SONI Price Control 2026-31: Approach Document Consultation

February 2024

About the Utility Regulator

The Utility Regulator is the economic regulator for electricity, gas and water in Northern Ireland. We are the only multi-sectoral economic regulator in the UK covering both energy and water.

We are an independent non-ministerial government department and our main duty is to promote and protect the short- and long-term interests of consumers.

Our role is to 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.

We are based at Queens House in Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls, Networks and Energy Futures; and Markets and Consumer Protection.

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

This document sets out our approach framework proposals for the SONI price control regulatory framework. This includes our expectations for SONI, the electricity transmission system operator (TSO), to deliver a business plan for its customers, consumers and other stakeholders; and how we will assess SONI's business plan based on these expectations.

Audience

Industry, consumers and statutory bodies.

Consumer impact

SONI's costs which we regulate typically represent a relatively small proportion of Northern Ireland electricity consumers' bills (excluding system services). Its service can however have a significant impact on the electricity industry and consumer bills more widely where it affects the wider electricity system operation.

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Executive Summary

Introduction

SONI is the independent transmission system operator (TSO) for the Northern Ireland (NI) electricity system. SONI plans and operates the electricity transmission network in order to balance generation with demand and ensure a secure supply.

As a natural monopoly, the company is subject to economic regulation which protects consumers in NI by ensuring that a good quality service is delivered at the lowest possible cost.

The Utility Regulator's (UR) primary role and principal objective in the electricity sector is to protect the interests of consumers. One of the ways we do this is to carry out periodic price control reviews of SONI activities to determine efficient costs linked to outputs and levels of service.

A key outcome of the price control reviews is to set an efficient revenue cap to enable SONI to deliver quality outputs that customers need. In doing so, we challenge SONI to improve its efficiency and performance.

The SONI price control period beginning on 1 October 2026 (SRP26[1]) will be our latest price control for the company. In many aspects, the price control will follow regulatory practice established in the last period.

SONI has a key role in delivering investment to facilitate the NI Executive Energy Strategy aims to achieve net zero carbon and affordable energy for all. In addition, the new Climate Change Act (Northern Ireland) 2022[2] adds an important additional challenge for SONI's performance by setting the target of achieving 80% electricity consumption sourced from renewable sources by 2030.

[1] SRP26 = SONI Review of Prices 2026-31.
[2] See: https://www.legislation.gov.uk/nia/2022/31/contents/enacted

1. Introduction

Purpose of this document

1.1 As part of the Northern Ireland Electricity (1992) and Energy (2003) Order, the UR is tasked with protecting the interests of current and future electricity consumers. SONI is the transmission system operator (TSO) for Northern Ireland, which is a natural monopoly within the energy sector.

1.2 This document sets out the draft approach to the next SONI price control or review of prices (known as SRP26). The price control will regulate the outputs and costs of SONI from 1 October 2026 to 30 September 2031. It includes a timetable for the delivery of the SONI business plan, our determinations and the necessary changes to the company licence to give effect to our decisions.

1.3 The price control framework acts as surrogate to competition for natural monopolies and promotes good outcomes for customers and consumers. This document is the starting phase, to set out our initial views for the upcoming SONI price control.

1.4 The purpose of this document is to seek views on our framework from a range of stakeholders. The intention is to use this information to guide our approach to the price control.

Background

1.5 SONI is responsible for planning and operating the electricity transmission system and networks which allow consumers to access a secure supply of electricity. It is a natural monopoly which operates under licence.

1.6 Its work forms part of the overall system of electricity supply. The system also includes counterparties such as:

a) Generators who sell electricity and other services into the Single Electricity Market (SEM), or direct to supply companies;

b) NIE Networks who are responsible for owning and maintaining the physical transmission and distribution network; and

c) Supply companies which supply electricity to consumers. Supply companies’ charges for electricity include the cost of networks, system services and other costs necessary to deliver electricity.

1.7 SONI is a natural monopoly, therefore it is subject to economic regulation which protects consumers by ensuring a good quality of service delivered at a reasonable cost. The amount of revenue which SONI earns is determined by the UR through periodic price reviews, following scrutiny and challenge of the company's plans and public consultation with stakeholders.

The price control process

1.8 Through the SRP26 price control, we will assess SONI plans for the development, operation and use of the transmission system in light of consumer needs, the NI Executive Energy Strategy and the impact of the new Climate Change Act (CCA).[3]

1.9 SONI will submit a business plan for our consideration. This will set out its proposals to ensure consumers receive a high level of service, at an appropriate cost. Having considered SONI's business plan, we will publish a draft determination for consultation.

