SONI Price Control 2026-31: Final Approach Decision

May 2024

About the Utility Regulator

The Utility Regulator is the economic regulator for electricity, gas and water in Northern Ireland. We are the only multi-sectoral economic regulator in the UK covering both energy and water.

We are an independent non-ministerial government department and our main duty is to promote and protect the short- and long-term interests of consumers.

Our role is to 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.

We are based at Queens House in Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls, Networks and Energy Futures; and Markets and Consumer Protection.

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 document sets out our final approach for the next SONI price control which will cover a five-year period from October 2026 to September 2031. We have finalised our approach following a public consultation which closed on 29 March 2024. We appreciate the time and effort by stakeholders in responding to the consultation.

This final approach sets out how we have addressed the feedback received, including identifying issues which will require further consideration as we develop the price control. This final approach sets out our expectations for SONI, the electricity transmission system operator (TSO), to deliver a business plan for its customers, consumers and other stakeholders; and describes how we will assess SONI's business plan based on these expectations.

Audience

Industry, consumers and statutory bodies.

Consumer impact

SONI's costs which we regulate typically represent a relatively small proportion of Northern Ireland electricity consumers' bills (excluding system services). Its service can however have a significant impact on the electricity industry and consumer bills more widely where it affects the wider electricity system operation.

Contents

Annex A1	Consultation response from – SONI Ltd
Annex A2	Consultation response from – CCNI
Annex A3	Consultation response from – EirGrid plc
Annex A4	Consultation response from - Energia
Annex A5	Consultation response from – NIE Networks
Annex A6	Consultation response from – Renewable NI

Executive Summary

Introduction

SONI is the independent transmission system operator (TSO) for the Northern Ireland (NI) electricity system. SONI plans and operates the electricity transmission network in order to balance generation with demand and ensure a secure supply.

As a natural monopoly, the company is subject to economic regulation which protects consumers in NI by ensuring that a good quality service is delivered at the lowest possible cost.

The Utility Regulator's (UR) primary role and principal objective in the electricity sector is to protect the interests of consumers. One of the ways we do this is to carry out periodic price control reviews of SONI activities to determine efficient costs linked to outputs and levels of service.

A key outcome of the price control is to set an efficient revenue allowance to enable SONI to deliver quality outputs that customers need. In doing so, we challenge SONI to improve its efficiency and performance.

The SONI price control period beginning on 1 October 2026 (SRP26[1]) will be our latest price control for the company. In many aspects, the price control will follow regulatory practice established in the last price control period.

SONI has a key role in delivering investment to facilitate the NI Executive Energy Strategy aims to achieve net zero carbon and affordable energy for all. In addition, the new Climate Change Act (Northern Ireland) 2022[2] adds an important additional challenge for SONI's performance by setting the target of achieving 80% electricity consumption sourced from renewable sources by 2030.

[1] SRP26 = SONI Review of Prices 2026-31.
[2] See: https://www.legislation.gov.uk/nia/2022/31/contents/enacted

1. Introduction

Purpose of this document

1.1 As part of the Northern Ireland Electricity (1992) and Energy (2003) Order, the UR is tasked with protecting the interests of current and future electricity consumers. SONI is the transmission system operator (TSO) for Northern Ireland, which is a natural monopoly within the energy sector.

1.2 This document sets out the final approach to the next SONI price control or review of prices (known as SRP26). The approach decision is made having taken account of feedback received from stakeholders in the consultation process.

1.3 The price control will regulate the outputs and costs of SONI from 1 October 2026 to 30 September 2031. It includes a timetable for the delivery of the SONI business plan (BP), our determinations and the necessary changes to the company licence to give effect to our decisions.

1.4 The price control framework acts as a surrogate to competition for natural monopolies and promotes good outcomes for customers and consumers. This document is the decision phase setting out our approach for the upcoming SONI price control.

1.5 The purpose of this document is to set out our basic price control framework and objectives for SRP26, having considered feedback from a range of stakeholders.

Background

1.6 SONI is responsible for planning and operating the electricity transmission system and networks which allow consumers to access a secure supply of electricity. It is a natural monopoly which operates under licence.

1.7 Its work forms part of the overall system of electricity supply. The system also includes:

a) Generators who sell electricity and other services into the Single Electricity Market (SEM), or direct to supply companies;

b) NIE Networks who are responsible for owning and maintaining the physical transmission and distribution network; and

c) Supply companies which supply electricity to consumers. Supply companies' charges for electricity include the cost of networks, system services and other costs necessary to deliver electricity.

1.8 SONI is a natural monopoly, therefore it is subject to economic regulation which protects consumers by ensuring a good quality of service is delivered at a reasonable cost.

1.9 The amount of revenue which SONI earns is determined by the UR through periodic price reviews, following scrutiny and challenge of the company's plans and public consultation with stakeholders.

The price control process

1.10 Through the SRP26 price control, we will assess SONI plans for the development, operation and use of the transmission system in light of consumer needs, the NI Executive Energy Strategy and the impact of the new Climate Change Act (CCA).[3]

1.11 SONI will submit a business plan for our consideration. This will set out its proposals to ensure consumers receive a high level of service, at an appropriate cost. Having considered SONI's business plan, we will publish a draft determination for consultation.

1.12 Having considered the response to the draft determination we will then publish a final determination with proposals for licence modifications which give effect to the determination. Finally, we will issue a decision on licence modifications for SRP26.

1.13 Our approach is based on established best practice regulation of natural monopolies. Our task essentially consists of implementing a framework within which, in return for providing monopoly services to an acceptable quality, the company receives a reasonable assurance of a revenue stream in future years that will cover its efficient costs and ensure fairness for the consumer.

1.14 This document sets out our approach to SRP26 in the following chapters:

- Chapter 2 – Overview of previous price control.
- Chapter 3 – Overall policy and strategic context.
- Chapter 4 – Consultation feedback and UR views.

[3] https://www.economy-ni.gov.uk/publications/energy-strategy-path-net-zero-energy
https://www.daera-ni.gov.uk/articles/climate-change-act-northern-ireland-2022-key-elements

- Chapter 5 – Our updated approach to key areas.
- Chapter 6 – Timelines.
- Chapter 7 – Conclusions.

2. Overview of previous price control

Introduction

2.1 As SONI matures as a company so should its regulatory framework. The most recent SONI price control introduced a series of changes. These amendments, which were far-reaching[4], still have had limited time to bed in. They included:

- Evaluative Performance Framework (EPF).
- Cost remuneration and managing uncertainty.
- A new risk and return structure.
- Updates to SONI's cost allowance.

Evaluative Performance Framework

2.2 The EPF was introduced to improve SONI's service quality and ensure accountability for performance. This built on 2019 proposals to offer incentives for continuous planning and delivery of a high-quality service.

2.3 The introduction of the EPF is in line with other UK system operator price controls, notably RIIO-2.[5] This provided justification to formalise SONI's service and outcomes metrics, as a means to quantify performance.

2.4 Planning and performance are assessed against a series of weighted criteria throughout an 18-month process. The framework introduced a related penalty/reward scheme (with a financial range between -£0.75m to +£1.25m per annum). It also provides for an independent assessment of ambition and performance by a panel external to the UR.

Cost renumeration and managing uncertainty

2.5 Our final determination for the last price control period (SRP20) developed the framework for SONI's various costs. This included:[6]

a) Conditional cost-sharing approach for the majority of SONI's internal base costs.

[4] Final determination main body.docx.pdf (uregni.gov.uk)
[5] Notably in the RIIO-2 price control Ofgem introduced a Performance Panel; ESO Performance Panel Mid-Scheme Review 2021-23.pdf
[6] Annex 3 Cost remuneration and uncertainty.pdf (uregni.gov.uk)

b) Mechanistic cost sharing treatment of costs for new initiatives with hypothecated ex-ante allowances (at a 75% rate such that customers retain three quarters of any underspend but fund three quarters of any overspend).

c) Up-to-a-cap recovery for transmission network planning projects (TNPPs) and network scoping / feasibility studies.

d) Pass through approach for ancillary service costs.

e) Fixed allowance for pension deficit repair costs.

