

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

Ref: NET/E/PR/776

22 January 2024

Dear Kevin,

Re: SDP Phase II – Final Zt Approval

On 27 April 2023, SONI made an application for costs associated with Phase II of the Scheduling and Dispatch Project (SDP). The claim of **£1.52m (Feb 2023 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 **£1.46m (Feb 2023 prices)** on 13 October 2023 for Phase II, setting out the rationale for disallowance. SONI made representation to the UR on 19 October 2023. Following review of this response, UR has determined a final allowance of **£1.46m (Feb 2023 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].¹

Tariff Year	SONI Claim (Feb 2023 prices)	UR Allowance (Feb 2023 prices)	UR Allowance (April 2019 prices)
2022-23	£1.30m	£1.26m	£1.07m
2023-24	£0.22m	£0.21m	£0.18m
Total	£1.52m	£1.46m	£1.25m

Unresolved Issues

A spreadsheet detailing our calculations is provided alongside this letter. However, in summary there are two main issues with the request.

Issue 1 – Project Management

The submission and query responses do not provide adequate justification for external project management and support costs at a daily rate c. 46% in excess of concurrent

¹ Please be advised that figures may not sum due to rounding.

projects (i.e. FASS). Scale and complexity apply equally to other schemes, so the proposed rate does not seem justified on this occasion. Consequently, a daily rate in line with FASS has been provided in the final determination for external programme management costs.

Issue 2 – Internal Costs

SONI response to the PD indicated that the UR made an error in its assessment and should not be amending EirGrid or SEMO rates. Upon questioning, the TSO could not identify the error but stated that, *“we have not commented on the source information used by UR as we consider no adjustments should be made to the EirGrid or SEMO costs without agreement with CRU.”*

As the decision is a jurisdictional one and the SONI request has been made as a proportion of all-island spend, we have no option but to take a view on efficient staff unit rates. The most relevant resource is the TSO/MO price control allowances.

Our position is based on price control allowances, including those for SONI, SEMO and EirGrid. No justification has been given for above average staff costs with respect to this project, nor would such necessarily be expected given the wide variety of tasks. Consequently, we do not consider an error to have been made, so are not minded to amend our PD position.

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 **£1.46m** 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 £1.46m (Feb 2023 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.

The original submission also stated that it, *“provides indicative costs for Phases 3-5 and seeks high level approval for same.”* For the avoidance of doubt, this funding approval is for Phase II only. Future approvals, for stages III to V, will be considered separately.

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

Yours sincerely,



Peter Russell
Executive Director
Price Control, Networks, and Energy Futures