1.10 Having considered the response to the draft determination we will publish a final determination with proposals for licence modifications which give effect to the determination. Finally, we will issue a decision on licence modifications for SRP26.

1.11 Our approach is based on established best practice regulation of natural monopolies. Our task essentially consists of implementing a framework within which, in return for providing monopoly services to an acceptable quality, the company receives a reasonable assurance of a revenue stream in future years that will cover its efficient costs and ensure fairness for the consumer.

1.12 This document sets out our approach to SRP26 in the following chapters:

- Chapter 2 – Overview of previous price control.
- Chapter 3 – Overall policy and strategic context.
- Chapter 4 – Our approach to key areas.
- Chapter 5 – Timelines.
- Chapter 6 – Feedback.

[3] https://www.economy-ni.gov.uk/publications/energy-strategy-path-net-zero-energy
https://www.daera-ni.gov.uk/articles/climate-change-act-northern-ireland-2022-key-elements

2. Overview of previous price control

Introduction

2.1 As SONI matures as a company so should its regulatory framework. The most recent SONI price control introduced a series of changes. These amendments are still relatively immature but far-reaching[4], and included:

- Evaluative Performance Framework (EPF).
- Cost remuneration and managing uncertainty.
- A new risk and return structure.
- Updates to SONI's cost allowance.

Evaluative Performance Framework

2.2 The EPF was introduced to improve SONI's service quality and ensure accountability for performance. This built on 2019 proposals to offer incentives for continuous planning and delivery of a high-quality service.

2.3 The introduction of the EPF is in line with other UK system operator price controls, notably RIIO-2.[5] This provided justification to formalise SONI's service and outcomes metrics, as a means to quantify performance.

2.4 Planning and performance are assessed against a series of weighted criteria throughout an 18-month process. The framework introduced a related penalty/reward scheme (with a financial range between -£0.75m to +£1.25m per annum). It also provides for an independent assessment of ambition and performance by a panel external to the UR.

Cost renumeration and managing uncertainty

2.5 Our final determination for the last price control period (SRP20) developed the framework for SONI's various costs. This included[6]:

a) Conditional cost-sharing approach for the majority of SONI's internal base costs.

[4] Final determination main body.docx.pdf (uregni.gov.uk)
[5] Notably in the RIIO-2 price control Ofgem introduced a Performance Panel; ESO Performance Panel Mid-Scheme Review 2021-23.pdf
[6] Annex 3 Cost remuneration and uncertainty.pdf (uregni.gov.uk)

b) Mechanistic cost sharing treatment of costs for new initiatives with hypothecated ex-ante allowances (at a 75% rate such that customers retain three quarters of any underspend but fund three quarters of any overspend).

c) Up-to-a-cap recovery for transmission network planning projects (TNPPs) and network scoping / feasibility studies.

d) Pass through approach for ancillary service costs.

e) Fixed allowance for pension deficit repair costs.

2.6 New revenue mechanisms were also introduced for costs which are decided between price controls. This allows for changes to the sharing caps and other uncertainty mechanism requests i.e. pension deficit and network planning scoping / feasibility studies.[7]

Risk and Return

2.7 Our approach at the last price control built on consultation with SONI and external stakeholders, along with the outcome of the CMA referral in 2017[8].

2.8 SONI is remunerated for its equity capital and debt finance under the price control as a notional TSO licensee. This is consistent with wider UK regulatory precedent and is split into four main components, namely:

a) **Allowed return on RAB**: This is determined by applying an allowed weighted average cost of capital (WACC) to the value of SONI's regulatory asset base (RAB). This provides a reasonable return for equity investors.

b) **Allowed return on parent company guarantee (PCG**: This is an additional form of equity investor capital beyond that captured in the RAB. A separate remuneration channel provides a rate of return on any PCG required for the notional TSO licensee.

c) **Allowed margin on revenue collection activities**: This allows for a margin on SONI's revenue collection activities for participants in the NI electricity system. Most notably, this includes the revenue SONI collect on behalf of NIE Networks and generators.

[7] See Uncertainty Mechanism Guidance: (https://www.uregni.gov.uk/files/uregni/documents/2021-11/uncertainty-mechanism-guidance_0.pdf)
[8] See CMA Final Determination: (https://assets.publishing.service.gov.uk/media/5a09a73ce5274a0ee5a1f189/soni-niaur-final-determination.pdf)

d) **Adjustment to allowed return for asymmetric risk**: Asymmetric risk can arise with up-to-a-cap costs as SONI has no opportunity to out-perform. In line with the CMA's determination, an additional remuneration channel is provided. This mechanism adjusts for asymmetric risk faced by SONI.

