SONI TSO price control approach 2020 to 2025: UR response to December 2018 consultation approach issues raised by stakeholders

Q1. Do you agree with the proposed form, scope and duration of control			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Duration Agree with our proposal to have a revenue price control with a 5 year duration (2020 to 2025).	SONI, Mutual Energy Ltd and Power NI	We welcome that stakeholders support the proposed duration of the control. Our approach decision is to retain this duration. We welcome that SONI plans to consider legislation and drivers for change such as Clean Energy Package and UK Government commitments under the Paris Climate accord. More generally we look forward to discussing strategic priorities in more depth (e.g. to deliver service), the time horizon over which it is considering these over, and what influencers/drivers for change/opportunity are underpinning these priorities.	No change
Scope All known activities should be included within the scope of the price control. Connections should be within the scope of the price control to provide appropriate allowances and performance incentives as new connections will be an important part of the transition	SONI Mutual Energy Ltd	As proposed in consultation, the scope of the price control should include services and associated activity which is required by SONI's TSO licence. Regarding connections, our starting point for how SONI should consider connections is the approach we currently take under the existing price control. If performance incentives are required and justified, these could be taken account of within the TSO price control process and business plan.	No change/clarification
Form and alignment of incentives The regulatory incentive framework should not fixate on whether expenditure is opex or capex, should be equally powerful across the regulatory cycle, should be no boundary effects between Business As Usual (BAU) activities and that through uncertainty mechanisms; and should be equally as powerful in terms of outputs as inputs. Concerns if baseline revenue allowance were	SONI	We set out our proposals in the December 2018 consultation. Since then, we have asked SONI to clarify its response points, including how they relate to our package of proposals, so that we can make a fully informed response. At this point we are not in position to do so, but SONI has proposed to engage as it prepares its business plan. We welcome engagement at the earliest point possible with SONI to understand its view.	No change

expanded beyond those items which cannot be foreseen at this time.			
Q2. Do you agree with the way SONI's roles, services and activities have been defined (as set out on page 17 and Appendix C)?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Refinement and clarification of SONI's roles, services and activities Detail of service and activity is missing or things could be reflected more accurately. For example, system balancing and should have a system operation and market operation perspective as SONI now has a greater level of influence on market outcomes from it increased role in system balancing; Moyle interconnector capacity availability and transparency reporting requirements should be required.	Power NI, Mutual Energy Ltd	We welcome that customers who use SONI's service are engaging with the way it has been defined in our approach. As recognised in the December 2018 consultation, this is a first iteration and more can be done to refine and clarify it. To this end, we encourage SONI to engage with stakeholders (including ourselves) as part of the development of its business plan and the price control process.	No change
Approach to informing SONI's scope of role, service and activities Stakeholder engagement performed by SONI via the large volume of recent industry wide consultations (including that undertaken by SECG which is a welcome initiative) will determine the scope of its business plan for the 2020 to 2025 period (given the absence of the strategic energy framework - SEF - beyond 2020). The business plan will be based on current obligations under statute, licence and codes as it is inappropriate to presume that any of these would (or could) be changed as a result of this price control process.	SONI	It is difficult at this point to provide a fully informed and holistic view on SONI's proposed approach in terms of whether and what current obligations need to change. But we do not necessarily consider that the price control process is in and of itself the trigger for such types of change as is suggested. Instead the price control process should support and facilitate change which is in consumer interests; and which is led by and within SONI's control. We are proposing a package of proposals with this in mind. We expect SONI to robustly challenge itself on where it has discretion to improve service where it can influence	No change

		outcomes. We plan to engage with SONI as soon as possible as it develops its outcomes. Regarding the absence of the SEF beyond 2020, we see merit in engaging with SONI and DfE on this area and implications for SONI's business plan. We set out our expectations for engaging customers, consumers and other stakeholders as part of our approach. Clearly this will be an aspect which helps informs SONI's proposed approach to service development. We welcome that SONI views SECG as useful initiative to challenge and test its business plan. In doing so we also reiterate that the forum should not necessarily be viewed as a substitute for SONI led stakeholder engagement.	
Q3. Do you agree with our expectations as part of our test area on delivering value for money?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Future consumers/ Test area is too generic SONI considered the test area is generic as it is the first time it is consulted on and may not be relevant. It gave an example that very little of it expenditure will impact on customer bills beyond 2025. "We note that this is the first time that the UR has consulted upon test areas for a Price Control, and that therefore they are, of necessity, relatively generic. The corollary of this is that they are not all particularly applicable to SONI, and some are more relevant than others. For example, unlike a network based utility with a 40 year RAB, because of SONI's high operational gearing, very little of the revenues directly approved as part of this Price Control decision will impact on customer bills beyond 2025"	SONI	We agree that the test questions set out in our approach consultation are reasonably generic. This is intentional, as there is merit in the UR developing an approach to business plan assessment that could be adapted and applied to other companies that it regulates. However, we have no reason to believe that any of the test areas or test questions are inapplicable to SONI. The one example provided by SONI to support its view states that unlike a network-based utility, very little of SONI's approved expenditure will impact customer bills beyond 2025. We agree that the impact of the UR's determination of the TSO price control for the 2020-25 period on TSO	No change

