

Proposed Modification of SONI Limited's Transmission Licence

Two-year extension to current
SONI Price Control (SRP20)

Consultation Paper
19 February 2025



About the Utility Regulator

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

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

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

We are based at Queens House in the centre of Belfast. The Chief Executive 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. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Abstract

In August 2023, following a public consultation, we published our decision to defer the start date of the next SONI price control by one year to October 2026.

We are now consulting on licence modifications which will enable a two-year extension of the SONI Review of Prices (SRP20) price control final determination into the 2026-27 tariff year. The SRP20 extension licence modifications will set the amount of revenue SONI will have to run its business for the two years beginning on 01 October 2025 and ending on 30 September 2027.

Audience

This document is likely to be of interest to the licence holder affected, consumers and consumer groups, other regulated companies in the energy industry, government and other statutory bodies.

Consumer impact

The SRP20 price control extension aims to set an efficient revenue cap to enable SONI to deliver its functions and quality outputs that customers need. SONI's internal costs are relatively small in terms of the final electricity bill. However, SONI's decisions and performance has a significant impact on the overall electricity network and system-wide costs.

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Annex	Annex title
Annex A	Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 – Modifications proposed to Annex 1 of the TSO Licence held by SONI.
Annex B	Proposed modifications to Annex 1 of the TSO Licence (marked up version).

1. Introduction

Purpose of this document

- 1.1 Our principal objective in carrying out the duties associated with our electricity functions is to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity, as set out more fully in the Energy (Northern Ireland) Order 2003 (**the Energy Order**)¹.
- 1.2 Utility Regulator (UR) must carry out its functions in the manner which it considers is best calculated to further the principal objective, having regard in particular to:
- a) the need to secure that all reasonable demands for electricity in Northern Ireland or Ireland are met; and,
 - b) the need to secure that licence holders can finance the activities which are the subject of obligations imposed by or under Part II of the Electricity (Northern Ireland) Order 1992² (**the Electricity Order**) or the Energy Order.
- 1.3 UR must also carry out its functions consistently with a number of other duties set out in full at Article 12 of the Energy Order.
- 1.4 In line with these duties, we are consulting on modifications we propose to make under Article 14 of the Electricity Order to the Transmission System Operator (TSO) licence held by SONI Limited (System Operator for Northern Ireland (SONI)).
- 1.5 The licence modifications set out in this consultation will extend the duration of the current SONI price control or review of prices (SRP20) by two years. The effect will be to move the end date of the current price control from the 30 September 2025 to the 30 September 2027.

Background for proposed licence modifications

- 1.6 SONI is the independent electricity TSO for Northern Ireland. It operates under a licence first granted by the Department of Enterprise, Trade and Investment (now the Department for the Economy) in July 2007. The current

¹ <https://www.legislation.gov.uk/nisi/2003/419/contents>

² <https://www.legislation.gov.uk/nisi/1992/231/contents>

consolidated version of the licence including subsequent modifications is published on UR's website³.

- 1.7 In addition to licence conditions which set out SONI's rights and obligations to operate as the electricity TSO, the licence sets out the method for calculating the Maximum Core Revenue which SONI can recover from electricity suppliers and generators to fund its operations (Licence Annex 1 - Charge Restrictions). This includes, but is not limited to:
- Provision to pass through certain costs including ancillary services, transmission networks revenues which may be recovered by NIE Networks and electricity market operation costs.
 - Ex-ante operational expenditure (opex) and capital expenditure (capex) allowances.
 - Pension deficit repair amounts.
 - Additional allowances related to activities determined under defined uncertainty mechanisms (UM).
 - Various incentive mechanisms and financing costs.
- 1.8 The SONI licence is modified from time to time through a price control process. During the price control process, the company submits a business plan setting out its estimate of costs, including financing costs, necessary to deliver its obligations. Following a process of engagement, challenge and consultation, UR makes a determination for the price control period which is then codified in modifications to the SONI licence.
- 1.9 The most recent price control determination by UR (SRP20⁴) covers the period from 01 October 2020 to 30 September 2025. Paragraph 5.1 of Annex 1 of the current SONI licence notes that the restrictions on charges outlined in the current licence do not apply to tariff years from 1 October 2025 onward.
- 1.10 During engagement on the next price control, SONI raised concerns about the timing of the business plan submission in relation to the appointment of a new SONI Board in June 2023 under a new Licence Condition 42 (which became effective on 22 November 2022). Licence Condition 42 was introduced to better regulate the structure of the SONI Board and the sharing of management and resources between SONI and EirGrid.

