Technical annex: Business plan assessment

Final determination
Annex 1

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 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

This annex sets out our methodology in assessing the business plan, our more detailed assessment of the business plan and score, in light of stakeholder comments. This largely expands on the main body section business plan assessment.

Audience

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

Consumer impact

SONI's TSO costs of running its business which we price control are typically around 2% of the NI consumers electricity bill. How it chooses to deploy the costs of running its business and performs its role has a larger impact on outcomes such decarbonisation, grid security and wider system costs (for example, system service, wholesale and transmission investment costs which make up part of the electricity bill for NI consumers); given the influence it has across the system. We incentivise SONI through the price control to deliver high quality service to contribute to these good outcomes.

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1. Our business plan assessment findings

Background

1.1 We undertook a review of SONIs business plan in line with our published March 2019 regulatory approach to provide a scored rating for SONI's business plan along with a reputational incentive. We consulted on our findings as part of our July 2020 draft determination.

1.2 An overview of our view of the SONI business plan quality across test areas according to degrees of excellence, as set out in our draft determination, is set out below:

Table 1: Ranking of the business plan by test area

Excellence	Test Areas
Excellent	None
Somewhat short of excellent	Aligning risk and return Accounting for past delivery Securing confidence and assurance
Substantially short of excellent	Delivering value for money Delivering service and outcomes Securing cost efficiency and managing uncertainty Ensuring resilience and governance Engaging customers, consumers and other stakeholders

1.3 Our score on a test area was determined by our view of evidence and justification in light of our regulatory approach guidance, particularly in relation to the extent of excellence. But by way of summary, we took account of a combination of the following (interrelating) features in our assessment:

- **Quality and/or availability of evidence or justification**: A case in example is a test question on service performance, where no developed metrics or quantified benefits have been provided; or where regulatory guidance seeks a credible plan for taking a whole system perspective yet no plan has been provided.

- **Improvement from the previous price control submissions**: An example improvement from previous submissions is aligning risk and return. On the other hand, an area which we would expect to be better from having been through several rounds of price controls is securing cost efficiency. The extent of the increases in proposed costs was very high and does not seem supported by quality of evidence on these being efficient and justified.

- **Quality engagement with our regulatory approach**: By engage we don't necessarily mean SONI has to agree on everything with us. There could be well considered analysis and evidence of pros and cons and risks of our approach which informs our view and/or contains material which we can use or adapt in the interests of consumers.

- **Materiality in terms of the consumer interest**: A case in example is on performance framework accountability where we strongly disagree with SONI's that its proposal for a mechanistic ex-ante performance framework is in consumers' interests.

1.4 We also took account of SECG views and any other relevant precedent. For example, National Grid ESO has published and shared a greater level of information and has attempted to quantify benefits. SECG has provided some examples of good practice from GB and has been vocal on certain areas like the quality of stakeholder engagement.

1.5 We proposed the **lowest category score ("Category D: Poor").** This reflects the fact that extensive regulatory intervention was required to translate business plan to price control package, with severe concerns about trust in company's ability to deliver good outcomes for stakeholders. Responses to test areas generally fell substantially short of excellent based on our view of the quality of test questions. We recognised that there is an element of judgement required and so we welcomed stakeholder feedback on the proposed scoring.

1.6 Despite the score of D, SONI's business plan contained a considerable amount of useful information and analysis that supported our draft determination, and will be of benefit over the 2020-25 price control period. Examples include the detailed work to provide more information and structure for its roles and services, much of the analysis and reviewing supporting its risk and return proposals, and some elements of the work feeding into its proposed benefits sharing framework. We also recognised SONI's willingness to join SECG and some elements of its approach to this engagement in our scoring.

1.7 Furthermore, we found SONI's business plan to be generally well-written and well organised, with useful supporting appendices. Even so, when it came to the assessment of SONI's business plan against the test areas and test questions set out in our March 2019 regulatory approach, we found that SONI's specific proposals for the 2020-25 SONI price control, and the justification for them, did not warrant a score beyond D. However, we considered that our score is at the high end of the range for this category.

1.8 While we recognised that SONI put in more effort, and provided more useful material than might be suggested by a reading of the score of D in isolation, its business plan seemed to have been undermined by proposed price control arrangements that were skewed too far in its favour and insufficiently supported.

FD position after taking account of stakeholder views

1.9 We have taken account of stakeholder views but have not seen a good reason to change our score. Our response to the general points are made in our main FD summary document. However, we respond to SONI's detailed views by test area below in section 3, after a reminder in section 2 of the approach we took to assessing SONI's business plan to come to our DD position (which is now our FD position after taking account of stakeholder views). We do not consider that SONI has presented any persuasive reasoning, as summarised below, which warrants a change to our score as set out in DD.

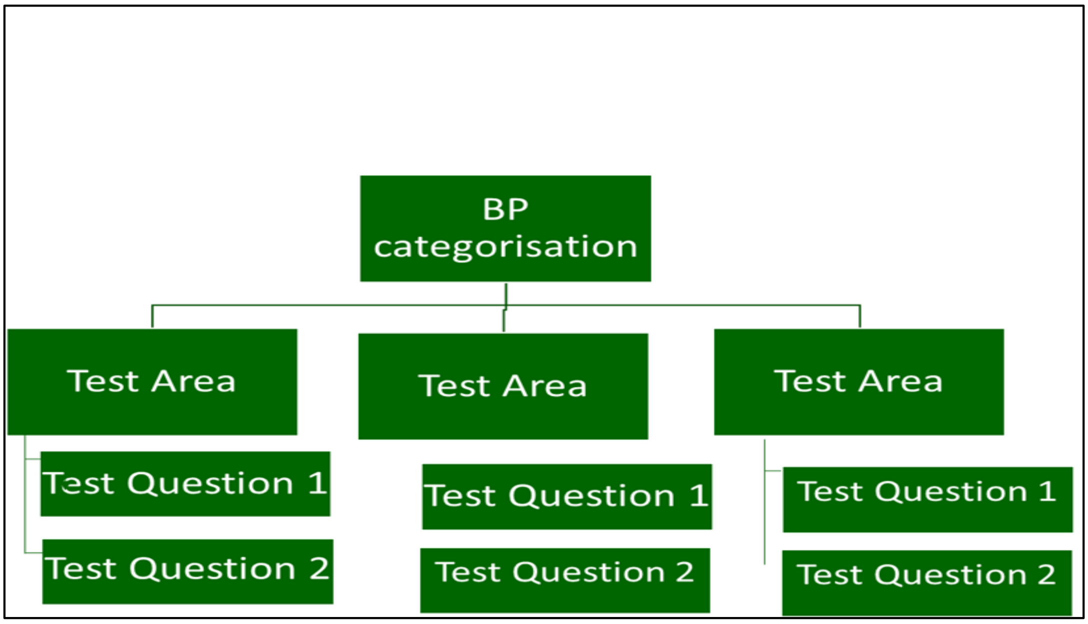
2. Approach to business plan assessment

Objectives and overview of the assessment approach

2.1 We proposed to take a score card approach with reputational incentives and opportunity for lower regulatory interventions to support SONI in taking more ownership to deliver a high quality business plan. This is because of issues we have with the quality of previous business plan submissions.

2.2 Our approach aimed to assess quality from the bottom up: test question, to test area to categorisations as illustrated in the figure below.

Figure 1: Business plan categorisation approach



Test areas, test questions and guidance

2.3 The March 2019 regulatory approach represented the starting point for our regulatory expectations. It is worth noting in particular that the Test Questions, further guidance of Test Question, and Guidance on Potential Features of an Excellent Response to each Test Question are in Appendix C of our March 2019 regulatory approach.[1]

2.4 In our March 2019 regulatory approach we set out our approach to business plan assessment which included test areas:[2]

- Value for money;

[1] See the Final Approach decision paper.
[2] See Chapter 5 of the Approach paper.

- Delivering service and outcomes;
- Securing cost efficiency and managing uncertainty;
- Aligning risk and return;
- Engaging customers, consumers and other stakeholders;
- Ensuring resilience and governance;
- Accounting for past delivery;
- Securing confidence and assurance.