2.9 The figure below illustrates the various channels of remuneration involved in the last price control.

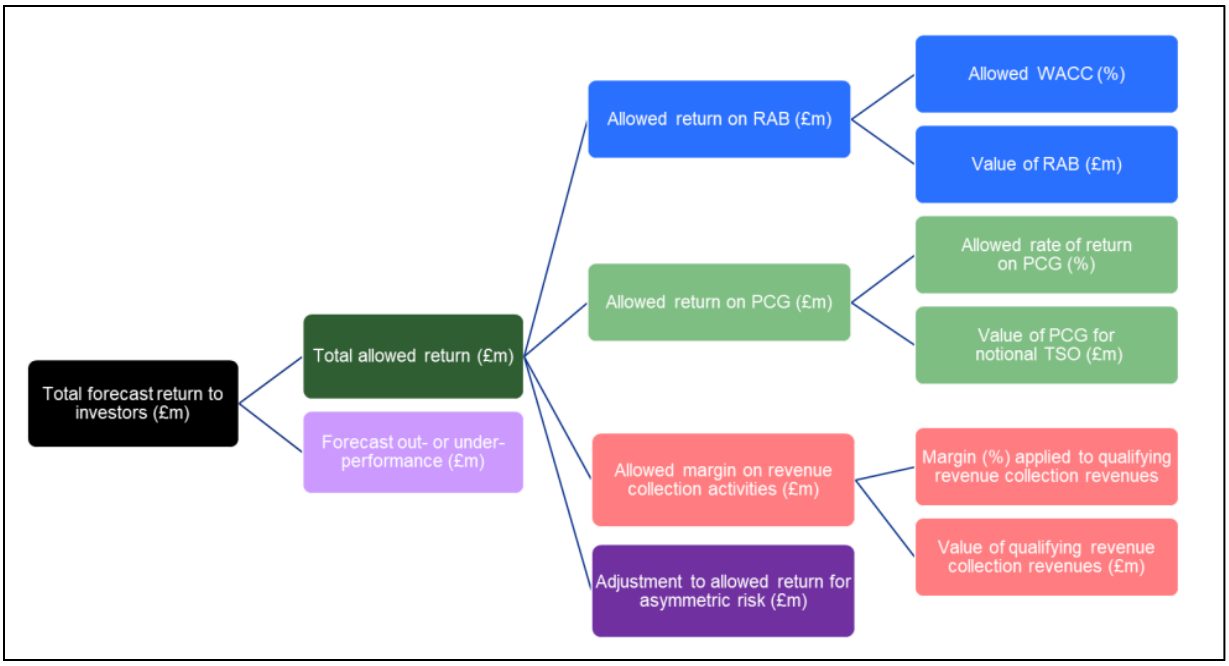

Figure 1: Overview of remuneration channels for debt and equity

Cost allowances[9]

2.10 In arriving at a payroll allowance, UR combined an estimate of staff resource requirements with an efficient salary provision. This methodology was closely aligned to that taken by SONI in its business plan.

2.11 Using ASHE[10] data to determine appropriate benchmarks for salary provisions alongside estimates for staff resourcing, we arrived at our final determination.

2.12 A further challenge is applied to opex via the frontier shift assessment. This incorporates a productivity challenge as well as an assessment of real price effects (RPEs).

[9] See the SPC20 annex for further details (Annex 4 Cost allowances.docx.pdf (uregni.gov.uk))
[10] ASHE = Annual Survey of Hours and Earnings.

Conclusions

2.13 Many of regulatory developments are recent but the framework is considered comprehensive. It is not therefore anticipated that many fundamental changes are required for SRP26.

3. Overall policy and strategic context

The energy strategy – the path to net zero.

3.1 In December 2021, the NI Executive published its new energy strategy *"A path to net zero energy".* The overall goal of the strategy is to achieve net zero carbon and affordable energy for all.

3.2 In June 2022, this strategy was further augmented by the Climate Change Act (Northern Ireland) 2022. This sets emission targets for 2030, 2040, and 2050. In addition, the CCA sets out that the Department for the Economy (DfE) must develop and publish a sectoral plan for the energy sector to achieve these targets and ensure that at least 80% of electricity consumption is from renewable sources by 2030.

3.3 The strategy envisages renewable electricity and higher levels of electrification of energy supplies with increased demand, off-set in part by improved efficiency. SRP26 must facilitate this path to net zero as part of a fair, affordable and inclusive transition.

3.4 The work that SONI will do in SRP26 will be critical to delivering the flexible, resilient and integrated energy system described in the strategy including:

a) Diversifying our renewables base to better meet system demands when the wind is not blowing and the sun is not shining.

b) Robust and well-planned infrastructure to maximise the use of locally generated, low-carbon electricity, complemented by interconnection to other markets.

c) Storage solutions, for example using batteries to enable flexible access to low-carbon energy when renewable generation is low.

d) Development of markets to encourage consumers to provide important services to minimise peaks in demand and better integrate low-carbon power, heat and transport.

e) Access to real-time consumption data through technologies which help electricity system operators to manage the system.