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

⁴ <https://www.uregni.gov.uk/news-centre/soni-2020-2025-price-control-decision-published>

- 1.11 Having considered the matter further, the company formally wrote to UR on the 27 April 2023 explaining its concerns and asking UR “to extend SONI’s current Price Control 2020-2025 by one additional year.”
- 1.12 UR consulted⁵ on the deferral of the next price control in June 2023. A final decision⁶ was made on 29 August 2023. This decision determined that a deferral was the most appropriate way to further our principal objective. However, it was recognised in the decision that UR would have to consult on the methodology for addressing the interim year.
- 1.13 Subsequent to this, SONI requested a two-year extension period on 20 December 2024. The further extension was to facilitate additional work associated with the governance programme and other key projects such as FASS (Future Arrangements for System Services).
- 1.14 Under the current licence there is an option to roll-over tariffs in nominal terms if modifications are not in place. However, SONI has noted various problems with this approach including:
- a) The Conditional Cost Sharing (CCS) methodology would be void (as inputs to the calculation would not be defined in Annex 1).
 - b) SONI envisage significant complications with k-factor calculations and closing out the price control.
- 1.15 SONI’s preference was for UR to consult on changes to Annex 1 of the licence i.e. Charge Restrictions. SONI noted that a submission for proposed 2025-26 and 2026-27 values would likely be set at a similar level to the previous years for pragmatic reasons and to avoid lengthy negotiation between the two parties. UR agrees with this position, which is reflected in the modifications proposed in this consultation.
- 1.16 With this document we are consulting on several licence modifications we propose to make to give effect to a two-year extension to the current SONI price control. The modifications proposed in this consultation relate to Annex 1 (Charge Restrictions) of the SONI TSO licence. We state the reasons and effects of the proposed modifications. We will carefully consider responses to this consultation before we publish a decision on these proposed licence modifications.
- 1.17 The proposed licence modifications set out in this consultation and itemised in Table 1.1 below, would, if adopted:

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

⁶ <https://www.uregni.gov.uk/news-centre/decision-published-deferral-start-date-next-soni-price-control>

- a) Extend the duration of the SRP20 price control by two years by modifying the end date from the 30 September 2025 to the 30 September 2027.
 - b) Extend the definition of various terms to include the year ending 30 September 2027.
 - c) Introduce allowances for the SRP20 extension years including values for opex, capex, network planning and pension deficit repair.
 - d) Correct values for base opex which were incorrectly applied in the last price control, in order that CCS decisions can be taken on appropriate allowances.
 - e) Address some other minor licence changes to provide clarity.
- 1.18 These modifications will allow the maximum regulated revenue to be calculated for the additional years of the SRP20 price control period (i.e. 01 October 2025 to 30 September 2027) for the purpose of setting TSO tariffs.
- 1.19 For certain financial parameters (i.e. cost of debt and equity) we intend to maintain the existing values for the SRP20 extension years necessary to calculate the rate of return amount and associated financial parameters.

Type of Licence Modification	Reference
Proposed modifications to extend the SRP20 period	
Definition of the price control decision paper	Annex 1, Paragraph 1.1 (definitions)
Relevant year definition table	Annex 1, Paragraph 1.2
Extension of the RAB model	Annex 1, Paragraph 2.4
Duration of SSS/TUoS charge restrictions	Annex 1, Paragraph 5.1
Proposed modifications for extension year allowances	
Base (BOt) and enhancement (UOt) opex which make up most of the Bt opex allowances (t=6 and t=7)	Annex 1, Paragraph 2.2(b)(iii) Table A
Pension deficit repair allowance ($PDRt$) set at price control stage which feeds into the PRt revenue (t=6 and t=7)	Annex 1, Paragraph 2.2(c)(ii) Table B
Network planning and scoping allowance ($SFPt$) which feeds into the SFt revenue term (t=6 and t=7)	Annex 1, Paragraph 2.2(h)(ii)(B) Table C
Base and enhancement capex for both the buildings and non-buildings regulatory asset base (RAB) (t=6 and t=7)	Annex 1, Paragraph 2.3(d)(ii)(C) Table E
Proposed modifications for CCS allowances	
Base (BOt) and enhancement (UOt) opex which make up most of the Bt opex allowances (t=1 to t=5)	Annex 1, Paragraph 2.2(b)(iii) Table A
Proposed minor modifications	
Definition of the Average Specified Rate	Annex 1, Paragraph 1.1 (definitions)

Table 1.1: Overview of proposed licence modifications

1.20 Before making any modifications to licence conditions using its powers under Article 14 of the Electricity Order, UR must give notice⁷:

- a) Stating that it proposes to make modifications.
- b) Setting out the proposed modifications and their effect.
- c) Stating the reasons why it proposes to make the modifications.
- d) Specifying the time within which representations with respect to the proposed modifications may be made.

1.21 Notice under Article 14(2) of the Electricity Order has been issued in respect of the modifications to the TSO licence proposed in this consultation and is included in this document as Annex A.

