

SONI Price Control 2026-31: (SRP26) UR Approach Document Consultation

SONI response March 2024



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1. Introduction

1.1 General Overview

1.1.1 SONI welcomes the opportunity to provide comments regarding the UR's draft approach to the next SONI price control or review of prices (known as SRP26). The price control will regulate the outputs and costs of SONI from 1 October 2026 to 30 September 2031, assuming the UR decides to proceed with the proposed 5-year period.

1.1.2 SONI commits to delivering its business plan within the timetable for the delivery of the price review. We note that the overall timeline remains challenging, particularly with regard to, the UR's determinations and the necessary changes to the SONI TSO licence to give effect to its final decisions.

1.1.3 SONI welcomes the clarity set out in the draft approach paper. We also welcome early visibility of the business plan templates and associated guidance. We look forward to working collaboratively with the UR throughout this process to ensure that SONI can play its key role in the achievement of the NI Government Energy Strategy and targets and do so to the benefit of consumers. We acknowledge and appreciate the early engagement around this project to date.

1.1.4 This response sets out in detail our broad support for the approach proposed by the UR in its paper. However, there are some areas that we expect to be pivotal in our assessments of SONI's ability to finance its licenced activities out to 2031 that do not appear to us to have been given appropriate prominence within the approach paper. We would like to draw these to the attention of the UR at this early stage in the process. These areas are:

- 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 incorporate our changing risk profile and the outcomes will need to align with the mechanisms introduced by the CMA into the SONI price controls.
- 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.
- The considerable time required by the UR to process SONI's requests for additional funding via the uncertainty mechanism suggests that these processes are not working as expected (or as set out in the UR guidance documentation) and should be reexamined. 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.

- While we note the established role of benchmarking and generic statistical data within price control processes, this is typically used to address a gap in contemporaneous sector specific information. This price control has the advantage of taking place at a time of expected considerable recruitment into the SONI workforce. These changes to the SONI business as a result of the introduction of Licence Condition 42 will produce an up to date, sector specific, market tested insight into the cost of staff with the skills that SONI needs to deliver its obligations. 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 that is considerably more relevant than benchmarking data that is normally used as a proxy to fill in for an absence of comparators.

1.1.5 In the remainder of this paper we step through our observations on the UR's approach to the 2026-31 SONI Price Control. We look forward to working with the UR to secure a balanced and financeable outcome that embeds processes that support the energy transition and deliver value for electricity customers.

2. Overview of Previous Price Control

2.1 Evaluative Performance Framework (EPF)

2.1.1 SONI recognises the value of the EPF to both SONI, the UR and stakeholders in terms of ensuring service quality and accountability of performance. At present we have no high-level concerns with continuing the EPF into the next price control.

2.1.2 However, we consider that now that a full cycle of the process has been completed, a ‘lessons learned’ exercise should be undertaken between SONI, the independent panel and the UR to consider some pragmatic changes to the overall process. We also consider there is an opportunity to standardise the EPF process and possible alignment with the EPF process and guidance that has been proposed for NIE Networks (RP7 Price Control) thus ensuring regulatory consistency. We expect to continue to work closely with NIE Networks in this price control so the incentive arrangements in both price controls should complement each other.

2.2 Cost remuneration and managing uncertainty

2.2.1 Although we recognise that the uncertainty mechanism provides a vehicle for SONI to receive additional funding to deliver outputs that were not included within the ex-ante price control allowances for well justified business cases, we have found in practice that the process and procedures of this are not without their shortcomings. Most notably we would highlight the process/resourcing concerns in terms of the UR’s ability to make final decisions upon new business cases within the timeframes set out in the UR guidance. We note that the timeframe in the guidance reflects the instructions of the CMA set out in its order for the 2015-20 SONI Price Control¹.

2.2.2 By way of example, the table below demonstrates the number of funding requests that SONI has submitted to the UR (at the time of writing) since October 2020 and the timeframes in which we have received approvals. 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. SONI requests that the UR considers 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.

¹ [CMA Order: SONI Limited and Northern Ireland Authority for Utility Regulation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/90414/cma-order-soni-limited-and-northern-ireland-authority-for-utility-regulation)

Table 1 – Funding Requests and Approval Timeframes

Timeframes for Approval of Funding Requests	Number of Submissions Approved	Number of Submissions Not Yet Approved	Total
< 2 Months	7	0	7
2-4 Months	8	4	12
4-6 Months	3	3	6
6-12 Months	10	0	10
12-18 Months	0	1	1
> 18 Months	0	1	1
Total Submissions	28	9	37

2.2.3 We would also note a number of recurring funding submissions that are generally progressed in under 2 months, due to their mandatory nature and ease of processing. (e.g. European Membership Fees and Interconnector administrative costs). These may be more appropriate to be progressed on a pass through basis with relevant reporting.