2.5 There were eight test areas with 35 test questions. There was guidance for each test question where applicable and on the potential features of an excellent response.

2.6 A key part of our assessment of which category the plan falls under was the extent to which, across all areas, we found SONI's responses to be **Excellent**. We wanted SONI to own the business plan and so we wanted it to provide an excellent response to all test questions in all test area.

2.7 We started by reviewing the Business Plan against **Excellence** (Excellent/Somewhat Short/Substantially Short) at a **Test Question level**. To ensure appropriate transparency each Test Question has a score of either

a) Excellent;

b) Somewhat Short of excellent; or

c) Substantially short of excellent.

2.8 We also asked SECG members to challenge, at a test question level, the business plan submitted to us. We took account of member feedback.

2.9 We weighted each Test Question equally, except where we see good reason for not doing so.

2.10 We then used our review of Test Questions against Excellence to determine the **Test Area assessment**. This meant that Test Questions were used to award scores for the related Test Area.

2.11 We exercised judgment in combining the assessment of responses to the individual test questions in a given test area to form an assessment of whether the overall response in that test area was excellent, fell somewhat short of excellent, or fell substantially short of excellent.

Categorisation

2.12 We then used and built up our review of **Test Areas** to assess the overall plan

(**Plan Assessment**: Four Categories A-D).

2.13 As well as incorporating Excellence in assessing the overall plan, we also incorporated concepts of **Trust** and **Intervention** into the overall assessment.

2.14 Trust was a consequence of our view of Excellence. Intervention was an instance where our regulatory involvement was required and so was a response to the Excellence Assessment discussed.

2.15 So the Plan Assessment was 'in the round' and took into account the grades in each test area and the overall level of intervention in the plan.

2.16 The categories and features we published as part of our March 2019 regulatory approach was as follows:

Category	Features
A: Exceptional	Exceptional and stretching business plan with limited regulatory intervention to translate to price control package and a relatively high degree of trust in the company. Excellent responses in test area 1 (delivering value for money) and in across most other test areas with responses in the remaining test areas somewhat short of excellent.
B: Good	Good plan but falling short of being an exceptional and stretching plan with greater regulatory intervention and less trust than category A. Excellent responses in some test areas with responses in the other areas generally somewhat short of excellent.
C: Meeting Basic Expectations	Plan does not evidence how best to serve customers and stakeholders with greater regulatory intervention and less trust than category B. Lack of excellent responses and/or responses across some test areas that are substantially short of excellent.

D: Poor	Extensive regulatory intervention to translate business plan to price control package, with severe concerns about trust in company's ability to deliver good outcomes for stakeholders. Responses to test areas generally fall substantially short of excellent.

Consequences

2.17 We proposed a **reputational incentive** arising from the publication of our categorisations at draft determination. However, we consulted on our view of the business plan quality as part of this July 2020 draft determination so all stakeholders including SONI had an opportunity to respond.

2.18 Based on our assessment at a Test Question and Area level, we identified **Actions** at draft determination that we required of SONI to protect customers. If SONI met these actions the assumption was that we may not then need to intervene at final determination.

2.19 Actions could, for example, have included providing more evidence or clarification to substantiate part(s) of the business plan; or potentially reworking and/or resubmitting part(s) of the business plan because it falls short of the required quality.

2.20 To be clear, actions were not queries that we have asked as part of our query log and deep dive process: these were designed to understand the specifics and fundamentals of the business plan, and so are not actions.

2.21 We did not take account of SONI's response to these queries and deep dive in assessing the business plan quality: this was because our objective was to assess the quality of the business plan submission on the merits of what was submitted to us by SONI on 31 October 2019. However, we took account of SONI's response to our queries and deep dive in coming to our view on actions and interventions.

2.22 As noted above, we also set out proposed interventions at the draft determination where appropriate.

3. Delivering Value for Money

Test Questions	Score	Summary of assessment	UR DD intervention and Actions	Our response to SONI
Test Area: Delivering value for money				
VFM1: How well has the company demonstrated that its proposed services and tariffs provide value for money?	Substantially short of excellent	SONI offers improved value and performance in some areas. We note that it has identified some potentially worthwhile service initiatives. Some of these are sufficiently developed to accept now and others have the potential to be funded through uncertainty mechanism during the price control period (or if actions are sufficiently met to inform our final determination). However, we are concerned that there were a large number of material areas of consumer interest which fell well short in terms of value for money. For example: • Very large proposed cost increases 51% opex and 238% capex increases above current price control allowances with insufficient justification and evidence of efficiency; • Benefits sharing framework that does not seem well-aligned with the achievement of good outcomes for customers and stakeholders, which seems financially skewed in SONI's favour (£1.5m max downside, £3.0m max upside to SONI); • Insufficient consideration of opportunities to demonstrate an ambitious service proposition to deliver better value for customers (e.g. no consideration of option of de-risking TUoS revenue collection role and avoiding need for customers to fund margin on TUoS; we agree with SECG member comments about service ambition and underdeveloped benefits case); • Insufficient consideration of alternative gearing structures	Various interventions and actions are set out in relevant test areas below.	SONI was concerned that the nature of its innovative projects means it could not provide more cost certainty. As set out in cost allowances section of main document and DD, we strongly disagree with the level of justification provided by SONI. SONI was concerned that we penalized it unfairly for disagreeing with an asymmetric approach to the incentive mechanism, which is a subjective area, noting Ofgem have taken a different view. We recognise the level of incentive and asymmetry can be a matter of judgement and took this into account in our scoring. Our main concern is that benefits sharing framework does not seem well aligned with achievement of

		in a context where this has a significant impact on allowances for cost of capital that customers have to fund through price control; • The overall approach to stakeholder engagement (for example, we are of the view that Appendix H initiatives are unlikely to suggest value for money). • The level of transparency has been poor (e.g. sharing and publicising business plan information, transparency of costs at a service level). This means that, in some instances, it has been difficult for customers and stakeholders to come to an informed view on whether value for money.		good outcomes. We explained in more detail in DSO4 this was because of material concerns we had that it was under-developed, didn't engage with our approach, and is not aligned with good outcomes, largely in light of the mechanistic nature. SONI questioned why it should propose a change to TUoS collection when it does not believe it is in consumers interests. At a minimum, we would have expected SONI to explain why the function is in consumers' interest, which it did not. SONI noted it has revised its business case on engagement. While we welcome SONI revising this, our assessment is based on the information we received in the October 2019 business plan. .

VFM2: How well has the company assessed how its business plan proposals contribute to desired outcomes and affect different parties?	Substantially short of Excellent	We saw little clear and persuasive justification and evidence for how its whole service proposition and related proposals, such as performance framework, feeds through to good outcomes and affects a diverse range of stakeholders: • As set out in our response to test area on engaging customers, consumers and other stakeholders, there is an absence of evidence in how a diverse base of customers, consumers and stakeholders' needs are understood and may be affected, in particular with regard to how they may benefit from its proposals. As a result, the assessment of how stakeholders are affected is underdeveloped and it is unclear whether it represents a fair package across different groups. • We have material concerns around how the service initiative offering may benefit consumers and/or how aligned it is to worthwhile industry priorities which may benefit consumers. In coming to this view we note the extent of the step change in improvement that many SECG members feel is required to SONI's engagement strategy rather than simply a re-alignment of the existing stakeholder strategy. We also note SECG concerns that the service proposition may not take sufficient advantage of the significant consumer outcome opportunities during the energy transition which SONI may be able to positively influence. We are also particularly concerned that there is a lack of clear and robust accountability in material areas such as performance and on-going assurance: see our test scores in these areas which risks	Various interventions and actions are set out in relevant test areas below.	SONI was concerned we did not take account of the volume of engagement it undertook. We were concerned that SONI had not demonstrated how its engagement was quality, that its style of engagement (regulatory; traditional) while necessary in some cases may not meet the step change that is required during the forward look. In any case, the link between the engagement SONI has undertaken and the business plan proposition was very unclear and not robust. SONI was concerned that the time available between the publication of the UR's approach paper and the submission date and the lack of funding provided for 2015-20 meant that the cost and practicalities of undertaking a major stakeholder exercise were outside SONI's reach. SONI should be continually planning and so this is not