⁷ The Electricity Order Article 14(2)

Document structure

- 1.22 This consultation paper is structured in a number of chapters as follows:
- Chapter 1 Introduction provides an overview of the purpose and structure of this consultation document and provides an overview of the proposed licence modifications.
 - Chapter 2 Proposed Licence Modifications to Extend the SRP20 Period sets out the proposed modifications to the licence necessary to extend the current price control by two years, including the reasons and effects of the proposed modifications.
 - Chapter 3 Proposed Modifications to Financial Values sets out the proposed modifications to key tables in Annex 1 of the licence which are necessary as a result of the proposed extension to the price control period and to correct some historical values, including the reasons and effects of the proposed modifications.
 - Chapter 4 Other Proposed Modifications sets out other proposed licence modifications, including the reasons and effects of those modifications.
 - Chapter 5 Next Steps provides details on how to submit responses to this consultation document and sets out our proposed timelines for the remainder of the licence modification process.
- 1.23 This consultation document is complemented by the following annexes:
- a) Giving formal statutory notice under Article 14(2) of the Electricity Order that UR proposes modifying the SONI licence (Annex A).
 - b) A marked up copy of Annex 1 of the licence, showing the proposed modifications as tracked changes to the current drafting (Annex B).

Approach

- 1.24 In the interest of transparency and in line with best practice regulation, we have engaged with SONI to discuss the detail of these proposed licence modifications in advance of publication. This includes providing the company with advance sight of many of the proposed tracked changes to its licence as early as possible.
- 1.25 We note that this consultation document presents a further opportunity not only for SONI but also for any other interested stakeholders to provide

comments on the modifications. Any decision will take account of the responses to this consultation.

- 1.26 Chapter 5 (Next Steps) provides details on how to respond to this consultation and sets out the key next steps and associated timelines for the remainder of the licence modification process.

2. Proposed Licence Modifications to Extend the SRP20 period

- 2.1 The overall purpose of the proposed modifications to the SONI licence is to extend the SRP20 period by two years to end on the 30 September 2027.
- 2.2 Four key licence modifications are required to extend the SRP20 price control period:
- a) Definition of the price control decision paper (Annex 1, Paragraph 1.1).
 - b) Relevant year definition table (Annex 1, Paragraph 1.2).
 - c) Extension of the RAB model (Annex 1, Paragraph 2.4).
 - d) Duration of SSS/TUoS charge restrictions (Annex 1, Paragraph 5.1).
- 2.3 Each proposed modifications and the reasons/effects are set out in detail below.

Price control decision paper

- 2.4 We propose to change the definition of the term 'Price Control Decision Paper' in paragraph 1.1 of Annex 1 of the licence definitions section. This is currently defined as; (i) the 2020-25 price control final determination (21 December 2020); and (ii) the licence modifications decision paper (19 November 2021).
- 2.5 We propose to add the following text to the current definition:

'(iii) the decision paper issued by the Authority on XX May 2025 in relation to the two-year extension period.'

Relevant year definition table

- 2.6 Each of the relevant tariff years of the price control are defined by numbers corresponding to time periods. We propose to modify the table at Paragraph 1.2 of the current licence to include a t=6 and t=7 year as shown on Table 2.1 below.

Relevant Year t / y	Relevant Year
1	October 2020 - September 2021
2	October 2021 - September 2022
3	October 2022- September 2023
4	October 2023 - September 2024
5	October 2024 - September 2025
6	October 2025 - September 2026
7	October 2026 - September 2027

Table 2.1: Definition of price control relevant years

Extension of the RAB model

- 2.7 Calculation of the buildings and non-buildings depreciation and return (BNBt term) is dependent on a Regulated Asset Base (RAB) spreadsheet published on the 19 November 2021. However, this model does not cover the 2025-26 and 2026-27 tariff years. We propose to modify Annex 1 paragraph 2.4 as follows:

“where DP_{R_t} means the net RAB depreciation amount in respect of each RAB_R for Relevant Year t, where that amount shall be derived from the values for Relevant Year t calculated in row 6 (for DP_{NB_t}) and row 13 (for DP_{BD_t}) of tab “RAB Summary (2020-27)” of the spreadsheet “RAB Model 2020-27” published by the Authority on XX May 2025 provided that:”

- 2.8 This will facilitate extension of allowances to the extension years. The original RAB spreadsheet is also referenced in paragraph 2.3(c)(i) with respect to the opening RAB values. This reference is not proposed to change as the opening RAB values for the price control in t=1 are not impacted by the extension year.