3.5 However, there are still details to be addressed as the strategy and the sectoral plans within the CCA are developed and implemented. The rate of development and distribution of new renewable generation and the uptake of electric vehicles will have a major impact on demand. The use of new technologies and the choices consumers can (and are enabled to) make will impact the way electricity is consumed. The development of the electricity network will both influence and be affected by these developments.

3.6 To address these issues, we expect SONI to develop a plan which responds to national and local policy guidelines and the clear direction of travel set out in the energy strategy and the CCA.

3.7 In a changing and uncertain environment, it will not be possible to account for all possible outcomes. The business plan should reflect the proposals to deliver against the policy context.

European Clean Energy Package (CEP).

3.8 The Electricity Directive of the European Clean Energy Package (CEP) specifies a number of rights and responsibilities for active customers and system operators which will be legislated for in parallel with the implementation of NI's new energy strategy.

3.9 We would expect SONI to include in its business plan, any additional costs placed on the system operator on new activities to ensure compliance with CEP requirements.

Aims and objectives for SRP26

3.10 Our aims and objectives are set within the overall policy and strategic context described above. The UR has a legal obligation to protect the interests of consumers. This can only be achieved where we aim to balance the need to:

a) Ensure that SRP26 reflects consumer priorities and delivers improved consumer protection.

b) Promote the development of the electricity network to deliver and support the policy context.

c) Minimise the overall cost to consumers while securing the ability of SONI to finance its functions.

3.11 To enable the successful achievement of the above aims, we must deliver on the following objectives:

- Continue the consumer engagement from the last price control to ensure customer views are represented.
- Improve the collection and publication of network information.

- Develop outputs and meaningful consumer measures, which will allow delivery of the plan to be monitored and reported on.

- Ensure that SRP26 promotes the development of a flexible, resilient and integrated electricity network.

- Make provision for necessary investment and activities.

- Ensure the plan takes account of the need to respond to climate change, including improving resilience.

- Challenge SONI to demonstrate efficiency and to continue to deliver productivity and performance improvements.

- Ensure that innovation funding can be accessed where a demonstrable case exists.

- Set an efficient revenue cap to enable SONI to deliver quality outputs, while ensuring they can continue to finance its functions.

- Ensure proportionate regulation, including maximising the advantages of one-to-one regulation.

3.12 We would encourage other stakeholders to consider and feedback on the proposed set of aims and objectives for SRP26 in response to the consultation on our approach.

4. Our Approach to Key Areas

General Overview

Introduction

4.1 The price control will set revenue limits. We will do this in a way that ensures that the company's operational and investment costs can be met and objectives delivered effectively and efficiently, providing best value for money to consumers.

4.2 All aspects of SONI's business plan will be considered and the objectives to be delivered will be tailored to take account of the needs of local consumers (today's and those of tomorrow) and associated costs.

4.3 We note that the provision of relevant and robust information in a timely manner, by SONI, to us is a pre-requisite for a successful price control. We therefore envisage clearly setting out our information requirements and liaising on an ongoing basis through a formal query process, with defined timescales, at working level.

4.4 Reporting Instructions and Guidance (RIGs) have been in use for several years. However, a new template was recently implemented. This will help provide a baseline of actual expenditure incurred to aid in forecasting and ongoing reporting / assessments.

A proportionate approach

4.5 We are mindful of the need to keep the regulatory burden to a minimum while addressing the information asymmetry that exists between us and regulated companies.

4.6 We will adopt a light-touch approach if:

- There is evidence to show the company is comparatively efficient.
- Past costs are a strong indicator of future costs.

4.7 We will adopt a more detailed approach if:

- The company is comparatively inefficient in certain areas.
- Past costs are a weak indicator of future costs.
- Cost increases are of a material nature.

4.8 We expect SONI to support its own robust assessment of expenditure and outputs, and we will work with them to ensure we understand these. Where there is insufficient evidence or data, we will adopt an approach to funding which is prudent and conservative in relation to the risk consumers are exposed to.

Key Issues

Form of SRP26

4.9 SONI operates a revenue cap. However, within the licence formula there are various types of cost treatment depending on the cost category concerned. In the current TSO licence, there are five types of existing cost approach. This is detailed in the table below.

