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

Ref: NET/E/JF/727

06 September 2023

Dear Kevin,

Re: DS3 Control Centre Tools (CCT) Uplift – Final Zt Approval

On 30 November 2022, SONI made an application for costs associated with uplifting the cap for the DS3 control centre tools project. The claim of **£583k (April 2022 prices)** includes capex costs for tariff years 2018-19 to 2022-23 under the up-to-a-cap mechanism (Zt).

UR provisionally approved a budget of **£349k (April 2022 prices)** on 14 June 2023 for this project uplift, setting out the rationale for disallowance. SONI made representation to the UR on 28 June 2023. Following review of this response, UR has determined a final allowance of **£437k (April 2022 prices),** uplifting values from the provisional decision.

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

DS3 Control Centre Tools Uplift – Request and Final Allowance			
	SONI Claim (April 2022 prices)	**UR Allowance (April 2022 prices)**	**UR Allowance (April 2019 prices)**
Total Uplift	£583k	£437k	£396k

The final decision represents 75% of the amount requested. A spreadsheet detailing all calculations is provided alongside this letter. In summary however, the following deductions have been made:

1. We have reduced the internal staff allocation by 50% as we do not consider that the consumer should bear all the costs associated with delays. This is particularly true where the delay is within TSO control i.e. extended vendor negotiations.

2. The internal daily staff rate has been reduced in line with price control allowances. Above average spend has not been adequately justified.

Detailed responses to the points SONI raised in objection are set out in an annex to this letter. This provides further justification and rationale for the final UR position.

UR is also aware that this project has been subject to significant cost overrun and further spend associated with the Voltage Trajectory Tool may be forthcoming. Given the issues faced and the difficulty verifying contractor spend, it may be incumbent upon the UR *"to conduct an audit of the relevant detail"* as per UM Guidance (para 7.2). A decision on this will be taken when the project is fully closed out.

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 uplift allowance of **£437k** for this element of the project. Although spend has been incurred over a number of years, for the purposes of revenue recovery, the allowance shall be allocated to the 2022-23 tariff year.

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 £437k (April 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 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

Annex A – Detailed Responses to SONI Feedback

SONI raised a number of issues within their response to the provisional determination. We have taken this opportunity to respond to the various points as there are key learnings from this project that can be applied to other uncertainty mechanism requests. The SONI issue and UR response (in blue) is detailed below.

a) We have had regular engagement with the UR (Markets team) throughout the programme. The adjustments proposed were never highlighted as areas of concern or discussed at the regular programme update meetings with the UR (and CRU).

UR Response: This project has been ongoing for some time. At no point has SONI informed the UR price control team of material cost-overruns until the uplift submission. This is contrary to the Guidance (para 6.2) which states, *"In the event that the approved cost cap will be breached, SONI may submit an application to increase the cap. SONI can make such variation requests at any time, but should endeavour to do so in advance of the cap being exceeded."*

UR would also note that the appropriate procedure for both requesting and determining the legitimacy of certain spend is the UM process. It would be inappropriate to raise concerns via any other mechanism.

b) The UR has reduced these [unexplained] costs by £88k, claiming that these costs were not explained by either the submission or the query responses. The UR did not raise any queries on the overall costs as part of its assessment.

UR Response: This detail should be provided as a matter of course within the submission, particularly given that these are actual costs. A breakdown of vendor costs was requested as part of the query process. This detail was not clearly enumerated, and it is unclear why it has taken to the provisional determination stage to establish the full vendor costs and activity.

c) We have provided further detail to demonstrate the activities undertaken. This cost included work associated with System Test Resources and Specialist Power System resources.

UR Response: This is useful detail which has been incorporated into the final determination given the adequate explanation and breakdown provided. However, in future we would expect such detail to be forthcoming as part of initial cost submissions. This would help reduce the regulatory burden of the process.

d) SONI considers that reducing internal staff days by 50% is an arbitrary and unjustified adjustment. SONI presented key developments to UR staff as they emerged. Furthermore, this project has been included within the formal SEM Committee DS3 programme change control process. At no point has any doubt around the efficiency of these developments been raised by either UR or the SEM Committee.

UR Response: This project has been subject to substantial delays and cost-overruns. Given the unique nature of the tools, there is a risk of this occurring. However, SONI provided examples of change requests which list extended vendor contract negotiations (CR-108) or extensions to tenders to provide additional clarity (CR-116) as the reason for delay. This would be considered within the TSOs control and not something the consumer should be penalised for.

UR has been reasonable in allowing all external vendor costs, despite the material overrun. However, it would not seem appropriate to impose costs on the consumer which were otherwise preventable. Furthermore, the change requests provided as part of this process do not identify cost implications. It is therefore not clear if the efficiency of the changes has been adequately communicated.

e) This is further exacerbated as the adjustment is being made ex-post. The alternative was for SONI to halt the programme until funding was secured. We worked on a good faith basis.

UR Response: The decision to work 'at risk' is one which SONI is entirely responsible for. The alternative is not to halt the programme but to seek adjustments to the cap when it is becoming clear that it is at risk of being breached. This is the clear position as set out in the UM Guidance and should be standard practice going forward.

f) The costs included in the submission reflect the actual costs incurred by staff with specific skill sets working on the programme. The technical and IT focussed nature of these roles means that the day rate is understandably higher than the overall average used to set opex allowances for the whole business. As highlighted in the submission, some of the key roles involved in this work include IT Business Analyst, Portfolio Manager, Project Management, Solution Architect an Infrastructure Lead.

UR Response: The base allowance for internal SONI staff was set taking account of specialist roles using ASHE data and considering highly skilled workers (set at the 75^{th} percentile). It is therefore not obvious why this project should attract above average allowances.

Furthermore, the price control benchmarking upon which allowances are made indicated that the IT specialist roles where largely in line with the determined FTE average allowance. Consequently, it is not clear why SONI consider the identified roles should result in spend above the average. This uplift has not been adequately substantiated and for future reference would require specific justification if above allowance spend is being sought to be recovered.

g) SONI considers it entirely unreasonable that the proposed adjustments are being considered. Consumers are rewarded by the benefits that this work will bring. It therefore is logical to assume that consumers should bear the costs associated with achieving the benefits.

UR Response: It is reasonable to expect consumers to bear the efficient cost associated with achieving the benefits. SONI has failed to justify why all the costs incurred are efficient. UR has adopted a reasonable position in allowing all external vendor cost, but considers that internal spend not well justified or supported should not be imposed on the consumer.