2.2.4 We note the significant burden this process has put on SONI resources to progress the preparation of the business cases and the associated query process with the UR. Based on our experiences, we consider that the effort relating to this process was not reflected in the allowances awarded to SONI in the price control. We also consider that the UR may not have fully considered the resource impact of these new arrangements on its own organisation.

2.2.6 The outcome of this process is such that delays to approvals impact on our ability to deliver the corresponding benefit to consumers. We agree with the concept of the uncertainty mechanisms, however we consider that the processes need to be revisited such that a pragmatic and proportionate approach can be adopted in the future. SONI looks forward to further engagement with the UR on this matter and we plan to propose improvements to the existing arrangements as part of our business plan.

3. Overall Policy and Strategic Context

3.1 Climate Change Act, The Energy Strategy and Clean Energy Package (CEP)

3.1.1 SONI is fully supportive of the UR's overall policy and strategy context in terms of the current legal and Government obligations in the short and long term and similarly will be planning its strategy in line with these requirements.

3.1.3 Going into the next price control SONI is considering and planning its 2025-2031 Strategy and will set out to align itself with the following five decarbonisation areas:

- NI Energy Strategy
- NI Climate Change Act
- Path to Net Zero
- European Clean Energy Package
- All-Island Market

3.2 Aims and objectives for SRP26

3.2.1 We welcome the UR's overall high-level aims and objectives for SRP26. Furthermore, we would suggest that the SONI aims and objectives are similarly aligned, especially in terms of the following areas:

- Development of the Network in terms of Policy context
- Minimising costs with the ability to finance our functions
- Ensure continued consumer engagement
- Developing a flexible, resilient and integrated electricity network
- Deliver on efficiency and demonstrate improved performance
- Demonstrate innovation and the implementation of these concepts

4. UR Approach to Key Areas

4.1 Form of SRP26

4.1.1 SONI agrees the price control operating under a revenue cap approach is the most pragmatic framework for this type of business. The existing structure using ex-ante allowances, uncertainty mechanisms and pass-through costs through the next price control would seem reasonable.

4.1.2 We would highlight however our concerns regarding the SEMC decision on the potential all-island System Services tariff, and also the potential risk changes in relation to the TUoS collection agent role and the importance of the overall financeability of the price control.

4.1.3 We would also 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 rather than seeking cost recovery via the uncertainty mechanisms.

4.1.4 We look forward to engaging with the UR on the process and guidelines relating to the Uncertainty Mechanism methodology for the next price control to ensure that it is agile enough to facilitate delivery of the decarbonisation targets for Northern Ireland. We consider the current approach of funding approvals on a per project basis is not optimum in the context of the 2030 targets. We will make proposals on the uncertainty mechanisms as part of our business plan.

4.1.5 We note the reference in the approach paper (para 4.2) 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 NI Policy and the needs of local customers, we recommend that the UR also acknowledges the All island market arrangements as an additional need that should be considered in the price control.

4.2 Duration of SRP26

4.2.1 SONI welcomes the decision from the UR to extend the current Price Control by an additional year.

4.2.2 SONI supports the implementation of the next price control being set for a period of 5 years and we do not see a compelling reason to consider a 6 year price control period.

4.3 Business plan Template Guidance and Assessment & Financial Model

4.3.1 The Draft Business Plan Guidance provided to SONI in December 2023, is well detailed and transparent in terms of the information that the UR expects SONI to provide. We have responded to the UR separately in relation to the Business Plan template and its accompanying Guidance and Assessment document and we welcome this early engagement with the UR.

4.3.2 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.

4.4 Stakeholder engagement

4.4.1 SONI is reviewing and refreshing its Corporate Strategy ahead of preparing its Business Plan for SRP26. We are planning to undertake increased stakeholder engagement to inform the direction to be followed by this strategy and the business plan to implement it.

4.4.2 SONI agrees that it should lead on the stakeholder engagement for the next price control. We have increased the level of stakeholder engagement we are undertaking in recent years and intend to have a full engagement plan in place to feed into the SONI business plan. We will ensure that this reflects the views of a wide range of stakeholders and will allow for a greater range of input routes than the Stakeholder Expert Challenge Group (SECG) used in the last price control.