Existing Structure	Allowance Setting	Activity
Ex-ante allowance with cost sharing (both mechanistic and conditional)	At price control	Most capex and opex spend e.g. staff, facility costs, corporate costs, telecoms, IT and buildings capex spend etc.
Fixed ex-ante allowance (not subject to cost sharing)	At price control	Pension deficit repair
Ex-ante allowance up-to-a-cap	At price control	Expenditure on network planning and scoping feasibility studies
Pass through costs	During price control	Ancillary services or market operator costs recovered via the TSO
Uncertainty mechanism approvals (both cost sharing and up-to-a-cap)	During price control	TNPPs, uncertainty mechanisms etc

Table 4.1: Cost treatment

4.10 Significant changes were made in the last price control to tailor cost approvals and amend the incentives associated with the price control. Most business plan costs are subject to cost sharing at a rate of 75% i.e. customers retain 75% of underspend but fund three quarters of any overspend. This transfers risk to customers but retains a level of financial control. We are minded to retain this approach.

4.11 A number of new uncertainty mechanisms (UM) were also established in the last control along with associated guidance. No change is anticipated given the comprehensive nature of this framework.

Duration of SRP26

4.12 The SRP20 price control was initially set for a period of five years beginning in October 2020. This follows on from previous controls. Whilst some other network controls are six years, we believe the current approach for SONI continues to strike the right balance between providing sufficient certainty while not exposing the company or consumers to undue risk. However, given the comprehensive nature of the UM framework, there is potential for extension of the price control to a six-year period and we would welcome stakeholders' views on duration.

4.13 Upon SONI's request we have decided to extend the current price control by one year.[11] In June 2023, we launched a consultation on a proposal to defer the start date of the next price control.

4.14 After considering SONI's request and having publicly consulted on the proposal, we decided to defer the start date of SONI's next price control by one year to start on 1 October 2026. This allows SONI time to appoint a new board, in accordance with the new licence condition Section 42 (Part A) and to implement a new medium-term strategy which will underpin its business plan submission.

4.15 As a consequence, it is our proposal that SRP26 will begin in October 2026 and run to September 2031. Our intention is to retain the five-year duration. This aligns with the depreciation timeline for most IT capital spend.

Business plan guidance.

4.16 The business plan (BP) guidance sets out the information requirements which the UR expects SONI to complete as part of its submission. It is not expected that the data requirements will alter materially from SRP20.

4.17 The basis of the templates will include required detail and evidence to support the TSO case. This will mimic information previously requested and cost data submitted on an annual basis via the RIGS[12] reporting.

4.18 In the last price control we did not require completion of a pre-determined financial model. However, this prompted numerous queries and levels of engagement which may well have been avoided had this submission been mandatory. We expect to include a financial model return as part of the SRP26 business plan submission.

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[11] See deferral decision paper: https://www.uregni.gov.uk/news-centre/decision-published-deferral-start-date-next-soni-price-control

[12] RIGS = Regulatory Instructions & Guidance which forms the basis of the TSO annual reporting.

4.19 Engagement on the structure of the information requirements is ongoing with the TSO. It is anticipated that these business plan information requirements will be published alongside the final decision on the SRP26 approach document.

Business plan assessment

4.20 A review of SONI's business plan is undertaken at the draft determination phase. This is based on assessment of BP ambition and responses against key test areas.

4.21 SONI is also required to undertake a self-assessment of how the business plan delivers against requirements. Separate guidance on what constitutes an excellent business plan will be issued as part of the BP information guidance.

4.22 This has worked well in the previous SONI price control and has become the standard across other price controls. We see no reason to change this approach at this time. This assessment will be developed based on the experience and learning we have had from other price control processes.

Past Delivery

4.23 As in the previous control, we would expect SONI to produce an annex in their business plan setting out an overview of strengths, weaknesses, delivery and outcomes against the targets in the current price control. This should identify ongoing issues and justification for changes in SRP26.

Stakeholder engagement

4.24 SRP20 introduced a new stakeholder expert challenge group (SECG),[13] as a means of third-party scrutiny of SONI's business plan.

4.25 Overall, this worked well with the group contributing effectively, and providing value to the process. Going forward we expect SONI to take a lead on stakeholder engagement, organising diverse stakeholder workshops and incorporating feedback into their plan.

4.26 SONI is not obligated to continue with the SECG or a variant thereof. However, the TSO must demonstrate how it has engaged with stakeholders / consumers and detail how this has influenced their business plan. We expect SONI to discuss its plans for engagement with stakeholders in advance and set out a clear plan of engagement which will inform its

[13] The Stakeholder Expect Challenge Group (SECG) were made up of industry experts, other regulated companies and consumer/business representatives who have a significant interest in TSO plans and developments.

business plan. At a minimum, its business plan submission should include information on the following:

- How the company planned its engagement.
- Who the company has engaged with.
- How the company has engaged.
- How proposals have been presented to stakeholders and consumers to inform their input to the business planning process, including the impact on prices.
- What survey work or research has been undertaken.
- How customer metrics have been developed with stakeholders and how consumer issues have been addressed.
- How SONI has incorporated consumer priorities and feedback into the SRP26 business plan.

