



Gas Distribution Networks GD23 Price Control

Consultation on our Approach
June 2020



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

We are publishing our consultation paper on approach for GD23, the price control for the gas distribution companies Phoenix Natural Gas Ltd (PNGL), firmus energy and Scotia Gas Networks (SGN) from 2023 onwards.

Our proposed approach sets out a package of measures to continue the efficient development of the gas industry in NI through increased connections and good stewardship of the existing assets.

The price control will set out the amount the gas distribution companies will have to run their businesses and invest in the gas network.

Audience

Industry, consumers & statutory bodies.

Consumer impact

The price control will set out the allowed distribution charges for the gas distribution companies. Distribution charges make up around 30% of the total domestic customer bill presently. The price control approach detailed in this document will set out the basis on which we propose to determine the allowed distribution charges.

As part of our approach for the GD23 price control, we propose a range of measures designed to increase the number of consumers that can connect to the natural gas network, improve customer service and improve the environmental sustainability of our world.



Contents page

Foreword	4
1. Introduction	6
2. Background and Context.....	8
Background	8
Development of the gas industry to date	8
Economic Regulation of Gas Distribution Networks	9
The Price Control Process.....	10
3. Lessons Learnt from the Current Price Control (GD17).....	12
4. Aims for GD23	13
General Aims for GD23	13
5. Our Approach to Key Areas	15
General Approach	15
A Proportionate Approach	15
Developing the network	17
Environmental Impact, Decarbonisation and Energy Efficiency.....	18
Consideration of moving from RPI to CPI/CPIH	18
Asset Maintenance	19
Volumes.....	20
Duration of the Price Control	21
Introduction of Business Plan Assessments.....	21
6. Stakeholder and Customer Engagement	23
General Stakeholder Engagement	23
Working with the Consumer Council (CCNI).....	23
Working with the GDNs	24
Consumer Impact and Engagement	24
Customer Service	26
Impact of Distribution Costs on Consumer Tariff	26
7. Efficiency Target	28
Overview.....	28
Catch-up with the industry frontier	28
Frontier shift.....	31
8. Operational Expenditure.....	33



Overview.....	33
Work Management	35
Work Execution	36
Business Support Costs	38
Other Opex Categories.....	40
Other Expenditure Types.....	41
9. Capital Investment	42
10. Incentives and Innovations	45
Overview – Incentives	45
Connection Incentive	45
Properties Passed Incentive	46
Innovation.....	46
11. Uncertainty Mechanism.....	48
Reopeners.....	48
Materiality Thresholds	48
12. Financial Issues	50
GD23 Base Year	50
Rate of Return	50
Financeability.....	51
Capitalisation	51
13. Price Control Outputs.....	52
Form of Price Control	52
Profiling of Revenues	52
Pi-Model	52
Designated Parameters and Determination Values.....	53
14. Timelines	54
15. Consultation Feedback.....	55
Appendix 1: NI Gas Distribution Network Operators Map	56
Appendix 2: Glossary.....	57



Foreword

The Utility Regulator's primary objective in respect of the Northern Ireland gas sector is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry. In doing so, we have regard to the need to ensure a high level of protection of the interests of consumers of gas generally and also the particular needs of vulnerable consumers.

Price Controls are one part of the work we do to deliver this objective. Through our price controls we establish a regulatory contract with service providers which sets the framework for the delivery of network development, consumer service and efficient levels of costs so that consumers receive value for money.

The gas industry is made up of a number of component parts. Transmission companies own and operate the high pressure transmission network which provides for the bulk transport of gas, including the undersea interconnectors from GB. The Gas Distribution Network (GDNs) operators provide the local distribution networks which all consumers (with the exception of power stations) connect to. Shippers and suppliers purchase the gas conveyed on the network with supply companies serving as the intermediaries which supply and bill consumers.

The GD23 Price Control will consider the plans of the three Gas Distribution Network operators:

- Phoenix Natural Gas Limited which serves an areas to the east including Larne, Belfast and East Down.
- firmus energy which covers the central area; and
- SGN Natural Gas which recently began developing the gas network in the west.