		undermining desired outcomes for consumers on an ongoing basis.		something determined by the price control. SONI had the opportunity to request additional revenue during the 2015 to 2020 period.
VFM3: How well has the company demonstrated that its projected tariffs for the 2020-2025 period and beyond will allow for a fair balance of	Somewhat short of Excellent	We recognise that SONI has provided more cost information as part of its response than it has in the past, and this part of the plan is generally more developed than service and benefits side, but we have material concerns around efficiency of these costs which feed into tariffs. We also note SECG points that its proposed tariffs attempt to identify the impact on some but not all customer or consumer types. We also note that there does not seem to be clear	Various interventions and actions are set out in relevant test areas below.	SONI noted that we have given score of 'substantially short of excellent' (though this may be a typo). SONI was concerned that this question was more relevant to asset heavy monopolies

charges between current and future customers?		discussion or justification of the balance between current and future customers. On balance, we consider that this suggests SONI's plan demonstrates mixed quality in demonstrating a fair balance of charges for current and future consumers		As set out in our March 2019 approach we disagree this makes it irrelevant.

4. Delivering service and outcomes

4.1 This assessment presented a summary of our detailed comments set out in Annex 3, Delivering service and outcomes from the July 2020 draft determination.

Test Questions	Score	Summary of assessment	DD UR DD intervention and Actions	Our response to SONI
Test Area: Delivering Service and Outcomes				
DSO1: To what extent has the company set out and clearly described, in an accessible way, the full range of services that it proposes to provide and which of these are to be funded through the TSO control?	Excellent	Services across whole suite of roles are generally set out in a clear, methodical and granular way on the basis of it obligations. Our interventions are minor as we consider that they are largely presentational and so have not significantly affected our score.	**Minor intervention**: changes to SONI service descriptions and removal of non-customer facing services. See Annex 3.	SONI made no comment.

DSO2: How well has the company explained and justified the outcomes which matter to the TSO price control and how these are influenced by the services that it can provide? How well has the company supported its proposals on the services that it proposes to provide over the 2020-25 period?	Somewhat short of Excellent	In providing a score of somewhat short of excellent we recognise that the information provided on outcomes and service proposals is a noticeable improvement on previous SONI price control submissions. We recognise that more relevant information has been provided. But we still have significant concerns with SONI's response in many areas. SONI attempts to provide outcome information and justify services proposals according to need, options, risks and benefits. We note that some service proposals may be value adding, but there are potentially some material limitations in how outcomes and services are justified and evidenced. The plan provides a view on how SONI can contribute to good outcomes through the services it provides but this is somewhat short of bringing a genuinely fresh perspective: We have concerns that the plan seems to presume that SONI is best placed to do what it does in some potentially material areas but does not offer justification. The plan generally falls short in exploring opportunities to vary service obligations (scaling back or enhancing) in light of its strategy and also in light of the energy transition drivers. SONI provides some proposals which may be	**Minor intervention**: we have made outcomes more customer and consumer focused and aligned with expectations on good behavior. More information on this intervention can be found in Annex 3 and Annex 4.	SONI was surprised we did not initiate the review of telecoms roles within our March 2019 approach paper**.** We expect SONI to work within its remit. SONI did not fully demonstrate this. SONI said it can't cut back on any activity because it is mandated to undertake it. Our guidance noted that it may be possible for SONI to scale back its services in some areas (potentially with third parties playing a greater role) as well as for enhancing services in other areas. We highlighted numerous example areas of concern of SONI activity where third parties could play a greater role as well as other areas for enhancing services, which SONI did not engage sufficiently with in the business plan and has still not. SONI generally has a large degree of flexibility afforded to it within licence and legislation, and so the fact that activity is related to licence or legislation as such does not mean it cannot flex the level or often the type of activity. We do not accept that because SONI is mandated to undertake something, this does not

		potentially innovative and practical and which appear to have some stakeholder input, but SECG stakeholders have questioned the ambition and objectives of certain proposals (e.g. renewables strategy and data), the lack of innovation budget, how SONI will engage 3rd party innovators, and the lack of approach to understanding innovation and turning into business as usual.		necessarily mean that it is immune to coming up with new ways of working, processes, learning from experience over time, which may allow it to undertake the job as effectively whilst freeing up resource for other value adding areas. SONI was concerned that we do not consider its system service proposals ambitious. We agree that some of this work has the potential to be value adding, however, we view strong ambition as an approach which can **clearly and justifiably demonstrate** optimal value for consumers. We did not consider in this instance that the business case was sufficiently developed, across many parameters of assessment, and SONI risked undertaking activity which could be undertaken more effectively by 3rd parties. The guidance gave a clear regulatory expectation on this, but in light of SONI's concerns we have re-integrated some of these expectations through our criterion performance framework guidance to support SONI going forward.

DS03: How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	Substantially short of Excellent	This is substantially short of excellent as it is impossible to judge the ambition and stretch of the existing plan given that performance commitments and service levels were not defined or completed as part of the original business plan submission. As set out in our appendix on delivering service and outcomes, we also noted various problems within the business plan proposals. It is unclear why some metric types have been chosen, and they do not always appear relevant or customer and consumer focused.	**Action:** SONI to develop performance evidence with UR and stakeholders in line with our service expectations. More information on this intervention can be found in Annex 4, Evaluative performance framework.	SONI said its commitments were strong, this is matter of judgement, and it was being penalised for proposing mechanisms proposed by the GB regulator. The main concern in coming to our score, as we clarified at the time, is that performance and commitments and service levels were not defined or complete, across the board. SONI later submitted a submission which attempted to fill these in development. However, we assessed the business plan on the merits of what we received at submission. So this is a matter of fact and not judgement.
DS04: To what extent do the arrangements proposed by the company for holding it to account and/or influencing its incentives over the price control period give confidence that it will meet its proposed performance commitments and achieve ongoing improvements?	Substantially short of excellent	SONI's primary proposal for ensuring accountability for its performance, in terms of services and outcomes, and providing incentives for ongoing improvements, was its proposed benefits sharing framework. We reviewed SONI's proposed benefits sharing framework, and the rationale SONI provided for it, in detail. SONI's benefit sharing framework did not seem well aligned with our March 2019 regulatory approach. We had proposed an approach that involved financial incentives arising from a more ongoing evaluative assessment of performance; SONI's proposed approach was more mechanistic than we envisaged.	**Intervention:** We developed an alternative performance (and accountability) framework, for stakeholder consultation, which was closer to the approach we proposed in March 2019 but drew on some specific elements from SONI's work on its benefits sharing framework. See Annex 4, Evaluative performance framework.	SONI noted our concerns, but said it also had issues with predictability and complexity of our proposals, and we had considered matters of judgement (like incentive levels) The business plan assessment, by its nature, was intended to assess SONI on its proposals. Our main concern is that benefits sharing framework does not seem well aligned with achievement of good outcomes. This was because of material concerns we had that it was under-developed, didn't engage with our approach, and is not aligned with good outcomes,

		SONI's business plan did not show awareness of why Ofgem moved away from mechanistic financial incentives for National Grid's electricity system operation role, towards an evaluative approach. We found SONI's proposed benefit sharing framework to be under-developed. It contained some useful elements but was not close to something that could be implemented in practice. The material provided in the plan did not provide confidence that, if further work was done to put it into practice, the benefit sharing framework would work well in terms of holding SONI to account and encouraging ongoing improvements across desired outcomes. For instance, the plan showed limited engagement with the practical difficulties and risks of unintended consequences that arise in seeking to apply mechanistic financial incentives to the services and desired outcomes for an electricity system operator.		largely in light of the mechanistic nature. We do not necessarily consider that these are matters of judgement.