4.27 These proposals are subject to ongoing review.

Outcomes, deliverables and KPIs

4.28 The final determination[14] for SRP20 published high level outcomes for SONI. Annual reporting captures delivery against these objectives. KPIs were not developed or set as targets at the last price control. Although the introduction of the EPF has encouraged SONI to consider these.

4.29 Going forward it should be considered if more formal KPIs are needed. More input from SONI may also be required going forward in terms of interim objectives for long-term projects.

Financial incentives - mechanistic cost sharing (MCS)

4.30 Currently both capex and opex costs within the price control are subject to cost sharing. This is set at 75%, such that the consumer pays 75% of any overspend but retains the same proportion of underspend. SONI retains 25% of any underspend and pays the same percentage of overspend.

4.31 This was changed from a 50:50 mechanism in the last price control. The effect of this change was to reduce the risk to SONI while retaining a financial discipline incentive. We propose to retain this incentive for the next price control, continuing a 75:25 cost risk share.

[14] Final determination main body.docx.pdf

Financial incentives - conditional cost sharing (CCS)

4.32 Within the licence modifications introduced in SRP20, CCS was introduced, which allows SONI, or the UR to increase the cost sharing percentage to 100% for base costs (in effect, full cost recovery). This allows:

a) SONI to request consumers to pay 100% of any overspend if this delivers justified improvements efficiently.

b) Conversely, UR can return any underspend if it is evidenced that this was a result of deterioration in service performance.

c) Any adjustments are subject to a materiality threshold of £500k in nominal terms, in any given year.

4.33 Tariff year 2021-22 saw the first CCS submission, but this did not pass the materiality threshold. As such, the process is as yet untested. We propose to maintain this incentive, though the materiality threshold could be subject to review.

Evaluative Performance Framework (EPF)

4.34 Similar to the SECG, the EPF has proved beneficial. This is a way to provide third-party scrutiny during the price control period. An independent expert panel has been appointed who assess SONI, in line with published guidance criteria and provide a recommendation report to UR. UR then makes a final determination in terms of SONI's grading, which will equate to a financial reward or penalty.

4.35 The EPF process constitutes an 18-month cycle focusing on SONI's forward work plan (FWP) and stakeholder event, at the beginning of the price control year. This is then followed by a SONI mid-year update and concludes with the panel's evaluation of SONI's performance after the price control year has concluded.

4.36 It is the UR's position that this has been a positive step for SONI and stakeholders. However, during its implementation the UR has taken a leading role, which was not our long-term intention.

4.37 Going forward, as the process matures, the UR would like to step back from the process but maintain its role in making a final determination.

4.38 At the time of writing there is a live consultation on how a similar process would work under NIE Networks price control. We plan to further engage with SONI to give consideration on how we would further the process in both organisations, building on the strength and learning of the current arrangements in place in SONI's price control.

4.39 The UR welcomes comments on how this process has worked for other stakeholders and how this might be improved going forward.

Uncertainty mechanisms and innovation

4.40 Within the licence modifications of the last price control, we introduced new uncertainty mechanisms and associated guidance.

4.41 This allows for:

a) Opex and capex requests which are subject to cost sharing (Et & Vt) mechanisms.

b) Opex and capex requests which are subject to actual spend up-to-a-cap (Dt & Zt).

c) Triennial pension deficit review adjustment ($PTRA_t$).

d) Uplifts to the network planning scoping and feasibility studies opex cap (SFU_t).

4.42 On the whole, these mechanisms are comprehensive. They are currently subject to a materiality threshold of £40k p.a. in nominal terms in each relevant year. As part of the consultation process the UR would like to explore the possibility of increasing this and would welcome stakeholder engagement regarding this issue.

4.43 In addition to this, a proposal to streamline the process during the price control, due to resource constraints, may be explored. Work has also started on an Agreed Governance Document (AGD) for determining all-island projects which result in jurisdictional TSO allowances. We welcome stakeholder feedback on these proposals.

Pension deficit

4.44 Back in October 2017 the UR determined that only the pension deficit for the defined benefit scheme incurred up to a specified date should be paid for by NI electricity consumers. We also determined the cut-off date as the 31 March 2019.[15] Any pension deficit incurred beyond this date must be funded by the shareholder. No change is expected in this position.

