(i) (i) C. This sub clause does not exist. SONI considers the correct reference should be 2.2.(i) (i) B. [SONI Response, p62 para 4.105]	Point accepted.	Numbering to be amended.
55	Under Paragraph 8.9 sub para (e), there is a reference to 2.8 (b) (ii) (C) 1) a). This sub clause within Para 2.8 does not exist as Para 2.7 was duplicated. [SONI Response, p62 para 4.106]	Point accepted. The duplicated paragraph numbering has been corrected.	Numbering to be amended.

Views & Responses - CCNI

2.3 The only other response was received from the Consumer Council. Their views on the licence changes and UR responses is set out in the table below.

Table 2: CCNI Views and UR Responses

	Consultation Response – CCNI	UR Views	Decision
1	In the position of transparency it is important that it has been recognised that information is presented in a way that enables stakeholders to engage with this information. [CCNI Response, p2, para 7]	Agreed. A reconciliation of the FD allowances and the hard-coded licence figures is provided as an annex to this paper.	No change in the licence but the reconciliation is published in this decision paper.

2	<p>Annex 2 of the final determination settled the maximum financial reward at £1.25million. This is welcome given we had responded that £3million, under SONI's proposed framework, was not in consumers' best interests. [CCNI Response, p2, para 8]</p>	<p>Agreed. This cap has been retained in the final licence modifications decision.</p>	<p>No change required.</p>
3	<p>We appreciate that the UR acknowledged 'that there should be clear accounting for the baseline and additional allowances and obligations, so that they can be properly reconciled at the end of the control period and any under-delivery accounted for in the subsequent control period.' [CCNI Response, p3, para 11]</p>	<p>Agreed. UR has attempted to provide such clarity in the various cost allowances and uncertainty mechanism treatments. Further work will likely be required within the annual reporting process.</p>	<p>No change required.</p>

3. Decision

Summary

- 3.1 Having considered the responses received, it is the UR view that further changes to the licence from the consultation are relatively limited. The most material change is the delay in the application of conditional cost sharing by one year. For CCS, the relevant terms will only become applicable from Year 2 of the 2020-25 price control period onward.
- 3.2 Other changes are relatively minor and relate to references, definitions and numbering changes. A tracked change version of the licence is published alongside this decision. Amendments between consultation and final decision are identified in highlighted yellow for clarity.
- 3.3 Some other points are separately addressed in the relevant guidance documents which are also published alongside this decision.

Effect

- 3.4 The decision gives effect to the FD. These are fully set out in the licence [consultation](#) along with the reasons and effects.
- 3.5 The modifications will become effective on the 17 January 2022.

Article 14(8) Notice

Decision published on modifications to the electricity transmission licence held by SONI Limited pursuant to the notice under Article 14(8) of the Electricity (Northern Ireland) Order 1992 (as amended)

In accordance with Article 14(2) of the Electricity (Northern Ireland) Order 1992 ("the Order") the Northern Ireland Authority for Utility Regulation ("the Authority") published (on 24 September 2021) a notice of its intention to modify the conditions of the electricity transmission licence ("the Licence") held by SONI Limited ("the Licensee").

In accordance with Article 14(5) of the Order the Authority has considered representations duly made to it and has decided to proceed with the making of certain modifications to the conditions of SONI Limited's electricity transmission licence in exercise of its powers under Article 14(1) of the Order.

In accordance with Article 14(8) of the Order the Authority gives notice as follows—

1. The Authority has decided to proceed with the making of modifications to Annex 1 of the electricity transmission licence (the "Licence") held by the Licensee.
2. On 24 September 2021 the Authority published a notice stating that it intended to modify the Licence, stating the reasons for and effect of the proposed modifications.
3. The purpose of that notice was to bring the proposed modifications to the attention of the Licensee and other persons likely to be affected by them, and to invite representations or objections in connection thereto.
4. The Authority received two responses, one from the Licensee and one from the Consumer Council for Northern Ireland. The Authority has taken into account the representations made therein, and made amendments to the proposed modifications where it considers it appropriate to do so.
5. The Authority has summarised the representations received, described the changes made to the modifications proposed in the notice of 24 September 2021, and stated the reasons for those changes, in its paper entitled "*Decision on Licence Modifications for the SONI Price Control 2020-2025*", published on 19 November 2021 together with this notice.
6. The modifications, incorporating the changes made following the consultation, are shown in the new version of 'Annex 1 Charge Restrictions' of the Licence and are set out (and shown in mark-up form, as against the provisions of Annex 1 prior to modification) in an annex to this decision paper and notice.
7. The reason why the Authority is making the modifications to the Licence is to implement the decisions of the 2020-25 price control, which were made in compliance with its principal objective and general duties under Article 12 of the Energy (Northern Ireland) Order 2003.