These companies currently operate under the GD17 Price Control which runs to the end of 2022. GD23 will begin on the 1 January 2023. Our current proposal is that it will run for 6 years however we will consider feedback to this consultation document before finalising this decision.

Our initial view is that GD23 will follow established processes and procedures used in GD17 Price Control, amended where necessary to improve outcomes for consumers. The objective of the industry remains as outlined above. The role of the GDNs in developing, maintaining, and operating the network and connecting new consumers continues. However we would be interested to hear the views of consumers and other stakeholders on how roles and responsibilities in the gas sector could be better co-ordinated to help deliver more simplicity and efficiency.



This is not to underestimate the challenge and impact of a future energy strategy focused on decarbonisation which will develop in parallel with GD23. The Department for the Economy is currently leading the development of an energy strategy that will enable new and challenging decarbonisation targets which move towards a net zero target by 2050. Within this, it is seeking views on whether decarbonisation of the gas grid is a viable option and what evidence can be provided on both the speed and affordability of decarbonising the gas grid. We currently cannot anticipate the outcome of this work and we will build sufficient flexibility into the development of the GD23 Price Control and its delivery to accommodate changes in policy as they arise.

Consumers remain at the centre of our consideration and we look to the GDNs to develop consumer engagement to ensure that consumers' views inform and influence expectations for service and future investment decisions.

This consultation document sets out our proposed approach to GD23. It provides an opportunity for consumers, stakeholders and the GDNs to inform our approach to the price control.

1. Introduction

1.1 This document sets out our proposed approach to the GD23 Price Control. The price control will regulate the outputs and costs of the three gas distribution network companies in Northern Ireland, Firmus Energy (Distribution) Ltd (“firmus”), Phoenix Natural Gas Ltd (“PNGL”) and Scotia Gas Networks Ltd (“SGN”) from 1 January 2023. It includes a timetable for the delivery of company Business Plans, our determinations and the changes to the company licences necessary to give effect to our decisions.

1.2 It sets out our proposed approach to GD23 in the following chapters:

- Chapter 1, this chapter, provides an introduction to the approach document.
- Chapter 2 provides background and context, covering the economic regulation of gas distribution networks and price controls.
- Chapter 3 provides an overview of the lessons learnt from the previous gas distribution price control (GD17).
- Chapter 4 sets out the aims for the next price control, GD23.
- Chapter 5 sets out our proposed approach to some key areas which must be addressed as we develop and deliver GD23.
- Chapter 6 considers the stakeholder and consumer engagement of all parties throughout the price control and during the approach.
- Chapter 7 discusses the principles surrounding efficiency targets and how they are applied to the GDNs.
- Chapter 8 introduces the treatment of operational costs associated with the price control.
- Chapter 9 introduces the treatment of capital costs associated with the price control.
- Chapter 10 discusses the incentives that have been in place during previous price controls and how we will incentivise the GDNs in GD23.
- Chapter 11 discusses the uncertainty mechanism, designed to limit the risk to both GDNs and consumers throughout GD23.
- Chapter 12 introduces the financial issues of the price control.
- Chapter 13 discusses the desired outputs of the price control.

- Chapter 14 sets out the proposed GD23 timeline.
- Chapter 15 highlights provides information on how to provide feedback on this consultation.
- Appendix 1 shows the current Gas Distribution Map of Northern Ireland highlighting the main gas lines and the GDN areas.

2. Background and Context

Background

- 2.1 The Utility Regulator is a non-ministerial government department, accountable to the NI Assembly, which is responsible for the setting of our statutory remit and objectives. Our principal objective in relation to the gas industry is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland. In doing so, we have regard to the need to ensure a high level of protection of the interests of consumers of gas generally and also the particular needs of vulnerable consumers. And we do so in a manner consistent with the fulfilment of the objectives set out in the European Gas Directive, and more fully in the Energy (Northern Ireland) Order 2003.
- 2.2 Price Controls are one part of the work we do to deliver this objective. Through our price controls we establish a regulatory contract with service providers which sets the framework for the delivery of network development, consumer service and efficient levels of costs so that consumers receive value for money. In doing so we safeguard the industry by securing that the GDNs are able to finance the activities they carry out to serve consumers.
- 2.3 We do not direct regulated how companies run their businesses or where to develop their network. Instead we scrutinise and critique their plans and their justification for the outcomes they intend to deliver and the efficiency of the expenditure necessary to deliver those outcomes. Therefore a key element in the price control process is the submission of business plans by the licenced companies in which they set out their proposals for outputs and costs going forward. We review and challenge these plans to determine appropriate targets and funding mechanisms for the Price Control period.
- 2.4 In carrying out price controls we follow the five principles of better regulation which underpin our values. These are accountability, consistency, proportionality, targeting and transparency. We will continue to listen to consumers, stakeholders and the GDNs and explain our decisions.