		tariffs in the longer term is likely to be smaller-scale than in the case of a network utility. However, at least some of the price control expenditure allowances for SONI determined for the 2020-25 TSO control (e.g. for capex projects undertaken within period) is likely to be recovered through TSO tariffs applied beyond 2025. We would expect SONI to demonstrate that its proposed RAB depreciation and indexation policies have considered the longer term impact on tariffs and fairness between current and future customers. It is entirely legitimate and reasonable to ask SONI to address the proposed test question regarding tariffs/charges beyond 2025.	
Emphasis on future consumers is important not least given the energy transition.	CCNI	We agree with CCNI that it is important that the impact on future consumers is considered.	
Measuring and justifying value for money Agree that SONI should be demonstrating that it is delivering value for money for NI consumers in a robust, convincing and clear way. Any costs which result from a step change in quality of SONI's business plan, its stakeholder engagement and facilitation of system wide change should be justified by sufficiently positive outcomes. Support for a test area for delivering value for money but cautioned that SONI's significant influence on system and market outcomes is inherently difficult to measure during a time of system change, and so will need careful consideration.	Mutual Energy Ltd Power NI	We recognise the challenges in measuring and justifying outcomes, especially during a time of system change. We also agree that a key aspect of delivering value for money is that outcomes are justified properly. We consider our framework for accountability and incentivisation is important in this regard, so that SONI can propose sufficiently positive outcomes and will deliver on them. This is why we have proposed many of the changes within the package: for example: • a more on-going evaluative approach which assesses SONI's TSO performance in the round taking account of stakeholder views/scrutiny. • take account of SONI performance as part of any evaluative performance assessment. • other test areas should promote accountability (e.g. ensuring effective stakeholder engagement and accountability under our proposals on trust in delivery).	No change

		the approach recognises that there may be input tools and processes that provide extra confidence to support activities whose outcomes are inherently difficult to measure. We also expect SONI to ensure it proposals can be carefully measured (e.g. when designing performance commitments). We will engage with stakeholders on how the proposals should be further developed to support value for money being measured and justified appropriately.	
2015 to 2020 price control funding SONI argued that a shortfall in funding relating to operating costs must be overturned in the 2020 to 2025 period. UR should justify its efficiency assumptions (including in the context of financeability).	SONI	For the 2020-25 period, it is important that SONI justifies its efficient level of costs and requested funding so that we can make informed decisions (not least given the information asymmetry which exists between us and SONI). Likewise we would expect to justify any positions that we take on efficiency or efficiency expenditure requirements as part of our price control determination process.	No change
Weighting of test areas and demarcation of business plan assessment categories SONI considered the approach decision should set out how the criteria will applied/weighted in SONI's circumstances. It said that the UR approach only consults and defines the 'excellent' category, and that if the demarcations are not clear it results in financial or reputational damage to SONI.	SONI	Following feedback from the consultation, we have provided additional clarification on our approach to business plan assessment and categorisation. We now clarify that Appendix C provides guidance on what an "excellent response" to each test individual question would be. We also clarify how the overall assessment across the four categories depends on the extent of excellent responses, and where responses are not excellent, how far short they are from excellent. In our December 2018 consultation we recognised that 'value for money' is a key overarching and important test area. Stakeholders recognised this in their responses. Our clarified guidance further recognises that test area 1 on value for money is particularly important and overarching. We considered whether to go further and specify explicit	Clarification

		weights to be given to the assessment for each individual test areas within the overall assessment. However, we would be concerned that a system of explicit weights would not send the right incentives and signals to SONI. Instead SONI can make the case, as part of its business plan submission, on which test areas (if any) are more and less important. We also consider it important to retain some degree of regulatory judgement within the assessment, especially given that our approach in this area is new.	
Q4. Do you agree with our framework approach and expectations as part of our test area on delivering services and outcomes (including our proposed framework for service quality and performance)?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Guidance too generic Will set out how services have evolved to understand its current obligations, and will prepare its business plan on basis of current obligations (noting that many were changed recently as part of ISEM and DS3). Will not presume that it best placed to provide service, but would also not assume obligations need to be changed before October 2020. The guidance should not ignore and should be tailored to recent achievements like DS3 and ISEM. It said that its business plan should already be categorised as excellent because these changes have been made recently with much stakeholder engagement and considerable investment to consumers.	SONI	Our expectations have been carefully designed to be reasonably generic. As such they do not ignore recent achievements, nor do they need to necessarily be further tailored to such activities as ISEM and DS3 (although it is unclear what exactly tailoring would entail in this instance). While we recognise that SONI plays a crucial TSO role in delivering high consumer interest areas like DS3 and ISEM, we do not agree its business plan for the 2020-25 period should be automatically categorised as excellent on the basis of these developments. We will assess SONI's business plan in line with the test question/area approach set out in our price control approach decision document. These test questions and areas are designed to cover a broad set of attributes of the quality of the business plan.	No change
Alignment of expectations			No change

