SLG Economics Ltd

Economics, Regulation, Competition

# A review of the Utility Regulator's Draft Determination of SONI's price control 2020-2025

## A report for the Consumer Council for Northern Ireland

**SLG Economics Ltd**

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**[www.SLG-Economics.co.uk](http://www.SLG-Economics.co.uk)**

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## 1 Background

The Utility Regulator (UR) published its Draft Determination (DD) of SONI's price control 2020-2025 on 6 July 2020. The Consumer Council NI (CCNI) has appointed SLG Economics to provide a report which provides:

1. Analysis of the UR SONI Price Control 2020-2025 Draft Determination document and supporting Annexes 1 to 10 from a consumer perspective.
2. A clear understanding of the implications for Northern Ireland consumers of the SONI Price Control price control.
3. Financial analysis from a consumer cost/benefit perspective.
4. The analysis and the report will cover chapters five to 11 of the Draft Determination document and associated annexes. Special emphasis of the analysis will focus on the following UR proposals within the Draft Determination[1]:
    - Putting in place an outcomes focused, evaluative performance framework, with financial rewards and penalties, to promote high levels of performance from SONI and deliver whole system outcomes, adding value for consumers.
    - Adapting the approach to cost remuneration to incentivise delivery of whole system outcomes.
    - Providing a total cost allowance of £79m (which compares to the SONI business plan submission of £121m).
    - UR's use of uncertainty mechanisms with the approach to cost remuneration.
    - Setting an allowed return on SONI's Regulatory Asset Base (RAB) of 3.79% applied to a CPIH-indexed RAB.
    - Implementing an allowed margin on revenue collection activities in respect of the recovery of system services costs, and an adjustment to allowed return for asymmetric risk.
    - Fit with the energy transition.
5. It will be cognisant and take into account the SONI Price Control 2015-2020 final determinations by the UR and CMA and the Consumer Council responses and positions on SONI's price controls; and
6. The Consumer Council will be able to use the report as the main element of its submission to UR. The report will:
    - Provide a critical analysis of the Draft Determination from a consumer perspective;
    - Assess the impact both positive and negative on the consumer;

[1] https://www.uregni.gov.uk/consultations/soni-price-control-2020-2025-draft-determination-consultation

- Use layman's language as far as possible throughout;
- Propose high level recommendations to address any issues identified;
- Be written in MS Word and in a form which is ready to publish; and
- Include summary table or matrix and an Executive Summary within the report on key points and recommendations – to assist The Consumer Council to succinctly get key messages across to interested parties.

The work will focus on what will offer the best outcome for current and future consumers.

## 2 SLG Economics

SLG Economics is an economics consultancy set up in 2011 by Stephen Gibson providing specialist micro-economic policy advice to regulated companies, regulators and government. Stephen has over 25 years' experience of leading major economic and strategy projects across a broad range of regulated industries as a consultant and working in both economic regulators and regulated companies. SLG Economics has previously provided analysis for CCNI of SONI's appeal to the CMA of the UR's 2015-2020 price control final determination.

## 3 Introduction

We have reviewed UR's Draft Determination plus the 10 technical annexes. This represents a significant body of work and analysis that the UR have put into developing the new 2020-2025 regulatory framework for SONI. In general we believe that the UR's proposals and their approach to developing the regulatory framework for SONI are in consumers' interests and a significant improvement on the proposals set out by SONI in its business plan. In this paper we have not aimed to either summarise all of the UR's DD proposals or to reference each specific aspect of those proposals and state that it is in consumers' interests. Instead we have commented by exception on areas where we think the framework could be improved or where we have other comments on the UR's proposals in the light of the interests of current and future consumers.

**Terminology**

In the DD, the UR uses the term 'customers' to refer to either direct customers – i.e. parties with a direct contractual relationship with the company, and final customers – i.e. individuals or businesses who are the ultimate consumers of the outputs of the company. We think that it would be helpful for the UR to be more specific and refer to either 'direct customers' or 'consumers' in order to be clear that the overall aim of the regulatory framework is to be in consumers' interests (which may diverge in places from the interests of SONI's direct customers).

## 4 Assessment of SONI's Business Plan

Chapter 4 of the DD describes the UR's approach to assessing SONI's Business Plan. Annex 1 describes the process that they used to assess SONI's business plan. The use of a stakeholder expert challenge group is in line with best practice regulatory approach. This process has highlighted multiple weaknesses with SONI's plan. The UR has attempted to recognise this in its approach to intervention and actions, however there are some areas which might be better solved by direct licence-based intervention – for example ensuring provision of sufficient information in a timely manner may be best effected by a licence condition requiring SONI to provide such information.