Development of the gas industry to date

- 2.5 Northern Ireland currently has three gas distribution networks:
- Phoenix Natural Gas Limited (PNGL) own and operate the distribution network in the Greater Belfast and Larne areas and East Down.
 - Firmus energy (Distribution) Limited (firmus) own and operate the distribution network, normally called the ten towns area.

- Scotia Gas Networks Ltd (SGN) own and operate the network mains laid as part of the 'Gas to the West' project.

2.6 The operating areas of these three companies is shown in Appendix 1

2.7 The current development of the network is summarised in Table 1. It shows the number of properties passed and the number of properties connected to the end of 2018. In this context a 'property passed' is one which is typically located within 50m of a gas main, subject to certain practical limitations, and is referred to as 'readily connectable'. The number of connections covers all property types including domestic and industrial / commercial. There was 56% of properties passed connected at the end of 2018. A total of over 200,000 properties which could connect remained to be connected. There is significant potential to connect further properties to the existing network.

Network Operator	Licence Awarded	Properties passed	Properties connected	Potential connections
PNGL	Sept 1996	333,781	218,035	115,746
firmus	Mar 2005	127,705	42,577	85,128
SGN	Feb 2017	2,985	331	2,654
Total		464,471	260,943	203,528

Figures are correct up to the 31 December 2018

Table 1: Development of the gas network

2.8 Once GDNs complete the network development in GD17 and that already identified in the GD17 Price Control for completion in GD23, approximately 65% of properties in Northern Ireland will have access to natural gas should they choose to connect. A high proportion of the remaining properties not passed by a gas main will be in rural locations or in smaller villages and communities of less than 200 properties. For these locations the cost to serve (to allow connection) will increase the networks costs to existing consumers.

Economic Regulation of Gas Distribution Networks

2.9 A key function and purpose of economic regulation is to ensure that natural monopoly service providers continue to act in the interest of consumers. Where a monopoly exists, as it does in the distribution of natural gas, consumers are not able to change their network operator in order to receive better prices or service levels elsewhere. In the absence of these competitive pressures, natural monopolies may act against consumer interests by:

- Becoming or remaining inefficient, passing higher costs on to consumers than would otherwise be necessary.
- Delivering poor levels of service rather than seeking innovative or challenging ways to improve performance while reducing costs.

2.10 By subjecting monopoly service providers to external scrutiny, independent economic regulation brings an element of competition to the industry and helps ensure that the companies continue to act in the interest of consumers. This includes:

- Ensuring that the voice of the consumer informs both the company business plans and the determinations we make of expenditure and outcomes.
- Imposing limitations on the costs paid by consumers for the service provided by the regulated company or companies (while at the same time making sure that they are adequately financed). These constraints are based on direct challenge of the company's proposals, supported by external benchmarking of cost and service to establish the company's relative efficiency and performance.
- Ensuring that a strong regulatory framework is in place which includes clearly defined outputs that the GDNs must deliver, with delivery monitored regularly through cost and performance reporting. When selecting these outputs we aim to strike a balance between outputs that are clearly defined while allowing the GDNs the flexibility they need to deliver them in the most effective way.

The Price Control Process

2.11 Within a regulatory regime, the determination of a constrained budget to deliver a defined set of outcomes over a set period is achieved through the price control process.

2.12 We also challenge the GDNs to improve their efficiency and performance relative to the gas distribution companies in Great Britain.