DS05: To what extent do the company's proposals for services demonstrate that it will bring a system-wide perspective and approach across all parts of the NI energy system?	Substantially short of excellent	While SONI has provided some limited high level information of examples of the types of things that a system wide perspective may involve. We do not consider that these represent a firm practical understanding as SONI has generally not set out a clear justification for its role in coordinating and collaborating during the forward look and beyond. We are very concerned that SONI's response demonstrates little to no appreciation of the factors that pose risks to a system wide perspective in key areas of material consumer interest. We are also concerned that there is no credible plan for adopting a system-wide perspective across its services and activities. There is little to no information about how it will prepare and plan its business for the period to bring a whole system perspective on the basis of the above.	**Action:** SONI to develop a whole system coordination and collaboration strategy, involving NIE Networks and other relevant parties, to resolve existing gaps and plan for future issues as part of our upfront service expectations in Annex 4	SONI said that we had misunderstood some aspects of its role in managing generation of 10MW and above and should consult with our colleagues in other departments. SONIs requested expenditure extends to lower than 10MW. We agree that SONI needs visibility of 10MW generators, but it is also seeking tools to monitor at a residential level. We are not aware of any residential property with a 10MW connection. A whole system perspective within its business case, amongst other things, would, at a minimum, entail a clear and justifiable delineation of responsibility between the TSO and the DSO, as part of a clear consumer focused strategy. SONI has still not set this out within a sufficiently scoped business case, or its broader strategic vision.
DS06: How well has the company demonstrated that it will support the ongoing development of the NI energy system (and the Single Electricity Market insofar as applicable to the TSO control) in a way that improves system	Substantially short of excellent	We do not consider that there is a clear and justified exposition of SONIs TSO involvement across different aspects of the system (and market), highlighting priority areas, drawing on stakeholder engagement and linking to desired outcomes. We also do not consider that arrangements in	**Action:** Please see our upfront service expectations in Annex 4.	SONI was concerned we had not taken account of its volume of engagement. We address this above.

outcomes and better meets the needs of system users and energy consumers?		place are effective to ensure it meets customer needs, including in relation to timescales, transparency, stakeholder participation and adaption over time.		

5. Securing cost efficiency and managing uncertainty

5.1 This assessment presented a summary of our detailed comments set out in Annex 5: cost remuneration and managing uncertainty (SCEMU1 and SCEMU5) and Annex 6: cost allowances (SCEMU2, 3, 4), from our July 2020 draft determination.

Test Questions	Score	Summary of assessment	DD UR intervention and Actions	Our response to SONI
Test Area: Securing Cost Efficiency and Managing Uncertainty				
SCEMU1: How well has the company justified its proposals for the approach to the price control remuneration of different elements of its costs (including associated incentive structures) and given confidence that these will deliver good outcomes?	Substantially short of excellent	We did not consider that SONI's business plan engaged in sufficient detail with the issues we raised in our March 2019 TSO Approach paper on the appropriate price control treatment of different categories of TSO costs. SONI proposed to reduce the incentive rate applied to mechanistic cost-sharing incentives from 50% to 15%, which was consistent with the proposal from our March 2019 regulatory approach to reduce the rate	**Intervention:** We developed alternative proposals, for stakeholder consultation, for the price control treatment and remuneration of different elements of TSO costs, building on the approach and considerations set out in our March 2019 regulatory approach. More information on this intervention can be	SONI said that setting a risk sharing mechanism in a price control is a challenging and subjective exercise and it seems unreasonable to penalise SONI for its approach here when it is not a precise science. The score of "Substantially short of excellent" that we set at DD reflects in particular the limited engagement that SONI gave to the issues raised in our March 2019 approach paper

		below 50%. SONI did not provide specific analysis or evidence to support its view that 10% to 20% was the appropriate range. SONI's proposals for the price control treatment of the costs it incurs (including costs covered by the Bt allowances under the current SONI price control and other costs incurred by SONI such as costs of system support services) formed part of its proposed holistic benefits sharing framework, which we found to be under-developed and inadequate (see test area 4 above for more detail). SONI's business plan did not seem to engage sufficiently with the challenging issue of how to better align SONI's incentives on its (internal) costs with wider system outcomes. The appendix on the benefit sharing mechanism that SONI provided as part of its business plan (Appendix N) made a number of references to the importance of incentive equalisation and alignment, but did not elaborate on how this could be achieved in practice in a way that could be expected to work well.	found in Annex 5.	Related to this, SONI's DD response said that its entire incentive package was built around aligning the incentive on managing its internal costs with the value it can deliver elsewhere. However while this alignment might have been SONI's aspiration, its proposed approach from its business plan fell far short of this. SONI's plan essentially asserted that alignment could be achieved under its proposed approach when this is highly unlikely to be the case. SONI's plan showed little recognition of, or engagement with, the challenging issues of how to achieve better alignment in practice (recognising that perfect alignment is not possible). SONI said in its DD response that its ability to remain financeable under an adverse outcome was used to calibrate both the 15% risk sharing and to balance it with outcomes, but SONI recognised that this may not have been clear in its business plan SONI's response gave us no reason to change our score

SCEMU2: How well-evidenced and well-explained are the company's proposals for the efficient costs of delivering its proposed services?	Substantially short of excellent	Overall, the business plan represents a significant increase in cost and we have significant concerns with quality of the proposals. SONI's proposals on securing efficient costs are considered to be substantially short of excellent. We recognise that detail provided with respect to real price effects and productivity is generally good quality, and SONI has provided some more information than in the past. However, this is a relatively small part of ongoing costs. We have particular concerns around the service enhancement initiative proposals in terms of need, cost, optionality, benefit, and relationship to BAU activity. Given that these proposed service initiative enhancements are driving cost significant overall increases in cost, we would expect these to be well evidenced, yet we have found significant issues: • The analysis is high level with data sources and assumptions quite often unexplained. • Unclear whether insights and careful judgement has been used to draw together proposals, across a range of parameters such as need, optionality, customer priority, cost and benefit. We also have concerns about whether certain activity is a genuine enhancement or is covered under the	**Intervention:** Intervention on service initiative costs which are not justified. Different interventions on salaries, RPEs and productivity. More information on these intervention can be found in Annex 6. **Actions:** Request further evidence in relation to various service initiatives. We also request that SONI sets out a resource plan as part of its response to the draft determination to understand the different between enhancement expenditure and BAU activity. Various actions to provide pension information. More information on these intervention can be found in Annex 6.	SONI said it needs more baseline funding than in DD, it has provided more information to address its concerns, said that it made efforts to ensure no duplication between baseline and other expenditure, and the need for further transparency on costs. We have assessed he business plan on the basis of information we received at the time, but have not seen any further information that addresses our concerns set out at DD. We respond to SONIs' points elsewhere in the FD given their breadth.

		existing price control allowance or within other proposed service initiative enhancements. • Whilst the plan represents progression in providing service transparency, significant gaps still remain with respect to cost. We made reasonable requests, on a 'best endeavors' basis as part of our March 2019 regulatory guidance but these have not been submitted and we do not find the justification to be reasonable. • There is mixed quality evidence that cost proposals are supported by range of different sources, including well explained benchmarks. • Many, but not all, of the sources and justification for cost estimates appear reasonable and broadly sound. However, these sources are merely asserted and rarely evidenced as part of the business plan.		

