

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

Ref: NET/E/JF/657

26 April 2023

Dear Kevin,

**Re: FASS Phase II – Final Zt Approval**

On 17 October 2022, SONI made an application for costs associated with conducting the market design & procurement (Phase II) for the Future Arrangements for System Services (FASS) project. The claim of **£1.49m (Oct 2022 prices)** includes capex costs across tariff years spanning from 2022-23 to 2023-24. These costs are part of a larger ongoing project.

UR provisionally approved a budget of **£1.14m (Oct 2022 prices)** on 22 March 2023 for Phase II, setting out the rationale for disallowance. SONI made representation to the UR on 31 March 2023. Following review of this response, UR has determined a final allowance of **£1.14m (Oct 2022 prices)** in line with the provisional decision.

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

Tariff Year	SONI Claim (Oct 2022 prices)	UR Allowance (Oct 2022 prices)	UR Allowance (April 2019 prices)
2022-23	£1.38m	£1.05m	£0.91m
2023-24	£0.11m	£0.08m	£0.07m
<b>Total</b>	<b>£1.49m</b>	<b>£1.14m</b>	<b>£0.98m</b>

Unresolved Issues

The final allowance provides for **c. 76%** of the Phase II funding that has been requested. A spreadsheet detailing our calculations is provided alongside this letter. However, in summary there are two main issues with the current request.

**Issue 1 – Daily Rates**

The justification provided for internal daily rates does not support the amount requested. TSOs would need to demonstrate why internal rates are above price control averages. Furthermore, we are concerned by the daily rate requested for certain legal costs. The fact

that services have been competitively procured does not ensure efficiency. Reductions to these rates have been made accordingly in line with expectations.

### **Issue 2 – Scope Uncertainty**

Query responses have noted the potential overlap with market design and IT impacts, which were due to be completed in the first phase. Scope uncertainty means that the HLD vision for a daily auction framework is likely to be scaled back. Consequently, we have made a 20% reduction to required resources to reflect this change.

SONI also highlighted concerns around the lack of joint governance provision. We can confirm that this work is ongoing and future stages will be subject to all-island governance arrangements.

### **Zt Allowance**

The UR now gives notice to SONI that:

- 1) In accordance with paragraph 8.6 of Annex 1 of the licence, the application shall be treated as Special Project Costs (i.e. a *Zt* approval).
- 2) Special Project Costs will be recovered under the *Zt* term and in accordance with paragraph 2.2(n) of Annex 1 of the licence.

UR has approved a total capital allowance of **£1.14m** for this stage of the project. 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 2022-23 based on the maximum amount of £1.14m (Oct 2022 prices).
- (c) In accordance with paragraph 2.7(b)(iii) of Annex 1 of the TSO Licence, the straight-line depreciation period for the approved amount is five years, starting with relevant year 2022-23.
- (d) Return will be calculated based on the prevailing WACC.

Given the timing of this application and approval, monies for 2022-23 could not be included in tariffs. These costs should therefore be recovered via the K-factor in 2024-25. Reporting of actual costs incurred (by project phase) should be included in the annual RIGS returns.

I trust this satisfies your requirements at this time. Any comments on this letter should be addressed to Ciara Brennan.

Yours sincerely,



**John French**  
**Chief Executive Officer**