2.6 New revenue mechanisms were also introduced for costs which are decided between price controls. This allows for changes to the sharing caps and other uncertainty mechanism requests i.e. pension deficit and network planning scoping / feasibility studies.[7]

Risk and Return

2.7 Our approach at the last price control built on consultation with SONI and external stakeholders, along with the outcome of the Competition and Markets Authority (CMA) referral in 2017.[8]

2.8 SONI is remunerated for its equity capital and debt finance under the price control as a notional TSO licensee. This is consistent with wider UK regulatory precedent and is split into four main components, namely:

a) **Allowed return on RAB**: This is determined by applying an allowed weighted average cost of capital (WACC) to the value of SONI's regulatory asset base (RAB). This provides a reasonable return for debt and equity investors.

b) **Allowed return on parent company guarantee (PCG)**: This is an additional form of equity investor capital beyond that captured in the RAB. A separate remuneration channel provides a rate of return on any PCG required for the notional TSO licensee.

c) **Allowed margin on revenue collection activities**: This allows for a margin on SONI's revenue collection activities for participants in the NI electricity system. Most notably, this includes the revenue SONI collect on behalf of NIE Networks and generators.

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[7] See Uncertainty Mechanism Guidance: (https://www.uregni.gov.uk/files/uregni/documents/2021-11/uncertainty-mechanism-guidance_0.pdf)
[8] See CMA Final Determination: (https://assets.publishing.service.gov.uk/media/5a09a73ce5274a0ee5a1f189/soni-niaur-final-determination.pdf)

d) **Adjustment to allowed return for asymmetric risk**: Asymmetric risk can arise with up-to-a-cap costs as SONI has no opportunity to out-perform. In line with the CMA's determination, an additional remuneration channel is provided. This mechanism adjusts for asymmetric risk faced by SONI.

2.9 The figure below illustrates the various channels of remuneration involved in the last price control.

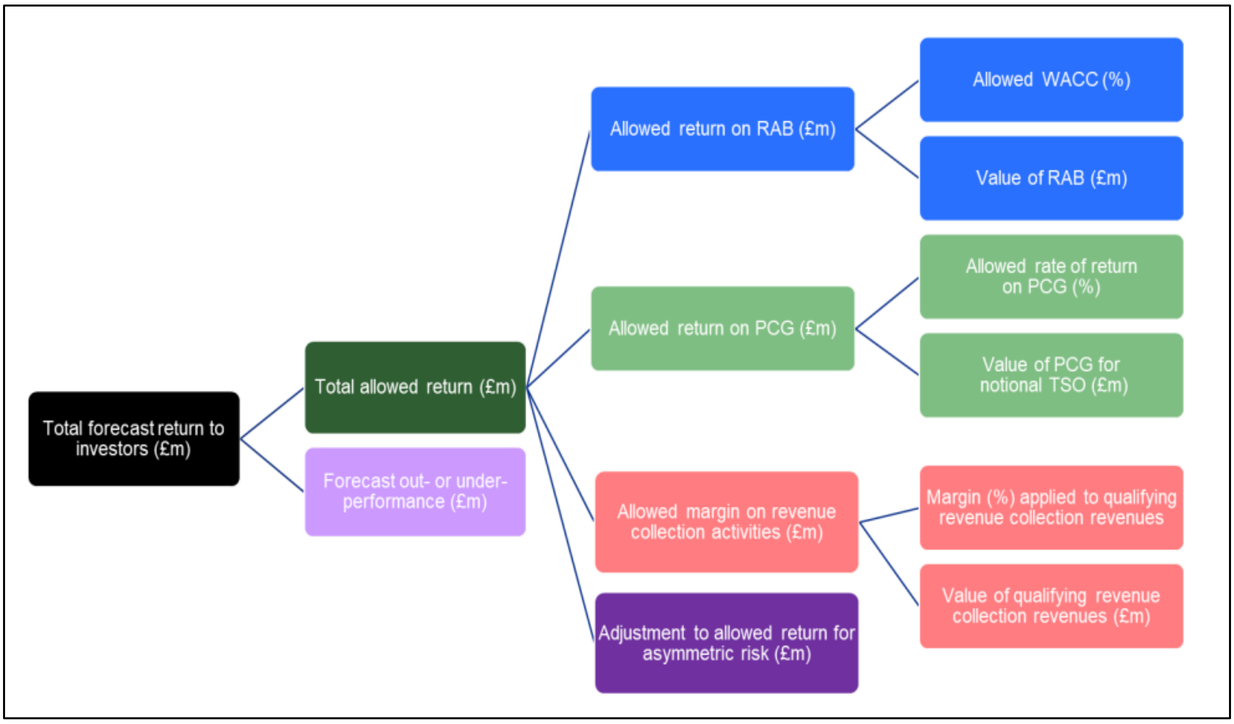

Figure 1: Overview of remuneration channels for debt and equity

Cost allowances[9]

2.10 In arriving at a payroll allowance, UR combined an estimate of staff resource requirements with an efficient salary provision. This methodology was closely aligned to that taken by SONI in its business plan.

2.11 Using ASHE[10] data to determine appropriate benchmarks for salary provisions alongside estimates for staff resourcing, we arrived at our final determination.

2.12 A further challenge is applied to opex via the frontier shift assessment. This incorporates a productivity challenge as well as an assessment of real price effects (RPEs).

[9] See the SONI Price Control 2020-25 annex for further details (Annex 4 Cost allowances.docx.pdf (uregni.gov.uk))
[10] ASHE = Annual Survey of Hours and Earnings.

Conclusions

2.13 Many of the regulatory developments are recent but the framework is considered comprehensive. As a consequence, we did not propose that many fundamental changes for SRP26 in the approach consultation[11] published on 02 February 2024.

[11] https://www.uregni.gov.uk/consultations/soni-price-control-2026-2031-approach

3. Overall policy and strategic context

The energy strategy – the path to net zero

3.1 In December 2021, the NI Executive published its new energy strategy *"A path to net zero energy".* The overall goal of the strategy is to achieve net zero carbon and affordable energy for all.

3.2 In June 2022, this strategy was further augmented by the Climate Change Act (Northern Ireland) 2022. This sets emission targets for 2030, 2040, and 2050. In addition, the CCA sets out that the Department for the Economy (DfE) must develop and publish a sectoral plan for the energy sector to achieve these targets and ensure that at least 80% of electricity consumption is from renewable sources by 2030.

3.3 The strategy envisages renewable electricity and higher levels of electrification of energy supplies with increased demand, off-set in part by improved efficiency. SRP26 must facilitate this path to net zero as part of a fair, affordable and inclusive transition.

3.4 The work that SONI will do in SRP26 will be critical to delivering the flexible, resilient and integrated energy system described in the strategy including:

a) Diversifying our renewables base to better meet system demands when the wind is not blowing and the sun is not shining.

b) Robust and well-planned infrastructure to maximise the use of locally generated, low-carbon electricity, complemented by interconnection to other markets.

c) Storage solutions, for example using batteries to enable flexible access to low-carbon energy when renewable generation is low.

d) Development of markets to encourage consumers to provide important services to minimise peaks in demand and better integrate low-carbon power, heat and transport.

e) Access to real-time consumption data through technologies which help electricity system operators to manage the system.

3.5 However, there are still details to be addressed as the strategy and the sectoral plans within the CCA are developed and implemented. The rate of development and distribution of new renewable generation and the uptake of electric vehicles will have a major impact on demand. The use of new technologies and the choices consumers can (and are enabled to) make will impact the way electricity is consumed. The development of the electricity network will both influence and be affected by these developments.

3.6 To address these issues, we expect SONI to develop a plan which responds to national and local policy guidelines and the clear direction of travel set out in the energy strategy and the CCA.

