

Sarah Friedel
SONI Limited
Castlereagh House
12 Manse Road
Belfast
BT6 9RT

Ref: NET/E/TH/304

15 January 2021

Dear Sarah,

Re: Mixed Integer Programming (MIP) Solver - Special Project Cost Approval

On 10 October 2020, SONI made an application for costs associated with implementing a MIP solver for capacity auctions. The claim of **£208k (April 2020 prices)** includes capital costs for tariff year 2020-21 and opex costs for the remainder of the 2020-25 price control period.

The UR now gives notice to SONI that:

1. In accordance with paragraph 9.1 of Annex 1 of the TSO licence, the application made by SONI shall be treated as Special Project Costs.
2. Special Project Costs will be recovered under the **Zt** term and in accordance with paragraph 2.2(j) of Annex 1 of the licence.

Following internal scrutiny, the UR has approved an allowance of £186k. Whilst the need is well established and UR are supportive of the project, no provision has been made for opex costs. Annex 1 of the TSO licence states;

“Any claim for costs made by the Licensee...shall be subject to the application of a de minimis threshold, by the Authority, of £40,000 (in nominal terms) in each Relevant Year....”

Given the fact that the £6k per annum hosting and support opex cost falls below the materiality threshold for each relevant year, these costs have been disallowed.

For confirmation, amounts approved are detailed in the table below [and in April 2019 prices using CPIH for ease of comparison with the new price control].

MIP Solver – Request and Allowance			
Tariff Year	SONI Claim (April 2020 prices)	UR Allowance (April 2020 prices)	UR Allowance (April 2019 prices)
2020-21	£208k	£186k	£181k

The 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 2020-21 based on the maximum amount of £186k (April 2020 prices).
- (c) 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 2020-21
- (d) Return will be calculated based on the prevailing WACC.

Given the timing of this application and approval, monies for 2020-21 could not be included in tariffs. These costs should therefore be recovered via the K-factor in 2022-23. Reporting of actual costs incurred should be included in the annual RIGS returns.

I trust this satisfies your requirements at this time. Should you have any comments, queries or issues, feel free to contact Jody O'Boyle.

Yours sincerely



Tanya Hedley
Director of Networks