



[www.soni.ltd.uk](http://www.soni.ltd.uk)  
Castlereagh House  
12 Manse Road, Belfast BT6 9RT  
Telephone +44 28 907 94336  
Email [info@soni.ltd.uk](mailto:info@soni.ltd.uk)

Tanya Hedley  
Director of Price Controls  
Utility Regulator  
14 Queen Street  
Belfast  
BT1 6ED

27 April 2023

**Re: SONI Price Control 2020-2025 1-Year Extension Request**

Dear Tanya,

Further to recent engagement we have formally set out for the Utility Regulator (UR) our request to extend SONI's current Price Control 2020-2025 by 1 additional year. The current arrangements facilitate the Price Control ending on 30 September 2025. We are therefore requesting this conclusion date to be extended to 30 September 2026.

We have outlined the background and reasons for this request below and how we envision it could be implemented by the UR.

**Background to Request**

As discussed in our response to the UR's draft approach Consultation (3<sup>rd</sup> March 2023), SONI raised concerns around the timing of the Business Plan submission in March 2024. Specifically, we considered the particular actions that would need to be undertaken in preparation of the 5-year business plan. These include, but are not limited to:

- A new SONI Board appointed in accordance with the new Licence Condition 42 (Part A) and induction/familiarisation completed.
- Preparation of 5-year strategy for SONI.
- Wide Stakeholder engagement on SONI Strategy.
- Preparation of SONI Business Plan (and further associated Stakeholder engagement).
- Preparation of SONI Business Plan including detailed cost tables based on new organisational arrangements to give effect to Licence Condition 42 (Part B Managerial and Resource Separation).

The timeframes proposed for the submission of the 5-year business plan allows a 9-month window for the above activities to be completed. This is undoubtedly a very short window of opportunity, especially considering the requirement to appoint and establish a new SONI Board.

We consider a 1-year extension to the existing price control to be a pragmatic solution for all. It allows for the new SONI Board to be fully in place, the new organisational arrangements to be established and ensures sufficient time for meaningful engagement with stakeholders in determining the future strategy of the business.

SONI considers there to be two possible options available to the UR that could facilitate a 1-year extension to the current price control arrangements.

### **Option 1 – Do Nothing (rejected option)**

Implementing this option would result in the existing price control ending as planned and SONI then receiving revenue based on replicating the tariffs set in the last year of the price control. As per TSO Licence Annex 1 Paragraph 5 *...the licensee shall not increase (in nominal terms) any of the tariffs or charges contributing to its Actual Regulated Revenue above the levels applicable on 1 October 2024.*

This is not ideal. The Evaluative Performance Framework would become redundant, and the Conditional Cost Sharing methodology would be void (as inputs to the calculation would not be defined in Annex 1) meaning greater risk to consumers and SONI. Finally, we would envisage significant complications with K-Factor calculations and closing out the Price Control.

As result, and for the benefit of consumers, SONI do not recommend this option.

### **Option 2 – Update Annex 1 via an Article 14 Consultation and Notice (preferred option).**

We note that this option is similar to what was approved by the UR in terms of NIE Networks' 1-year extension granted on top of their current RP6 Price control. Rather than replicating the previous year's tariffs (Option 1), we would request an update to the SONI TSO Licence Annex 1 (Charge restrictions) and specifically the individual elements of the Maximum Core Revenue Formula (MCt). As detailed in Para 2.2 and shown below:

$$MC_t = A_t + B_t + PR_t + CSB_t + EP_t + NIA_t + D_t + SF_t + K_t + N_t + BNB_t + PCR_t + AB\_PC_t + Z_t - CIO_t$$

We have gone through the individual elements of this formula and have the following comments on how we would perceive them to be treated in the 2025/26 tariff year.

### **The Pass-Through Amount (At)**

These costs remains as a passthrough amount that SONI is permitted to recover in its entirety as per the details set out in Para 2.2(a)

### **The Ex-Ante Allowance for Operating Expenditure Subject to Cost Sharing (Bt)**

We would suggest that the Bt amount, for year 6, is set at a similar level to the previous years for pragmatic reasons and to avoid lengthy negotiation between parties and expedite final UR approval. In the event of SONI requiring additional costs, for example that are likely to be incurred for the implementation of Licence Condition 42, we suggest they are applied for using the Dt or Et uncertainty mechanisms. Finally, consideration should be given to the adjustment for Telecoms Opex moving to NIE Networks.