The UR finds that three of its test areas of SONI's business plan were 'somewhat short of excellent' and five were 'substantially short of excellent' – with none of the test areas receiving an excellent ranking. UR gives SONI's business plan an overall score of '**Category D: Poor'** which is the lowest category available. The quality of SONI's business plan is of particular concern to consumers because it reflects the fact that extensive regulatory intervention is required to translate the plan into a price control framework with severe concerns about the company's ability to deliver good outcomes for consumers. There is a danger with such a wide difference between the regulator and the regulated company, that the regulator is forced to 'second guess' the company planning process and effectively develop a new plan rather than building the regulatory review on the company's business plan.

The regulator comments that SONI's business plan seemed to have been undermined by proposed price control arrangements that were skewed too far in its favour and insufficiently supported. This assessment reflects both the UR's assessment of the eight test areas and also the challenge by the Stakeholder Expert Challenge Group (SECG). In particular SECG noted:

- Significant room for development in SONI's stakeholder engagement approach,
- Lack of innovation and ambition in key energy transition planning areas,
- Lack of clarity over reasons for historic underspend and the need for SONI to be responsive to change,
- SONI not being demonstrably customer and partnership focussed, and
- A limited amount of business plan information being shared by SONI.

It is a major concern to consumers if SONI may be trying to 'game' the regulatory framework or 'pad' the cost base, as well as if they are simply not very good at developing their business plan – the regulator should be alert to both types of behaviour by SONI and develop responses appropriately.

**Customer engagement**

For consumers, the lack of customer engagement and customer focus is particularly concerning as it means that SONI is both not speaking to customers and consumers sufficiently to understand what outputs and trade-offs they value, and then not taking this sufficiently into account when making decisions about investment and management of its network. While the regulator can act as a proxy for consumers, it is important that SONI spend more effort in engaging with customers and consumers and focussing on the customer and consumer benefits that arise from their activities.

**Delivering value for money**

The UR found a number of key areas of material consumer interest which fell well short in terms of value for money:

- The proposed service initiatives not reflecting reasonable customer priorities; insufficient clarity on cost; insufficiently developed benefits, insufficient confidence that the correct option has been chosen and insufficiently ambitious service initiatives.
- Significant concerns over cost remuneration and the performance framework.

While the interventions that UR proposes are related to the individual test areas (discussed below), it will be important for consumers that, when taken together, the interventions and SONI's responses address all of these high level shortcomings and deliver overall value for money for consumers. It is appropriate that UR has recognised that where system outputs are expected to increase, they have allowed extra funding to allow SONI to deliver those allowances; however it is also important that those additional system outputs are in consumers' interests so as to ensure that consumers do not end up funding outputs that they do not value.

# 5 Delivering Services and Outcomes

**SONI's proposals on outcomes**

We are concerned that SONI's proposals on outcomes do not appear to be focussed on how the key high level objectives will benefit current and future consumers. This is important as those high level objectives then inform the range of lower level activities that SONI undertakes in support of them over the price control period. It will be important as part of the final determination to have a clear, focussed set of high level objectives for the company that are based on delivering to consumer benefits and are backed by evidence demonstrating that they meet consumers interests and will meaningfully improve outcomes for consumers.

**SONI's proposals on system development**

The impact of SONI's activities on the electricity system as a whole is key to current and future consumers' interests – it is of no benefit to consumers if SONI lowers its own costs at the expense of raising the costs of other parts of the electricity system - since consumers pay for and receive the outputs of the system as a whole. It is therefore important that SONI have regard for the system-wide impacts of their activities in their planning and that this is recognised in their objectives and the outcomes that underpin those objectives.

**Accountability for SONI performance**

We agree with UR that an evaluative rather than mechanistic approach to performance incentivisation is appropriate, for the reasons set out in Annex 3 of the DD. We would however see value in the metrics that SONI has proposed for a more mechanistic performance regime to be used as part of the inputs to ***inform*** the regulator's and evaluation panel's assessment of SONI's performance and the proposed weightings to provide guidance around the relative importance to place on different aspects of the outcomes SONI achieves. However the regulator should ***also*** place significant weight on customer/consumer feedback and customer/consumer-facing output measures to ensure that SONI is incentivised to deliver outputs that customers and consumers value. The size of the potential performance payments should be sufficient to incentivise SONI to adjust their behaviour to improve their performance. We do not see a good reason why it is in consumers' interests for the incentives to be capped at a larger value in the upward direction than in the downward direction, but would expect than in either circumstance large performance payments (where performance is close to or beyond the level of the cap in a positive or negative direction) would prompt the regulator to re-evaluate the performance regime to check that it was working effectively in consumers' interests.