Duration of SSS/TUoS charge restrictions

- 2.9 Paragraph 5.1 of Annex 1 determines the point at which charge restrictions no longer apply. This needs to be extended by two years. We propose to modify paragraph 5.1 as follows:

The restrictions on SSS/TUoS Charges outlined in paragraph 2 of this Annex do not apply to tariff years from 1 October 2027 onwards. However, if no modifications to apply any different restrictions with effect from that date are made then, until any such modifications are made, the licensee shall not increase (in nominal terms) any of the tariffs or charges contributing to its Actual Regulated Revenue above the levels applicable on 1 October 2026, except where:”

2.10 This will ensure that the additional allowances set out in Chapter 3 will apply when tariffs are calculated for the extension years. It also confirms that if no modifications are in place for the next price control (SRP27), the tariff applicable in the last extension year (2026-27) will apply.

Reasons and effects of extending the SPR20 period

2.11 As set out above, beginning at Paragraph 1.9:

- a) The most recent price control determination by UR (SRP20) covers the period from 01 October 2020 to 30 September 2025. Paragraph 5.1 of Annex 1 of the current SONI licence notes that the restrictions on charges outlined in the licence do not apply to tariff years from 1 October 2025 onward.
- b) During engagement on the next price control, SONI raised concerns about the timing of the business plan submission in relation to the appointment of a new SONI Board in June 2023 under a new Licence Condition 42 (which became effective on 22 November 2022). Licence Condition 42 was introduced to better regulate the structure of the SONI Board and the sharing of management and resources between SONI and EirGrid.
- c) Having considered the matter further, the company formally wrote to UR on the 27 April 2023 explaining its concerns and asking UR *“to extend SONI’s current Price Control 2020-2025 by one additional year.”*
- d) Subsequently, SONI requested a two-year extension period on 20 December 2024. The further extension was to facilitate additional work associated with the governance programme and other key projects such as FASS (Future Arrangements for System Services).

2.12 We have concluded that it is appropriate to allow SONI a further year to conclude and implement new governance arrangements before it submits a business plan for the next price control period. For this reason, we propose to delay the start of the next price control for two years. The proposed modifications set out above are necessary to give effect to the extension.

2.13 Various revenue terms are defined in relation to the ‘Price Control Decision Paper’. Whilst it is important to retain the original definition for allowances or decisions that are not changing (i.e. cost of debt or equity), this definition change will facilitate decisions for the extension years.

- 2.14 The other changes to the relevant years, RAB model and duration of charge restrictions merely extend the scope of the current price control to cover the additional two years.

Effects of changes

- 2.15 The effect of the proposed modification is to extend the SRP20 period by two years. If these modifications come into effect, the relevant allowances for the 2025-26 and 2026-27 tariff years can be implemented accordingly.
- 2.16 The start of the next price control will be delayed to the 1 October 2027.
- 2.17 It is necessary to make further modifications to define various allowances included in the licence which are used in the calculation of tariffs in the additional two years of the SPR20 period. The proposed modifications are set out in the chapters below.
- 2.18 While not part of the licence, the programme for delivery of the next price control will be delayed by a year. We set out the programme for the next price control when we published our decision on the Approach to the next price control⁸ in May 2024. A revised programme is set out below in Table 2.2.

⁸ [2024-05-31 = SRP26 Approach Decision.pdf](#)

SRP27 Key Milestones	Timeline ⁹
Publish draft approach to SONI price control	February 2024
Consultation on draft approach closes	End of March 2024
UR publishes final approach to price control and final information requirements	31 May 2024
SONI submits proposed values for licence terms for extension consultation	10 July 2024
Consultation on licence modifications for two-year extension issued	19 February 2025
Response to consultation on licence mods for two-year extension (6-week consultation)	02 April 2025
Decision on licence mods for two-year extension published	28 May 2025
Business plan submission	02 March 2026
Publish draft determination	31 August 2026
Consultation on the draft determination ends (12-week consultation)	23 November 2026
Publish final determination and proposals on licence modifications	30 March 2027
Close of representations on proposals (4-week consultation)	30 April 2027
Decision on licence modifications published	30 June 2027
Licence modifications come into effect	01 October 2027

Table 2.2: Revised SONI price control programme

⁹ 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.