Agree with the high level approach we are taking and noted that UR and SONI's expectations should be aligned before business plan submission.	Mutual Energy Ltd	As proposed in the December 2018 consultation, we will work with SONI as it develops its performance outcomes. We also expect SONI to engage with other stakeholders on these and our other proposals on delivering services.	
Accountability for activities which are difficult to measure Delivery of service and development of electricity system and market are key SONI deliverables. Some activities can be difficult to define, track and measure, and that UR should avoid an overly prescriptive approach for such SONI deliverables and so consider developmental deliverables (for such activities).	Power NI	We recognise that some activities can be difficult to define, track and measure. The evidence that can be relevant to assessing quality and performance is likely to extend well beyond that which can be captured in specific performance metrics. As we noted in the December 2018 consultation, if SONI cannot provide a quantitative performance commitment (which may often be the case given the nature of SONI service) we would expect SONI to give a qualitative performance commitment which provides upfront description of what SONI will provide in terms of services and their service quality. Development outputs are different to these more qualitative performance commitments, but may have a role as an alternative where more formal quantitative performance commitments are proposed by SONI (e.g. a formal KPI).	No change/clarification
Q5. Do you have any views on how the service quality and performance framework could be implemented as part of our test area on delivering services and outcomes?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**

Framework for incentivising and introducing accountability to improve performance			
Agreed with the approach, noting that financial and non-financial incentives are appropriate, but cautioned that the framework should not be over-burdensome. Some activities are hard to define but are important and so discretion is important (and that a relationship of trust is required from SONI and UR, and there is sufficient transparency of SONI's delivery and costs). UR should focus on how effective incentives can be and what outcomes are in consumer and customer interest.	Power NI	As we set out in our 2018 consultation, we are of the view that carefully designed financial and non-financial incentives will be important depending on the circumstances. We agree that trust is important, particularly where we are making decisions on a more discretionary basis. Much of our approach echoes this sentiment: for example, the structuring and framing of test areas around SONI 'trust in delivery', the fact that we will take account levels of trust which SONI provide in assessing and categorising SONI's business plan, right down to our proposed 'ways of working' with SONI.	No change
Welcomes financial incentives which are carefully designed and which promote overall value as well as cost outcomes, for the whole electricity system. Reputational incentives may provide limited benefits.	CCNI		
Under SONI's role under its OAA, SONI currently lack incentives to provide anything other than a minimal least cost service which may not be provided at an acceptable standard. Mutual Energy was in favour of having an incentives on costs which is scaled up or down based on qualitative measures of performance.	Mutual Energy Ltd	A key theme of our price control approach underpins the idea that SONI should, where it has discretion, strive to improve performance where these can lead to justifiably and demonstrably better outcomes. This includes raising the bar to meet existing standards expected from existing obligations, as well as going further than this where there is sufficient consumer interest. We are also putting more emphasis on stakeholder engagement and scrutiny to incentivise performance. We are engaging with Mutual Energy Ltd and SONI to understand these issues and understand potential implications for the 2020-25 price control (e.g. delivering service proposals) and under the existing price control period.	No change
Too premature to comment on the specific framework proposals, but would develop its thinking as part of its business plan development.	SONI	We disagree that it is too premature to comment on these proposals. A key part of our approach is to signal our regulatory expectations as early as is possible. This will help support a sound process and facilitate engagement to develop our proposals in a timely way. This is supported by comments made elsewhere by other stakeholders who note that expectations should be aligned where necessary, and also by the fact that we	

		have been developing these proposals with stakeholders as part the price control scoping for over 6 months. As stakeholders have noted, the proposals in this test area are a key strand of the framework and are pitched at a reasonably high level (given the stage of the process we are at). We, therefore, feel stakeholders can meaningfully engage with these at this point in the process, and that they do not necessarily depend on a business plan submission or assessment. We will engage with SONI as early as possible before business plan submission to understand its views.	No change
Addressing consumer needs UR and SONI should use CCNI consumer principles to understand how well SONI are meeting needs of customers. Welcome opportunity to discuss these further with UR and SONI.	CCNI	We are happy to meet CCNI to engage how to account for its consumer principles and CCNI's views on their relevance to the price control.	No change
Innovation UR should encourage innovation (should take a managed risk approach and not be too risk averse) while protecting consumers unwilling or able to take advantage of new technology (especially given size of potential long benefit to consumers' vs SONI's relatively modest cost base).	CCNI	We have set out proposals which are flexible and support innovation, while protecting consumers. As CCNI says, we expect SONI to demonstrate any risks to different types of consumers (including an appreciation of any distributional impacts if these are relevant).	No change
Q6. Do you agree with our framework approach and expectations as part of our test area on securing cost efficiency and managing uncertainty?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**