## 6 Evaluative performance framework

Annex 4 sets out a detailed proposal for setting up an evaluative performance framework. It discusses the choice of outcomes and service areas that would be subject to the evaluative framework, sets out the evidence and expectations of the outcomes that SONI would be judged against and the evaluation methodology for assessing the overall reward or penalty including the use of an evaluation panel.

For a performance framework to be an effective mechanism for incentivising improvements in the company's performance, it needs to:

- Evaluate outputs that are fully or substantially under the company's control and are important to consumers;
- Have a clear and predictable relationship between the outputs and the performance payments;
- Be flexible to developments during the operation of the framework; and
- Be seen as fair and reasonable by the company and its stakeholders – including consumers.

The performance framework that the UR propose appears to us to be well designed. The 16 different combinations of role and output is a large number of different areas to evaluate and it may be difficult to independently evaluate each of the combinations without reference to the other aspects of the outcomes. We would recommend that this is reviewed after a year of trial working, with the potential for one or more SONI outcomes to be collapsed down, rather than have all four outcomes independently assessed – which would make the process more focussed. For example it may be easier and more effective to evaluate SONI's performance on grid security as a single measure, and for decarbonisation combine system operation and adequacy and the independent expert role; in which case the assessment matrix might be:

| | SONI service outcomes | | | | |
|---|---|---|---|---|---|
| | **Decarbonisation** | **Grid security** | **System-wide costs** | **SONI service quality** | **Sub-total** |
| System operation and adequacy | 10% | 20% | 12.5% | 5% | |
| Independent expert | | | 7.5% | 5% | |
| Network development and system planning | 5% | | 12.5% | 5% | |
| Commercial interface | 5% | | 7.5% | 5% | |
| **Sub-total** | **20%** | **20%** | **40%** | **20%** | **100%** |

We agree that five grades from poor to excellent for each assessment area is appropriate, however we would leave room for the evaluation panel to provide a more granular assessment if required – for example to reflect performance that is on the low-side of baseline without being lagging, or the high-side of good without being excellent (possibly reflecting the range of different aspects of performance for one assessment area or where it is not clear whether a particular aspect of performance was within SONI's control or due to exogenous factors). This could easily be achieved within the UR's overall approach by allowing the use of half-marks in the grading.

It will be important that the evaluation panel properly represents the views of consumers with appropriate terms of reference. Members of the panel will need to be provided with sufficient evidence to properly and independently assess SONI's performance and to be able to call for more evidence and analysis if they think it is necessary for them to fulfil their role. Our experience of similar panels in other areas of UK regulation is that to be effective, the panel needs to be properly resourced and the panel members properly compensated to allow them to spend sufficient time to consider the appropriate grade for each area.

Setting the maximum payment at +/-£1m seems reasonable as a meaningful figure that will incentivise the company to improve performance without pushing it into financial distress in downside scenarios or having too great a cost to consumers in upside scenarios. We believe that financial incentives can usefully be supplemented by reputational incentives. Once the annual evaluation process is complete, the regulator should publish the evidence, reasoning and outcome in a short report with a high media profile. We believe that SONI should underline its commitment to improving performance and working in consumers' interest by aligning its Board and senior manager bonus payments with the outcomes of the regulator's performance evaluation of the company.

However if the outcomes are consistently verging towards either extreme, we would expect UR to review both the baseline and operation of the performance framework and consider whether additional measures (eg. enforceable licence requirements or specific targets) might be more suitable. The operation of all aspects of the performance framework should be kept under review to ensure that it is operating in consumers' interests and that the incentives are not 'gamed' or otherwise distorted. The scope and detail of the guidance material that UR proposes to provide will be important to the effective operation of the regime.

