



Decision on Deferral of the Start Date of the Next SONI TSO Price Control

Decision Paper
29 August 2023



About the Utility Regulator

Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Price Controls, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



Our vision

To ensure value and sustainability in energy and water.



Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.



Abstract

This paper sets out the Utility Regulator's decision to defer the start of the next SONI TSO price control by one year. The current price control runs until the 30 September 2025. Deferring the start of the next SONI TSO price control will allow time for a new SONI Board, appointed in accordance with new SONI Licence Condition 42 (Part A), to complete an induction and familiarisation process and oversee the preparation of a medium-term strategy for the SONI business which will underpin its subsequent Business Plan submission.

Further to this decision, we will undertake a further consultation on the methodology necessary to address the interim year running from 1 October 2025 to 30 September 2026.

Audience

This consultation is likely to be of interest to electricity consumers, regulated companies, government, statutory bodies, consumer representatives, the SONI EPF Panel and other key stakeholders in the electricity sector.

Consumer impact

The decision to defer the start of the new price control will not have an immediate impact on consumers. This proposal would allow more time for the new SONI Board to develop its strategy and Business Plan submission for the next price control. This should allow it to develop robust plans which will enhance consumer benefit in the medium to long term at a time of significant change in the electricity sector.

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Annex A	CCNI consultation response
Annex B	NIE Networks consultation response
Annex C	SONI consultation response

1. Introduction

Decision

- 1.1 Following a consultation¹ which closed on the 6 July 2023, Utility Regulator (UR) has decided to defer the start of the next SONI TSO price control by one year. As a result of this decision, the next SONI price control will commence on 1 October 2026.

Purpose of this document

- 1.2 Following representations² from SONI (the independent electricity Transmission System Operator (TSO) for Northern Ireland) in April 2023, UR consulted on a proposal to defer the start of the next SONI TSO price control by one year. The consultation was launched on 8 June 2023, the closing date for responses was the 6 July 2023.
- 1.3 This document sets out the background to the decision, summarises the response to the consultation, explains UR's consideration to the responses and sets out the reasons for our decision.
- 1.4 In preparing this decision paper we have considered the responses received to the consultation and considered whether any amendments to the proposals made in our consultation paper was merited. Having reviewed the responses to the consultation, UR considers that deferring the start of the next SONI TSO price control by one year is the most appropriate way to further our principal objective, having regard to the applicable statutory duties, relating to electricity.

Structure of this document

- 1.5 This decision document is structured as follows:
- *Chapter 1 Introduction* (this chapter) provides an overview of the purpose and structure of the document.
 - *Chapter 2 Decision* sets out the background to this decision, provides a summary of the responses to the consultation, explains our consideration of the consultation responses, and sets out the reasons for our decision to defer the start of the next SONI TSO price control by one year.

¹ [Consultation on Deferral of the Start Date of the Next SONI TSO price Control](#)

² [Letter from SONI to UR dated 27 April 2023](#)

- Chapter 3 Next Steps sets out the steps we will take consequent to this decision, including indicative timelines for the next SONI TSO price control and plans to consult on the appropriate methodology for addressing the interim year (which begins on the 1 October 2025).

1.6 This decision document is complemented by 3 annexes which publish the responses to the consultation received from:

- Consumer Council for Northern Ireland (CCNI) Annex A;
- NIE Networks (Northern Ireland Electricity Networks) Annex B; and
- SONI Limited (SONI) Annex C.

2. Decision to Defer the Start of the Next SONI TSO price Control

Background

- 2.1 SONI is the independent electricity Transmission System Operator (TSO) for Northern Ireland. It operates under a licence first granted by the Department of Enterprise, Trade and Investment (now the Department for the Economy) in July 2007. The current consolidated version of the licence including subsequent modifications is published on UR's website³.
- 2.2 In addition to licence conditions which set out SONI's rights and obligations to operate as the electricity Transmission System Operator, the licence sets out the method for calculating the Maximum Core Revenue which SONI can recover from electricity suppliers and generators to fund its operations (Licence Annex 1 - Charge Restrictions). This includes, but is not limited to:
- Provision to pass through certain costs including System Support Services, transmission networks revenues which may be recovered by NIE Networks; and, electricity market operation costs.
 - Ex ante operational and capital allowances.
 - Pension deficit repair amounts.
 - Additional allowances related to additional activities determined under defined uncertainty mechanisms.
 - Various incentive and financing costs.
- 2.3 The SONI licence is amended from time to time through a price control process. During the price control process, the company submits a Business Plan setting out its estimate of costs, including financing costs, necessary to deliver its obligations. It also includes proposals for uncertainty mechanisms covering activities and costs which cannot be properly estimated at the time. Following a process of engagement, challenge and consultation, UR makes a determination for the price control period which is then codified in modifications to the SONI licence.
- 2.4 The most recent price control determination by UR⁴ covers the period from 1 October 2020 to 30 September 2025. Paragraph 5.1 of Annex 1, of the

