



Revised SONI RIGs Guidance Consultation

Consultation
17 November 2022



About the Utility Regulator

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

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

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

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



Our mission

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



Our vision

To ensure value and sustainability in energy and water.



Our values

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



Abstract

Today we publish for consultation our proposals regarding the revision of the annual reporting requirements for SONI. The guidance requires updating to reflect changes made in the 2020-25 SONI price control final determination. Additional reporting will also aid transparency of understanding with respect to movement in SONI's cost base.

This document sets out proposals for the Regulatory Instructions and Guidance (RIGs) for the annual reporting of electricity transmission system operator (TSO) costs and outputs. It details the changes from the existing guidance, rationale for change and the expected effect.

Audience

This document will be of interest to SONI, its customers, consumers and other stakeholders.

Consumer impact

Annual reporting has been a part of the regulatory framework for SONI for a number of years. These RIGs provide a framework for the UR to collect consistent information from SONI on an annual basis. This information will help monitor SONI's performance and, over time, will provide a database that will inform SONI's subsequent price controls.



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1. Introduction

Purpose of this Document

- 1.1 A key role of the Utility Regulator (UR) is to protect the interests of current and future Northern Ireland (NI) electricity consumers. A crucial way to achieve this is by monitoring and reporting against regulated companies cost and output performance.
- 1.2 The purpose of this paper is to set out proposals for revision of the Regulatory Instructions and Guidance (RIGs) for the annual reporting of electricity transmission system operator (TSO) costs and outputs. This paper details the changes from the existing reporting guidance, rationale for change and the expected effect.
- 1.3 Following consultation, UR will review responses and take a decision regarding the annual reporting requirements. It is anticipated that the new reporting should be effective for the 31 January 2023 RIGs return date.

Background

- 1.4 SONI is the electricity TSO in Northern Ireland. Decisions regarding SONI revenue and outputs is periodically determined (typically every five years) through the price control process.
- 1.5 SONI then reports performance against price control allowances and outputs on an annual basis. This is done via a variety of submissions, of which, the RIGs return is one of the most important.
- 1.6 RIGs reporting was established back in 2018 with the introduction of *Condition 41: Regulator Instructions and Guidance*.¹ This followed a consultation² on both the licence changes and the reporting requirements. SONI provided the first submission in early 2019. This covered financial detail beginning from the 2015-16 tariff year as the first year of the 2015-20 price control period.

Price Control Changes

- 1.7 The latest SONI price control determination covers the 2020-25 period. The final determination (FD) was published in December 2020.³ The supporting licence modification decision and guidance documents were finalised in November 2021.⁴
- 1.8 From these documents, it can be seen that there are material changes to the TSO regulatory framework. Amongst other things, these include the following:

¹ See licence modification [decision paper](#) on SONI annual RIGs reporting.

² See consultation [documents](#) and the corresponding reporting template.

³ See SONI 2020-25 final determination [publication](#).

⁴ See licence modification [decision paper](#).

- 1) Changes to the TSO revenue formula.
- 2) Amended treatment of different types of costs e.g. network planning opex.
- 3) New incentive regimes such as the Evaluative Performance Framework (EPF) or Conditional Cost Sharing (CCS) mechanism.
- 4) New uncertainty mechanisms.
- 5) A distinction between base and enhancement costs.
- 6) New price control outputs / deliverables.

1.9 In addition to these changes, the final determination made a case for introducing additional cost transparency provisions on SONI. It was considered that enhanced cost transparency could support efficiency in a number of ways. For example, by:

- 1) Helping harness reputational incentives to encourage efficiency and avoid wasteful expenditure.
- 2) Helping to allow stakeholders to identify potential opportunities for SONI to operate more efficiently.
- 3) Providing information that is useful to the assessment required for the purposes of the EPF or for assessments related to CCS incentives.
- 4) Improving opportunities for benchmarking between SONI and other organisations.
- 5) Providing a more detailed evidence base to use when setting ex-ante cost baselines, or when making approvals of expenditure caps.⁵

1.10 A range of potential areas for enhanced cost reporting was identified. This included cost reporting by service area, detailed staff resource plans, comparison of staff spend against ASHE⁶ occupational categories, methodologies for cost allocation etc.⁷ It was also anticipated that this detail would be published by SONI rather than simply provided to the UR.