SCEMU3: How ambitious and challenging are the company's proposals against the aim of securing cost efficiency to the benefit of NI customers?	Substantially short of excellent	It is difficult to assess the ambition of cost proposals as service levels were not provided as part of the business plan and so are not defined. Without such detail, ambition of cost efficiency is very hard to judge. While we recognise that SONI has implemented a challenge and assurance process, SONI has not fully demonstrated its effectiveness and it sought no challenge from stakeholders on its costs (e.g. from SECG during business plan development). Given the materiality of cost increase from existing allowances, this would appear to be a significant oversight, though SONI do set out the implications for bills. Other examples of the lack of ambition / challenge include: • Asymmetric benefit sharing framework (Appendix N, p69). • Sharing factor of 15% where customers will have to pay 85% of any cost overruns (Appendix N, p70). • Assumption that SONI will not be subject to exchange rate risk (Appendix V, p V-2). Taking this into account in the context of the material issues we found regarding the	**Intervention:** No specific actions	SONI was concerned we had unfairly penalised it as some areas are a matter of judgement being considered by other regulators. We recognise that some of these issues, while not being strongly justified by SONI, may require judgement (like level of cost share and asymmetry). However, our main concerns were material and are a matter of fact. The main ones being that was difficult to assess the ambition of cost proposals as service levels were not provided as part of the business plan and so are not defined and the challenge was unclear.

		quality of business plan submission on costs, we consider this is substantially short of excellent.		
SCEMU4: How well has the company demonstrated innovation that contributes to greater cost efficiency?	Somewhat short of excellent	SONI provides examples of initiatives which could be innovative and contribute to cost efficiency. On the one hand, as noted by SECG members, we agree that there is relatively little demonstration of how these will contribute to cost efficiency, and we agree with the concerns members have around SONI's approach to innovation. On the other hand, we note SECG member points that some of these initiatives have the	**Actions:** No specific actions.	SONI suggested we had not worked jointly with teams across the UR in coming to our view, and that it is complex to demonstrate savings for certain wholesale market activity. We have worked across directorates on many of the relevant areas, particularly costs relating wholesale activity our colleagues work on and

		potential to result in credible net benefits which go beyond BAU. Examples of innovation projects are imbedded within the core of the business plan. However it can be difficult to establish how credible these are, as it is difficult to distinguish these from the ordinary projects. SONI has failed to quantify any saving or indeed build this into future cost estimates. SONI has engaged with our framework and agreed that further ad-hoc allowances for innovation projects may merit consideration. On balance, we consider that this is somewhat short of excellent.		SONI service performance (including the incentive framework and our service expectations). So views are aligned between departments. Some of projects described within the section of the business plan were described as innovation. Innovation can be hard to define but it often implies a level of risk above levels that would be acceptable in the normal course of networks business, things that are not business as usual, and/or are potentially unprecedented (although we accept there are other factors that may indicate innovative activity which may stem from learning quickly from others and then adapting appropriately to develop a new, highly value adding way to benefit consumers, and/or which others can learn from, even it is not first of a kind activity). For some initiatives, like control centre tools and system services, it was difficult to gauge from the business plan given their stage of development whether these are innovative at this point. For other initiatives, the activities listed in the business plan section do seem not genuinely innovative but were presented as such. We recognise that it can be complex to quantify cost

				savings, there is a degree of proportionality depending on the project, and ultimately this a judgement for SONI based on a number of factors. But, ultimately, the analysis should well justified, clear and evidence based.
SCEMU5: To what extent is the set of price control uncertainty mechanisms proposed by the company well-justified and well-designed, as a means to provide cost risk protection to the ultimate benefit of consumers, taking the benefits and drawbacks that uncertainty mechanisms may bring for consumers?	Somewhat short of excellent	SONI's business plan said that it was only proposing minor adjustments to the uncertainty mechanisms that were robustly assessed by the CMA in 2017. SONI proposed a change to the arrangements for transmission network pre-construction projects. This concerned the "scoping and feasibility" stage of work on potential transmission network pre-construction projects. Appendix I to SONI's business plan contained an explanation of its concerns, and discussion of different options for the treatment of "project scoping and feasibility" costs, including the use of uncertainty mechanisms. While we had concerns about the scope of options considered as part of this appendix, it was generally a helpful document. SONI's own preferred solution involved an entitlement under the price control for it to	**Interventions:** We are proposing new arrangements for the treatment of transmission network scoping and feasibility costs which build on, but modify, the proposals made by SONI. We propose to refine the current Dt uncertainty mechanism to provide more flexibility and to support greater consistency with our proposed approach to remuneration of different categories of SONI costs. We propose to make greater use of uncertainty mechanisms than envisaged by SONI, to allow for a more	SONI set out its concerns with our treatment of scoping & feasibility costs and said we had penalised it on a matter of judgement for not setting out its view. The guidance and approach was clear that SONI should consider all possible options. SONI did not do this and so this is not a matter of judgement. At a minimum, we expect SONI, in its role as a transparent independent expert, to do this. That being said, we were pleased that SONI presented some good analysis. On balance this, and in light of other factors we pointed out in our assessment, led us to a middle score of somewhat short of excellent.

		recover costs incurred on scoping and feasibility, subject to any DIWE, but without this being constrained by a cap set by the UR. SONI considered four options, but none of these options involved cost recovery subject to a cap. We considered this to be a significant limitation in SONI's options analysis, especially since cost recovery subject to a cap is the approach applied to transmission network project. Further to its proposals for transmission network planning costs, SONI proposed that two specific activities would be funded through the existing Dt uncertainty mechanism: (i) work to implement the Electricity Balancing Guidelines; (ii) and work associated with the network codes relating to the Clean Energy Package. In addition, SONI sought a re-opener (Dt) for the full costs of initiative F5 (data services), but provided limited explanation of this. We thought that SONI could have considered the case for a greater role for, and use of, uncertainty mechanisms during the 2020-25 period. SONI's proposed package of initiatives for the 2020-25 control included initiatives that seemed under-developed and there is a case that an uncertainty mechanism approach would	flexible approach to potential initiatives that might be worthwhile but which are insufficiently developed and justified at the price control review. We also propose an uncertainty mechanism for the statutory corporation tax rate (see test area 5 below).	

		have been more suitable for its plan rather than seeking upfront funding at the price control review for so many initiatives. We agreed with the broad thrust of SECG member comments that given the energy transition brings uncertainty, planning can only go so far and there is a need for flexibility in the period.		

6. Aligning Risk and Return

6.1 Our Annex 7 on aligning risk and return, set out in our July 2020 draft determination, set out our proposals and interventions and actions in more detail.

Test Questions	Score	Summary of assessment	DD UR intervention and Actions	Our response to SONI
Test Area: Aligning Risk and Return				
ARR1: To what extent has the company explained and justified its assumed capital structure for a notional efficient TSO licensee over the 2020-25 period?	Substantially short of excellent	Limited evidence from SONI's business plan that its proposed notional capital structure has been tested against possible alternatives, taking account of cost to customers and other factors. Absence of a fresh perspective: • Focus seems to be on the defense of the use of SONI's current target gearing for the notional gearing assumption, rather than consideration of the benefits and drawbacks of alternatives. For instance, view on the drawbacks of a 100% equity structure provided but no comments on potential benefits of such a structure. • No evidence of intermediate gearing assumptions considered. • Insufficient explanation of the	**Interventions:** We considered alternative notional capital structure assumptions to that proposed by SONI, considering cost to customers and other benefits that different structures may entail. We decided to intervene to reduce the proposed gearing from 55% to 30%, and remove the £10m SONI PCG, from SONI's proposed capital structure for the notional efficient TSO. Our interventions affect the calculation of the remuneration for the notional efficient TSOs debt finance and equity capital.	SONI's response to our assessment under this test question seemed focused on the substantive issue of what the notional gearing assumption should be, and did not significantly address the points made in our DD assessment for this test question or provide any grounds for considering that its business plan submission on this area was excellent SONI's response gave us no reason to change our score

		rationale and need for the PCG within the notional capital structure. • Business plan does not seem to address part of question seeking explanation of how the need for different elements of the assumed capital structure relate to the different services SONI proposed to provided.		
ARR2: has the company put forward a clear set of remuneration channels for equity and debt finance under notional financial structure that fits with UR expectations?	Excellent	Provides clear explanation of remuneration channels proposed. These remuneration channels are aligned with the expectations from our March 2019 regulatory approach. Business plan could have explained link between remuneration channels and SONI services in more detail but not a significant concern at this stage (aside from questions about the role of the PCG in the notional capital structure which is considered separately in the test question above).	**Actions:** None identified.	We awarded a grade of excellent and SONI's response did not challenge this