³ <https://www.uregni.gov.uk/files/uregni/documents/2022-11/2022-11-18%20SONI%20TSO%20Consolidated.pdf>

⁴ <https://www.uregni.gov.uk/publications/final-determination-soni-price-control-2020-2025>

current SONI licence notes that the restrictions on charges outlined in the licence do not apply to tariff years from 1 October 2025. However, paragraph 5.1 contains provisions limiting the extent to which SONI can increase its tariffs for subsequent year(s) to certain pass-through costs, except to the extent that it has UR approval to go further.

2.5 In view of this, it was necessary to begin the process to determine the next SONI TSO price control, including licence modifications to be effective from 1 October 2025. We provided SONI with our initial thinking on the development of the new price control on 15 February 2023. During subsequent engagement on these proposals, SONI raised concerns about the timing of the Business Plan submission in March 2024 in relation to the appointment of a new SONI Board in June 2023 under a new Licence Condition 42 (which became effective on 26 October 2022). Licence Condition 42 was introduced to better regulate the structure of the SONI Board and the sharing of management and resources between SONI and EirGrid.

2.6 Having considered the matter further, the company wrote to UR on the 27 April 2023 explaining its concerns and asking UR “to extend SONI’s current Price Control 2020-2025 by one additional year”. The SONI letter to UR of 27 April 2023 was reproduced in the consultation⁵ published on 8 June 2023. The background to the request set out by SONI is reproduced below:

“As discussed in our response to the UR’s draft approach Consultation (3rd March 2023⁶), SONI raised concerns around the timing of the Business Plan submission in March 2024. Specifically, we considered the particular actions that would need to be undertaken in preparation of the 5-year business plan. These include, but are not limited to:

- *A new SONI Board appointed in accordance with the new Licence Condition 42 (Part A) and induction/familiarisation completed.*
- *Preparation of 5-year strategy for SONI.*
- *Wide Stakeholder engagement on SONI Strategy.*
- *Preparation of SONI Business Plan (and further associated Stakeholder engagement).*

⁵ <https://www.uregni.gov.uk/consultations/consultation-sonis-request-defer-start-their-next-price-control>

⁶ The reference to “UR’s draft Consultation” relates to a document shared with SONI on 15 Feb. 2023 and discussed with SONI on 22 February as opposed to an external Consultation. SONI’s response was 6 March 2023, as opposed to the 3 March 2023 quoted above.

- *Preparation of SONI Business Plan including detailed cost tables based on new organisational arrangements to give effect to Licence Condition 42 (Part B Managerial and Resource Separation).*

The timeframes proposed for the submission of the 5-year business plan allows a 9-month window for the above activities to be completed. This is undoubtedly a very short window of opportunity, especially considering the requirement to appoint and establish a new SONI Board.

We consider a one-year extension to the existing price control to be a pragmatic solution for all. It allows for the new SONI Board to be fully in place, the new organisational arrangements to be established and ensures sufficient time for meaningful engagement with stakeholders in determining the future strategy of the business.”

- 2.7 SONI’s letter sets out two possible options available to the UR that could facilitate their request to “extend..[the] current Price Control 2020-2025 by 1 additional year”:
- a) *Do nothing*, in which case paragraph 5.1 of Annex 1 of the licence would apply and SONI would not be able to increase any of the tariffs or charges contributing to its Actual Regulated Revenue above the levels applicable for the tariff year 2024/2025 (subject to the qualifications and exceptions referred to in paragraph 2.4 above).
 - b) *Modifications to the licence* which maintain the underlying structure of the price control but extends the duration of the current price control and amends the terms of the maximum charge restriction as necessary to ensure that it is effective for the tariff year 2025/26.