1.11 Conclusion of the FD was to, “*adopt the full range of enhanced cost transparency measures proposed in our draft determination*”.⁸ This was to be done via a consultation with the intention to establish the enhanced cost reporting. This paper fulfils the stated obligation.

Process for RIGs Revisions

1.12 Amendments to RIGs are made via a direction being issued by the UR to SONI under Condition 41(8) of the TSO licence. However, the direction is of no effect

⁵ See the FD, [Annex 3](#), Chapter 3 on enhanced cost transparency, p34, para 3.1.

⁶ ASHE = Annual Survey of Hours and Earnings.

⁷ See the FD, Annex 3, Chapter 3 on enhanced cost transparency, p34-35, para 3.4.

⁸ See the FD, Annex 3, Chapter 3 on enhanced cost transparency, p35, para 3.9.

unless the process as set out under Condition 41(10) is completed. This process includes the following:

- 1) UR must give notice to the licensee that it proposes to issue new RIGs or (as the case may be) to modify the RIGs:
 - a) Specifying the date that the provisions of the document to be issued or modified should take effect;
 - b) Setting out the text of the RIGs to be issued or modified and the UR reasons for proposing to issue or modify;
 - c) Specifying the time (which will not be less than a period of 28 days from the date of the notice) within which representations in response to such proposals may be made; and
- 2) That UR considers any representations in response to the notice that are duly made and not withdrawn.

- 1.13 This paper provides the relevant detail required to fulfil the legal obligations under Condition 41(10). This consultation should be considered as the relevant notice required to issue new RIGs.
- 1.14 It is anticipated that the new reporting should be effective for the 31 January 2023 return relating to the 2021-22 tariff year. It is accepted that such cost and activity reporting had not been agreed prior to the start of the year. UR would therefore request that the data be compiled on a 'best endeavours' basis for this year.
- 1.15 UR would also welcome the provision of detail back to the beginning of the 2020-25 price control period. This will require two years of historic data reporting on a 'best endeavours' basis. Detail provided for the 2020-21 tariff year should however align with overall figures reported in the original submission. If not, any deviations should be explained.
- 1.16 After consideration of consultation responses, UR intends to issue a direction under Condition 41(8) detailing the specific date and format of the new RIGs that will take effect.

2. Proposals

Potential Options

2.1 UR has identified four potential options for consideration regarding revision of the SONI guidance and reporting templates. These include:

- 1) Option 1: Do Nothing.
- 2) Option 2: Implement 2020-25 FD Changes.
- 3) Option 3: Enhanced Staff Reporting.
- 4) Option 4: Enhanced Cost Reporting.

2.2 Each option is discussed in more detail below.

Option 1 – Do Nothing

2.3 This option retains the existing guidance and reporting template.⁹ Such an approach is however considered sub-optimal. The extant tables do not split costs to allow for clear reporting on the various changes implemented in the last price control.

2.4 The current reporting structure is also limited in some key areas. For instance, the existing output table¹⁰ is focused on KPI's¹¹ regarding system performance. Definitions were not however agreed, and detail has not been provided. Moreover, this output table does not provide updates or commentary on delivery against price control funded projects. This is a key element of the regulatory contract.

2.5 Given these limitations, it is the UR view that this option should be discounted. It is however presented as a base case.

Option 2 – Implement 2020-25 Changes

2.6 This option amends the tables and guidance to reflect fundamental changes resulting from the SONI 2020-25 final determination. The key changes in this option are as follows:

- 1) New opex and capex tables have been introduced to distinguish between base and enhancement spend. This is required to facilitate the CCS submission with respect to base costs.
- 2) Tables have been introduced to capture detail on new uncertainty mechanisms (E_t and V_t).¹² These mechanisms allow costs to be subject to

⁹ See guidance and template as set out in the original RIGs [consultation](#).

¹⁰ Table 9 in the current template.

¹¹ KPI's = Key Performance Indicators.

¹² E_t and V_t = Licence revenue terms for opex and capex uncertainty mechanisms.

cost sharing as per the 'normal' price control treatment.