3.7 In a changing and uncertain environment, it will not be possible to account for all possible outcomes. The business plan should reflect the proposals to deliver against the policy context.

European Clean Energy Package (CEP)

3.8 The Electricity Directive of the European Clean Energy Package (CEP) specifies a number of rights and responsibilities for active customers and system operators which will be legislated for in parallel with the implementation of NI’s new energy strategy.

3.9 We would expect SONI to include in its business plan, any additional costs placed on the system operator on new activities to ensure compliance with CEP requirements.

Aims and objectives for SRP26

3.10 Our aims and objectives are set within the overall policy and strategic context described above. The UR has a legal obligation to protect the interests of consumers. This can only be achieved where we aim to balance the need to:

a) Ensure that SRP26 reflects consumer priorities and delivers improved consumer protection.

b) Promote the development of the electricity network to deliver and support the policy context.

c) Minimise the overall cost to consumers while securing the ability of SONI to finance its functions.

3.11 To enable the successful achievement of the above aims, we must deliver on the following objectives:

- Continue the consumer engagement from the last price control to ensure customer views are represented.

- Improve the collection and publication of network information.

- Develop outputs and meaningful consumer measures, which will allow delivery of the plan to be monitored and reported on.
- Ensure that SRP26 promotes the development of a flexible, resilient and integrated electricity network.
- Make provision for necessary investment and activities.
- Ensure the plan takes account of the need to respond to climate change, including improving resilience.
- Challenge SONI to demonstrate efficiency and to continue to deliver productivity and performance improvements.
- Ensure that innovation funding can be accessed where a demonstrable case exists.
- Set an efficient revenue cap to enable SONI to deliver quality outputs, while ensuring they can continue to finance its functions.
- Ensure proportionate regulation, including maximising the advantages of one-to-one regulation.

3.12 Having considered stakeholder feedback, we have decided to maintain the key objectives above as set out in the consultation.

3.13 Within their response, SONI has also set out their aims and objectives for SRP26. These broadly aligned with our own aims, which we are also content to endorse.

4. Consultation feedback and UR views

Introduction

4.1 A consultation on the SRP26 approach was launched on 02 February 2024 and closed on the 29 March 2024. Six responses were received from:

- SONI Ltd;
- Consumer Council for Northern Ireland (CCNI);
- EirGrid plc (SONI's parent company);
- Energia;
- Northern Ireland Electricity Networks (NIEN); and
- Renewable NI (RNI).

4.2 These responses are published as annexes to this decision document.

4.3 This section provides an overview of key issues raised in the consultation responses and how they have been addressed in the Final Approach to SRP26. We will continue to consider the detailed points raised in the consultation responses as we develop the price control.

Summary of responses

4.4 In general, there was support at a broad level to continue with the tried and tested price control framework, including support for a 5-year duration for the price control. Other feedback and comments were provided in relation to a number of key areas such as:

- Evaluative Performance Framework.
- Compensation relating to redispatch and dispatch down.
- Timings in relation to the price control, financial models and other processes such as uncertainty mechanisms.
- Stakeholder engagement.
- Financeability and risk.
- Network development.
- SONI governance.

4.5 The following section summarises the key points raised and the UR views. Changes to the final approach are set out in the next chapter, having considered stakeholder responses.

Consultation feedback and UR views

4.6 The most material response was received from the TSO. The table below sets out SONI's issues, the UR response and the action arising. Comments are generally in order of the various sections in the SONI response.

	Consultation Response	UR Views & Action
1	Changes in the market for system services, which are subject to SEM governance, are expected to significantly increase SONI's financial risk when the new arrangements go live in late 2026. We will also need to secure financing to cover our network and non-network projects that will be essential to deliver the NI Government targets. This means that financeability assessments will need to align with the mechanisms introduced by the CMA into the SONI price controls. **[SONI Response, p3]**	Financeability is understood as paramount and a core obligation of the UR. This point will be carefully contemplated. UR would expect the SONI business plan to detail any changes to financial risk because of system service auctions. This issue will be fully considered as part of the price control.
2	While the UR has long signalled an intention to reallocate the collection agent risk associated with TUoS tariffs, the process to implement this change and the timing of key consultations are still unknown. It will be essential that these changes are done in a way that preserves the financeability outcomes previously determined and does not inhibit SONI's ability to secure future financing. **[SONI Response, p3]**	It is the UR's intention to visit the timeline in relation to implementing this change. As per response to point 1, financeablity is recognised as a key component and will be considered accordingly in the consultation. However, the proposed change to TUoS should not inhibit the ability to secure financing as the risk to SONI should be reduced.

3	The considerable time required by the UR to process SONI's requests for additional funding via the uncertainty mechanisms (UM) suggests that these processes are not working as expected (or as set out in the UR guidance documentation) and should be re-examined. During the current price control to date, less than 50% of SONI's requests have been processed within the 4-month window specified in the CMA order. The UR should consider whether the current process is proportionate in term of the resources required (in both UR and SONI) compared to the impact these costs have on customer bills and the other safeguards that already apply to SONI's claims via the uncertainty mechanism. **[SONI Response, p3 – 4]**	This point is acknowledged though there are various explanatory factors including: • High volume of submissions. • Introduction of a provisional determination stage at TSO request (not part of initial UM guidance). • Other competing UR work priorities. • Lengthy query processes due to information quality issues etc. However, it is our view that the process can be improved with certain changes i.e. possible pass-through for some costs and increases to the materiality threshold. For quality issues, the UM guidance (para 3.3) advises that the request should be resubmitted, restarting the 4-month window. Though not typically used, we are minded to initiate this process in cases where the required detail is not contained upon first submission. It should also be noted that we are in the process of reorganisation. This includes a step change in resourcing which should help improve future compliance.
4	We would highlight the annual and unavoidable recurring European Membership Fees connected to CORESO and ENTSO-E, and the mandatory ITC payments that are also subject to ACER oversight and approvals. Treatment of the mandatory Interconnector Administrator costs would also need consideration to ensure the processes are efficient. We consider that these could be moved to pass-through items. **[SONI Response, p8, para 4.1.3]**	We are in general agreement with this point and will consider moving these costs to pass through items (via a new revenue term) in the next price control. This should have a considerable resource saving impact on the current UM process.
5	We note the reference in the approach paper to 'objectives to be delivered will be tailored to take account of the needs of local consumers (today's and those of tomorrow) and associated costs.' Whilst we understand the focus on local customers, we recommend that the UR also acknowledges all-island market arrangements. **[SONI Response, p8, para 4.1.5]**	This is acknowledged and agreed. Full consideration will be given to all-island issues and this is reflected in the next chapter.

6	We look forward to receiving the financial model from the UR and we would welcome a similar process to that adopted for the business plan templates where draft versions were shared for feedback. We would welcome clarity on the timing for the development of the financial model to ensure we have the resources available to support the UR. **[SONI Response, p8, para 4.3.2]**	Specific timelines will be considered but our expectation is that a financial model will be provided at least upon completion of the draft determination.
7	SONI recognises the advantages of the EPF and agrees that having an independent expert panel assessing SONI's outputs each year benefits all stakeholders. We are unclear what the UR means in terms of 'stepping back'. **[SONI Response, p9, para 4.8.1]**	The intention would be to have a lesser role in terms of inputting to the independent Panel process. However, the UR will continue in its facilitation role and as the ultimate decision maker when it comes to rewards / penalties.
8	We consider a 'lessons learned' exercise should be undertaken between SONI, the independent panel and the UR to consider some pragmatic changes to the overall *[Evaluative Performance Framework]* process. We also consider there is an opportunity to standardise the EPF process and possibly align with the EPF process and guidance that has been proposed for the NIE Networks (RP7 Price Control), thus ensuring regulatory consistency. **[SONI Response, p9, para 4.8.2]**	It is agreed that discussions should take place to explore how the EPF process could be improved. This will also allow exploratory discussions on how processes might be developed for SRP26.
9	SONI understands the theory behind the *[efficiency assessment]* approach proposed by the UR. However, SONI would highlight that we will be progressing a significant change programme to implement the SONI Governance arrangements in parallel with the development of the price control business plan. This will include the introduction of a new organisational structure to ensure independence. This will inevitably result in elements of reduced synergies. SONI is keen that the UR is regularly updated on this important programme… we would welcome early engagement with the UR and its external consultants. **[SONI Response, p10, paras 4.10.1 to 4.10.2]**	It is agreed that early engagement is beneficial. However, the onus will be on SONI to justify why the new organisational structure is in the best interests of consumers. This should be a key focus where additional resources are being requested (as per BP guidance requirements).