3. Proposed Modifications to Financial Values

Proposed modifications to financial values

- 3.1 The current TSO revenue formula is defined at Paragraph 2.2 of Annex 1 of the current licence as follows:

$$MC_t = A_t + B_t + PR_t + CSB_t + EP_t + NIA_t + D_t + SF_t + K_t + N_t + BNB_t + PCR_t + AB_PC_t + Z_t - CIO_t$$

- 3.2 The calculation of the individual terms of the equation are further defined in the licence in sub-paragraphs of the same Paragraph 2.2, taking account of pass through costs, fixed allowances, uncertainty mechanisms, financing costs and incentive adjustments.
- 3.3 Within the licence there are four key financial tables which provide fixed allowances. Due to the proposed delay to the start of the next price control, it is necessary to propose further modifications to these tables of fixed allowances. The proposed modifications extend the determined values by two years and proposes other minor corrections and adjustments by modifying the following tables:
- Table A - base (BO_t) and enhancement (UO_t) opex which make up most of the B_t opex allowances (excluding any uncertainty mechanism provisions).
 - Table B – pension deficit repair allowance (PDR_t) set at price control stage which feeds into the PR_t revenue term.
 - Table C – network planning and scoping allowance (SFP_t) set at price control stage which feeds into the SF_t revenue term.
 - Table E - base and enhancement capex allowances for both the buildings and non-buildings regulatory asset base (RAB).
- 3.4 We have proposed these modifications following engagement with SONI on the appropriate allowance of values in the extension year. These values are generally an extension of the determined values for the current price control, noting that SONI's expenditure is currently reflective of these allowances.
- 3.5 The mechanisms in the current licence which allow additional allowances to be determined to address changing circumstances and new requirements will continue to apply.

- 3.6 In the following sections we set out our proposals for modifications to each of these tables. First, we reproduce the current licence table for the existing five-year price control; then, we set out the amounts proposed by SONI and our assessment of them. Finally, if we have not decided to accept the modified values proposed by SONI, we set out our proposed values.
- 3.7 Significant considerations are made at price control stage to determine these allowances. This will typically include amongst other things, review of staffing levels, wages and salaries, real price effects, productivity targets, pension valuations, network planning activities, IT system requirements, building requirements, outputs etc.
- 3.8 The extension consultation is not designed to re-run all this activity. Rather its intention is to continue in similar vein to the current price control for a further two years. Full analysis of future spend will be undertaken in the SRP27 price control.
- 3.9 After consideration of the issues raised, UR proposals are broadly aligned with the SONI submission. We have however made an uplift to the opex allowance for enhancement staff and made a relatively minor reduction in the pension deficit repair allowance to account for inflation. In summary our proposals for:
- a) Modified values for Table A (opex) can be found at Table 3.3.
 - b) Modified values for Table B (pension deficit repair) can be found at Table 3.6.
 - c) Modified values for Table C (network planning and scoping) can be found at Table 3.8.
 - d) Modified values for Table E (capex) can be found at Table 3.10.

Proposed modification of Table A - base and enhancement opex allowances

- 3.10 Table A of Annex 1, which sets out the determined opex allowances for the existing price control, is reproduced in Table 3.1 below. Table A - base (BO_t) and enhancement (UO_t) opex makes up most of the B_t opex allowances (excluding any uncertainty mechanism provisions).

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5
	£m	£m	£m	£m	£m
Base Opex (BOt)	12.856	12.770	12.815	13.148	11.606
Enhancement Opex (UOt)	1.626	1.608	1.771	1.871	1.901

Table 3.1: Base and enhancement opex for each tariff year t (2019 prices)¹⁰

3.11 Table 3.2 sets out the further allowances requested by SONI for the extension, based on its submission when we were considering a one-year extension. However, the TSO subsequently confirmed that its proposals for the second year (2026-27) would be similar to the figures in the first year.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5	t = 6	t = 7
	£m	£m	£m	£m	£m	£m	£m
Base Opex (BOt)	13.106	13.020	13.065	13.398	11.856	12.921	12.921
Enhancement Opex (UOt)	1.376	1.358	1.521	1.621	1.651	0.985	0.985

Table 3.2: SONI base and enhancement opex requested allowances

3.12 For years 1 to 5 the company proposed a movement of £250k from enhancement to base opex. This corrects a historic misallocation issue. Whilst not specifically related to the price control extension, we consider this a good opportunity to correct the allowances for base and enhancement opex which applies to years t=1 to t=5 of the price control. The issue can be summarised as follows:

- a) In order to implement conditional cost sharing (CCS) for base expenditure, UR had to make a distinction between ‘normal’ and ‘enhancement’ costs. This was undertaken in the draft SRP20 licence modifications.
- b) As part of the licence process, SONI requested confirmation of how the CCS and MCS (mechanistic cost sharing) allowances had been calculated.
- c) UR provided this information in the final SRP20 licence modification decision paper (see Annex A tables, p26)¹¹ and figures were implemented in Table A.
- d) During the first CCS submission (2021-22), SONI highlighted that they considered the CCS allowance to be £250k underestimated. They

¹⁰ All financial values in this document are in April 2019 prices in line with the SRP20 price control decisions and current licence drafting.

