

Sarah Friedel
SONI Limited
Castlereagh House
12 Manse Road
Belfast
BT6 9RT

Ref: NET/E/TH/441

18 October 2021

Dear Sarah,

Re: Moyle Control System (MCS) Upgrade - Final Approval

On 22 July 2021, SONI made an application for costs associated with changes to accommodate the Moyle control system upgrade. The claim of **£610.5k (April 2021 prices)** includes both opex and capex costs for tariff years 2020-21 and 2021-22.

UR provisionally approved a budget of **£504.5k (April 2021 prices)** on 24 September 2021 setting out the rationale for disallowance. SONI made representation on the issue to the UR on 04 October 2021. Following review of this response, UR has provided an uplifted final allowance of **£546.9k (April 2021 prices)**.

For confirmation, total amounts approved are detailed in the table below [and in April 2019 prices for alignment with the current price control].

MCS Upgrade – Request and Final Allowance			
	SONI Claim (April 2021 prices)	UR Allowance (April 2021 prices)	UR Allowance (April 2019 prices)
Total	£610.5k	£546.9k	£533.1k

The final decision represents 90% of the amount requested. In coming to this decision we recognise that there could be potential harm to consumers from factors such as: (a) delay to the initiative that could benefit consumers; and (b) potential issues in delivery from under-funding; but have balanced this against the need to protect consumers against inefficiency.

A spreadsheet detailing all calculations is provided alongside this letter. In summary however, the following deductions have been made:

- We consider that a daily rate for internal staff in line with FD allowances is more appropriate than the amount proposed by SONI.

- The licence as extant would not support allowance of the £22.5k in 2020-21 as this falls below the £40k per annum threshold.

Detailed responses on the issues raised by SONI are captured in Annex 1 of this letter. However, we wish to make a few points with general application which are relevant to uncertainty mechanism requests (excluding TNPPs) and which should not come as a surprise to SONI.

These are points that we have applied in previous SONI decisions (through uncertainty mechanisms), are well-established and form part of the regulatory direction of travel (for example, within December 2020 FD). We ask **SONI to ensure that it takes full account of this in submitting future requests**. For instance:

- 1) FD price control allowances (in this case for 2020-25) is the natural starting point for requests which include internal staff resource.¹ SONI should endeavour to use this rate going forward but can argue for adjustments depending on specific circumstances. In making its case for a higher rate, rather than simple assertion, SONI needs to provide evidence that skills and salaries are greater than the FD average if seeking higher daily rates.
- 2) Uncertainty mechanism requests should not typically include provision for overheads such as IT, premise costs or facilities as these are fully remunerated via the price control process.
- 3) SONI needs to detail the scope of work, activity and outputs associated with each role requested. We would further expect justification that costs/roles requested are not duplicated.
- 4) We have as part of our 2020 to 2025 price control process requested that SONI provide a resource plan and organisational chart to ensure there is appropriate resources. This has not been received, however, we feel that this is still highly relevant and proportionate for a company like SONI which is essentially resource and people intensive and would provide clarity in relation to any further requests for resources. Furthermore, provision of jobs specs as evidence for new activity may also support the cost request.

Dt Allowance

As the request includes both opex and capex, it is important to provide clarity around the allowances by licence terms. For confirmation, opex amounts approved under the *Dt* term are detailed in the table below by tariff year [and in April 2019 prices for alignment with the current price control].

¹ See Annex A of the ISEM [opex](#) Dt allowance for an example of the approach to remuneration of internal staff costs via the uncertainty mechanisms.

MCS Upgrade – Request and Final Dt Allowance			
Tariff Year	SONI Claim (April 2021 prices)	UR Allowance (April 2021 prices)	UR Allowance (April 2019 prices)
2021-22	£117.0k	£117.0k	£114.0k

Zt Allowance

For the capital element, the UR now gives notice to SONI that:

1. In accordance with paragraph 9.1 of Annex 1 of the licence, the relevant proportion of the application shall be treated as Special Project Costs.
2. Special Project Costs will be recovered under the **Zt** term and in accordance with paragraph 2.2(j) of Annex 1 of the licence.

UR has approved a capital allowance of **£429.9k**. For confirmation, amounts approved under the *Zt* term are detailed in the table below by tariff year [and in April 2019 prices for ease of comparison with the new price control].

MCS Upgrade – Request and Final Zt Allowance			
Tariff Year	SONI Claim (April 2021 prices)	UR Allowance (April 2021 prices)	UR Allowance (April 2019 prices)
2020-21	£22.5k	£0.0k	£0.0k
2021-22	£471.0k	£429.9k	£419.0k
Total	£493.5k	£429.9k	£419.0k

The capital approval set out above is subject to the following conditions:

- (a) SONI can recover the depreciation and return on actual spend up to the maximum amount approved.
- (b) Depreciation and return amounts can be recovered in tariffs from 2021-22 based on the maximum amount of £429.9k (April 2021 prices).
- (c) In accordance with paragraph 2.5(e) of Annex 1 of the TSO Licence, the straight line depreciation period for the approved amount is five years, starting with relevant year 2021-22.
- (d) Return will be calculated based on the prevailing WACC.

Given the timing of this application and approval, monies for 2021-22 could not be included in tariffs. These costs should therefore be recovered via the K-factor in 2023-24. Reporting of actual costs incurred should be included in the annual RIGS returns.