10	SONI considers it is a flawed approach to benchmark SONI staff against generic SOC codes. The specific and bespoke engineering and technical skills required by the majority of SONI staff indicates that their salaries will not align to the generic SOC codes the UR proposes to use. Indeed, this is very evident and confirmed by the difficulty SONI experiences in retaining, replacing and recruiting its staff. **[SONI Response, p10, paras 4.11.1]**	We disagree with this sentiment. ASHE survey data is very comprehensive and can be tailored for specific roles and skills, as was the case in the last price control (see SRP20, Annex 4, p18-24 for a fuller discussion). It is our expectation that salary benchmarking will be retained in the SRP26 price control.
11	SONI plans to undertake additional recruitment to implement the requirements placed upon it by Licence Condition 42 and therefore expect to have 'real life' data that we consider should provide a better data set for any salary benchmarking activity. We therefore ask that appropriate significance is given to this valuable insight into the cost of the skills that SONI requires, and that the UR takes advantage of this opportunity to have market tested information. **[SONI Response, p11, para 4.11.5]**	We welcome the opportunity to utilise market tested information. However, this detail would need to be available prior to the implementation of SRP26 to allow consideration and analysis. Additionally, there may be questions around the veracity of data in terms of efficiency. SONI would need to demonstrate that actuals represent the competitive market rate, not just the current TSO pay scale.
12	Work on the design of the new all-island tariff is scheduled to begin in the coming months and we will need to liaise with the UR price control team to ensure that interactions between the two projects do not inadvertently cause financeability problems for SONI that would prevent the new arrangements for System Services going live. **[SONI Response, p11, para 4.12.2]**	We agree with this feedback and welcome further engagement.
13	We note that a key area for consideration is the UR's intention to transfer the TUoS risk to NIE Networks. We are unclear how this aspect can be progressed in isolation considering the new environment SONI will be working in. **[SONI Response, p11, para 4.12.3]**	The collection agent margin remuneration has to be considered with other costs i.e. imperfections and ancillary services. However, the TUoS collection is a distinct function/risk which can be isolated if the risk is being removed. This is the intention of the proposed TUoS consultation.
14	SONI is somewhat surprised that the scale of the changes that will be brought about by the recent SEMC decisions (in particular Future Arrangements for System Services) has not featured in the draft approach paper. We encourage the UR to consider the financing implications of the SEMC decisions on SONI's ability to finance its activities. **[SONI Response, p12, paras 4.13.2 to 4.13.3]**	Financeability is a key focus for SRP26. This will naturally include SEMC decisions regarding FASS and other all-island projects. UR would expect the SONI business plan to detail any changes to financial risk because of system service auctions to allow this issue to be fully considered as part of the price control.

15	SONI's risk related to system services payments will increase under the future arrangements, but the SEMC decision to change the tariffing arrangements for it, mean that changes will need to be made to that aspect of our risk and return framework to ensure the arrangements proposed by the SEMC are financeable. We would welcome regular engagement with the appropriate teams within the UR to ensure the significance of the changes are fully factored into the SONI price control and that SONI is in a position to efficiently seek the necessary banking facilities. **[SONI Response, p12, para 4.13.4]**	At present the collection agent margin automatically provides more remuneration to SONI where working capital requirements increase. It is further noted from the SEMC paper (p29) for the FASS preferred option that, *"SEM Committee hopes to mitigate potential cash flow and collateral risks faced by suppliers, and believes that cashflow risks to the TSOs are manageable, and at least partially controllable by the TSOs."* We do however recognise that this work is ongoing and welcome further engagement. SONI should justify why risk is increasing and why current arrangements are not appropriate.
16	The approach to asymmetric risk will need to align with approach and funding mechanisms that are being adopted by the SEM Committee for all-island projects. The current proposal will potentially leave SONI exposed to tens of millions of pounds within the scope of downside only funding mechanisms. The assumptions made for the current price control are therefore no longer applicable and this area will need close examination to ensure that SONI is able to obtain the necessary project finance. **[SONI Response, p12, paras 4.13.6]**	It is not entirely clear what change SONI are proposing here beyond the standard review of the percentage rate and allowance. This issue will be considered further for the draft and final determinations, but no change is proposed for this decision. In the meantime, SONI should explore and quantify these issues in its business plan submission.
17	We consider that the current TNPP processes need revisited. In order to support delivery of the government targets, SONI considers that a more strategic approach needs to be taken to the approval process for grid development to accelerate development. SONI notes the recently published 'Winser Report' and considers that many of the recommendations apply in a NI context. **[SONI Response, p12, paras 4.14.1 to 4.14.3]**	We are happy to consider any reasonable process improvements. We would be pleased to hear SONI's specific proposals.

18	SONI considers it is unreasonable that the UR has taken the position that if SONI pursues a full demerger, then the costs in so doing will not be funded. The UR is seemingly taking a decision on a future price control before the SONI Board has reached a decision. To discuss the next price control prior to any engagement with the new SONI board and therefore, a limited understanding of the new Board's strategic priorities and ambitions, is premature and not in line with good regulatory practice. **[SONI Response, p13, paras 4.15.1 to 4.15.4]**	It is important to note that we are not taking a funding decision here, just highlighting the relevant risks. As such, we do not agree that the approach needs updated or is not in line with regulatory practice. The business plan must justify why the approach is in consumers' best interests which will be considered on its merits. Our approach is fully set out in paras 5.63 to 5.73 of this paper.
19	We would suggest that as the price control progresses, the timeline would need to be reviewed and amended to include key dates from other workstreams that directly impact this work. **[SONI Response, p14, para 5.1.1]**	For simplicity reasons, we are minded to maintain the existing timeline but will note key dependencies which may have an impact on the programme. The programme will be kept under review as these key dependencies are clarified.

Table 4.1: SONI issues and UR response

4.7 We welcomed the feedback received from other key stakeholders: CCNI, EirGrid, Energia, Northern Ireland Electricity Networks (NIEN) and Renewables NI (RNI). The table below sets out the key issues identified by these stakeholders and the UR response and the action arising.

	Consultation Response - CCNI	UR Views & Action
1	We recognise that both NIE Networks and SONI will need more finances to accelerate decarbonisation. However, it is essential that these costs are robustly and transparently scrutinised, service standards increase, and consumers are appropriately protected. **[CCNI Response, p2]**	We are in full agreement with this sentiment. As part of the business plan process, we would ask SONI to publish as much of the plan as feasible in order to facilitate transparency of process.
2	During GD23 all three GDNs rated every area of their respective plan as 'Exceptional', while the UR rated their plans as 'Good'. This suggests the proposed approach to self-assessment is not particularly effective. We would suggest that rather than use an absolute assessment level (Excellent, Good, etc.), SONI is asked to compare the relative quality of different areas of their own business plans (so if they mark one area as particularly strong then this implies that other areas are relatively weaker). **[CCNI Response, p2]**	The purpose of the self-assessment is for the company to explain its view of the quality of its plan. We think it important to retain this absolute assessment criteria. The fact that the UR is sometimes in disagreement does not mean that the approach is ineffective. However, relative ranking of the different test areas may provide a useful tool to identify weaker areas of the plan. This obligation has been incorporated into the BP Assessment information requirements.