¹¹ <https://www.uregni.gov.uk/files/uregni/documents/2021-11/soni-licence-mods-decision-cover-and-notice.pdf>

further noted that the MCS allowance was over-estimated by £250k. They stated, *“We would highlight that this is an allocation error, and does not ultimately affect SONI’s total actual allowances.”*

- e) On reviewing the figures, this allocation error was confirmed. Whilst not affecting overall opex allowances, it is nonetheless important as there is a materiality threshold of £500k (nominal prices) for over/under spend before a CCS application can be made.¹²
- 3.13 For 2025-26 (t=6) and 2026-27 (t=7) SONI proposed a rollover of most costs from the 2024-25 tariff year. The overall operational cost request of **£13.906m** is however higher than 2024-25 for a few reasons.
- 3.14 For instance, SONI has included the net costs of the new SONI Board, an additional staff member for the National Resource Adequacy Assessment (NRAA) work and an uplift for telecoms as this activity has not yet transferred to NIE Networks.
- 3.15 We are in general agreement with the approach taken to costs and the opex allowances requested. However, we have adjusted the split between base and enhancement as we are of the view that staff costs for new activity in SRP20 should continue to be treated as enhancement for the extension years. Much of this spend will become base expenditure in the next price control period.
- 3.16 We propose an opex allowance of **£14.363m** (t=6) and **£14.374m** (t=7) which is higher than the SONI request. This reflects the fact that SONI do not seem to have made adequate provision for enhancement staff as determined in SRP20.
- 3.17 This increases the enhancement opex allowance, though base opex is lower than SONI submitted as the telecoms allowance is reduced slightly, in line with our uncertainty mechanism allowance for this cost line.
- 3.18 The slight increase in the final extension year represents the original real price effect (RPE) assessment uplift.
- 3.19 As a result of these changes, we propose to modify Annex 1 of the licence by replacing Table A with the values in Table 3.3 below.

¹² See CCS [Guidance](#), para 4.8, p16 for materiality threshold.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5	t = 6	t = 7
	£m	£m	£m	£m	£m	£m	£m
Base Opex (BOt)	13.106	13.020	13.065	13.398	11.856	12.668	12.678
Enhancement Opex (UOt)	1.376	1.358	1.521	1.622	1.651	1.695	1.696

Table 3.3: UR base and enhancement opex proposed allowances

Proposed modification of Table B – pension deficit repair allowance

3.20 Table B of Annex 1, which sets out the determined pension deficit repair allowances for the existing price control, is reproduced in Table 3.4 below. The pension deficit repair allowance (PDR_t) set at the price control feeds into the PR_t revenue term. Final deficit repair revenues can differ based on uncertainty mechanism (UM) decisions as a result of the triennial pension valuation.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5
	£m	£m	£m	£m	£m
Pension Deficit (PDR _t)	0.861	0.861	0.861	0.258	0.258

Table 3.4: Pension deficit repair for each tariff year t (2019 prices)

3.21 Table 3.5 sets out the further allowances requested by SONI for the extension, based on its submission when we were considering a one-year extension.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5	t = 6	t = 7
	£m	£m	£m	£m	£m	£m	£m
Pension Deficit (PDR _t)	0.861	0.861	0.861	0.258	0.258	0.861	0.861

Table 3.5: SONI pension deficit repair request

3.22 The stepped reduction in the existing pension deficit repair profile reflected the initial agreement of funding levels with pension scheme trustees (Years 1-3) and then subsequent recovery over a 10-year period.

3.23 During the price control, SONI made a request to uplift years 4 and 5 to **£861k** following an updated triennial valuation and further agreement with pension trustees. The extension year request follows this approach.

3.24 When assessing the pension uplift request it became apparent that the agreement with trustees was for funding of £861k in nominal terms. As the licence allowances are set in April 2019 prices, provision of £861k in April 2019 prices would result in over provision.

- 3.25 Consequently, we have reduced the pension deficit request to be in line with expected inflation for April 2026 and April 2027. Forecast inflation has been derived by using OBR percentage increases for the consumer price index.
- 3.26 The result is a reduction in the allowance for t=6 to **£0.668m** in 2019 prices. Extending this approach to year t=7, results in an allowance of **£0.654m** in 2019 prices. Such an approach corresponds with our UM allowance for pension deficit repair and ensures that allowances are made in the price base consistent with the current licence.
- 3.27 Therefore, we propose to modify Annex 1 of the licence by replacing Table B with Table 3.6 below.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5	t = 6	t = 7
	£m	£m	£m	£m	£m	£m	£m
Pension Deficit (PDRt)	0.861	0.861	0.861	0.258	0.258	0.668	0.654