ARR3: To what extent has the company demonstrated a good understanding and well-evidenced scenario analysis for the range of upside and downside risks for the notional efficient licensee?	Somewhat short of excellent	Some useful scenario analysis which considers: (i) downside under the maximum financial downside under its proposed benefit sharing framework and (ii) revolving credit facility being fully drawn; and both (i) and (ii) together. Does not explain contention that it is necessary that financial thresholds are achieved in the maximum downside scenario No analysis of return on regulated equity (RoRE) for downside scenario despite UR guidance to include this. SONI said RORE would be misleading; we do not accept that it is impossible to present RORE scenario analysis in a non-misleading way, with caveats and qualifications if necessary. No supporting documents or spreadsheets provided to help explain methodology or assumptions used for the analysis.	**Interventions** We carried out analysis of RORE to address gaps in SONI's analysis. We carried out further downside scenario analysis for our draft determinations which involve materially different regulatory allowances than those proposed by SONI in its submission.	SONI's response to our assessment raised substantive points on the use of RoRE analysis, but did not provide any grounds for considering that its business plan submission on this area was excellent, rather than somewhat short of excellent SONI's response gave us no reason to change our score
ARR4: To what extent has the company justified its proposed allowances for each of these remuneration channels? Has the company provided confidence that there is not any double-counting across	Somewhat short of excellent	The KPMG report at Appendix O to SONI's business plan generally provided some relevant and useful evidence (including on recent UK regulatory precedent and further analysis) to inform the assessment.	**Interventions** Our main interventions concerned the determination of specific parameters used in the calculation of the overall allowed return: • Asset beta for TSO;	SONI's response to our assessment raised substantive points on the determination of the allowed return, but did not provide any grounds for considering that its business plan submission on this area was excellent,

channels?		Based on further analysis we found a need to intervene on some but not all elements feeding into the calculation of the overall allowed return. We also found that some elements of SONI's analysis, especially on the risk-free rate, that could benefit from use of updated data which might explain differences versus some recent regulatory precedent. There was limited evidence that proposals on allowances are ambitious and challenging, or of a process of internal challenge to improve the offer to customers. The business plan provided insufficient transparency in some areas (e.g. calculation of operational gearing adjustment). SONI's business plan could have done more to provide confidence that there was not any double-counting across remuneration channels (e.g. on margin for revenue collection and allowed return on assets used for revenue collection)	• Debt beta assumption; • Aspects of the cost of debt; • Margin rate on revenue collection. **Action**: SONI to provide updated analysis and assessment of risk-free rate, using same approach as in business plan (with potential for corresponding updates to some other CAPM parameters if SONI considers appropriate). **Action**: SONI to provide assurance that there is not any material double-counting across remuneration channels (e.g. on margin for revenue collection and allowed return on assets used for revenue collection).	rather than somewhat short of excellent SONI's response gave us no reason to change our score
ARR5: To what extent has the company justified its proposed allowances for corporation tax liabilities and provided	Somewhat short of excellent	The use of a pre-tax WACC approach based on the statutory tax rate, and the assumptions on that rate over the 2020-25 period, are reasonable.	**Intervention**: We considered the case for a targeted and proportionate uncertainty	SONI's response commented on the policy question about an uncertainty mechanism, but gave us no reason to

confidence that its tax arrangements are supported by customers and stakeholders?		No consideration given of the potential role for targeted and proportionate uncertainty mechanism in relation to uncertainty about future rates of corporation tax – without such a mechanism customers could be seen to pay too much if corporate tax rates reduce further. Aspect of test question concerning confidence that tax arrangements are supported by customers and stakeholders not addressed in business plan. No evidence of stakeholder engagement on, or customer support for, its corporation tax arrangements; no explanation of why this was not appropriate or proportionate.	mechanism in relation to uncertainty about future rates of corporation tax, and decided that such a mechanism is appropriate **Action**: SONI to provide some assurance that its tax arrangements for the 2020-25 period will not pose material risks of giving rise to concern amongst stakeholders and/or a lack of trust in the sector and regulatory regime.	change our score SONI stated that it would not expect corporation tax to reflect a material concern for stakeholders given its very limited impact on bills and the transparency and relative simplicity of SONI's tax arrangements
ARR6: What confidence has the company given about its financial resilience under its business plan proposals?	Somewhat short of excellent	SONI's business plan focuses its stress testing and scenario analysis on a notional efficient TSO rather than on SONI's planned financial structure. The business plan does not seem to directly address the point we provided under "further guidance" for this test question, and does not provide clarity on how planned financial structure may differ from notional financial structure. Appendix O to SONI's business plan	**Intervention:** We have carried out some stress testing and scenario analysis for assumptions about SONI's planned capital structure but this is limited to some degree by lack of information from SONI on how its planned capital structure may differ from its (or our) notional capital structure. **Action**: SONI to identify any	SONI provided further information on its approach to stress testing and scenario analysis and SONI said that it recognises that in practice the actual structure may differ from the notional capital structure, and as a result provided financial projections and projected metrics under its actual structure in its business plan based on the existing financing structure and the

		provides some information on SONI's planned capital structure (e.g. target gearing) which suggests that actual company gearing will be similar to that assumed for notional efficient TSO, which means the scenario analysis provided in relation to notional TSO (chapter 12) is relevant to this question and provides some degree of comfort on financial resilience. Other interventions we are making as part of our draft determinations mean that SONI's analysis is not up-to-date.	potential differences that may arise between (i) its planned capital structure for 2020-25 and its proposed notional capital structure; and/or (ii) between its planned capital structure for 2020-25 and our notional capital structure from our draft determinations, which may significantly affect its financial resilience – and to provide analysis of the impacts of any such differences. **Action**: SONI to propose ways to provide assurance of its financial resilience over the 2020-25 period in a context where its actual financial structure may differ to the notional capital structure used to calculate price control allowances (e.g. assurance against the risk of resilience being undermined by much higher gearing than for notional TSO).	financing requirement implied by its plan. SONI considered its business plan to be financeable and resilient based on the financial projections assumed in the SONI business plan taking into account the additional capital committed to the business reflected in the PCG SONI's response gave us no reason to change our score

7. Engaging with customers, consumers and other stakeholders

Test Questions	Score	Summary of assessment	DD UR intervention and Actions	Our response to SONI
Test Area: Engaging with customers, consumers and other stakeholders				
ECCS1: What is the quality of the company's engagement?	Substantially short of excellent	SONI provides insufficient evidence to demonstrate a clear understanding of different stakeholders to engage with and the issues which are likely to matter most to them, and how stakeholder engagement can be used effectively across the plan. We have concerns that: • The plan comprises no analysis or techniques (e.g. basic segmentation) to demonstrate the right stakeholders and their needs are being identified across its wide range of services, so as to inform and structure engagement. • Limited information is provided on stakeholder needs. The response is a summary of broad themes with little to no information on who exactly has been engaged specific feedback, across the vast majority of SONI's service activity. • Feedback from SECG members that engagement style is generally passive (or 'one way'). • A range of stakeholder needs are not being fully taken account of across a broad range of	**Action:** SONI to develop a stakeholder strategy with input from stakeholders.	SONI made concerns about underfunding in previous price controls. We respond to this above. SONI said it had updated its engagement initiative. We welcome some of the change, but do not take this into account for the purposes of this assessment as we assessed the business plan on the merits of October 2019 submission.

