

Robin McCormick
General Manager
SONI Limited
Castlereagh House
12 Manse Road
Belfast
BT6 9RT

Ref: NET/E/TH/65

22 February 2019

Dear Robin,

Re: DS3 Control Centre Tools Costs (DS3 Costs): Revocation of the UR's D_t Approval for DS3 Costs and Approval as Special Project Costs

In December 2017, SONI made an 'excluded SSS/TUoS costs application' to the UR under paragraph 8 of Annex 1 of SONI's electricity transmission licence (the **TSO Licence**). The application (referred to as a D_t application) was for the UR to approve the DS3 Costs as excluded SSS/TUoS costs for the purposes of the amount being part of the D_t term of the price control for the relevant year t in question.

The UR approved the DS3 Costs as excluded SSS/TUoS costs (the 'D_t approval') on 17 April 2018 – see letter issued to SONI and published on the UR website.¹

However, within the 2018-19 tariff approval process, the UR became cognisant of the fact that the D_t approval had been given in error. This was because -

- SONI licence did not provide a mechanism for remuneration of excluded SSS/TUoS costs via a side-RAB (in similar vein to CMA conclusions about network projects).

In light of this, no monies were allowed in 2018-19 tariffs for the approved DS3 Costs. The UR undertook to modify Annex 1 of the TSO Licence to include a new licence term (Z_t) in order to enable SONI to recover depreciation and return for approved Special Project costs of a capital nature.

¹[D_t Approval Letter](#).

The UR consulted on proposed licence modifications. Having taken account of consultation responses, the UR published its decision to make the relevant changes on 3 December 2018. The new licence modifications for SONI came into effect on 1 February 2019.

The UR now gives notice to SONI that it –

1. Revokes, with effect from the date of this letter, the D_t approval given on 17 April 2018 in respect of the DS3 Costs.
2. Determines, in accordance with paragraph 9.1 of Annex 1 of the TSO Licence (as in effect at the date of this letter), that the application made by SONI on 17 December 2017 is a claim that relates to a project (the **DS3 Control Room Tools Project**) in respect of which the costs shall be treated as Special Project Costs.
3. Gives its approval for a maximum amount of £610,000 (in April 2014 prices) to be recovered as Special Project Costs under and in accordance with paragraph 2.2(j) of Annex 1 of the TSO Licence.

With regard to paragraphs 2 and 3 above, the UR's determination and approval and the terms of the approval are set out in Annex A to this letter. Should you have any comments, queries or issues, feel free to contact either myself or Jody O'Boyle.

Yours sincerely,



Tanya Hedley
Director of Compliance and Network Operations

Annex A – UR's Approval of DS3 Costs as Special Project Costs

The UR –

1. Determines, in accordance with paragraph 9.2 of Annex 1 of the TSO Licence, that the claim made by SONI for DS3 Costs relates to a project (the DS3 Control Room Tools Project) in respect of which the costs shall be treated as Special Project Costs.
2. Approves for a maximum amount of £610,000 (in April 2014 prices) to be recoverable under and in accordance with paragraph 2.2(j) of Annex 1 of the TSO Licence.

The approval set out in paragraph 2 above is subject to the following conditions –

- (a) The amount approved can only be spent on development of the control room tools identified within the request and on relevant project objectives.
- (b) SONI can recover the depreciation and return on actual spend up to the maximum amount approved.
- (c) Depreciation and return amounts can be included in tariffs for tariff year 2019-20 based on the maximum amount of £610,000 (April 2014 prices).
- (d) In accordance with paragraph 2.5(e) of Annex 1 of the TSO Licence, the straight line depreciation period for the approved amount is five years, starting with relevant year 2019-20.
- (e) SONI shall provide annual reporting in line with UR's requirements (as set out in email of 30 March 2018 [from Roy Colville to Sarah Friedel]).
- (f) An adjustment will be made in the K-factor for any subsequent relevant year t where actual spend is less than the maximum amount approved and the maximum amount has been recovered through the Z_t term.
- (g) Unless subject to a projection variation approval, overspend of the cap without approval will not be allowed in tariffs.
- (h) Should SONI decide not to progress the DS3 Control Room Tools Project, any amounts recovered shall be returned to consumers.
- (i) The UR's right to audit actual expenditure and review for inefficient and wasteful spend in line with the relevant DIWE² guidance document.

²<https://www.uregni.gov.uk/publications/guidance-interpretation-and-application-demonstrably-inefficient-or-wasteful>