Cost structures Each of existing cost structures will continue to have a role to play, and it will allocate different cost types according to structures according to characteristics. A thorough cost allocation exercise will be undertaken and propose early engagement on subject of cost allocation.	SONI	We welcome that SONI intends to carry out a thorough cost allocation exercise. We welcome engagement as early as possible to understand SONI's wider views of our proposals on securing costs and efficiency with respect to cost structure; and also to understand its proposed approach to allocating costs when in a position to do so.	No change
Expectations on managing uncertainty/flexible/non-prescriptive approach to uncertainty SONI said that it requested clarity on our expectations on use of the Dt and that it should be used as little as possible Power NI said we should not be prescriptive in managing uncertainty: should not restrict SONI's ability to respond to developments and come back to UR to request funding.	SONI Power NI	As part of the December 2018 consultation, we set out a range of ways around which SONI could consider and manage uncertainty along with expectations for how SONI should consider its options in coming to a preferred approach. Our proposals were, therefore, quite flexible and deliberately non-prescriptive, although we did signal that we have a strong preference for broadly retaining the TNPP mechanism and set out good accompanying reasons. We noted that there are a range of ways of managing uncertainty, including the use of within period approval-based mechanisms. Such mechanisms may mitigate against the risk of restricting SONI's ability to respond to developments etc. as suggested by a stakeholder respondent. We do not, however, prescribe that we have a policy to use a Dt mechanism as little as possible for the price control if one were appropriate. But we are happy to engage with SONI to understand its concerns on the use of this particular mechanism for the 2020-25 period.	No change/clarification
Comparative review and benchmarking SONI said it is in favour of meaningful comparator analysis and will provide as much comparative assessment as possible. Mutual Energy Ltd considered that benchmarking is complicated for TSO as there are limited comparators: other forms of evidence for reasonable costs should be accepted where more appropriate than benchmarking.	SONI Mutual Energy Ltd	We welcome SONI's view that it is in favour of meaningful comparator analysis and will provide as much comparative assessment as possible. We note that different types of service and activity may benefit from different types of comparators (e.g. international, other energy sector, other utilities or other sectors). While we consider that benchmarking can have value in the case of the SONI TSO role, even where there are limitations in its use, our approach also recognises that other forms of	No change/clarification

		appropriate evidence or analytical approaches may also be of value (e.g. proportionate cost benefit analysis).	
Innovation guidance and level of prescription Our guidance should reflect that most of its innovations can only be delivered in conjunction with the TSO in Ireland and that SONI is world leading in some areas. Power NI said we should not be prescriptive in approach to innovation: should not restrict SONI's ability to respond to developments and come back to UR to request funding.	SONI Power NI	We do not consider it is appropriate for our guidance to necessarily set out that SONI innovations can only be delivered with the TSO in RoI or that SONI is world leading in some areas. It is for SONI to demonstrate the value of its proposals in this respect. We agree that SONI should not be unduly restricted to respond to developments where there is a need. As described above, we consider the framework proposed provides enough flexibility.	No change No change
Cost and service performance trade-off: ancillary services SONI performance of ancillary service procurement should also be considered rather than focusing on costs in isolation.	Mutual Energy Ltd	We agree that SONI performance of ancillary service procurement should also be considered rather than focusing on costs in isolation. We would welcome proposals from SONI for appropriate performance commitments in this area that are informed by its engagement with stakeholders.	No change/clarification
Q7. Do you support the overall approach and expectations to financeability and elaborated on in the Reckon working paper?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**

SONI believes that the Reckon paper remains perhaps disproportionately focused on the particulars of an overly narrow interpretation of the financeability question, i.e. remuneration of the TSO's equity capital and debt finance. In addition to that set out in the Reckon paper SONI would wish to see consideration of the impact of operational expenditure, scenario testing, resilience and incentive frameworks. The application of scenario analysis on RORE as suggested in the paper should play a part; so too however should overall benchmarking of returns as compared to those investors might expect in operating in comparable or similar businesses and business sectors.	SONI	We do not agree with the comment that the Reckon paper is disproportionally focussed on the particulars of an overly narrow interpretation of the financeability question (remuneration of the TSO's equity capital and debt finance). The paper adopts a broad interpretation of financeability, recognising (in section 2) that assessment of financeability goes beyond work on the remuneration of the TSO's equity capital and debt finance. The paper envisages consideration of SONI's operational gearing, financial resilience, scenario testing and the implications of the overall price control and incentive framework on the risk that SONI faces. We agree with SONI that these considerations would play an integral part in the assessment of SONI's financeability. We also consider that there may be a role for benchmarking SONI's overall returns with suitable comparators. As highlighted in the Reckon paper, if these are to be used, it will be important to consider the comparability to the TSO of the sectors or companies used and to take account of the way that the price control framework affects the financial risk that the TSO faces. We would welcome SONI's proposals for such benchmarks as part of its business plan submission. However, this should not distract from the evidence base needed to apply the type of "layered framework" applied for the 2015-2020 control, following the CMA remedies (the CMA made no use of overall margin benchmarks).	No change/clarification
Increases in regulatory discretion including lack of clarity on cost recovery and increased scope or perception of scope for ex post review increases rather than reduces regulatory risk and has the potential to undermine the stability and predictability of the overall framework. To this end uncertainty mechanisms and their management also form a key component of the financeability framework and analysis.	SONI	We agree that the assessment of SONI's financeability should take account of the overall price control framework and consider the risks that SONI faces, including risks from the role of regulatory discretion. Elements of the price control that rely on ex-post review and regulatory discretion can lead to uncertainty and lack of clarity for SONI and its investors. The role for regulatory discretion should be considered alongside a range of other factors. Arrangements that	No change