2.8 UR accepts that these are both possible options to address the interim year created by a deferral of the start of the next SONI TSO price control.

2.9 Following representations⁷ from SONI in April 2023, UR consulted on a proposal to defer the start of the next SONI TSO price control by one year. The consultation was launched on 8 June 2023, the closing date for responses was the 6 July 2023.

Consultation responses

2.10 We received three responses to the consultation: from Consumer Council for Northern Ireland (CCNI), Northern Ireland Electricity Networks (NIE

⁷ [Letter from SONI to UR dated 27 April 2023](#)

Networks) and SONI Limited (SONI). Their respective responses are annexed to this paper as follows:

- CCNI Annex A
- NIE Networks Annex B
- SONI Annex C

2.11 The following table set out a summary of the consultation responses and our consideration of the points that have been raised.

Consultation Response	UR Response
Consultation response from CCNI (see Annex A)	
CCNI noted that deferring the start date of an upcoming price control, necessitating the extension of an existing price control beyond its original intended duration, can result in risks for customers and for regulated companies. Its view is that the UR should only ever consider extending a price control when there are strong reasons for doing so.	UR agrees that there can be risks in deferring price controls and that this should only be done where there are strong reasons for doing so. We set out our reasons for this proposal in the consultation and have restated them above. We note that CCNI agreed with the reasoning and the principle of a deferral (see below).
CCNI's recognized the reasons and rationale for deferring the start date of the next SONI TSO price control to allow SONI's new Board to settle into their roles and bringing adequate oversight of the business planning process which would benefit customers. CCNI agreed that a one-year deferral of the next SONI TSO price Control is necessary.	UR welcomes CCNI's support for deferring the start of the new price control.

Consultation Response	UR Response
<p>CCNI thought that the consultation document provided limited information and explanation regarding the impact of the proposed modification on the prices paid by consumers. While it welcomed that the UR committed to providing more information at the next stage, it noted that it would have preferred the UR to make this information available prior to any decision on deferral to provide a greater level of transparency to stakeholders and assist in their consideration as to the merits of any deferral.</p>	<p>In the consultation document, UR noted that SONI's revenues in 2022/23 (excluding pass through costs such as systems services and K-factor adjustments) is forecast at £31m. This constitutes 1.35% of an annual domestic electricity bill based on regulated tariffs effective from 01 July 2023</p> <p>We note that SONI has proposed that decision on the interim year should reflect a simple extension of current allowances. This would be tariff neutral (all other things remaining constant). However, it is possible that there will be increases or decreases in tariff if further cost pressures or out-performance emerges or a change in the level of capital investment is considered appropriate. We will consider this type of change as we develop proposals for the interim year which will be consulted on at the appropriate time.</p>
<p>Consultation response from NIE Networks (see Annex B)</p>	
<p>NIE Networks noted that sound reasoning had been put forward which supports the need for a deferral and therefore are supportive of same to defer the next SONI TSO price control to commence on 1 October 2026.</p>	<p>UR welcomes NIE Network's support in deferring the start of the new price.</p>
<p>NIE Networks noted the challenges facing Northern Ireland's Energy Industry, as it transitions to 80% RES-E (Renewable Energy Sources-Based Electricity) by 2030 and requested that the consultation should have flexibility to deal with the future targets and other changes that could arise.</p>	<p>UR believes that the existing change mechanisms in the SONI licence provide flexibility and allow decisions to be made on additional investment by SONI to develop future transmission projects.</p>
<p>NIE Networks requested the impact on work to transfer transmission SCADA (Supervisory Control And Data Acquisition) assets to NIE Networks be considered.</p>	<p>UR notes the NIE Networks point on transfer of transmission SCADA assets from SONI to NIE Networks which will have an impact of the costs of both companies from time of transfer. We will consider this in our future work.</p>