# 7 Cost remuneration and managing uncertainty

**UR's proposed approach to cost remuneration**

We believe that the detailed analysis in Annex 5 of the DD belies the level of subjectivity and judgement in the approach that UR is proposing to cost remuneration, particularly given the fundamental weaknesses in SONI's business plan. Nonetheless it appears that UR have ended with a reasonable balance of high level incentives on SONI summarised in Figure 4. We do however question the shift in incentives on SONI around the expected level of expenditure – below this value it has to prove that under-spend was not at the expense of performance or outcomes, while above this value it has to show that the extra spending will reduce whole system costs. We think that an approach that incentivised SONI to focus on performance, outcomes and whole system costs irrespective of the level of outturn expenditure compared to expected expenditure would be more in consumers' interests. This is particularly the case where within one cost category there could be over- as well as under-spends and the level of justification for one item of expenditure would be dependent on the outcome of a different expenditure item within the cost category.

We also believe that the Demonstrably Inefficient or Wasteful Expenditure (DIWE) criterion imposes a very high threshold on the UR for disallowing SONI expenditure that is not in consumers' interests. A lower threshold that avoided consumers paying for inefficient expenditure would be more appropriate, for example a requirement to show that expenditure is "used and useful" would be more in consumers' interests and should be what SONI is striving to achieve.

**Enhanced cost transparency**

We support cost transparency as a way to allow closer monitoring of trends in SONI's performance and to highlight adverse movements. However it is important for consumers that the information provided is as accessible and consistent as possible, so as to facilitate stakeholders engaging with the information provided. We therefore think that the enhanced reporting requirements should include clear guidance on the presentation and accessibility of the information as well as the detail of what information is to be provided.

**Uncertainty mechanisms**

We agree that there is a need to allow flexibility to change the cost allowance to recognise new or changed outputs, however for consumers there are additional criteria that are important in such an approach:

- SONI should have to demonstrate that any changes are in consumers' interests and reflect consumers requirements, and that only efficient additional costs are being allowed;
- The process should be symmetric so that if for example initiatives are not undertaken during the price control period or SONI's obligations or deliverables are reduced, then there would be a process for reducing the allowed revenue to recognise this change; and

- There should be clear accounting for the baseline and additional allowances and obligations, so that they can be properly reconciled at the end of the control period and any under-delivery accounted for in the subsequent control period.

In addition to the uncertainty mechanisms set out in the DD, we believe that the company and the regulator should explicitly consider whether the current Covid-19 pandemic and the UK's impending exit from the EU are likely to have an impact on costs, revenues or risks faced by SONI and whether there is a need for a specific focussed reopener to deal with potential implications of either of these shocks to the economy.

# 8 Cost Allowances

**Salary cost allowance assessment**

SONI are asking for salary levels for its staff that are benchmarked against the 75th percentile comparisons with no adjustment for regional differences in wages in Northern Ireland. The UR have accepted that 75th per centile benchmark, but adjusted SONI's proposals to take account of lower labour costs in Northern Ireland. UR justifies accepting the 75th percentile rather than a more standard benchmarking to median level salaries due to "*the value that SONI, as a relatively small organisation, can deliver to customers and the wider energy industry*"[2]. We do not think that this is sufficient justification for allowing labour costs that are almost 30% (UK ASHE SOC 2 and SOC4) or almost 35% (UK ASHE SOC3) above the median comparator levels. We believe that it is in consumers interests that SONI salary costs are remunerated at a level that is at (or much closer to) the median levels for similar roles taking account of regional differences for Northern Ireland. SONI can of course choose to remunerate its employees at a higher level, but we would expect this to be funded by the higher performance payments from the improved outcomes that might be generated from more highly remunerated employees, rather than through baseline payments.

**Real Price Effects (RPE) and productivity assessment**

The SONI forecasts assume that unit labour costs will increase by 1% pa above CPIH inflation[3], UR do not comment about this increase and allow it in their DD. We question whether real unit wage costs need to rise by this amount over the next 5 years and would suggest that that UR undertake analysis of Northern Ireland labour cost forecasts to see whether these forecasts are realistic.

**Pension cost allowance assessment**

The approach to recovery of pension costs in the DD seems reasonable, however we believe that UR should adjust the contribution allowance to be consistent with the lower salary baseline and growth suggested above. We believe that it is in consumers' interests that pension costs are recovered over 10 years rather than 5 years, and that this should be reviewed and adjusted in the light of the actuarial valuation and at the 2025-30 SONI price control to ensure that there is no risk of a 'stranded surplus' (surplus funds in the pension fund that cannot be returned to consumers).