		impose some risk on SONI through regulatory discretion may nonetheless be relatively low risk compared to alternative regulatory arrangements that provide SONI with a large mechanistic financial downside risk (e.g. a cost risk-sharing arrangement that exposes SONI to 50% of over spend against a central cost forecast).	
It is proposed to address the question by way of reference to a notional efficient licensee although there are also references to wider reviews including consideration of group implications and assessment of actual debt financeability and financial resilience. It is important to test financeability on actual as well as notional structures. It is the actual licensee which is charged with the provision of the services customers ultimately expect.	SONI	We agree that the financeability assessment should consider both actual and notional financial structures. It will be important to understand the sources of any differences in results between the actual licensee and the assumed notional efficient licensee. Tests and analysis applied to the actual company structure can also provide a useful cross-check on the assumptions about notional structures.	No change
In relation to asymmetric risks and returns to investors, SONI remains firmly of the view that it is important these are recognised. In particular the application of CAPM alone to assess financeability, when CAPM is designed to be capable of being described in terms of a probability distribution of outcomes in terms of simply first and second moments, is in itself deficient in terms of the SONI business.	SONI	We agree that CAPM has limitations in the context of asymmetric risk. In the consultation on our approach we said that we would consider the case for adjustments to CAPM estimates for any asymmetric risk, such as the adjustment determined as part of the CMA remedies. We agree with the proposal in the Reckon paper that the assessment of asymmetry should take a broad and balanced view across the price control package, rather than focusing on specific aspects in isolation.	No change
The overall package needs to be financeable against benchmarks which reasonable investors would expect for investing in the TSO business. Margin benchmarks provide a strong cross-check on overall remuneration and one which the CMA incorporated into the overall remuneration package to achieve financeability. Continuous iterative comparison to relevant financeability cross-checks, based on margins, will ensure overall value is preserved for both SONI and consumers. Any concern regarding the robustness of overall benchmarks must be weighed against seeking to make difficult to calibrate adjustments to existing frameworks – for example the scale of adjustment appropriate to beta in the context of the application of the operating gearing of the SONI business.	SONI	We agree that margin benchmarks can provide a cross check on overall remuneration, and that any concerns about the validity of the chosen margin comparators or metrics should be weighed against any corresponding concerns about the validity of data sources for beta estimates within the CAPM framework and any adjustments for operational gearing.	No change

SONI agrees the appropriate level or remuneration for TSO equity capital and debt finance depends on the scale of financial risk to which SONI is exposed under the regulatory framework design. The paper asks what risks SONI should bear rather than consider what remuneration its investors require for the risks borne. The answer lies in what risks SONI TSO is obligated to bear, either directly or indirectly, as a result of statute or licence.	SONI	We agree that SONI faces a number of obligations under statute, its licence and industry codes, and these obligations influence the risks that SONI faces. However, we believe that the price control framework can have a substantial effect on the nature and extent of risk that SONI is exposed to. We welcome SONI's business plan proposals on tailoring the services it provides, its approach to delivery and the design of the price control framework to help ensure that SONI is not exposed to excessive or inefficient levels of risk.	No change
Both Section 3.3 (Aligning risk and return) of the draft Approach paper and the Reckon working paper set out to discuss the overall approach to financeability and the related TSO remuneration for debt and equity capital. However both focus on the latter without considering or setting out, even at a high level, the overall context and arrangements of the former. We appreciate this is likely to evolve over time and can only be eventually considered at the later stages however there is merit in identifying at this point the additional steps/inputs to the overall approach.	SONI	We agree that the approach to financeability should take account of the overall price control framework, including the approach to cost remuneration and incentive mechanisms. As SONI recognises, the overall framework is in development, so a full assessment can only be made later in the process. We welcome SONI's proposals for additional steps/inputs that could contribute to this process.	No change
It is important that at its conclusion the overall Price Control is demonstrably financeable incorporating comprehensive financeability tests - against both debt and equity measures - using comparable investor expectation benchmarks for investing in a SONI TSO. In addition, the financeability assessment must model scenarios in order to stress test resilience. The assessment should be made on both notional and actual bases.	SONI	We mostly agree (as set out in our response to earlier points). However, at this stage we are uncertain of the importance of "comparable investor expectation benchmarks for investing in a SONI TSO", if this is intended to refer to benchmarks that go beyond the type of approach and evidence relied on by the CMA.	No change
Q8. Do you support our approach and expectations for remuneration of the SONI's equity capital and debt finance set out above, and elaborated on in the Reckon working paper, for the SONI TSO price control (including whether we move to CPI or CPIH indexation as part of the 2020-25 price control)?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
The requirement for SONI to provide an undefined level of confidence that it has sufficient financial resilience over the 2020-2025 period also requires additional engagement. This is very much dependent on SONI's risk profile, dependent on its	SONI	We recognise that the confidence and assurance that SONI can provide will depend on assumptions about the overall price control package, including the allowances	No change

