

Kevin O'Neill  
SONI Limited  
Castlereagh House  
12 Manse Road  
Belfast  
BT6 9RT

Ref: NET/E/TH/546

05 July 2022

Dear Kevin,

**Re: FASS Phase 1 – Final Vt Approval**

Thank you for the capex *Zt* submission of the 15 April 2022 regarding costs required in order to conduct the high level design (Phase 1) for the Future Arrangements for System Services (FASS) project.

Having reviewed the submission and query responses, we are supportive of the project but remain unconvinced that this spend should be remunerated via the up-to-a-cap mechanism. This conclusion is based on the following:

- 1) Our guidance states that use of this mechanism should be the exception rather than the rule (See UM [Guidance](#), p10, para 3.22). While we note that SONI requested an up to a cap form of remuneration, the guidance [p10, para 3.20] is clear that, *“To limit risks of distortions to SONI’s incentives and cost reporting, our starting position would be that the uncertainty mechanism applied should involve an approach to cost remuneration and cost incentives that is most aligned with that used within the SONI price control for other similar costs.”*
- 2) From responses, scope and costs seem sufficiently clear at this stage.
- 3) SONI has not identified any cost implications arising from the HLD paper published by the SEMC. We asked a question on this directly in the query process. SONI did not identify any additional expenditure but stated that implications were still being assessed. Neither has SONI identified any additional Phase 1 expenditure in its provisional determination response.

We further note that the cost-sharing percentages also allow SONI to adequately manage any uncertainty. These costs should therefore follow the same treatment as do the majority of SONI’s internal expenses.

Under *Annex 1 – para 8.5 and 8.6* of SONI’s licence, we therefore approve a full allowance less contingency via the *Vt* mechanism. Costs will be recovered via the non-buildings RAB (*V\_NBt* term). Contingency has been removed in this instance to ensure a ‘fair bet’ approach to cost-sharing.

For confirmation, amounts approved are detailed in the table below by tariff year [and in April 2019 prices for ease of comparison with the current price control].

Tariff Year	SONI Claim (April 2022 prices)	UR Allowance (April 2022 prices)	UR Allowance (April 2019 prices)
2021-22	£209.2k	£190.1k	£171.9k
2022-23	£209.2k	£190.1k	£171.9k
<b>Total</b>	<b>£418.3k</b>	<b>£380.3k</b>	<b>£343.8k</b>

### Issues concerning potential future requests

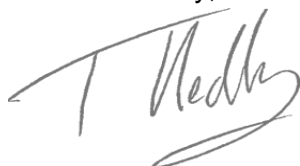
Given the high potential for benefits to consumers and the risk that poor design can add significant costs to the build phase, we have on balance decided to accept SONI's proposed consultancy rates for this phase despite the concerns that they appear high in comparison to similar precedent. Whilst we have not reviewed requests for revenue for future stages of work, we question whether such a level of average consultancy rates would be anticipated in the build element (Phase 2) of the project. We will expect clear justification for this as part of any future requests.

Programme support costs have been allowed in full. We would however expect SONI to be able to evidence the skills transfer to TSO staff that such funding provides as part of future requests. We understand that internal staff are working on project delivery alongside external experts and consider there is scope for necessary skills transfer in order to ensure efficiency of future costs whilst maintaining good quality of service.

For future project stages, we consider that formal governance arrangements need to be established to help define reporting requirements and ensure timely delivery. We would expect that SONI has appropriate internal governance procedures to manage the project to ensure it is delivered appropriately. We would however welcome a four-way<sup>1</sup> discussion on the way forward so UR has visibility of progress. This will be arranged at a future date.

I trust this satisfies your requirements at this time.

Yours sincerely,



**Tanya Hedley**  
**Director of Network Operations**

<sup>1</sup> Including SONI, EirGrid, CRU and the UR.