Consultation Response	UR Response
Consultation response from SONI (see Annex C)	
SONI welcomed the UR's minded to position, as set out in the consultation, to defer the start date of the next SONI TSO price control by one year.	UR welcomes SONI's support for the proposal to defer the start date of the next price control and look forward to further engagement.
SONI requested that the consultation on the interim year is progressed earlier than the second half of 2024, stating their preference would be to see it happen shortly after August 2023 so any licence modifications are completed ahead of October 2025.	The proposed timeline outlined in the consultation reflected the timeline proposed by SONI in its letter of 27 April 2023. We note that SONI has suggested bringing this work forward. We remain of the view that the timeline we proposed in the consultation document is appropriate. It allows for a decision nine months in advance of the end of the current price control. It allows time for the SONI's new Board to form, taking into account the delays encountered in constituting a new Board, and make decisions on the future direction of the company. It would allow the decision to take account of up-to-date information on cost performance for 2022/23. We will continue to engage with SONI on the timelines for the consultation for the interim year.
SONI agrees with the UR's position, to defer the start date of the next price control.	We welcome SONI's agreement to defer the start date of the next price control and look forward to further engagement.

Table 2.1: Summary of responses received to the consultation

- 2.12 All responses to the consultation supported the proposal to defer the start of the next SONI TSO price control by one year. We will consider other specific points raised in the consultation as we develop a consultation on the approach to the interim year

Decision

- 2.13 Having considered the reasons for a deferral of the start date of the next SONI TSO price control, as set out by SONI in its letter of the 27 April 2023 and the consultation responses, we have concluded that there is merit in deferring the start date for the next SONI TSO price control to allow more time for the new SONI Board, appointed under Licence Condition 42A to:

- a) focus on the development of its strategy;

- b) consider whether to make applications for derogations in respect of the sharing of management and resources with EirGrid; and,
- c) prepare a Business Plan for the next price control period which reflects its decisions on its future strategy including decisions on the separation of management and resources.

2.14 In these circumstances, UR considers that deferring the start of the next SONI TSO price control by one year is the most appropriate way to further our principal objective, having regard to the applicable statutory duties, relating to electricity. Therefore, UR has decided to defer the start of the next SONI TSO price control by one year. As a result of this decision, the next SONI TSO price control will commence on 1 October 2026.

Consumer impact

2.15 SONI revenues in 2022/23 (excluding pass through costs such as systems services and k-factor adjustments) were forecast at £31m. This constitutes 1.35% of an annual domestic electricity bill based on regulated tariffs effective from 01 July 2023. The impact of future decisions on charges for the interim year will have a minimal impact on electricity. We will provide more information on the consumer impact when we consult on the appropriate way to address the interim year using up to date information.

3. Next Steps

Next steps

- 3.1 This chapter describes the next steps will take consequent to this decision, covering:
- a) indicative timelines for the next SONI TSO price control; and
 - b) plans to consult on the methodology for addressing the interim year (which begins on the 1 October 2025).
- 3.2 We note that, of the two options to facilitate a deferral set out in SONI's letter of 27 April 2023 (see paragraph 2.7 above), SONI does not consider the Do Nothing option to be viable because it would: (i) result in significant complications with K-Factor calculations and closing out the Price Control (having potentially underfunded SONI in the 2025-26 year); and, (ii) for other technical reasons set out in its response. We note and welcome SONI's detailed assessment of the licence modifications which would be necessary to facilitate a deferral. This included setting various amounts in the Licence at a similar level to previous years and continuing to determine additional costs, for example those likely to be incurred for the implementation of Licence Condition 42, using the existing Dt or Et uncertainty mechanisms. We will consider this further as we develop the methodology for addressing the interim year.

Indicative timeline for the next SONI TSO price control

- 3.3 This decision defers the start of the next SONI TSO price control to the 1 October 2026. An indicative timeline for the preparation of the next SONI TSO price control and the methodology for the interim year is set out in Table 3.1 below.

Key Milestone		Timeline
1	Approach Consultation - Initial Planning	January - February 2024
2	Final Approach Published	end of March 2024
3	Information Requirements Published	end of March 2024
4	Business Plan Submission	start of March 2025
5	Draft Determination Published	end of August 2025
6	Draft Determination Consultation Ends	mid November 2025
7	Final Determination Consultation Ends	February / March 2026
8	Final Determination Published	start of April 2026
9	Licence Modification Consultation Ends	start of May 2026
10	Licence Modifications Published	end of June 2026
11	Price Control Takes Effect	01 October 2026

Table 3.1: Indicative timeline for the next SONI TSO price control.