### **The Pension Deficit Repair Amount (PRt)**

Pension Deficit would be set based on the triennial evaluation (as per existing Licence structure).

### **The Cost Sharing Operating Expenditure Amount (CSBt)**

This calculation would remain as per the Licence and would be driven by the agreed new Bt term (see above).

### **The Evaluative Performance Framework Amount (EPt)**

The Evaluative Performance Framework would continue in the same capacity as it does now.

### **The Net Incentive Adjustment Amount (NIAt)**

The Net Incentive Adjustment Amount would remain using the current thresholds in the Licence which allow for no more than £1.25m in cost sharing gains and £0.75m in cost sharing losses for SONI.

### **The Dt Uncertainty Mechanism Amount (Dt)**

The Dt uncertainty term will remain as per the Licence conditions and in line with the additional Dt amounts approved by the UR for the 2025/26 year.

### **The Network Planning Scoping and Feasibility Amount (SFt)**

The SFt term will remain as per the Licence conditions and the facility to seek increases to the capped amount where justified retained.

### **The Correction Factor (Kt)**

The K factor calculation would remain as per the Licence. This amount is driven by actual annual costs and allowances from 2 years previous (2023/24), and as such we would not expect any non-standard difficulties in its calculation.

### **The Supplemental Revenue Amount (Nt)**

The Nt amount is designed to allow the Licensee to recover supplemental revenues in respect of a number of additional activities or risks undertaken by it. We would suggest keeping the methodology as per the current Licence.

### **The Remuneration of the Buildings RAB and the Non-Buildings RAB (BNBt)**

The RAB spreadsheets will be adjusted accordingly (extra rows and columns as required) to include an additional year for 2025-2026 and the methodology calculating return and depreciation remains as per the current price control.

We envisage that SONI will not request any additional Capex allowances and similarly to Bt Opex, we would request any new Capex required through use of the Vt or Zt uncertainty mechanisms.

Furthermore, for prudent reasons we would suggest that SONI's return on the assets – WACC – remains nominally the same as year 5.

### **The Transmission Network Pre-Construction Project Amount (PCRt)**

The PCRt means the rate of return allowance for Transmission Network Pre-construction Projects and should continue to be calculated in accordance with para 2.6 of the Annex. As per the main Buildings and Non-Buildings RAB (BNBt), the TNPP side RAB will be amended accordingly for 2025-2026 whilst also keeping the WACC as per the previous year 5.

### **The Abandoned Transmission Network Pre-Construction Project Amount (AB PCt)**

This will remain as per the Licence, and is likely to be zero.

### **The Remuneration of the Special Project RAB (Zt)**

As per above (BNBt), the Special Project RAB (Zt) spreadsheet will be amended, as required, to include an additional year and will also include any additional uncertainty mechanism Zt submissions that have received Capex approvals for the 2025-2026 year. Again, WACC remains as per the previous year.

### **The Contribution from Connection Charges Income (CIOT)**

This deduction will remain as per Licence para 2.2 (o)

## Timeline

To ensure modifications are aligned to our Tariff/Revenue submission for the 2025/26 Tariff year, we have included the following draft timeline. This reflects the latest times to progress this option however the timelines would have to be finalised through further engagement with the UR.

<b>Activity</b>	<b>Timeframe</b>
SONI submits proposed values for Licence Terms for 1 Year Extension	Q2 2024
UR consults on Modification to SONI Licence Extending Current Price Control by 1 Year (Article 14 Notice)	Q3 2024
UR Final Determination on Extension Q4 2024	Q4 2024
SONI Tariff Submission for the 2025/2026 Tariff Year.	Q2 2025

In conclusion, given the current circumstances and reasons detailed within this request, SONI believes an extension of the current price control by 1 year, and implemented as set out in Option 2, is the best outcome for, not only SONI, but for the UR and consumers alike. We look forward to hearing the UR's thoughts and are available to answer any questions the UR might have.

Yours sincerely,

A handwritten signature in blue ink, appearing to be "Kevin O'Neill".

Kevin O'Neill  
Head of Commercial & Regulation, SONI Limited