4.5 Outcomes, Deliverables and KPIs

4.5.1 In the context of the current Evaluative Performance Framework, and the expected continuation into the next price control, we recognise the importance and benefit of identifying and reporting on specific deliverables, outputs and quantitative KPIs. However, it is important that the price control reflects the difference between some KPIs that SONI directly impacts, and those that we can only influence.

4.5.2 Within our business plan we will therefore identify a suite of metrics that we have full control over, and we will also consider a number of wider metrics that we can influence or assist in improving via collaboration with other stakeholders.

4.6 Financial incentives - mechanistic cost sharing (MCS)

4.6.1 SONI agrees that the UR should retain the current 75:25 cost sharing incentive into the next price control. When combined with the cap and collar arrangement, it provides sufficient risk in a business the scale of SONI's to encourage efficiency while providing an appropriate safety net that ensures that it does not create an excessive business risk.

4.7 Financial incentives - conditional cost sharing (CCS)

4.7.1 SONI supports the current 75:25 cost sharing incentive and believes its ability to recover 100% of any overspend (given rational justification) is fair and reasonable. The UR needs to consider a proportionate approach to this mechanism. The SONI costs that fall under the CCS mechanism are considered a small % of the overall customer bill. SONI understands the need for the UR to scrutinise costs and understand any variances, however, it also needs to consider the materiality of the cost variance against the effort and costs of undertaking detailed cost assessments.

4.8 Evaluative Performance Framework (EPF)

4.8.1 SONI recognises the advantages of the EPF and agrees that having an independent expert panel assessing SONI's outputs each year benefits all stakeholders. UR's current role ensures that there is full independence in the process. We are unclear what the UR means in terms of 'stepping back'.

4.8.2 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 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.

4.9 Uncertainty Mechanisms

4.9.1 SONI has a number of concerns in relation to the operation of the Uncertainty Mechanisms as discussed above. There were significant delays on many approvals, particularly all-island projects, with less than 50% of SONI's requests being determined within the 4 month window established by the CMA. The considerable time required by the UR to process SONI's requests for additional funding via the uncertainty mechanism suggests that it is not working as expected (as set out in the UR guidance documentation) and should be reexamined. 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.

We welcome the UR's proposal to streamline and amend key areas of the process for the next price control. As mentioned at the outset of this response, we consider this is a key area of engagement during the price control process.

4.10 Efficiency assessment

4.10.1 SONI understands the theory behind the 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.

4.10.2 SONI is keen that the UR is regularly updated on this important programme, and we have already established regular senior level meetings. We consider that regular engagement during 2024 is essential and will assist the UR when it undertakes its efficiency assessment. Therefore, we would welcome early engagement with the UR and its external consultants.

4.11 Salary benchmarking

4.11.1 The UR states that the efficient level of staff costs is generally established using ASHE data by standard occupational classification (SOC). The UR suggests that this analysis will be undertaken as part of the draft and final determination cost allowance work. SONI would have concerns over this approach to determining SONI cost allowances for a number of reasons.

4.11.2 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.

4.11.3 SONI faces a number of significant differences to other sectors which will impact its cost base, most notably in the nature of its labour force. The activities undertaken by the business are highly specialised and, as such, require a highly qualified and experienced workforce. In order to efficiently operate the network, SONI requires its staff to possess a mix of skills including:

- Electrical engineering skills, including highly specialised and strategic transmission system planning and control room operators;
- Specialised IT skills not limited to the management of complex control systems used to run a secure and stable transmission grid of increasing complexity. SONI is a designated Operator of Essential Services under the NIS Directive and therefore must be at the forefront of cybersecurity and world class maintenance of a reliable IT architecture; and

- Experience in current environmental and energy policy aspects from both a regulatory and business point of view.

4.11.4 Given the high degree of specialisation required to undertake the types of activities for SONI, any comparison (e.g. to labour employed in different sectors of the economy) would need to account for the different skillsets required.

4.11.5 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 that is considerably more relevant than benchmarking data that is normally used as a proxy to fill in for an absence of comparators.