obligations and can only be based on an assumption of the UR's acceptance of the business plan it submits.		and arrangements for remuneration of its expenditure and risk. We are seeking assurance from SONI that its business plan is financeable. We are looking for SONI to propose a coherent package that meets our expectations across all business plan test areas and we want assurance from SONI on its financial resilience to deliver its proposed package.	
We therefore believe it is beneficial to all stakeholders for SONI to consider inflation indexation as part of the entire Price Control framework, for example in conjunction with the Real Price Effects cost allowance, etc. We would be happy to engage on this specific issue and consider UR proposals for the business plan submission. At this time we have no detailed comment on either index other than to reinforce the importance of consistency and that careful management of cross over effects in terms of investments made historically under an RPI indexed regime will have to be maintained.	SONI	We recognise the need for a consistent approach to indexation across the price control framework. We would be happy to engage further with SONI on the practicalities of considering inflation indexation as part of the entire price control framework (e.g. in conjunction with the Real Price Effects, cost allowance, etc.) We welcome any proposals that SONI wishes to include in its business plan regarding the "careful management of cross over effects in terms of investments made historically under an RPI indexed regime". We would expect SONI to provide compelling justification for any special arrangements (e.g. using different indices or methods for historical investments compared to future investments), and to consider potential impacts of these on fairness between current and future customers.	No change
Consistent with Question 7, Power NI has no further comments in relation to SONI's return on equity other than to again highlight that it is asset-light and given its processing of funds within the market (TUoS, SSS and CAIRt) will have to have significant contingent capital available and therefore paid for.	Power NI	We agree that SONI's asset light nature and its roles in processing of funds within the market (TUoS, SSS and CAIRt) would need to be considered when assessing overall financeability.	No change
An argument for the continued use of RPI was made while SONI stressed the importance of consistency and that investments made historically under an RPI indexed regime will have to be maintained.	Various	We would be happy to engage further with SONI on the practicalities of considering inflation indexation as part of the entire price control framework (e.g. in conjunction with the Real Price Effects, cost allowance, etc.)	No change

		However we don't accept that RPI should necessarily be maintained or that historic investments should be reimbursed on this basis. Our view is based on the fact that: 1. UKRN have stated that RPI is a flawed measure which systematically overstates inflation.[1] 2. RPI is no longer a national statistic which is not being maintained even though it is published. 3. House of Lords investigation highlighted that statistical authorities are unwilling to correct issues with RPI.[2] 4. CPIH is the preferred method of indexation for government.	
Q9. Do you agree with our expectations as part of our test area for engaging customers, consumers and other stakeholders?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Approach to engagement SONI has recently undertaken a significant amount of recent industry consultation (e.g. ISEM and DS3) which is neither possible nor appropriate to repeat in time available. SONI business plan will set out this consultation and consequential changes to the framework it operates under as part of its business plan and identify areas where it has discretion to alter its ways of working without code changes or requirement for UR approval. It said it will demonstrate the extent of the consultation and how it has shaped its approach in its business plan. SONI will consult with SECG on aspects of business plan which can be flexed to accommodate stakeholder preferences where it has discretion. It will consider areas important to SECG such as	SONI	It is difficult to comment fully and holistically on SONI's response and proposed approach at this point of the process. We do not want to pre-empt our assessment. But in response to SONI's specific points on stakeholder engagement, we note that our approach does not set out an expectation that the amount or extent of recent consultation SONI refers to needs to be repeated. Instead our expectations require SONI to focus on the quality of its engagement, how well its engagement has improved its plan, and how it will it incorporated on an on-going basis. While the extent of engagement may be instructive, it is unlikely to be definitive. We consider that	No change

[1] UKRN Position paper on the use of inflation indices, p5
[2] House of Lords, Economic Affairs Committee, Measuring Inflation, p35, para 109.

transparency, close working with NIE Networks and development of future energy scenarios. It is reasonable for UR to expect SONI to undertake a broad range of engagement given its role and influence over the electricity system and market. Supportive of approach to ensure SONI is focusing on the right areas and should include Mutual Energy Ltd. A direct survey of end user consumers should be undertaken by SONI to gather their views of priorities and expectations of their electricity supply.	Power NI Mutual Energy Ltd CCNI	SONI should largely focus on considering whether its approach meets these test questions. We agree with Power NI and Mutual Energy Ltd that we supports a variety of approaches being used to reflect SONI's wide role and influence in the electricity system and that engagement should focus on the right areas (i.e. should be targeted and proportionate and explanation should be clear and justified). We welcome that SONI will identify where it has discretion, but would caution SONI against necessarily limiting its ambition to solely identifying good outcomes which can be achieved without code changes or require UR approval. While quality engagement may suggest that this is an appropriate way forward in certain instances, there is nothing to prevent SONI from seeking to develop positive change to ways of working, which are within its control, even if they require UR approval or code changes. We welcome that SONI views SECG as useful initiative to challenge and test its business plan development. In doing so we also reiterate that the forum should not necessarily be viewed as a substitute for SONI led stakeholder engagement. CCNI's suggestion around the merits of using a direct survey of end user consumers could be something which is discussed with SONI and other stakeholders at SECG.	
Guidance is too generic The guidance is appropriate for an asset based utility and does not reflect SONI's situation. For example, the lead time for stakeholder engagement and regulatory approvals necessary for changes to codes, standards or licences is a number of years and therefore cannot be compressed into the time between the publication of this decision and submission of the business plan.	SONI	We agree that the test questions set out in our approach consultation are reasonably generic (which is intentional). However, we have no reason to believe the test areas or test questions are inapplicable to SONI. The guidance already recognises that stakeholder engagement is a continual process and is not just something which happens at price control reviews. We note that SONI seems to already recognise this concept	No change