3	Increased use of renewables will place new pressures on our transmission and distribution system and will necessitate careful stewardship by SONI. It will also require enhanced transparency from SONI and the Utility Regulator. **[CCNI Response, p2]**	This point is accepted. SONI has made substantial improvements in terms of the information provided in the Grid Projects section of their website. We expect this to continue and be enhanced in SRP26.
4	It is vital that public representatives, and industry stakeholders and consumer representatives are enabled to understand SONI's role as a steward of the network and advisor. This will necessitate bespoke engagement with those parties to facilitate their greater understanding of the role of the system operator so they can provide critical challenge. **[CCNI Response, p2]**	We agree with this obligation. This has been specifically added to the list of stakeholder engagement obligations expected to be detailed in the business plan. We would emphasise our expectation that SONI should consult stakeholders on how it plans to undertake consumer and stakeholder engagement to inform its business plan. In doing so, the company should remain mindful of the need to explain its proposals in terms that stakeholders can relate to and in a way which explains the outcomes and benefits of a highly technical subject area.
5	While we appreciate that the EPF Panel must be independent, the UR should not step back from the process altogether, as proposed in the Approach Document. **[CCNI Response, p3]**	The expectation for SRP26 is not that we would step-back from the EPF process altogether. Rather the intention would be to have a lesser role in terms of inputting to the independent Panel process. However, there is still the expectation that UR will continue in its facilitation role and as the ultimate decision maker when it comes to rewards / penalties.
6	There is still a significant improvement required in the way SONI and the Panel engage with key stakeholders to facilitate stakeholder understanding. **[CCNI Response, p3]**	It is likely that the EPF Guidance will be subject to some change before the next price control. We would welcome feedback on the gaps which CCNI has identified and any suggestions as to how this process can be improved.
7	We welcome that this price control will focus on ensuring clarity and transparency in relation to how decisions are made, and costs are allocated between SONI and EirGrid. **[CCNI Response, p3]**	This is the intention of Condition 42 and the aim of the SRP26 price control.

	Consultation Response - EirGrid	UR Views & Action
8	The requirement for the Parent Company Guarantee (PCG) was outlined, in principle, in paragraph 36 of SEM-08-176 and its purpose, framework, quantum etc is considered to be a SEMC matter. Therefore we believe that any proposed change to the PCG, as now consulted on by UR in its SRP26-31 paper, is a matter for the SEMC and not solely UR. **[EirGrid Response, p2]**	The PCG as it pertains to SONI is a jurisdictional matter. This was effectively argued by SONI in its 2017 Notice of Appeal to the CMA which stated, *"the TSO Licence requirement for the PCG is separate from the SEMO Licence requirement, reflects distinct risks as explained in AS1, and should be remunerated separately."* (para 19.27, p78) Therefore, we do not agree that this is a matter for SEMC. Any change to the PCG which would affect the SEMO price control would of course be subject to SEMC scrutiny.
9	Given this limited level of oversight we believe there is merit in examining whether the PCG, that EirGrid Plc provides to SONI, continues to be appropriate vehicle to guarantee SONI's obligations and liabilities as TSO and MO. **[EirGrid Response, p2 – 3]**	This issue will be considered further. However it is still to be expected that the shareholder will retain their responsibility as owners of the regulated business.
10	UR also has a legislative obligation to ensure that the licence holder (SONI Ltd.) can finance its activities. Given the re-structuring effects of Licence Condition 42, it is suggested that this "Financeability Duty" placed on UR, as confirmed by the CMA in its 2017 re-determination, should be re-examined for the upcoming SRP26-31. **[EirGrid Response, p3]**	We are not clear why this should be re-examined or what is in mind here. Financeability has been and remains a core obligation on the UR.
11	We believe it is important for the UR, as part of the SRP26-31 review, to examine (i) whether the current 1.75% margin is adequate and (ii) these three approaches to estimation of the PCG margin (preferences shares, cost of debt being the lower bound and cost of equity being the upper bound). **[EirGrid Response, p3 - 4]**	These issues will be reviewed as part of the normal price control process.
12	We note that the UR consultation states that *"the efficient costs of complying with Condition 42 will be funded".* Both TSOs will be making funding applications related to the efficient costs of licence condition 42 compliance as part of the revenue setting processes, namely SRP26-31 and the PR6 review (2026-2030). **[EirGrid Response, p4]**	This will be considered. However, the onus will be on SONI to justify why any additional costs are in the best interests of consumers. This should be a key focus where resources are being requested (as per BP guidance).

13	The UR paper proposes to transfer one element of the RCM, TUoS, to NIE Networks and that a consultation on the matter will take place in 2024. It is worth noting that the three elements do not have the same levels of risk on the company. It follows that if the RCM element with the lowest risk is removed then UR must re-evaluate the 0.5% margin to reflect the new (riskier) profile. **[EirGrid Response, p5]**	This will be reviewed as part of the price control consultation.
14	Future expected changes to System Services, under the Future Arrangements for System Services (FASS) workstream, and the impact this may have on future SONI revenue streams, should also considered as part of the margin review. Finally, considering this proposal has not been adopted and may not be adopted by the start of SRP26-31, we expect that the SONI RCM will continue to be calculated in its current form, until regulatory changes are implemented. **[EirGrid Response, p5]**	This point is noted (see response to SONI comments) and will be considered during price control discussions/deliberations. The current revenue collection mechanism will continue to operate as per the existing licence until changes are considered and fully implemented.
	Consultation Response - Energia	**UR Views & Action**
15	UR is…obliged to ensure that SRP26 allows SONI to make the network investments required by Article 13 of Regulation (EU) 2019/943. It is therefore crucial that SONI are adequately funded and incentivised to tackle the high levels of dispatch down being experienced in Northern Ireland. Energia recommends that specific measures are proposed to address this in the SONI business plan and subsequent consultations on the SRP26. **[Energia Response, p2]**	The Evaluative Performance Framework process (EPF) incorporates issues such as this; for example, reference appendix 5 of the recent SONI Annual Performance Report 2022/2023: *"Our target for Renewable Dispatch Down for 2022/23 was 10% for wind generation, however, as highlighted above there are a number of factors at play and this target is very challenging".* Consideration will be given to if/how this and other KPIs can/should be incorporated into the business plan. We would however encourage stakeholders to engage with the EPF process on this particular matter.

16	SONI is obliged to compensate generators for redispatch (backdated to 1 January 2020) under Article 13(7) Regulation (EU) 2019/943. This is an obligation that rests with the transmission system operator rather than a market cost and this must therefore also be reflected in SRP26. **[Energia Response, p3]**	There are ongoing background and legal issues associated with generator redispatch compensation. We do not consider the SRP26 framework to be the appropriate vehicle to address this at this stage. It is expected that cost recovery will follow the legal mechanisms prescribed. However, SEMC are expected to consider the matter fully when legal disputes are resolved.
	Consultation Response - NIEN	**UR Views & Action**
17	Whilst the D5 approval process has facilitated the delivery of modest levels of transmission projects over the last number of years in NI, NIE Networks considers that a full review of the transmission infrastructure approval process is required to ensure the significant increase in projects can be progressed to delivery stage without delay, helping to ensure the achievement of 2030 targets and beyond. **[NIEN Response, p1]**	This point will be taken into consideration during price control discussions/deliberations. We are happy to consider any reasonable process improvements.
18	We welcome the UR's intention to further engage with SONI and NIE Networks in relation to the Evaluative Performance Framework (EPF) to give consideration on how to further the process in both organisations. We have concerns with the proposed design of the EPF for NIE Networks in the RP7 Draft Determination and we consider the design of the EPF should offer more upside reward. **[NIEN Response, p1]**	The upside reward on offer has been through a carefully considered process. It is however not considered appropriate to comment on the NIE Networks reward in this decision document.
19	We believe the mechanism for innovation funding used by SONI is appropriate and would work well alongside the Network Innovation Fund. **[NIEN Response, p1]**	We agree that the mechanism for innovation funding used by SONI is appropriate. We will continue to review the process, taking account of any feedback from SONI in its business plan.
20	We welcome the UR's clarifications that SONI may still utilise derogations to utilise services from EirGrid that will help it deliver its commitments to the NI Energy markets in an efficient and timely manner. We also welcome the level of stakeholder engagement proposed and consider that transmission development plans should be transparent and be consulted upon. **[NIEN Response, p1 - 2]**	We appreciate this feedback. Stakeholder transparency is paramount, and consultation is anticipated as being at the forefront of any proposals made. However, it should be noted that the Transmission Development Plan for Northern Ireland (TDPNI) is subject to separate consultations and decisions outside the price control process.