[15] See relevant pensions decision paper: https://www.uregni.gov.uk/files/uregni/media-files/Pensions%20Conclusions%20and%20CIL%20Decision.pdf (paras 12-23).

Efficiency assessment

4.45 Previously reviews have been carried out on a bottom-up basis, given the lack of benchmarking opportunities for SONI. Alongside this an exploratory audit on key projects for the current price control was undertaken.

4.46 Given the benchmarking restraints and the effectiveness of this approach, we propose to retain it for the coming price control. It is likely that external consultancy advice will be procured to facilitate this review.

Salary benchmarking

4.47 The efficient level of staff costs is generally established using ASHE data by standard occupational classification (SOC). This analysis will be undertaken as part of the draft and final determination cost allowance work.

4.48 We would propose to retain this approach, though we are open to consideration of other methods of salary benchmarking. The SOC reporting proposed in the RIGS returns should strengthen this analysis going forward. Consideration will also be given to the need for a regional price adjustment as UK data has tended to be used in the past.

Real price effects (RPEs) and productivity

4.49 This analysis is also undertaken at the draft and final determination phase and follows a typical UR approach to price controls.

4.50 In the determination for the current price control, this is only applied to SONI's opex. In SRP26, we are minded to apply RPEs and the productivity challenge to both determined opex and capex.

Financeability

4.51 SRP20 focused on normal profitability metrics and the rate of return on equity (RoRE) metrics. This approach is expected to be retained for SRP26. It will be for SONI to demonstrate what financial ratios they wish to rely upon. They will also be required to justify their selection and what ratio level is considered to be suitable to demonstrate financial sustainability.

Asymmetric risk

4.52 Following the CMA decision, a new term for asymmetric risk (ARA_t) was introduced. This renumerates SONI to the sum of 3% of forecast up-to-a-cap costs as they are not able to outperform in this area. This approach is expected to be retained. However, the percentage and the allowance will be subject to review.

Margin

4.53 At present, SONI are remunerated for collection agent risk ($CAIRt$) associated with TUoS, ancillary service and imperfection costs. This is based on 0.5% of those costs and was established by the CMA as SONI's remuneration for the liquidity risk associated with this activity.

4.54 It is anticipated that the TUoS risk will be transferred to NIE Networks. In the previous price control we stated,

"We plan to carry out a separate consultation on specific licence modifications that would de-risk SONI's TUoS role. If a change is to be made to the TSO licence to de-risk the TUoS revenue collection role we would, at the same time, make appropriate changes to the SONI price control allowances for the margin on TUoS revenue collection risk."[16]

4.55 Within the RP7 draft determination[17] we further advised that, *"we proposed to move the NIE Networks TUoS revenue collection risk from SONI to NIE Networks, reducing SONI's risk and overall costs to consumers. We plan a further consultation on appropriate licence modifications."*

4.56 How this transfer will be implemented is currently being reviewed and will be subject to a separate consultation expected to be carried out in 2024. A margin is expected to be retained for the other activities, though the percentage will be subject to review.

Parent company guarantee (PCG)

4.57 Condition 3A of SONI's licence requires that EirGrid (as the parent) shall always ensure that SONI has adequate financial and non-financial resources in order that it may perform its obligations. This takes the form of a £10m PCG.

4.58 SONI are currently remunerated at a rate of 1.75% of their PCG. This was agreed by the CMA. No change to the mechanism is proposed for SRP26. However, we note this value has remained constant from when it was put in place and would welcome feedback as to whether £10m is the appropriate amount by way of a financial guarantee.

[16] See Annex 5, Risk & Return, p83, para 4.14.
[17] See RP7 DD, Annex S, para 5.9, p78.

Inflation indexation

4.59 SRP20 introduced CPIH in favour of the more antiquated RPI. This is consistent with current financial conventions and regulatory precedent. No further change is proposed.

Transmission network pre-construction project (TNPPs*)*

4.60 SONI can apply for the approval of pre-construction costs related to network development projects. SONI earns a return on a side-RAB comprising these costs with the actual TSO spend ultimately being recovered from NIE Networks following UR approval. This process is expected to continue unchanged in SRP26.

Governance

4.61 The previous price control assumed SONI and EirGrid would share resources and allocate group wide costs. Following extensive consultation, a recent licence modification (Condition 42)[18] was made to give effect to our conclusions on the changes that are needed to SONI TSO's governance structures following the governance review. Among other things, these changes ensure greater clarity and transparency in relation to costs and how decisions are made.

4.62 This condition will be implemented in tandem with development of the new price control. We recognise the constraints these processes operating in tandem pose, to both SONI and the UR, which will need to be considered carefully going forward.