4.11.6 In addition, in order to be able to position SONI to meet the expectations set out by the UR in terms of responding to national and local policy decisions, we need to ensure that SONI is positioned as an employee of choice in what is a very competitive and niche market

4.12 RPE, Financeability, Asymmetric Risk, Margin & PCG

4.12.1 We consider these elements as the most important aspects of the price control.

4.12.2 The change to our risk profile triggered by the introduction of auctions for system services and the SEM Committee's decision to create a new all-island tariff to recover the costs incurred by that process will need to be considered carefully within the financeability assessment and resulting updates to the design of the price control and licence algebra. 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.

4.12.3 We note that a key area for consideration is the UR's intention to transfer the TUoS risk to NIE Networks. The specifics of how this transfer is to be carried out will require significant engagement and consultation and we request that the UR sets out its planned timeframes for this consultation in its approach paper including how this consultation will interact with the rest of the price control. We are unclear how this aspect can be progressed in isolation considering the new environment SONI will be working in.

4.13 Risk and Return

4.13.1 SONI considers that the Risk and Return parameters listed in the approach paper will all need considerable engagement and in-depth consideration in preparation of the next price control.

4.13.2 SONI is very concerned about the significant changes to our risk and return framework that have been signalled in this approach paper and by the SEM Committee decisions on the Future Arrangements for System Services. These changes will have a material impact on the mechanisms defined by the CMA to ensure SONI's financeability. Therefore, changes to them will need to be considered in the context of SONI's overall financeability to ensure that we remain able to access sufficient debt finance to fulfil our obligations.

4.13.3 In particular, 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. SONI has been engaging with the UR for some time on the High-Level Design for Future Arrangements for System Services and we encourage the UR to consider the financing implications of the SEMC decisions on SONI's ability to finance its activities.

4.13.4 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.

4.13.5 In addition, there are a range of issues triggered by any change to the allocation of risks related to TUoS collection. Not only will factors such as how revenue is allocated between SONI, EirGrid and NIE Networks need to be fully understood but the impact of any reduction in that element of the overall package will need to be assessed in the round to ensure that the complete package remains financeable. As set out in previous correspondence, SONI does not consider that the changes signalled by the UR are appropriate or necessary.

4.13.6 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.

4.13.7 A major element of this work will also involve the due consideration of the new credit facilities that are to be put in place both before and during the price control period to ensure SONI has a firm financeability structure in place.

4.14 Transmission network pre-construction project (TNPPs)

4.14.1 SONI welcomes the UR's proposal to continue the process for SONI to receive approval of pre-construction costs related to network development projects in SRP26. However, as per the uncertainty mechanism process, we consider that the current 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 so allow planning and preconstruction activities to be accelerated.

4.14.2 This is an area that we consider could be assessed ahead of the next price control and we would welcome engagement with the UR on how we can achieve the necessary acceleration. SONI is actively looking at the existing TNPP process under our price control and what steps could be taken to increase the speed of needs assessments, approvals process and delivery of pre-construction activities.

4.14.3 SONI notes the recently published 'Winser Report'² and considers that many of the recommendations apply in a NI context. SONI has initiated a review of our processes and looks forward to working with NIE Networks and the UR on what process improvements can be made.

² [Accelerating electricity transmission network deployment: Electricity Networks Commissioner's recommendations - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/674222/accelerating-electricity-transmission-network-deployment-2021.pdf)

4.15 SONI Governance

4.15.1 SONI has a new board in place and is currently progressing the implementation of a new organisational design. SONI has engaged closely with the UR at a senior level as we develop the programme to deliver the SONI Governance arrangements, ensuring the UR has been fully briefed on the work we have progressed. We were therefore somewhat surprised at the wording used in the Approach paper in relation to SONI Governance.

4.15.2 SONI considers that 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 and before the price control application has been made. 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 in SONI's view not in line with good regulatory practice.

4.15.3 SONI will continue to engage with the UR on the SONI Governance programme and we expect the implementation, based on SONI Board decisions, will feature heavily in the price control Business Plan. We are keen that the UR has a good understanding of the plans of the new SONI Board and ongoing engagement will help inform the UR of the SONI Board's ambitions that will feed into the business plan.

4.15.4 We respectfully ask that the UR updates this section in its final approach paper.

5. Timelines

5.1 SRP26 Timetable

5.1.1 SONI believes that the implementation of SRP26 within the proposed timetable set out by the UR will be challenging but achievable nonetheless. We would suggest however 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. For example, the TUoS transfer consultations, decisions and implementation dates & all-island system services charge process dates should be included. Coordination between the workstreams and recognition that they impact each other is vital to ensure alignment across them. SONI recommends that the UR includes any known prerequisites and/or dependencies in its final approach paper