	Consultation Response – Renewable NI	UR Views & Action
21	RNI would like to take the opportunity at this juncture, to highlight the pressing importance for SRP26 to recognize the need and make provision for adequate TSO funding and incentives to directly and effectively address the persistently high levels of dispatch down which have now characterized Northern Ireland as a constraints zone. SRP26 must ensure that addressing this issue is a key objective and aim. **[RNI Response, p2]**	See response to point 15 above regarding dispatch down targets and incentivisation. We agree that adequate funding should be provided to address this issue. We would expect SONI to make relevant submissions in the business plan which will be given due consideration.
22	Displacing the domestic renewables industry in NI will have a profound and detrimental impact on both the government's climate targets and the cost to the NI consumer. There is no mention of compensation for dispatch down in the SRP26 Approach Document. **[RNI Response, p3]**	See response to point 16 above.
23	When the UR approaches consideration of SONI's business plan under SRP26, RNI would propose that the regulator consider how the current level of constraints, highly likely to continue in the immediate future results in wasted clean, affordable and indigenous renewable energy, risks the economic viability of existing investments, creates an unsustainable investor environment for future renewable energy project development and endangers achieving the 80 by 30 target. **[RNI Response, p3]**	It is important to note the scope limitations of the price control which is focused on SONI costs to deliver against the wider policy context. However, the establishment of formal KPIs or outputs associated with constraints and redispatch in SRP26 will be considered.

Table 4.2: Other stakeholder issues and UR response

4.8 Having considered the response from stakeholders, the final approach to SRP26 is set out in the next chapter.

5. Our Updated Approach to Key Areas

General Overview

Introduction

5.1 The price control will set revenue limits. We will do this in a way that ensures that the company's operational and investment costs can be met and objectives delivered effectively and efficiently, providing best value for money to consumers.

5.2 All aspects of SONI's business plan will be considered and the objectives to be delivered will be tailored to take account of the needs of both local and all-island consumers (today's and those of tomorrow) and associated costs.

5.3 We note that the provision of relevant and robust information in a timely manner, by SONI, to us is a pre-requisite for a successful price control. We are therefore publishing our BP information requirements alongside this decision. These have been subject to separate review and discussion with SONI throughout the last number of months.

5.4 Reporting Instructions and Guidance (RIGs) have been in use for several years. However, a new template was recently implemented. This will help provide a baseline of actual expenditure incurred to aid in forecasting and ongoing reporting / assessments.

A proportionate approach

5.5 We are mindful of the need to keep the regulatory burden to a minimum while addressing the information asymmetry that exists between us and regulated companies.

5.6 We will adopt a light-touch approach if:

- There is evidence to show the company is comparatively efficient.
- Past costs are a strong indicator of future costs.

5.7 We will adopt a more detailed approach if:

- The company is comparatively inefficient in certain areas.
- Past costs are a weak indicator of future costs.
- Cost increases are of a material nature.

5.8 We expect SONI to support its own robust assessment of expenditure and outputs, and we will work with them to ensure we understand these. Where there is insufficient evidence or data, we will adopt an approach to funding which is prudent and conservative in relation to the risk consumers are exposed to.

Key Issues

Form of SRP26

5.9 SONI operates a revenue cap. However, within the licence formula there are various types of cost treatment depending on the cost category concerned. In the current TSO licence, there are five types of existing cost approach. This is detailed in the table below.

Existing Structure	Allowance Setting	Activity
Ex-ante allowance with cost sharing (both mechanistic and conditional)	At price control	Most capex and opex spend e.g. staff, facility costs, corporate costs, telecoms, IT and buildings capex spend etc.
Fixed ex-ante allowance (not subject to cost sharing)	At price control	Pension deficit repair
Ex-ante allowance up-to-a-cap	At price control	Expenditure on network planning and scoping feasibility studies
Pass through costs	During price control	Ancillary services or market operator costs recovered via the TSO
Uncertainty mechanism approvals (both cost sharing and up-to-a-cap)	During price control	TNPPs, uncertainty mechanisms etc

Table 5.1: Cost treatment

5.10 Significant changes were made in the last price control to tailor cost approvals and amend the incentives associated with the price control. Most business plan costs are subject to cost sharing at a rate of 75% i.e. customers retain 75% of underspend but fund three quarters of any overspend. This transfers risk to customers but retains a level of financial control. We are minded to retain this approach.

5.11 A number of new uncertainty mechanisms (UM) were also established in the last control along with associated guidance. No change is anticipated given the comprehensive nature of this framework.

Duration of SRP26

5.12 The SRP20 price control was initially set for a period of five years beginning in October 2020. This follows on from previous controls. Whilst some other network controls are six years, we believe the current approach for SONI continues to strike the right balance between providing sufficient certainty while not exposing the company or consumers to undue risk.

5.13 Upon SONI's request we have decided to extend the current price control by one year.[12] In June 2023, we launched a consultation on a proposal to defer the start date of the next price control.

5.14 After considering SONI's request and having publicly consulted on the proposal, we decided to defer the start date of SONI's next price control by one year to start on 1 October 2026. This allows SONI time to appoint a new Board, in accordance with the new licence condition Section 42 (Part A) and to implement a new medium-term strategy which will underpin its business plan submission.

5.15 As a consequence, it is our proposal that SRP26 will begin in October 2026 and run to September 2031. Our intention is to retain the five-year duration.

Business plan guidance

5.16 The business plan (BP) guidance sets out the information requirements which the UR expects SONI to complete as part of its submission. The data requirements will not alter materially from SRP20. Engagement on the structure of the information requirements has been ongoing with the TSO.

5.17 The basis of the templates will include required detail and evidence to support the TSO case. This will mimic information previously requested and cost data submitted on an annual basis via the RIGS[13] reporting. These BP information requirements and templates are published alongside this SRP26 approach decision.

5.18 In the last price control we did not require completion of a pre-determined financial model. We have not included a financial model return as part of the SRP26 business plan submission. However, there is an expectation that one will be developed for the draft determination. We will continue to engage with SONI on the development of the financial model in the run up to the draft determination.

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[12] See deferral decision paper: https://www.uregni.gov.uk/news-centre/decision-published-deferral-start-date-next-soni-price-control

[13] RIGS = Regulatory Instructions & Guidance which forms the basis of the TSO annual reporting.

Business plan assessment

5.19 A review of SONI's business plan is undertaken at the draft determination phase. This is based on assessment of BP ambition and responses against key test areas.

5.20 SONI is also required to undertake a self-assessment of how the business plan delivers against requirements. Separate guidance on what constitutes an excellent business plan will be issued as part of the BP information guidance.

5.21 This has worked well in the previous SONI price control and has become the standard across other price controls. We see no reason to change this approach at this time. This assessment will be developed based on the experience and learning we have had from other price control processes.

5.22 Following stakeholder feedback, we have however extended the self-assessment reporting obligations to rank the test areas. This obligation is to provide more focused scrutiny on the areas of its business plan that SONI considers to be stronger / weaker.