2.13 The wide-ranging price control process includes a number of distinct stages:

- GDNs prepare a business plan (including actual data for previous years), that sets out their assessment of the funding necessary to deliver the target outcomes during the price control period.

- We consider the business plan and benchmark efficiency and performance in order to set cost allowances necessary to allow the GDNs to operate in an efficient manner.
- We issue a draft determination for public consultation. We encourage stakeholders to provide their views by commenting on the draft proposals.
- We then carefully consider all responses received from the draft determination consultation to arrive at a final determination of a challenging and achievable level of funding. This process ensures the final determination is fair, balanced and proportionate for the GDNs.
- We consult on any licence modifications required as a result of the final determination. Such licence modifications will comprise modifications to designated parameters and determination values.
- We then assess the responses received to the consultation on licence modifications and carefully consider all responses received before publishing our licence modifications decision.
- If a GDN consider that the UR has made an error in its final determination and licence modifications it may seek permission from the Competition and Markets Authority (CMA) to appeal against our decision. If the CMA grants permission for the appeal to proceed the CMA will invite submissions from the relevant parties. The appeal process can take around 6 months at the end of which the CMA publishes its final determination and may remitted matters back to the UR for reconsideration and determination.

2.14 The proposed timelines for GD23 are set out in Chapter 14.

3. Lessons Learnt from the Current Price Control (GD17)

3.1 A review of the lessons learnt takes place following each price control process. This includes both an internal review and an external request for feedback.

3.2 Lessons learnt from our internal review of the GD17 price control included:

- The overall form of the price control was effective given the relative maturity levels of the GDNs, however it was difficult to effectively benchmark the three GDNs given their different stages of development.
- Improvements to the transparency of the GD17 timetable were effective in ensuring that all parties had clarity on timescales and expectations for the GD17 approach.
- All reports and submissions from the GDNs (both in the price control determination stages and during the RIGS and Cost Performance Report submissions) should be in a consistent price base.

3.3 Some of the review points raised by the GDNs included:

- The introduction of a structured information request process allowed the GDNs to better understand our requirements and effectively allocate time and resources to the relevant queries.
- The GDNs welcomed our standard cost reporting template for the entire duration of GD17 to enable consistency.
- The GDNs felt that GD17 offered few incentives for outperformance and would welcome greater incentives moving forward into the next price controls.
- The GDNs would welcome greater transparency throughout the process and increased communication with ourselves to aid a smoother determination process.
- There was a recognition of the potential to improve customer engagement and learn from the Consumer Council of Northern Ireland (CCNI), and the GDNs stressed the importance of understanding consumers not yet connected to the gas network as well as those who are already customers.

3.4 We will seek to address these issues in the GD23 price control process

4. Aims for GD23

General Aims for GD23

- 4.1 In line with our principal objective, the overarching aim of GD23 is to contribute to the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.
- 4.2 We aim to build on the process, approaches and information requirements developed through GD17, amending them where necessary to deliver improvements in service to consumers and taking account of changing circumstances.
- 4.3 The development of GD23 will run in parallel with work on the future Energy Strategy led by the Department of the Economy. This will assess the potential pathways to reach a net zero 2050 target for the energy sector in NI while meeting the energy needs of the population sustainably and cost-effectively. We aim to develop GD23 in a way which does not pre-empt the outcome of this work but provides the flexibility to address new policy objectives arising from the strategy.
- 4.4 Our other aims of the GD23 price control are that:
- GDNs should produce high quality, well evidenced business plans which can be accepted following limited scrutiny.
 - GDNs should to continue to improve their efficiency and performance at a sustainable rate.
 - Economic development of the network should be carried out in a way which is resilient in the long term taking account of future decarbonisation.
 - Long term planning is promoted to secure continuity of investment across years and between price control periods.
 - GDNs engage with consumers to enable them to inform the level of service provided which the GDNs provide.
 - GDNs continue to be able to finance their operations and receive a reasonable return on their investment.
- 4.5 At a more operational level we plan to:
- Set out clear timeframes and deadlines for all elements of the determination process.

- Build on, and refine the previous GD17 business plan template to ensure consistency with the latest Annual Cost Reporting templates.