		We recognise that the processes for making changes to codes, standards or licences will need to be taken into account as part of the business plan (e.g. some aspects of SONI's plan may need to be conditional). But we do not believe that lead times and approval processes prevent informative stakeholder consultation or the development of a forward-looking business plan that considers options for adaption and improvement.	
Q10. Do you agree with our expectations as part of our test area on resilience and governance?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
UR Governance arrangements Unable to comment in detail on expected governance arrangements as paper referred to is not published. Given Business plan submission is 6 months away, it may not be possible to communicate the implications of UR governance review in time for SONI to reflect in its business plan submission. Consumers will not be interested in complex detailed running of company but instead need to trust company is properly run, accountable and transparent (this need is growing in importance e.g. ISEM capacity auctions, dispatch and balancing of market, expert advice on security of supply issues and procuring additional generation). Separate consultation on UR governance should be published as soon as possible.	SONI CCNI	Our work on governance is ongoing and it is our intention to publish proposals for consultation in Q2 of 2019. If there are additional costs created through the implementation of any proposals, any such costs can be considered later within the price control process via some form of uncertainty mechanism. We agree that consumers need to trust that SONI business is properly run, accountable and transparent. We expect SONI to demonstrate it has the processes in place in way which consumers and customers have confidence.	No change/clarification
Level of regulatory burden and prescription Resilience and good governance should be expected from SONI and so light touch assurance and detailed testing is over burdensome and unnecessary.	Power NI	Guidance is sufficiently generic to allow SONI to take and demonstrate responsibility. Once we assess the business plan we will consider what level of intervention is required based on its quality. But the purpose of our assessment of	No change

		SONI's business plan will not be to tell SONI how to run its operations.	
Q11. Do you agree with our expectations as part of our test area on accounting for past delivery?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Substantial changes made over the current price control which have delivered tangible benefits for customers and was concerned the tone of this test area suggested a need "to make a real step forward for the 2020 to 2025 period". Does not expect to submit a business plan that includes developments for own sake and therefore will focus on areas where there is value for customers. Requests wording change in guidance from "real step forward for the 2020-25 period" to "appropriate steps forward".	SONI	We agree focus should be on areas where there is value for customers, and would expect SONI to robustly set out why this is case (including why other areas may require demonstrably less focus). As we set out and has been recognised by stakeholders, the 2020 to 2025 period may look very different to todays and SONI will have an important role to play, and so a robustly accounting for past delivery is necessary.	No change
Level of regulatory burden and prescription The test area is a 'lessons learned' exercise for SONI. Expect SONI to undertake regular exercises, taking on learning from whole business. Company should manage affairs as see fit with what is determined as reasonably allowed efficient cost for doing so. This test area strays into over-burdensome category and UR should not spend much time on it.	Power NI	Guidance is sufficiently generic to allow SONI to take and demonstrate responsibility. Once we assess the business plan we will consider what level of intervention is required based on its quality. But the purpose of our assessment of SONI's business plan and any subsequent actions will not be to tell SONI how to run its operations.	
Q12. Do you agree with our framework approach proposals and expectation as part of our test area on securing confidence and assurance?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**

Business plan will be subject to its own rigorous corporate governance and risk management processes. SONI Board will determine its own appropriate quality assurance requirements and provide UR with written assurances relevant to UR assessment of our plan.	SONI	We welcome that the business plan will be subject to its own rigorous corporate governance and risk management processes. SONI Board will determine its own appropriate quality assurance requirements and provide UR with written assurances relevant to UR assessment of our plan. We look forward to understanding how SONI will meet the remaining test areas.	No change
The framework should provide UR with reasonable level of assurance, but will be difficult for UR to define given SONI's role. UR should not be overly prescriptive or burdensome. For ex post project type expenditure, an audit of cost would be appropriate.	Power NI	Guidance is sufficiently generic to allow SONI to take and demonstrate responsibility. Once we assess the business plan we will consider what level of intervention is required based on its quality. Audits of post project expenditure may be helpful in certain instances.	No change
Would incentivise improvement in quality of business plan, but concern around proportionality of publishing full business plan if leads to excessive time/effort spent on polished 'product' or consumption for general public rather an informed regulator. Transparency and stakeholder benefits could be achieved by regulatory publications that are informed by SONI business plan.	Mutual Energy Ltd	We consider that a high quality business plan is something that any company would like to publish. There are likely to be reputational incentive benefits from this proposal, especially as no plan has been published before. There are likely to be a variety of different types of audience which the document will be tailored to such is the diverse make-up of parties who are affected by or interested in what SONI does. We expect the plan to very clear, easy to understand and well structured. But we would not expect quality to be at the expense of style.	No change
Q13. Do you agree with our framework approach to setting clear regulatory expectations for SONI as part of its business plan			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Process to date does not support a symmetrical approach. The consultation has only set out expectations on related to the 'excellent business plan' category and that no consultation has been carried out on other categories, and that there is no time available to undertake such a consultation, given that SONI is already developing its plan. It also said it is first time UR has used	SONI	As set out in our approach decision paper, we have decided not to have a financial incentive for the business plan quality, and so we no longer propose a symmetrical (or asymmetrical approach). Our reasons are set out in the main approach decision paper. But for completeness	Change in proposal (no financial incentive) and