Past Delivery

5.23 As in the previous control, we would expect SONI to produce an annex in their business plan setting out an overview of strengths, weaknesses, delivery and outcomes against the targets in the current price control. This should identify ongoing issues and justification for changes in SRP26.

Stakeholder engagement

5.24 SRP20 introduced a new stakeholder expert challenge group (SECG),[14] as a means of third-party scrutiny of SONI's business plan.

5.25 Overall, this worked well with the group contributing effectively, and providing value to the process. Going forward we expect SONI to take a lead on stakeholder engagement, organising diverse stakeholder workshops and incorporating feedback into their plan.

5.26 SONI is not obligated to continue with the SECG or a variant thereof. However, the TSO must demonstrate how it has engaged with stakeholders / consumers and detail how this has influenced their business plan. We expect SONI to discuss its plans for engagement with stakeholders in advance and set out a clear plan of engagement which will inform its business plan. At a

[14] The Stakeholder Expect Challenge Group (SECG) were made up of industry experts, other regulated companies and consumer/business representatives who have a significant interest in TSO plans and developments.

minimum, its business plan submission should include information on the following:

- How the company planned its engagement.
- Who the company has engaged with.
- How the company has engaged.
- How proposals have been presented to stakeholders and consumers to inform their input to the business planning process, including the impact on prices.
- What bespoke engagement SONI has undertaken to make stakeholders aware of the critical role and influence of the TSO.
- How SONI has addressed critical feedback on its plans.
- What survey work or research has been undertaken.
- How customer metrics have been developed with stakeholders and how consumer issues have been addressed.
- How SONI has incorporated consumer priorities and feedback into the SRP26 business plan.

5.27 These obligations represent the key requirements to demonstrate satisfactory stakeholder engagement and incorporate CCNI feedback on necessary engagement processes.

5.28 We note the need for SONI to remain mindful of the need to explain its proposals in terms that stakeholders can relate to and in a way which explains the outcomes and benefits of a highly technical subject area.

Outcomes, deliverables and KPIs

5.29 The final determination[15] for SRP20 published high level outcomes for SONI. Annual reporting captures delivery against these objectives. KPIs were not developed or set as targets at the last price control. Although the introduction of the EPF has encouraged SONI to consider these.

5.30 Going forward it should be considered if more formal KPIs are needed. More input from SONI may also be required going forward in terms of interim objectives for long-term projects.

[15] Final determination main body.docx.pdf

Financial incentives - mechanistic cost sharing (MCS)

5.31 Currently both capex and opex costs within the price control are subject to cost sharing. This is set at 75%, such that the consumer pays 75% of any overspend but retains the same proportion of underspend. SONI retains 25% of any underspend and pays the same percentage of overspend.

5.32 This was changed from a 50:50 mechanism in the last price control. The effect of this change was to reduce the risk to SONI while retaining a financial discipline incentive. We propose to retain this incentive for the next price control, continuing a 75:25 cost risk share.

Financial incentives - conditional cost sharing (CCS)

5.33 Within the licence modifications introduced in SRP20, CCS was introduced, which allows SONI, or the UR to increase the cost sharing percentage to 100% for base costs (in effect, full cost recovery). This allows:

a) SONI to request consumers to pay 100% of any overspend if this delivers justified improvements efficiently.

b) Conversely, UR can return any underspend if it is evidenced that this was a result of deterioration in service performance.

c) Any adjustments are subject to a materiality threshold of £500k in nominal terms, in any given year.

5.34 Tariff year 2021-22 saw the first CCS submission. Neither this nor the 2022-23 submission passed the materiality threshold. As such, the process is as yet untested. We propose to maintain this incentive, though the materiality threshold could be subject to review.

Evaluative Performance Framework (EPF)

5.35 Similar to the SECG, the EPF has proved beneficial. This is a way to provide third-party scrutiny during the price control period. An independent expert panel has been appointed who assess SONI, in line with published guidance criteria and provide a recommendation report to UR. UR then makes a final determination in terms of SONI’s grading, which will equate to a financial reward or penalty.

5.36 The EPF process constitutes an 18-month cycle focusing on SONI’s forward work plan (FWP) and stakeholder event, at the beginning of the price control year. This is then followed by a SONI mid-year update and concludes with the panel’s evaluation of SONI’s performance after the price control year has concluded.

5.37 It is the UR's position that this has been a positive step for SONI and stakeholders. However, during its implementation the UR has taken a leading role, which was not our long-term intention.

5.38 Going forward, as the process matures, the UR would expect to step back from the process. We plan to review the EPF process before our draft determination and incorporate changes for the next price control as appropriate. We do however anticipate maintaining our role in making a final determination.

5.39 At the time of writing, the RP7 price control is considering how the EPF will work for NIE Networks. We plan to further engage with SONI to give consideration on how we would further the process in both organisations, building on the strength and learning of the current arrangements in place in SONI's price control.

Uncertainty mechanisms and innovation

5.40 Within the licence modifications of the last price control, we introduced new uncertainty mechanisms and associated guidance.

5.41 This allows for:

a) Opex and capex requests which are subject to cost sharing (Et & Vt) mechanisms.

b) Opex and capex requests which are subject to actual spend up-to-a-cap (Dt & Zt).

c) Triennial pension deficit review adjustment ($PTRA_t$).

d) Uplifts to the network planning scoping and feasibility studies opex cap (SFU_t).

5.42 On the whole, these mechanisms are comprehensive. They are currently subject to a materiality threshold of £40k p.a. in nominal terms in each relevant year. In the draft determination we will consider the possibility of increasing this threshold.

5.43 In addition to this, a proposal to streamline the process during the price control, due to resource constraints, may be explored. This could include a pass-through revenue term for certain recurring costs which are difficult to control. Further work has taken place on an Agreed Governance Document (AGD) for determining all-island projects which result in jurisdictional TSO allowances.

Pension deficit

5.44 Back in October 2017 the UR determined that only the pension deficit for the defined benefit scheme incurred up to a specified date should be paid for by NI electricity consumers. We also determined the cut-off date as the 31 March 2019.[16] Any pension deficit incurred beyond this date must be funded by the shareholder. We do not expect to change this position.

Efficiency assessment

5.45 Previously reviews have been carried out on a bottom-up basis, given the lack of benchmarking opportunities for SONI. Alongside this an exploratory audit on key projects for the current price control was undertaken.

5.46 Given the benchmarking restraints and the effectiveness of this approach, we propose to retain it for the coming price control. It is likely that external consultancy advice will be procured to facilitate this review.

Salary benchmarking

5.47 The efficient level of staff costs is generally established using ASHE data by standard occupational classification (SOC). This analysis will be undertaken as part of the draft and final determination cost allowance work.

5.48 We would propose to retain this approach, though we are open to consideration of other methods of salary benchmarking. The SOC reporting proposed in the RIGS returns should strengthen this analysis going forward. Consideration will also be given to the need for a regional price adjustment as UK data has tended to be used in the past.

5.49 We would also give relevant consideration to market-tested data where appropriate. However, SONI would have to demonstrate that this represents the competitive market rake for relevant skills, not just the TSO pay scale.

Real price effects (RPEs) and productivity

5.50 This analysis is also undertaken at the draft and final determination phase and follows a typical UR approach to price controls.

5.51 In the determination for the current price control, this is only applied to SONI's opex. In SRP26, we are minded to apply RPEs and the productivity challenge to both determined opex and capex.

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[16] See relevant pensions decision paper: https://www.uregni.gov.uk/files/uregni/media-files/Pensions%20Conclusions%20and%20CIL%20Decision.pdf (paras 12-23).

Financeability

5.52 SRP20 focused on normal profitability metrics and the rate of return on equity (RoRE) metrics. This approach is expected to be retained for SRP26. It will be for SONI to demonstrate what financial ratios they wish to rely upon. They will also be required to justify their selection and what ratio level is considered to be suitable to demonstrate financial sustainability.