[2] Annex 6, paragraph 6.24
[3] Annex 6, Table 23

**General comments on UR's proposed allowances and SONI's governance**

UR has highlighted a large number of weaknesses in SONI's cost projections and the evidence underlying its business plan and has in many cases substituted its own evidence and forecasts in the DD leading to a significant reduction compared to SONI's proposals. This is clearly in consumers' interests, however given the number and extent of the revisions, it does mean that there is a risk that SONI as a company do not 'own' the forecasts. While the regulator has the power to set the price cap, it is important that the company either provides a robust evidence base to justify the substitution of its own forecasts for individual elements of the determination or that SONI's directors 'buy-in' to the regulator's forecasts and transparently set company targets and business planning to align with those forecasts. Without such 'buy-in' there is a risk that the company will fail to deliver against targets that is does not 'own' and consumers will end up paying for this in future control periods.

## 9 Risk and Return

The UR provides a detailed annex that explains the calculations and assumptions that support their proposed approach to risk and return and in particular the calculation of SONI's cost of capital. The annex sets out SONI's proposals, the UR's explanation and consideration of the question and the UR's proposed approach in the DD. In general we agree with the UR's approach as being in consumers' interests and as such we do not comment on all the different aspects of the calculations, but rather comment by exception where there is a particular point that we feel is important for consumers' interests.

The UR propose removing the requirement for EirGrid to provide a £10m parent company guarantee (PCG) in support of SONI's TSO activities. While we recognise that the proposed notional gearing of 30% is low compared to regulatory comparators and provides protection to consumers in the event of financial distress, nonetheless we think there is a value to consumers in having the extra assurance of the PCG to avoid the risk of SONI facing financial distress in extreme downside scenarios. Therefore we would suggest a lower PCG of £5m to provide protection to consumers, at the cost of £87,500 per year to fund it (at the 0.175% rate proposed by SONI). This approach would also support the use of a 0% small company premium in the cost of debt rather than the 0.4% proposed by SONI, since it reflects the benefits to SONI of being able to raise debt as part of EirGrid rather than as a fully independent company.

We support the adjustment mechanism for the statutory corporation tax rate of 17% to the prevailing applicable rate of corporation tax during the price control period. This provides assurance to consumers that any changes to the corporation tax rate during the control period is properly adjusted for within the pricing framework and does not lead to windfall gains or losses or consumers under or overpaying for the service that they receive.

## 10 SONI's RAB

It is important for consumers that the RAB is no higher than it needs to be, since this implies higher electricity bills with no corresponding improvement in the service that they receive. It is therefore concerning that SONI do not appear to have followed the UR's rules for updating the RAB, that their submissions have not provided evidence or explanation for the higher RAB figures that they propose, that they do not appear to have implemented the 50:50 cost sharing initiative between 2015/6 and 2019/20 and that there were discrepancies between the post-CMA model and the SONI submissions. It will be important that the UR can provide a full reconciliation of the 2020-2025 RAB back to the post-CMA model so that consumers have confidence that they are paying no more than necessary for the SONI asset base.

We believe that the proposal to shift from using the Retail Price Index (RPI) to using the Consumer Price Index including owner occupiers' housing costs (CPIH) as the inflation measure for indexing the RAB is a sensible move. This reflects:

- the government's advice to move away from using the RPI for regulatory purposes,
- that the RPI is no longer an official government statistic, and
- the RPI's higher volatility compared to the CPIH.

While indexing the RAB by CPIH does not directly impact consumer bills, it does mean that the key price index that is used in the regulatory framework relates to price levels that consumers face (and particularly vulnerable consumers who have pensions or receive other benefits that are generally indexed to consumer prices rather than the retail price index) and so avoids the risk of a wedge opening up between the RPI and CPIH which would disadvantage consumers, particularly vulnerable consumers.

## 11 Implications for Consumers

Overall, UR's DD significantly reduces the overall revenue that SONI is allowed (and therefore prices that consumers pay) compared to SONI's business plan request, however it still represents at 12.5% increase on the 2015-2020 period. We are concerned at the extent to which the DD relies on the analysis of the regulator rather than the company's plan (because of the weaknesses of that plan). While we agree with most of the regulator's proposals as individually being more in line with consumers interests than the SONI proposals, the degree of divergence between the regulator and the company and the previous 2015-2020 determination raises significant risks for consumers.