I trust this satisfies your requirements at this time. Should you have any comments, queries or issues, feel free to contact Jody O'Boyle.

Yours sincerely



Tanya Hedley
Director of Networks

Annex 1 – Responses to SONI Issues

In the response to the provisional determination, SONI raised a number of detailed points. UR views on these issues are set out below.

1. **SONI Point:** UR has excluded the pensions allocations in the daily rate they have used. This reduction is not explained.

UR Response: Pension costs have been excluded as the assumption is that these costs have been fully remunerated via the price control. This treatment is consistent with the approach taken for TNPPs.

Should SONI need to bring in temporary staff as cover during this project, they will be required to pay salaries and other relevant costs such as training or travel. However, they would not have the pension obligations that exist for permanent staff.

2. **SONI Point:** The use of an average salary does not consider the skillsets needed for this project and is therefore less cost reflective than the figures used in the SONI submission.

UR Response: Neither the submission nor the response letter provides evidence to support the assumption that the skillset of the internal roles would not be adequately remunerated by the average FD salary allowance. The response fails to acknowledge that the FD average is set to upper quartile levels to account for higher skilled workers.

Furthermore, NI ASHE data for 2020 indicates that at the 75th percentile, basic weekly pay for *Information and Communication* workers is **£862.40** per week. Uplifting to 2021 prices, this equates to an annual base salary of **c. £46k** which is still below the FD average allowance of **c. £52k** (2021 prices). Hence, the conclusion that the UR proposed allowance should be adequate is still valid.

3. **SONI Point:** The UR has approved previous Dts based on day rates in the region of ✂ (e.g. iSEM project) and therefore the approach used here is inconsistent.

UR Response: UR did use a daily rate of ✂ for *ISEM implementation*. However, this was a blended rate to account for all-island costs. As a stand-alone NI project, the Moyle upgrade does not require such provision. Furthermore, this rate included business overheads such as facilities, IT, premises etc. As these expenses are fully remunerated via the SONI price control, such provision would be inappropriate here.

With regards to precedent for internal staff, the use of price control salary figures is the natural starting point for allowance. Adjustments can be made thereafter based on specific circumstances and which require robust evidence from SONI. This has been the consistent position for other projects with internal staff

allowances i.e. ISEM opex and TDPNI allowances. Such an approach should also be adopted for future submissions.

4. **SONI Point:** The Project Manager and Test Manager are two distinct roles. Therefore, it is incorrect to state that the Project Management effort can be reduced as a result of receiving 'significant support' from a test manager.

UR Response: Test planning and management is a key element of successful delivery of IT projects. Existence of a dedicated test manager should help the PM in terms of project delivery. However, this is a subjective area and given project complexity, the PM allowance has been increased to requested amount.

5. **SONI Point:** The PM effort has been set to 220 days (1 year) even though the duration of the project is expected to be in the region of 18 months.

UR Response: The high-level schedule overview in the SONI submission (Table 1, p5) details TSO work running from Q3 of 2021 to Q3 of 2022 i.e. one year. On this basis, the 1 FTE (220 days) allowance does not seem that unwarranted, but has been increased at any rate given project complexity.

6. **SONI Point:** The nature of this project differs significantly to that of the MIP Solver project in terms of PM Effort.

UR Response: This argument has been accepted to a certain extent. As a consequence the PM allowance has increased to make provision for the SONI resource request for 2021-22 (i.e. 1.1 FTEs).

7. **SONI Point:** The SONI submission was put together by IT professionals with decades of experience. SONI considers the reduction in the PM effort as unjustified and arbitrary. In this regard, SONI is keen to understand whether the UR engaged any external IT expertise as part of their assessment.

UR Response: No external expertise was engaged for this review.

8. **SONI Point:** SONI considers that this interpretation [of the licence] by the UR is incorrect. The values of the claims for both the Capex and Opex cost elements of this project are in excess of the de-minimis amount specified in the licence. SONI considers it is incorrect to reduce the allowance purely based on a project timing issue.

UR Response: Para 8.4 of Annex 1 of the licence is clear that the de-minimis is set at £40k in each relevant year for each category of cost. Whether the total claim is in excess of the threshold is not a relevant concern. The £22.5k of costs claimed for 2020-21 is below the threshold and therefore does meet the criteria for provision of allowance. To provide such allowance as requested would render the current threshold irrelevant.

9. **SONI Point:** We also note that the provisions of paragraph 5.1 of Annex 1 of the Licence apply at present, introducing ambiguity around the validity of the algebraic restrictions the URs draft decision appears to be relying upon.

UR Response: Whilst the UR are considering proposals to allow for opex below the threshold resulting from capex spend, the £40k p.a. threshold is still expected to apply. The SONI request for capital costs below the threshold in 2020-21 would not be allowable under the existing licence or the revised provisions.

10. **SONI Point:** UR assumption implies that business analyst activities should be undertaken by a number of third parties. If SONI were to employ the UR rationale, we would need to procure this additional service from external parties resulting in a higher cost.

UR Response: This is not the UR interpretation. As set out in the provisional decision letter, the UR assumption was that, *“the Business Analyst rolealready seems addressed by the external vendors.”*

Whilst the response from SONI was somewhat lacking in justification, this resource has been reinstated given the strategic importance of the project. In future submissions SONI should endeavour to outline the activity, outputs and differences in the roles of staff requested. See points 3 and 4 in cover letter above.