- 3) A table capturing network planning scoping and feasibility study costs (SF_t)¹³ has been developed. These opex costs require separation given that they are not subject to cost sharing.
- 4) The connection cost table has been amended to incorporate costs of NIE Networks and other third parties. Relevant connection income has also been requested to ensure that charges are reasonable.
- 5) An additional table for customer connection project spend has been established. This covers SONI pre-construction work charged to customers.
- 6) A table capturing collection agent revenues has been introduced. SONI has been receiving a 0.5% 'margin' allowance for processing these payments for several years. This detail just provides certainty as to the sum of these costs and establishes the basis for the margin calculation.
- 7) The format of existing uncertainty mechanism tables has been slightly amended to split costs by staff and non-staff cost categories. Previously reporting was restricted to spend by project.
- 8) Capex tables have been split by buildings and non-buildings spend. Buildings spend is depreciated over 25 years whereas the non-building spend depreciates over 5 years. The cost split provides certainty regarding revenue treatment of capital spend.
- 9) A deliverables table has been incorporated to track progress against the FD regulatory contract. This information was previously lacking.

2.7 The requirements to provide KPI detail and system information has been dropped. It is assumed that such data will be captured under the EPF annual report. However, UR would welcome stakeholder input as to whether this data should be included in the RIGs return.

Reason and Effects

- 2.8 Many of the changes implemented are simply to provide certainty of costs associated with new licence revenue terms. Their impact is therefore limited outside of this clarity.
- 2.9 Other changes are necessary to ensure that new mechanisms are applicable. The split of costs by base and enhancement is necessary in order for conditional cost sharing to be implemented.
- 2.10 There is some limited additional regulatory burden with this option. However, it is the UR opinion that the detail will provide clarity that will be beneficial to both SONI and the regulator.

¹³ SF_t = Licence term for opex cost related to network planning, scoping and feasibility studies.

Option 3 – Enhanced Staff Reporting

- 2.11 The third possibility is as option 2, but with the addition of more detailed staff reporting. This includes a breakdown of staff by role/service, details on capitalised staff and a comparison of staff activity by SOC¹⁴ equivalent.
- 2.12 The reporting also provides transparency in terms of who is undertaking the requisite activity i.e. SONI staff, wider EirGrid group staff or agency/consultancy workers.

Reason and Effects

- 2.13 This option fulfils some of the enhanced reporting as set out in the final determination. It will provide the UR with clear evidence of what activities attract the most resource and how changes occur over time. This will further help determine baselines in the next price control and assist in establishing where additional resource may be required.
- 2.14 Reporting by SOC equivalent will be used for benchmarking purposes. UR typically uses ASHE data to compare SONI staff costs at price controls. By understanding the breakdown of SONI roles, this data should improve the robustness of such benchmarking to ensure appropriate allowances.
- 2.15 There is additional regulatory burden with this reporting. However, such detail is requested of gas distribution companies in Northern Ireland. It would also be reasonable to expect the TSO to have a clear understanding of the areas staff are working in. As such, the reporting should not be overly burdensome.

Option 4 – Enhanced Cost Reporting

- 2.16 The final option is to adopt the full range of enhanced cost transparency measures proposed in our draft determination. This would include both staff and cost reporting by role/service.
- 2.17 Ideally, this option would be the desired outcome of the UR. This would give a more complete picture of cost requirements by activity. Such information would help set future allowances and understand movements in costs.

Reason and Effects

- 2.18 This option fulfils the enhanced reporting as set out in the final determination. It would provide the UR with clear evidence of what activities attract the most resource. This will help determine baselines in the next price control and establish where additional resource may be required as well as explain cost movements.
- 2.19 Reporting by SOC equivalent will be used for benchmarking purposes. As above, UR would typically use ASHE data to compare SONI staff costs at price controls. By understanding the breakdown of SONI roles, this data should improve the

¹⁴ SOC = Standard Occupational Classification.

robustness of such benchmarking to ensure appropriate allowances.

- 2.20 This option would however require additional effort in terms of setting up cost reporting systems for these new areas. SONI has indicated that it would require a significant amount of analysis and resource to complete the reporting. In such a scenario, the costs may be prohibitive and reduce the benefits provided. There may also be concerns around data accuracy.