4.63 The new licence framework expects a level of independence in order to:

- Secure the protection of the interests of consumers and other stakeholders, including generators and suppliers in NI.
- Allow for the implementation of regulatory policy.
- Enable SONI to play its role in the implementation of the policy of the UK Government and/or Northern Ireland Executive, and in particular to facilitate the industry's energy transition.
- Maintain cross-jurisdictional relationships necessary to facilitate the Single Electricity Market (SEM).

[18] https://www.uregni.gov.uk/files/uregni/documents/2022-08/2022-08-30%20SONI%20governance%20licence%20mods%20decison%20paper.pdf

4.64 However, it also allows for derogations to be submitted as part of SONI's restructuring. These derogations make possible the realisation of appropriate synergies and efficiencies that may arise from SONI's position as part of the overall EirGrid Group.

4.65 The derogation process is designed to allow the benefits from economies of scale to be revealed so they can continue to be captured for consumers in a manner which is transparent and accountable.

4.66 Condition 42 does not mandate a full demerger. Accordingly, any choice to pursue full demerger would be a matter of corporate choice, since it does not flow from any obligation in the Licence.

4.67 If SONI chooses not to seek any Condition 42 derogations and to pursue instead a 'full demerger' strategy, our approach to this is set out below so that it can be considered before SONI submits its business plan.

4.68 We will approach future TSO price controls on the same basis that we have approached previous ones. Namely, that we understand that SONI should be allowed the efficient cost of complying with obligations placed on it under statute or by its Licence.

4.69 It follows from this that the efficient costs of complying with Condition 42 will be funded. It also follows that if SONI chooses to take actions which go beyond the scope of the Condition 42 obligations, costs associated with those actions will be treated as discretionary spend unrelated to licence compliance and will not be funded.

4.70 Specifically, if SONI chooses to adopt a full demerger strategy – which, as noted above, is not mandated by Condition 42 – then we must treat that as an elective decision to undertake a level of corporate restructuring beyond that required by regulation. We will regard the costs of that exercise as appropriate for funding by shareholders and not by NI consumers.

4.71 We anticipate that the BP submission will reflect SONI's position following the derogation process. Whether applying for derogations in certain areas or not, the BP must justify why the approach is in consumers best interests.

5. Timelines

SRP26 Timetable

5.1 We have set out the anticipated key milestones to SRP26 below. We note that the dates indicated are provisional dates which may be subject to further change.

Key Milestone	Timeline[19]
Consult on proposal to extend current price control[20]	Start June 2023
Consultation responses on extension	End June 2023
Decision on extension to current price control[21]	August 2023
Develop business plan information requirements with SONI	Aug to Dec 2023
Publish draft approach to SRP26	February 2024
Consultation on draft approach closes	End of March 2024
UR publishes final approach to SRP26 and final information requirements	End of April 2024
SONI submits proposed values for licence terms for one year extension	June 2024
Consultation on licence mods for one year extension issued	Start of September 2024
Response to consultation on licence mods for one year extension	Start of October 2024
Decision on licence mods for one year extension published	End November 2024
Business plan submission	Start of March 2025
Publish draft determination	End of August 2025
Consultation on the draft determination ends	Mid November 2025

[19] The timings of these milestones are subject to change. They may also be impacted by other workstreams such as the TUoS collection agent risk consultation or the FASS programme etc.

[20] See consultation: https://www.uregni.gov.uk/consultations/consultation-sonis-request-defer-start-their-next-price-control

[21] See decision paper: https://www.uregni.gov.uk/news-centre/decision-published-deferral-start-date-next-soni-price-control

Key Milestone	Timeline[19]
Publish final determination and proposals on licence modifications	Start of April 2026
Close of representations on proposals	Start of May 2026
Decision on licence modifications published	End of June 2026
Licence modifications come into effect	01 October 2026

Table 5.1: SRP26 key milestones

6. Consultation Feedback

Next Steps

6.1 UR welcomes feedback on all aspects of the consultation. This might include views on the key issues, regulatory framework and outputs that should be prioritised. The deadline for responses to this consultation is 5pm on 29 March 2024 following an eight-week period of consideration. Responses should be sent to:

Ciara Brennan
Utility Regulator
Queens House
14 Queen Street
Belfast - BT1 6ED
Ciara.Brennan@uregni.gov.uk and SONIUREGNI@uregni.gov.uk

6.2 Your response may be made public by the Utility Regulator. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'.

6.3 If you want other information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

6.4 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 and the Data Protection Act 2018.

6.5 As stated in the GDPR Privacy Statement for consumers and stakeholders, any personal data contained within your response will be deleted once the matter being consulted on has been concluded though the substance of the response may be retained.

6.6 Copies of all documents will be made available in large print, Braille, audio cassette and a variety of relevant minority languages if required.