Table 3.6: UR pension deficit repair allowance

Proposed modification of Table C – network planning and scoping allowance

- 3.28 Table C of Annex 1, which sets out the determined network planning and scoping for the existing price control, is reproduced in Table 3.7 below. The network planning and scoping allowance (SFPT) set at the price control stage feeds into the SFt revenue term. The final allowance can differ based on UM decisions as a result of additional network planning work.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5
	£m	£m	£m	£m	£m
Network Planning (SFPT)	0.588	0.587	0.587	0.583	0.581

Table 3.7: Network planning & scoping for each tariff year t (2019 prices)

- 3.29 Table 3.8 sets out the further allowances requested by SONI for the extension, based on its submission when we were considering a one-year extension.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5	t = 6	t = 7
	£m	£m	£m	£m	£m	£m	£m
Network Planning (SFPT)	0.588	0.587	0.587	0.583	0.581	0.581	0.581

Table 3.8: UR network planning & scoping allowance

- 3.30 In terms of the base provision, SONI has opted to roll forward the price control provision of **£581k**. However, the company has a separate uncertainty mechanism uplift request in place for 2024-25 tariff year.
- 3.31 Network planning allowances are made up of staff costs (4.25 FTEs) and a provision of £250k p.a. for consultancy support. These costs are up to a cap and SONI can request to raise the cap if the workload permits.
- 3.32 SONI's proposals seems reasonable given that it has typically underspent on this allowance. The company will recover the actual amount spent and the provision can be adjusted via UM allowances should the need arise.
- 3.33 Therefore, we are content to accept the company proposals for network planning costs. We propose to replace Table C of the current licence with Table 3.8 above.

Proposed modification of Table E – base and enhancement capex allowances

- 3.34 Table E of Annex 1, which sets out the capex allowances for the existing control, is reproduced in Table 3.9 below. The base and enhancement capex allowances for both the buildings (BD) and non-buildings (NB) regulated asset base (RAB) contribute to the determination of the depreciation and return associated with the BNBt revenue term (excluding uncertainty mechanism provisions) after consideration of cost sharing adjustments.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5
	£m	£m	£m	£m	£m
Base Buildings (BC_BDt)	0.000	0.000	0.000	0.000	0.000
Base Non-Buildings (BC_NBt)	0.000	0.000	0.000	0.000	0.000
Enhance Buildings (UC_BDt)	0.048	0.048	0.010	0.010	0.010
Enhance Non-Buildings (UC_NBt)	2.593	2.231	1.743	1.553	1.480

Table 3.9: Capex allowance for each tariff year t (2019 prices)

- 3.35 Table 3.8 sets out the further allowances requested by SONI for the extension, based on its submission when we were considering a one-year extension.

Relevant Year	t = 1	t = 2	t = 3	t = 4	t = 5	t = 6	t = 7
	£m	£m	£m	£m	£m	£m	£m
Base Buildings (BC_BDt)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Base Non-Buildings (BC_NBt)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Enhance Buildings (UC_BDt)	0.048	0.048	0.010	0.010	0.010	0.010	0.010
Enhance Non-Buildings (UC_NBt)	2.593	2.231	1.743	1.553	1.480	0.516	0.516

Table 3.10: SONI capex proposed allowance (2019 prices)

- 3.36 The capex allowance is split by base and enhancement (as per opex) and by buildings (25-year RAB) and non-buildings (5-year RAB) expenditure. In SRP20 no provision was made for base spend as there were specific outputs associated with the cost requests.
- 3.37 For the extension years, SONI has proposed to roll forward the buildings allowance of **£10k**. For non-buildings, SONI has proposed an allowance of **£516k**. This represents a carry-forward of spend for various business as usual (BAU) initiatives such as replacing end of life assets, maintaining cyber security and standardising IT solutions.
- 3.38 This proposal seems reasonable for purposes of the fixed allowance. The company has stated that, *“Any specific projects will be funded via the uncertainty mechanisms.”* We are content with this approach.
- 3.39 We are content to accept the SONI proposal in relation to capex. Therefore we propose to replace Table E of the current licence with Table 3.10 above.
- 3.40 For the purposes of revenue calculations, we have also updated the RAB model to account for the two additional years. This model will be published alongside the final decision paper.

Reasons and effects of the proposed modifications to financial values.

Reasons for the proposed modifications to financial values

- 3.41 The reasons for the proposed two-year extension to the current price control are set out above, beginning at Paragraph 2.11.
- 3.42 As a result, it becomes necessary to determine allowances for the financial parameters set out above for the additional two years of the price control to allow tariffs to be determined for those years.
- 3.43 The reason for the proposed modifications to the opex allowance in the years t=1 to t=5 is to ensure that the CCS process is implemented correctly,

and the materiality threshold is based on like-for-like cost category comparisons.