4.6 We would welcome views on what other aims we should focus on.

5. Our Approach to Key Areas

General Approach

- 5.1 Through the GD23 price control we will determine a package of outputs and revenue and/or price limits. We will do so in a way that ensures that the GDBs efficient operational and investment costs can be met and their objectives delivered, providing best value for money to consumers.
- 5.2 As part of the price control we will consider all aspects of the GDNs business and the objectives of the price control will be tailored to take into account the needs, and associated costs, of the gas industry in Northern Ireland. While we will focus on the price control period, we will also consider the planning work necessary to support the effective and efficient delivery of service in the longer term.
- 5.3 We will carefully consider the impact of any price control decisions on consumers.
- 5.4 The provision of relevant and robust information in a timely manner by the GDNs is a pre-requisite for a successful price control. We will clearly set out our information requirements and timeframes and liaise with the GDNs on an ongoing basis as appropriate. We may also consider licence modifications, where relevant and appropriate, to ensure relevant information will be provided to us in the timescales, format and quality required.
- 5.5 Regulatory Instructions and Guidance (RIGS), which provide the structure and definition of regulator reports, were introduced in GD14 and continued in GD17. We plan to continue the use of RIGs into GD23 and refine the templates to ensure that the level of information requested is appropriate and the reporting method as clear and concise as practicable.
- 5.6 In Chapter 14 of this paper we provide a timeline of the key milestones which will be followed throughout the price control process.

A Proportionate Approach

- 5.7 In addressing the key areas of this price control, we are mindful of the need to keep the regulatory burden to a minimum while addressing the information asymmetry that exists between us and the GDNs.
- 5.8 We will consider adopting and applying a number of principles to ensure that our approach is proportionate. These principles are:

- The GDNs complete the business plan templates. We will discuss these with industry in the latter part of 2020, with a view to circulating the final version for population in and around January 2021.
- Any atypical costs and special factors will be identified separately in GDN submissions.
- Areas of high expenditure will receive substantially more scrutiny and analysis than low value items, along with new additional opex and capex where we shall expect to have presented to us, the net impacts from such increases and any decrements.
- Benchmarking will be used where possible and a triangulated approach will be adopted to ensure that allowances are efficient and that efficiency targets are reasonable but challenging.
- Where possible, any allowances set shall be closely aligned to clearly defined outputs and relevant drivers.
- We will continue to utilise the ‘uncertainty mechanism’, which is described in more detail in Chapter 11.
- Efforts will be made to attempt to minimise the number of re-openers. However if insufficient information is available to make an informed determination, either regarding whether the costs will or won’t materialise, or an absence of any firm estimate if they do materialise, some areas may be subject to re-openers.
- The inflation indices used for GD23 has yet to be finalised, but regardless of the specific index used, the price control will be based on a standard inflation framework (historically the RPI-X framework), which will incentivise the GDNs to control their costs through the setting of efficiency targets and subsequent adjustments of opex and capex at subsequent price controls.
- Allowances will not be given for costs that the GDNs can recover through other channels, such as (but not necessarily limited to) third parties causing damages to the network, customers or suppliers.
- Allowances will not be given for profit margins for any third parties performing services for the GDNs.

5.9 We would expect GDNs to develop the data necessary to support a robust assessment of expenditure and outputs. Where it is necessary to adopt a light touch approach because there is insufficient data, we would adopt an

approach to funding which is prudent but conservative until the company can develop a robust approach based on sound data.