5.53 This assessment will also consider any relevant decisions with respect to TUoS risk and SEMC decisions regarding system services. SONI will need to justify how/why risk has changed and the implications of this change on financeability.

Asymmetric risk

5.54 Following the CMA decision, a new term for asymmetric risk (ARA_t) was introduced. This renumerates SONI to the sum of 3% of forecast up-to-a-cap costs as they are not able to outperform in this area. This approach is expected to be retained. However, the percentage and the allowance will be subject to review.

Margin

5.55 At present, SONI are remunerated for collection agent risk ($CAIRt$) associated with TUoS, ancillary service and imperfection costs. This is based on 0.5% of those costs and was established by the CMA as SONI's remuneration for the liquidity risk associated with this activity.

5.56 It is anticipated that the TUoS risk will be transferred to NIE Networks. In the previous price control we stated,

"We plan to carry out a separate consultation on specific licence modifications that would de-risk SONI's TUoS role. If a change is to be made to the TSO licence to de-risk the TUoS revenue collection role we would, at the same time, make appropriate changes to the SONI price control allowances for the margin on TUoS revenue collection risk."[17]

5.57 Within the RP7 draft determination[18] we further advised that, *"we proposed to move the NIE Networks TUoS revenue collection risk from SONI to NIE Networks, reducing SONI's risk and overall costs to consumers. We plan a further consultation on appropriate licence modifications."*

5.58 How this transfer will be implemented is currently being reviewed and will be subject to a separate consultation expected to be carried out in 2024. A

[17] See Annex 5, Risk & Return, p83, para 4.14.
[18] See RP7 DD, Annex S, para 5.9, p78.

margin is expected to be retained for the other activities, though the percentage will be subject to review and updates depending on the outcome of the approach to system service auctions.

Parent company guarantee (PCG)

5.59 Condition 3A of SONI's licence requires that EirGrid (as the parent) shall always ensure that SONI has adequate financial and non-financial resources in order that it may perform its obligations. This takes the form of a £10m PCG.

5.60 SONI are currently remunerated at a rate of 1.75% of their PCG. This was agreed by the CMA. No change to the framework is proposed for SRP26. However, we note this value has remained constant from when it was put in place and we expect to consider in SRP26 whether £10m is the appropriate amount by way of a financial guarantee. The percentage level of remuneration will also be re-examined.

Inflation indexation

5.61 SRP20 introduced CPIH in favour of the more antiquated RPI. This is consistent with current financial conventions and regulatory precedent. No further change is proposed.

Transmission network pre-construction project (TNPPs*)*

5.62 SONI can apply for the approval of pre-construction costs related to network development projects. SONI earns a return on a side-RAB comprising these costs with the actual TSO spend ultimately being recovered from NIE Networks following UR approval. This process is expected to continue in SRP26, subject to any process improvements which can be implemented.

Governance

5.63 The previous price control assumed SONI and EirGrid would share resources and allocate group wide costs. Following extensive consultation, a recent licence modification (Condition 42)[19] was made to give effect to our conclusions on the changes that are needed to SONI TSO's governance structures following the governance review. Among other things, these changes ensure greater clarity and transparency in relation to costs and how decisions are made.

5.64 This condition will be implemented in tandem with development of the new price control. We recognise the constraints these processes operating in

[19] https://www.uregni.gov.uk/files/uregni/documents/2022-08/2022-08-30%20SONI%20governance%20licence%20mods%20decison%20paper.pdf

tandem pose, to both SONI and the UR, which will need to be considered carefully going forward.

5.65 The new licence framework expects a level of independence in order to:

- Secure the protection of the interests of consumers and other stakeholders, including generators and suppliers in NI.
- Allow for the implementation of regulatory policy.
- Enable SONI to play its role in the implementation of the policy of the UK Government and/or Northern Ireland Executive, and in particular to facilitate the industry's energy transition.
- Maintain cross-jurisdictional relationships necessary to facilitate the Single Electricity Market (SEM).

5.66 However, it also allows for derogations to be submitted as part of SONI's restructuring. These derogations make possible the realisation of appropriate synergies and efficiencies that may arise from SONI's position as part of the overall EirGrid Group.

5.67 The derogation process is designed to allow the benefits from economies of scale to be revealed so they can continue to be captured for consumers in a manner which is transparent and accountable.

5.68 Condition 42 does not mandate a full demerger. Accordingly, any choice to pursue full demerger would be a matter of corporate choice, since it does not flow from any obligation in the Licence.

5.69 If SONI chooses not to seek any Condition 42 derogations and to pursue instead a 'full demerger' strategy, our approach to this is set out below so that it can be considered before SONI submits its business plan.

5.70 We will approach future TSO price controls on the same basis that we have approached previous ones. Namely, that we understand that SONI should be allowed the efficient cost of complying with obligations placed on it under statute or by its Licence.

5.71 It follows from this that the efficient costs of complying with Condition 42 will be funded. It also follows that if SONI chooses to take actions which go beyond the scope of the Condition 42 obligations, costs associated with those actions will be treated as discretionary spend unrelated to licence compliance and will not be funded.

5.72 Specifically, if SONI chooses to adopt a full demerger strategy – which, as noted above, is not mandated by Condition 42 – then we must treat that as an elective decision to undertake a level of corporate restructuring beyond that required by regulation. We will regard the costs of that exercise as appropriate for funding by shareholders and not by NI consumers.

5.73 We anticipate that the BP submission will reflect SONI's position following the derogation process. Whether applying for derogations in certain areas or not, the BP must justify why the approach is in consumers best interests. We will then consider the proposals put forward by SONI on their merits.

6. Timelines

SRP26 Timetable

6.1 We have set out the anticipated key milestones to SRP26 below. We note that the dates indicated are provisional dates which may be subject to further change.

Key Milestone	Timeline[20]
Consult on proposal to extend current price control[21]	Start June 2023
Consultation responses on extension	End June 2023
Decision on extension to current price control[22]	August 2023
Develop business plan information requirements with SONI	Aug to Dec 2023
Publish draft approach to SRP26	February 2024
Consultation on draft approach closes	End of March 2024
UR publishes final approach to SRP26 and final information requirements	31 May 2024
SONI submits proposed values for licence terms for one year extension	28 June 2024
Consultation on licence mods for one year extension issued	02 September 2024
Response to consultation on licence mods for one year extension	04 November 2024
Decision on licence mods for one year extension published	19 December 2024
Business plan submission	03 March 2025
Publish draft determination	28 August 2025
Consultation on the draft determination ends	20 November 2025

[20] The timings of these milestones are subject to change. They may also be impacted by other workstreams such as the TUoS collection agent risk consultation or the FASS programme etc.
[21] See consultation: https://www.uregni.gov.uk/consultations/consultation-sonis-request-defer-start-their-next-price-control
[22] See decision paper: https://www.uregni.gov.uk/news-centre/decision-published-deferral-start-date-next-soni-price-control

Key Milestone	Timeline[20]
Publish final determination and proposals on licence modifications	26 March 2026
Close of representations on proposals	30 April 2026
Decision on licence modifications published	30 June 2026
Licence modifications come into effect	01 October 2026

Table 6.1: SRP26 key milestones

7. Conclusions

Summary

7.1 Having considered the feedback from stakeholders, our summary conclusions are as follows:

1) The basic structure of the SONI price control is comprehensive.

2) Improvements might be made in certain areas such as:

   a) Uncertainty mechanism refinement.

   b) TNPP and EPF process reviews.

   c) Additional stakeholder engagement obligations.

   d) Relative ranking of business plan areas to get a sense of potential weaker areas.

3) The issue of dispatch down and formal KPIs / outputs in certain areas needs further consideration.

4) Financeability assessment must consider changing risk profiles and SEMC decisions which impact on the TSO.

7.2 These issues have been captured in changes to the approach as detailed in Chapter 5. It is highly likely that further considerations will arise as the SRP26 process continue. We will consult further on our detailed proposals when we publish the draft determination in August 2025.