Effects of the proposed modifications to financial values

- 3.44 The proposed modifications to the relevant financial parameters for years $t=6$ and $t=7$ set out above will allow tariffs to be determined for the additional two years of the price control period.
- 3.45 The effect of proposed modifications to the opex allowance in years $t=1$ to $t=5$ is to correct an allocation error for base allowances. This adjustment ensures that the correct figures are being compared when assessing the CCS materiality threshold to determine if a CCS application is feasible.
- 3.46 The proposed values for the additional two years of the price control are similar to the determined values for the previous years. SONI is currently spending at or about the levels of the proposed allowances. Therefore, there will be no material impact on tariffs from these proposals compared to previous years.
- 3.47 However, it should be noted that tariff revenues can be materially different from these allowances as a result of UM decisions. This is particularly true at present with material allowances having been made to address system service auctions (FASS project), schedule and dispatch work (SDP project) and the strategic markets programme (SMP).

4. Other Proposed Modifications

4.1 At the same time as consulting on licence modifications to extend the SONI SPR20 price control by two years, we propose making the following minor modifications to the SONI licence.

- a) Modify the definition of the Average Specified Rate.

Modification of the average specified rate

Proposed modification

4.2 We propose to modify the definition of the Average Specified Rate at Paragraph 1.1 of Annex 1 from LIBOR to the Bank of England Base Rate (BoEBR) as shown below.

*means one-year **Bank of England Base Rate (BoEBR)** (or such other bank as the Authority shall specify from time to time) current from time to time during the period in respect of which the calculation falls to be made.”*

Reasons for change

4.3 The ‘Average Specified Rate’ is an interest rate applied in the calculation of:

- a) the k-factor term for over and under recovery of revenue as set out in paragraph 2.2(i) of Annex 1; and
- b) SEMO financing costs which are recovered via the TSO licence (Annex 1, Paragraph 8.1(f)).

4.4 Previously the London Interbank Offered Rate (LIBOR) was listed as the specified rate. However, the LIBOR rate has been discontinued and is no longer in use.

4.5 We wrote to all licence holders on 27 January 2022 informing them of this change.¹³ The letter stated that,

“We are writing this letter to make all relevant stakeholders aware that LIBOR is still present in a number of the utility licences as listed in Annex 1 and we intend to replace this with the Bank of England base rate.”

4.6 It was anticipated that specified rate changes to each licence would be undertaken as and when new modifications are made. This paper provides the appropriate opportunity to correct this issue.

¹³ See CURL4 Letter: <https://www.uregni.gov.uk/files/uregni/documents/2022-01/libor-curl4.pdf>

Effects of changes

- 4.7 The effect of the proposed modification is to amend the average specified interest rate. This rate change will impact on k-factor calculations and any SEMO financing costs which are recovered via the TSO licence (Annex 1, Paragraph 8.1(f)).

5. Next Steps

Consultation response

- 5.1 This is an open consultation paper. We invite stakeholders to express a view on any particular aspect of the paper or any related matter. Responses should be received on or before 12 noon on 02 April 2025 and should be addressed to:

John Mills
Head of Electricity Price Controls
Queens House
14 Queen Street
Belfast
BT1 6ED
Tel: 028 9031 6336

Email: Electricity_Networks_Responses@uregni.gov.uk
with cc to john.mills@uregni.gov.uk

- 5.2 Our preference would be for responses to be submitted by e-mail.
- 5.3 Your response may be made public by us. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'.
- 5.4 If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.
- 5.5 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 and the Data Protection Act 2018).
- 5.6 As stated in the GDPR privacy statement for consumers and stakeholders, any personal data contained within your response will be deleted once the matter being consulted on has been concluded, though the substance of the response may be retained.
- 5.7 This document is available in other accessible formats, such as large print, Braille, audio cassette and a variety of relevant minority languages if required. Please contact John Mills on either 028 9031 6336 or email:

Electricity_Networks_Responses@uregni.gov.uk with cc to john.mills@uregni.gov.uk

- 5.8 If appropriate, we can have individual discussions with interested parties. Please contact us if you consider this to be more suitable.

Timelines

- 5.9 The next steps and associated timelines for the licence modification process are summarised below.

Next steps	Proposed date
Closure of consultation on proposed licence modifications pursuant to the SRP20 extension	02 April 2025
Decision on licence modifications	28 May 2025
Effective date of licence modification decision	23 July 2025
Start of SRP20 price control extension period	01 October 2025

Table 5.1: Next steps

- 5.10 We note that this timetable assumes the effective date of the licence modifications to be 56 days after the publication of the licence modification decision, in line with the requirements of Article 14 of the Electricity Order.
- 5.11 This period provides an opportunity for the licence holder concerned, any other licence holder materially affected by the decision, a qualifying body or association representing one of those licence holders, and/or the Consumer Council for Northern Ireland (CCNI) to appeal the decision on the licence modifications to the Competition and Markets Authority (CMA).