		service areas. For example, we note SECG member views that the needs of new technology actors are not being appropriately considered. We also note the lack of consumer focus: while this is obviously difficult given that some of SONIs service proposition is not always consumer facing and so it is complex to harness the views of consumers, we would expect some sort of proportionate consumer view and underpinning to be provided: for example, reference to appropriate and relevant academic research of impact on consumers of SONI's service. We are concerned that there is insufficient evidence that SONI is adopting quality engagement initiatives across a range of diverse stakeholders, using a variety of approaches. SONI cites 4 main engagement initiatives or approaches: Routine engagement; SECG; SONI strategy development; Partnerships & Engagement (App H: including bespoke regarding landowners and community). We are concerned that: • The engagement approach lacks variety: over-reliance on price control specific and/or regulatory initiated or based initiatives (e.g. SECG) and there is little awareness of a range of engagement tools. • Engagement initiatives may not be fully effective, particularly concerning certain customer types. For example, SECG member		

		concerns around the usefulness of system service technical seminars. SONI could take a more practical and lessons learned approach practical innovation projects, where SONI is working with and actively involving other partners to learn by doing (rather than desk-based reviews). • Difficult to understand the quality levels as there is little information around effectiveness (e.g. the net-benefits case for certain forward looking initiative proposals is under-developed and/or weak (e.g. SONI business plan Appendix H). We are concerned that SONI engagement is insufficiently tailored to its TSO services and does not draw appropriately on tools and approaches from other regulated sectors and elsewhere: • We note concerns that SONI could be considering more innovative and value adding tools and approaches (e.g. we agree with stakeholders that National Grid Power Responsive and Innovation Days are useful templates, which have elements that could be adapted or tailored appropriately) We are concerned that there is insufficient evidence and justification that engagement is targeted and proportionate, which provides a platform for future improvements during the 2020-25 control period and for the subsequent control period. We are particularly concerned that:		

		• SONI is taking an unduly narrow and disproportionate focus to engagement. We are concerned that SONI is focusing on outline design and consenting activity, at the expense of effective engagement in other service areas (particularly as, for the aforementioned activity, the needs case is unclear and the spend may not justify benefits). • There may be cheaper and more engaging ways to engage customers (e.g. SECG member points about online vs TV and radio) and the overall level of spend on 'education' type initiatives may be disproportionate.		
ECCS2: How well has the company demonstrated that findings from its engagement have been incorporated into its business plan proposals?	Somewhat short of excellent	The most identifiable source of evidence SONI provides for demonstrating how findings have been incorporated in business plan proposals is SECG. SONI used SECG to provide insight and challenge on it emerging proposals and aspects of its strategy. It also said it has used other 'internal/external' checks. There is some evidence from SONI business plan Appendix C of using SECG to shape and map some of its proposals and using to improve outcomes, but we consider that this is of mixed quality. • In particular, there is a line of sight between some but not all of the proposals. For example, the comments made by stakeholders do seem to demonstrate a degree of support for its strategic proposal to go above RES-E 40% targets. However, at the other extreme, some seemingly important proposals such as on quality of network	**Action:** None required.	SONI said the timescales were short to engage. We respond to this above. SONI said the point made by SECG about responding to landowner engagement is outside of the business plan. We do not agree with this interpretation. SONI said it employed different methods of engagement with SECG and it was inevitable some would work better than others. We recognised this in our

		planning (Initiative F.6: system planning) have not been tested with the group and it is unclear why this is the case. • The proposals shared with SECG are relatively stronger in soliciting whether there is a rationale for consideration of the initiative (but this is not the always the case), but less so in other facets which were either not present or not developed sufficiently (e.g. full need establishment, outcomes, benefits, costs, comprehensive risks). Therefore, this provides less confidence that certain sections of the business plan (e.g. value for money) have been fully tested through engagement. • Some stakeholder views have not been addressed, or have been partially. For example, SECG feedback on enhanced engagement with landowners and community, yet this has not been addressed in the proposals. There is little to no recognition of benefits and drawbacks of evidence from different types of engagement and there is mixed evidence is demonstrating of sound judgement in using engagement to inform the plan: • In terms of the SECG process used, the webinar approach was a reasonable tool for this particular price control review and took account of circumstances such as participant and process time constraints. We note SECG member view		assessment that SONI's engagement techniques with SECG were good in the time available/first time context (but flagged some minor points for improvement). This area should be taken as a positive for SONI and was a factor in us scoring SONI higher, everything else being equal. SONI contended our view of whole system approach in the context of TSO DSO roles suggesting we are inconsistent with the legal framework. We respond to this above.

		support in this regard. • The survey/written feedback approach, in SONI business plan Annex C, allowed a clear presentation of feedback and evidence of how SONI treated the information, but it was not clear who views are attributed to. We also found it difficult to understand how SECG feedback in SONI business plan Annex C related to individual initiatives because of the design of the survey, which undermined confidence that the service initiatives had been fully tested. • The use of a face-to-face meeting at the end of the business development phase process was a good way to 'wrap up'/validate given that webinars had been previously used. • The content at meetings 26 and 31 May 2019 was generally relevant, clearly structured and visually engaging. • However, some aspects of how to use the time available were poor: the meeting on 14 April 2019 largely covered terrain in previous sessions and the focus of the meeting was not clear. • There is a question of consistency of treatment of feedback and the link to proposals for some quite material areas .e.g. why some proposals have been developed, whereas others have not where they relate to common/generic/summary feedback. For example, there is clear feedback on		

		the need for whole system thinking in annex c from SECG (e.g. working with NIE and future customers/technology), yet some proposals are potentially inappropriate (e.g. DSO interface for residential ancillary services), whereas other proposals which may have potential are treated as very high level and insufficiently developed: statements around the need to collaborate effectively with NIEN. • There is little clear evidence of whether and how SONI has used other (non – SECG) engagement or types of evidence to triangulate and develop or reconsider/refine proposals. For example, a particular area of concern is that certain proposals like the benefits sharing framework did not appropriately take account of regulatory approach (and the evidence or justification used to visibly and persuasively inform this approach e.g. Ofgem incentives framework or rationale in the approach chapter on securing efficiency to propose cost structures). In coming to a view on the grade above, we have taken account that, on the one hand, this is the first time SECG has been undertaken, but also that, on the other hand, SONI had an appropriate length of time (8+ months) to develop and refine its views with SECG.		

ECCS3: How well has the company demonstrated that its engagement will be incorporated into ongoing activities?	Substantially short of excellent	The SONI performance Appendix B and SONI Roles and Services Appendix A on routine engagement has little evidence of how engagement used in the past and commitments for the incorporation of engagement as part of plans for the future could be used. There are some mention of potentially useful initiatives such as having a NIE Networks Working Group e.g. for whole system thinking. But there is no information on this group and what it is trying to achieve. There is also little understanding of how SONI is going to engage with future customers to develop whole system thinking (at a strategic and operational level). This is significant given the concerns we have around whole system perspective (see assessment to DS05). The business case for some of the initiatives engagement activities, which SONI cites in Appendix H, seem weakly justified and there is feedback from stakeholders querying the value of this service proposition.	**Action:** SONI to develop a stakeholder strategy with input from stakeholders	SONI recognised that its engagement proposals could be clearer, have improved since business plan. As noted above, our assessment is made on the basis of the submission.

8. Ensuring resilience and governance

Test Questions	Score	Summary of assessment	DD UR intervention and Actions	Our response to SONI
Test Area: Ensuring resilience and governance				
ERG1: How well has the company demonstrated that it has effective governance arrangements in place to deliver on its business plan?	Substantially short of excellent	SONIs business plan does not demonstrate that it has effective governance arrangements in place to deliver its business plan. We cannot judge the appropriateness of SONI's governance structures to deliver the plan as these are not set out distinctly from EirGrid's risk management structures. We also note SECG member concerns that its strategy for people, culture and system planning (and agility to respond) is underdeveloped and may not reflect important themes from the energy transition (e.g. digitalisation), suggesting that evidence is lacking that governance arrangements are fully focused on the expectations and needs of NI customers.	**Action:** None. However, we are currently undertaking a separate project on SONI governance.	SONI made no comment as considered this is part of the governance review. We consider that this is a price control matter in this context.
ERG2: How well has the company demonstrated an understanding of the range of risks that could impact on its delivery, service quality, performance and costs?	Somewhat short of excellent	SONI's plan is an improvement on previous plans as a wide range of risks are identified. SONI has detailed specific risks with each initiative as well as probability, impact and mitigation actions. However, as the risk management process is not fully set out it is not clear	**Action:** None.	SONI disagreed with SECG and UR comments We maintain our position.