this form of assessment and there is no benchmark; the incentive is determined outside of financeability assessment so no information to introduce; the framework for application of a penalty is not currently set out in SONI’s licence.		and transparency we respond to the responses on the symmetric design option. We do not agree that the incentive would be determined outside of the financeability assessment as extent of downside financial exposure for the 2020-25 period that SONI can accommodate will depend on the outcome of work on financeability and the allowed cost of capital for the 2020-25 period, which we would need to take it into account in work on financeability and cost of capital for the 2020-25 period. We do not consider that the point about the framework for application of a penalty not being currently set out in SONI’s licence is relevant. A proposed financial incentive would be reflected within the 2020-25 allowances. That is that the allowances for 2020-25 period would, depending on which category which we assess the business plan to fall within, be increased or decreased by the applicable incentive amount. The financial incentive to be applied does not impact on the current price control which is set out in Annex 1 As set out in main approach decision paper, we have clarified our guidance on the overall business plan assessment, and especially in relation to the interactions between the Appendix C material and the main categorisation. We now clarify that Appendix C provides guidance on what an "excellent response" to each test question would be. We also clarify how the overall assessment across the four categories depends on extent of excellent responses, and where responses are not excellent, on how far short they are from excellent. However, we do not consider that we need to go further than this. As we set out in the December 2018 consultation, we want SONI to take ownership for its business plan, and so setting out more detailed expectations on what less than excellent might look like	clarification (on expectations)

		would distract from ours and SONI's aims and risk introducing a 'box-tick' approach to developing a business plan. As SONI has indicated elsewhere in its approach, it will be aiming for a plan which is not short of excellent. Going further than we propose would, therefore, clearly not be in consumers' interests. However, we recognise that this is the first time we have undertaken this approach. We will continue to engage with SONI on our expectations where we feel we need to, without introducing prescription, as we have done over the last 7 months. Once we assess SONI's business plan, we will then categorise it and consult on as part of our draft determination. We will provide information on why we have come to our view, including reasoning on where areas are less than 'excellent' (if this is the case). SONI and other stakeholders will have an opportunity to respond to this.	
Clarity and structure provided is helpful, but UR should be mindful of creating unnecessary burden and prescription. SONI should convince UR that it can and should deliver service for a certain cost.	Power NI	Guidance is sufficiently generic to allow SONI to take and demonstrate responsibility. Once we assess the business plan we will consider what level of intervention is required based on its quality. But the purpose of our assessment of SONI's business plan will not be to tell SONI how to run its operations.	No change
SONI should have a clear appreciation of regulators expectation and assessment criteria.	Mutual Energy Ltd	As set out above, we have set out clarified guidance. We have also indicated areas where it may be useful to engage to further understanding and/or align expectations.	No change
Good business plan is own reward so would not necessarily support financial incentive, but a symmetric option with a clawback would support a step-change regulator wants to see.	Mutual Energy Ltd	We recognise that a good business plan may be its own reward and a symmetric option with a clawback would support a step-change regulator wants to see. But we are not proposing a financial incentive at this time for the reasons set out in the main decision paper.	No change

Q14. Do you agree that we have identified the right test areas and these are structured in the right way?			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
Other comments			
Response issues	**Respondent**	**UR response**	**How we have considered in our proposals**
SECG Welcome SECG as has already made some important contributions to development of next price control	SONI, CCNI, NIE Networks	We welcome SECG is proving useful and welcome its continued engagement.	No change
SONI, UR, DfE engagement Must work together with stakeholders to understand how to respond to broad direction of travel that NI is to take.	Mutual Energy Ltd, CCNI	We agree such engagement would be helpful	No change
Alignment with NIE Networks price control The SONI price control should align with NIE Networks RP6 price control	NIE Networks	We do not propose to change the proposals to align the price controls e.g. durations. But we will engage to NIE Networks to understand its concerns further and whether and how these can be incorporated into the scope of our SONI TSO price control framework proposals as we develop it further.	No change
Price control project timelines Timelines for the project are very tight (including time for legal drafting). Need certainty around on-going revenue before end of May 2020. Approach should set out that which would apply if licence modifications are not implemented prior to 1 October 2020.	SONI	We intend and are aiming to meet the timetable in terms of making the relevant licence modifications in time for the start of the price control. We are satisfied that in the event it proves difficult to make the relevant modifications in good time, the provisions of paragraph 5.1 of Annex 1 are wholly appropriate and work as intended.	No change

UR corporate strategy interlinkages Welcome the addition of a statement in the approach decision which highlights the interconnection between the UR corporate strategy and SONI's strategic objective, with clarification of how this interaction will be reflected in UR's assessment of SONI's business plan.	SONI	The approach already highlights this interconnection, so it is unclear what further value can be added in this respect. We will work with SONI as it develops its performance and service outcomes as part of the 2020 to 2025 price control, and will provide regulatory expectation on these where necessary.	No change