8. The effect of the modifications is to implement the new regulatory framework and associated allowances associated with the 2020-25 period.
9. The Authority has, pursuant to Article 14(8)(a) of the Order, published this notice on its website and sent a copy of this notice to the Licensee. In addition, the Authority has provided a copy of this notice to the Department for the Economy and the Consumer Council for Northern Ireland.

The licence modifications shown in the annex to this Decision Paper shall have effect from 17 January 2022.

Dated this day: 19 November 2021.

A handwritten signature in black ink, appearing to read 'J. Church', is written over a light grey rectangular background.

Chief Executive

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

Annex A – Reconciliation Tables

As part of their response, SONI asked that reconciliation tables be provided between FD allowances and the figures in Annex 1 of the licence. For opex and capex, the UR allowances are capture in Table 20 of Annex 4 of the FD³, as shown below.

FD Allowances	2020-21 £000s	2021-22 £000s	2022-23 £000s	2023-24 £000s	2024-25 £000s	Totals £000s
Opex Allowance	15,931	15,826	16,034	15,860	14,346	77,998
Capex Allowance	2,640	2,278	1,753	1,563	1,490	9,725

All figures are in April 2019 prices

The FD opex allowance of £78m can be split as follows:

Split of FD Opex	2020-21 £000s	2021-22 £000s	2022-23 £000s	2023-24 £000s	2024-25 £000s	Totals £000s
Payroll (excl. Network Planners)	8,845	8,816	8,861	8,742	8,702	43,965
IT & Communications	3,753	3,765	3,950	4,083	2,899	18,450
Other Opex	1,862	1,763	1,730	2,137	1,843	9,335
Pension Deficit	861	861	861	258	258	3,100
Real Price Effects	22	33	45	58	63	222
Network Planning Feasibility Studies	588	587	587	583	581	2,926
Total Opex	15,931	15,826	16,034	15,860	14,346	77,998
Total Opex Subject to Cost Sharing	14,482	14,378	14,586	15,019	13,507	71,972

Under the new licence, pension deficit costs (PRt) and network planning feasibility work (SFt) are recovered under separate terms not subject to cost sharing allowance (Bt). Removing these costs results in an opex cost sharing allowance of c. £72m.

Within Table A of the licence (shown below) the hard-coded figures are given in millions but can be seen to align with opex allowances when network planning and pension deficit costs are removed. The split between conditional and mechanistic costs is based on base costs for existing work (with no specific output) and new costs for particular projects / deliverables.

Opex Licence Allowances	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	Totals £m
BOt (Conditional Cost Sharing)	12.856	12.770	12.815	13.148	11.606	63.195
UOt (Mechanistic Cost Sharing)	1.626	1.608	1.771	1.871	1.901	8.777
Total Opex Subject to Cost Sharing	14.482	14.378	14.586	15.019	13.507	71.972

³ See FD, [Annex 4](#) Cost Allowances, p39, Table 20.

For capex, the 2020-25 FD project allowance sums to £9.7m as shown above. In the hard-coded licence figures this is represented as follows:

Capex Licence Allowances	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	Totals £m
BC_BDt (Buildings Capex subject to Conditional Cost Sharing)	0.000	0.000	0.000	0.000	0.000	0.000
BC_NBt (Non-Buildings Capex subject to Conditional Cost Sharing)	0.000	0.000	0.000	0.000	0.000	0.000
UC_BDt (Buildings Capex subject to Mechanistic Cost Sharing)	0.048	0.048	0.010	0.010	0.010	0.125
UC_NBt (Non-Buildings Capex subject to Mechanistic Cost Sharing)	2.593	2.231	1.743	1.553	1.480	9.600
Total Opex Subject to Cost Sharing	2.640	2.278	1.753	1.563	1.490	9.725

Again given in millions, the figures can be seen to align with FD allowances. All capex is subject to mechanistic sharing due to the existence of specific outputs. This follows the FD approach which stated,

“As an exception, we also proposed that the cost-sharing incentives would work in conventional, mechanistic way in the case of ex ante cost allowances for specific projects or initiatives where we have set price control deliverables/outputs that can be used to hold SONI accountable.”⁴

The only project costs not covered by the non-buildings RAB is the allowance provided for the facility improvements. This amounts to a £125k budget for the buildings RAB based on replacement of the boiler and other facility upgrades at SONI head office.

⁴ See Final Determination, p38, para 5.23.