		that all risks relating to SONI delivery, service quality, performance and costs have been specifically identified or how they will be monitored and managed. There is also little to no clear information on dependencies between initiatives. We have concerns in relation to IT resilience and we also agree with SECG member comment that the analysis suggests complacency.		
ERG3: How well has the company demonstrated that it has effective arrangements in place to mitigate and manage those risks?	Substantially short of excellent	SONI's plan does not demonstrate that it has effective arrangements in place to mitigate and manage risks. How the risks identified for the business plan projects will be managed is not fully set out. Nor are roles and responsibilities for risk management in SONI clear. Responsibility appears to rest both in EirGrid and in SONI.	**Action:** Further information has been requested from SONI as part of the separate UR governance review to establish risk identification and mitigation process for SONI risks (as distinct from group level risks).	SONI made no comment as considered this is part of the governance review. We consider that this is a price control matter in this context

9. Accounting for past delivery

Test Questions	Score	Summary of assessment	DD UR intervention and Actions	Our response to SONI
Test Area: Accounting for past delivery				
APD1: What are the areas of strength and weakness in the company's performance in relation to the 2015-20 period? Taking these into account, how well has it put measures in place to ensure confidence that it can successfully deliver its 2020-25 business plan and fulfil stakeholder expectations? Should include explanation of findings from stakeholder engagement on strength and weaknesses, as well as from company's own internal reviews and knowledge	Somewhat short of excellent	The quality and justification of information to provide strengths and weaknesses and how well it has put in place measures to successfully deliver in the 2020 to 2025 period is somewhat short of excellent. SONI has provided a high level overview of key achievements, cost trends, increasing complexity of operation, new obligations and potentially improved outcomes. We recognise and welcome that this is an improvement from previous business plan submissions. However generally speaking, the analysis lacks a critical perspective in terms of lessons learned from both success and failure. This might include: • Areas where there have been issues to delivery and SONI role i.e. TIA disputes. • Areas where outputs were not undertaken i.e. capex spend. • Stakeholder feedback on problem areas i.e. TDPNI and connection related issues.	**Action:** None.	SONI disagreed with some examples we had cited in terms of lacking a critical perspective. We maintain that there are lessons learned which could be flagged and there was a lack of feedback from stakeholders which could have been helpful (however, our score recognised there were some helpful improvement in terms of transparency from previous plans).

		Proper justification and evidence of cost synergies and value for money from joint working with EirGrid. This was not clearly or robustly evidenced. Without this critical perspective, the chapter fails to highlight the gaps in service provision and hence support for future investment. In this respect we also note issues SECG members have had in material areas of consumer interest with respect to SONI service provision (e.g. Moyle issues).		
APD2: How well has the company given evidence for, and explained, any financial adjustments required as part of the maximum revenue allowances under the 2020-25 control, in relation to its costs or performance during the 2015-20 control period?	Somewhat short of excellent	SONI has cited some evidence of a step change in obligations and activity which would merit financial adjustment to maximum revenue in the new price control. Examples include: new legislation (NIS Directive), needs assessment (Security Review) etc. SONI has also detailed costs and staff required for each new initiative which will impact on revenue increases. However in many cases the breakdown of costs has not been provided. The basis of cost estimates (as set out in the Appendix K) could be potentially good evidence but has largely not been shared in the business plan. Furthermore, initiatives have associated performance metrics but SONI has not detailed current and future outputs/service levels. Without such detail, the case for increasing revenue is incomplete.	**Action:** Various actions on SONI to provide further documentation in relation to needs assessment, cost breakdown etc. to explain and justify the uplift from current allowances.	SONI said it had provided further information as part of its DD. We assess the business plan on the basis of the October 2019 submission.

APD3: How well has the company explained the levels of its outturn costs and performance that feed into any such adjustments?	Excellent	SONI has provided a useful high level analysis of cost trends and explanation of performance against allowance. Some detail is missing i.e. impact on service provision of capex underspend. However, SONI has provided a reasonable helpful review of actual costs versus the regulatory allowance within Appendix B of the business plan.	**Action:** None.	SONI had no comment, but thought the score of substantially short of excellent was harsh We consider that this is a typo from SONI as we scored SONI excellent at the DD.

10. Securing confidence and assurance

Test Questions	Score	Summary of assessment	DD UR intervention and Actions	Our response to SONI
Test Area: Securing confidence and assurance				
SCA1: How well has the company provided confidence that it will actually deliver effectively on its proposals for services and costs?	Substantially short of excellent	We have material concerns around SONI's demonstration of provision of confidence of delivery for the following reasons: • Proposals as part of its incentive and cost treatment framework ('benefits sharing framework') are under-developed and performance commitments (including metrics) have not been fully defined or completed. • There is limited evidence of robust testing and challenging the robustness of the performance incentive framework to the types of risks that may arise in practice. • The level and timeliness of publication and transparency of business plan information to SECG (which we consider basic and necessary requirements) have been mostly poor. For example, the length of time SONI has taken provide some basic annexes such as an appendix on how it had taken account of SECG views is not justified. • While we recognise and welcome that the plan has gone through a level of internal challenge which provides some confidence, SONI has not fully demonstrated in its plan how it has been applied.	**Interventions:** We propose to introduce a licence condition to increase cost transparency of services provision. As noted above, we expect our evaluative performance framework proposals to set out sufficient accountability to protect consumers.	SONI set out concerns it had with the evaluative performance framework proposals, recognised that more information could have been provided and will strive to do more in future. It noted that some information by its nature is confidential. We have addressed SONI comments on the evaluative performance already. We note SONIs points on confidentiality and welcome its commitment to providing timely information where possible.

SCA2: To what extent has the company's Board provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high-quality and deliverable, and that it has challenged management to ensure this is the case?	Substantially short of excellent	The extent to which SONI has demonstrated the plan is high quality and deliverable is poor as there is limited evidence that SONI's Board had any role in assurance or challenge of the plan. The letter from the SONI Board only provides assurance around financeability. The letter does not reference or provide any commentary with respect to quality or deliverability of the business plan.	**Action:** None.	SONI made no comment
SCA3: Has the company's board provided a clear statement that its plan is financeable on both an actual and a notional basis?	Excellent	The SONI Board has provided a signed statement that its plan is financeable on both an actual and a notional basis in Appendix P, with no qualification or limitations.	**Action:** None.	SONI made no comment

SCA4: To what extent has the company's Board demonstrated that its governance and assurance processes will deliver operational, financial and corporate resilience over the?	Substantially short of excellent	The extent to which the SONI Board has clearly demonstrated that its governance and assurance processes will deliver operational, financial and corporate resilience is substantially short of excellent. The role the SONI Board has played is not fully clear (and where governance and assurance processes relate to the role of the EirGrid Board no explanation provided as to why this is appropriate).	**Action:** None.	SONI made no comment
SCA5: To what extent does the company have a good track record of producing high-quality data and reliable submissions as part of processes associated with its economic regulation?	Somewhat short of excellent	SONI's demonstration of track record on data quality and regulatory submissions is of mixed quality. On the one hand, we note that it, generally, has a good track record recently as part of price control submissions such as TNPPs and the new RIGs process and the business plan data tables. However, on the other hand, we are concerned at the insufficient level of information provided to SECG and the lack of transparency. We are also concerned it has not published business plan appendices and offered a detailed and reasoned explanation of why it has withheld the information. We have also found a number of data issues with SONI's submission.	**Action:** None.	SONI disagreed that it had not provided information. We make no further comment, other than that in the test question above (SCA1).
SCA6: How consistent, accurate and assured are the company's business plan data tables, including the allocation of costs between services/activities (and between companies within the same corporate group), and the assurance and commentary provided?	Somewhat short of excellent	We found some instances of non-provision of material aspects (i.e. breakdown and mapping of costs to services is a material example) where we set a clear and reasonable regulatory expectation as part of our approach. While we have discovered some other more minor issues with plan quality, this is to be expected to some extent given the level of detail required.	**Action:** None.	SONI set out its concerns around our requirement but committed working further with us. We welcome SONI's commitment to working further with us.