3. Preferred Option

Pros and Cons

- 3.1 The options provide a range of different reporting requirements. These can be summarised as follows:
- 1) Option 1 requires no additional effort. However, it does not fulfil the basic reporting requirements as set out in the last price control. As such, this option has been discounted.
 - 2) Option 2 meets the fundamental reporting requirements to complete the various new tasks. It does not however address the enhanced reporting structure as envisioned by the FD.
 - 3) Option 3 partially addresses the enhanced reporting. Whilst there will be some additional regulatory burden, UR considers that it would be reasonable to expect a regulated company to have readily available access to such staff detail.
 - 4) Option 4 fully implements the enhanced cost reporting requirements. Ideally, this would be the UR preference. However, SONI has indicated the potential for significant regulatory burden and potential accuracy issues.
- 3.2 Whilst Option 4 was the envisioned position of the FD, it was assumed that a consultation would be required to refine the cost reporting arrangements. Early engagement with SONI has revealed the potential issues with this approach in terms of burden and accuracy. Consequently, UR has adopted Option 3 as the preferred approach for this paper.
- 3.3 Given that staff represents the majority of TSO costs, UR considers that Option 3 is a reasonable alternative to the service cost reporting as set out by Option 4. UR is also of the view that Option 3 should not be too burdensome.
- 3.4 SONI should already have a clear idea of who is doing what across their business. In fact, such allocations should already be taking place to a certain extent as per the TSO recharge policy work. Option 3 also fulfils the new requirements of the 2020-25 price control and should be beneficial when setting allowances and undertaking benchmarking in the next control.
- 3.5 Given newness and additional complexity of staff reporting by SOC code, UR would consider the possibility of allowing the TSO more time to complete this detail. For example, the option to 'switch-on' this element of cost reporting could be delayed until the next year i.e. 2022-23 tariff year reporting due in January 2024.
- 3.6 Alternatively, reporting of this element of the RIGs for 2021-22 could be delayed. For example, whilst most of the submission would be required as usual at the end of January 2023, the staff and SOC information could be provided separately by June 2023. UR would welcome stakeholder feedback on implementation.

- 3.7 Given the prevailing issues, Option 3 is the UR preferred option. The guidance and template as set out in Annexes A and B reflects this consultation position. This preference may change depending on stakeholder feedback. A future review may also be necessary should reporting prove to be deficient. Further changes to the guidance would not be ruled out.
- 3.8 It is anticipated that the new reporting should be effective for the 31 January 2023 return relating to the 2021-22 tariff year. It is accepted that such cost and activity reporting had not been agreed prior to the start of the year. UR would therefore request that the data be compiled on a 'best endeavours' basis for this year.
- 3.9 UR would also welcome the provision of detail back to the beginning of the 2020-25 price control period. This will require two years of historic data reporting on a 'best endeavours' basis. Detail provided for the 2020-21 tariff year should however align with overall figures reported in the original submission.

Key Issues

- 3.10 UR welcomes all relevant feedback on this annual reporting issue. Responses may however wish to focus on the following questions:
- 1) Do you consider that the preferred option reporting requirements are reasonable or should be increased / decreased?
 - 2) Is there other information regarding cost and performance which the TSO should be reporting?
 - 3) Would additional reporting by cost area be beneficial?
 - 4) Should network data and KPI reporting be included in the RIGs?
 - 5) What should the publication obligations on the TSO be?

4. Next Steps

Consultation Responses

- 4.1 UR would welcome feedback on all aspects of the consultation. This might include views on the options, reporting requirements, publication requirements or detail that stakeholders think should be included.
- 4.2 The deadline for responses to this consultation is 5pm on 06 January 2023 following a six-week period of consideration (allowing for some additional days to account for the Christmas period). Responses should be sent to:

Ciara Brennan
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED
Ciara.Brennan@uregni.gov.uk and SONIUREGNI@uregni.gov.uk

- 4.3 UR preference would be for responses to be submitted to the above email addresses. We welcome feedback on any aspect of the consultation. Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity be withheld from public disclosure.
- 4.4 Where either of these is the case, the UR will ask respondents to supply the redacted version of the response that can be published.
- 4.5 As a public body and non-ministerial government department, the UR is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain.
- 4.6 Hence, it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this and in particular, if asking the UR to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.
- 4.7 This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact us and we will be happy to assist.