Given the weaknesses that are apparent in SONI's business plan and the lack of evidence supporting it, consumers should be concerned that without a much stronger planning function there is a real risk that the company will still spend inefficiently and on areas that are less important to consumers. As a result, despite strong regulatory incentives from UR, consumers could end up paying higher prices for unsatisfactory outputs in the long term. We therefore believe that it is critical to the success of the periodic review for consumers that SONI improves the quality of its planning function to meet the challenges the UR has set. We believe that this is so important that it would be helpful to have an explicit recognition and incentivisation of this in the regulatory framework (along the lines of the 'enhanced company status' that Ofwat allowed water companies whose business plans passed its tests for outcomes, costs and affordability, and which demonstrated robust Board assurance).

# 12 Summary of key comments and recommendations

We have reviewed the UR Draft Determination of SONI's 2020-2025 price controls. Our key comments and recommendations are:

- In general UR's proposals and their approach to developing the regulatory framework for SONI are in current and future consumers' interests and are a significant improvement on the proposals in SONI's business plan;
- Some of the weaknesses in SONI's plan might be better solved by direct (licence-based) regulatory intervention, for example a licence condition to require improved provision of information;
- The regulator should distinguish between 'gaming' the system and poor business planning by SONI and develop responses appropriately;
- It is important that SONI spend more effort engaging with customers and consumers and focussing their business plan on the customer and consumer benefits that arise from their activities;
- Where system outputs are expected to increase (in ways that are in consumers interests), it is appropriate to allow SONI additional funding to deliver those outputs;
- It is important for SONI to have focussed high level objectives that benefit consumers and are backed by evidence demonstrating that they will meaningfully improve outcomes for consumers;
- It is important that the impact of SONI's activities on the electricity system as a whole are taken into account when considering the services and outcomes to be delivered by the regulatory regime;
- We support an evaluative rather than mechanistic approach to performance incentivisation which places significant weight on customer/consumer feedback and customer/consumer-facing output measures;
- We do not see it being in consumers interests if incentives are capped at a larger value in the upward than downward direction;
- We believe that the performance framework is well designed but has a large number (16) of different areas to evaluate. We recommend considering collapsing one or more SONI outcomes to make the process more focussed;
- We believe more granular assessment could be useful and would allow the use of half marks in the grading system;
- The evaluation panel should be properly resourced and compensated to allow them to complete their role effectively;
- We believe that SONI should underline its commitment to improving performance and working in the consumers' interest by aligning its Board and senior management bonus payments with the outcomes of the regulatory performance regime;
- The operation of the performance regime should be kept under review to ensure it is working in consumers interests;
- We question the shift in incentives on SONI around the expected level of expenditure, we think that an approach that incentivised SONI to focus on performance irrespective of the level of outturn expenditure would be more in consumers; interests;

- We believe that the DIWE criteria is too high a hurdle for ruling out expenditure that is not in consumers' interests and would recommend a lower threshold;
- We think that SONI should be subject to enhanced reporting requirements with clear guidance on the presentation and accessibility of the information as well as the detail of the information to be provided;
- SONI and the regulator should explicitly consider whether the COVID-19 pandemic and/or the UK's impending exit from the EU are likely to impact on the costs, revenues or risks faced by SONI and the potential need for a reopener to deal with the potential implications of either of these economic shocks;
- We believe that SONI's salary costs should be remunerated at (or much closer to) the median levels for similar roles taking account of regional differences for Northern Ireland – any higher level of remuneration should be funded from higher performance payment revenues rather than baseline payments;
- We question whether real unit wage costs need to rise by 1% pa above CPIH inflation;
- Pension cost recovery should be in line with lower salary cost expectations and recovered over 10 years;
- It is important that SONI 'owns' the forecasts underpinning the price control to avoid the company failing to deliver against the regulatory targets;
- We propose that EirGrid provide a £5m parent company guarantee in support of SONI's TSO activities at a cost of £87,500 pa;
- We support an adjustment mechanism for the prevailing level of Corporation Tax during the control period;
- It will be important for the UR to provide a full reconciliation of the 2020-2025 RAB back to the post-CMA model so that consumers have confidence that they are paying no more than necessary for the SONI asset base;
- We support the switch from using the Retail Price Index (RPI) to using the Consumer Price Index including owner occupiers' housing (CPIH);
- We are concerned at the extent to which the DD relies on the UR's analysis rather than the company's plan. We believe that it is critical for the success of the periodic review that the quality of SONI's planning function improves and that this should be explicitly recognised and incentivised in the regulatory framework.

**SLG Economics**
**September 2020**