Developing the network

- 5.10 Information on the current extension of the network is provided in Section 2, starting at paragraph 2.7. This shows that gas is already available to more than 460,000 properties of which 56% have connected. Approximately 65% of properties in Northern Ireland will have access to natural gas should they choose to connect once all currently identified works are completed. These plans already include the completion of infill within the natural boundaries of all large towns and cities. A high proportion of the remaining properties not passed by a gas main will be in rural locations or in smaller villages and communities of less than 200 properties where the cost to serve will be higher than the cost per property to date. For these locations the cost to serve (to allow connection) will increase the networks costs to existing consumers
- 5.11 In line with our principal objective to promote the development and maintenance of an efficient, economic and co-ordinated gas industry, we consider the economics of further extensions of the gas network on a case by case basis. The key principle we apply when assessing economic development is that the gas mains should only be laid where there is a reasonable prospect that the initial outlay cost will be paid back in the useful economic period at current tariff levels. This ensures that tariffs for existing customer do not increase to subsidise future extensions.
- 5.12 Based upon work done in GD17, we expect the network to reach the limit of its economic development limit following the completion of the extensions already planned for GD17 and GD23. This means that once these planned extensions are complete it is unlikely that further extensions of the network would be considered economic.
- 5.13 The GDNs have informed us of their intention to submit a collective view of all remaining areas that they feel may be economically viable and we will consider the economic rationale of these proposals in parallel with the outcome of the future Energy Strategy on the role of gas networks as we move towards a net zero target by 2050. Without further policy intervention from government it is unlikely that we will approve network extensions which increase tariffs. .
- 5.14 There is always the potential of further economic development of the network supported by new large load customers. Where these opportunities arise we will consider the GDNs proposals on the optimum gas route from the existing

network to connect them including the potential for connecting local domestic and small I&C properties.

- 5.15 In GD17 we introduced an Economic Project Mechanism which allows GDNs to seek approval for further network extensions (and other work deemed to be economic) which had not been identified at the time the Price Control was determined. We intend to continue this mechanism in GD23.

Environmental Impact, Decarbonisation and Energy Efficiency

- 5.16 GD23 will be developed in parallel with the preparation of a new Energy Strategy for Northern Ireland. This new strategy will enable new and challenging decarbonisation targets which move towards a net zero target by 2050.
- 5.17 While natural gas is a carbon fuel it has, and can continue to, make a contribution to carbon reduction by connecting properties which currently using oil to mains already in service. Circumstances in Northern Ireland are such that many homes continue to use oil for heat. Gas continues to provide a lower carbon alternative to oil and the continued conversion from gas to oil will reduce carbon emissions. In the longer term, options to decarbonise gas such as biogas and hydrogen may become viable at scale. In the meantime the supply of natural gas will be necessary until alternatives supplies of bulk heat to homes and industry become viable.
- 5.18 We cannot pre-empt the outcome of the Energy Strategy. For this reason we will develop GD23 within our current vires and practice but with sufficient flexibility to change as the outcome and impact of the Energy Strategy becomes clear.

Consideration of moving from RPI to CPI/CPIH

- 5.19 The values, revenues, prices or costs agreed as part of a price control determination must remain relevant for the whole of that price control. To achieve this, inflation indices are applied and future costs and revenues are adjusted to reflect actual inflation.
- 5.20 The current gas distribution licences use the Retail Price Index (RPI) to address inflation in the determination of tariffs and regulated asset value. However, RPI is no longer recognised as a national statistic and the use of the Consumer Price Index (CPI) or Consumer Price Index including Housing (CPIH) is becoming increasingly common in regulation. For example: OFWAT and OFGEM have moved or shortly will move from RPI to CPI/CPIH.

- 5.21 The UK National Statistics chairman has sent proposals to the Chancellor of the Exchequer in March 2019. He proposed that the publication of RPI should cease and, in the meantime, RPI should be incrementally adjusted to align to CPIH. The Chancellor (in September 2019) ruled out any alignment beginning until at least 2025 but agreed with further consultations on this subject, before coming to a final decision, expected in 2020-2021.
- 5.22 We are considering moving GD23 to CPIH but will consider the outcome of the Treasury consultation on the proposed alignment of RPI and CPIH as, if this is implemented, continuing with RPI until the two are aligned may be a more efficient approach.
- 5.23 We will communicate any developments in this regard to the GDNs as soon as possible to enable them to adjust to any changes required in their own financial calculations.

Asset Maintenance

- 5.24 We expect the monopoly service providers we regulate to demonstrate effective long term stewardship of the asset base which has been, and continues to be, funded by consumers.
- 5.25 For GD17 we asked each GDN to submit a Plan for Asset Maintenance detailing its approach to asset maintenance planning and how it had assessed the changes in operational practice and the investment required to maintain or enhance serviceability to consumers during the GD17 period. Each GDN was asked to prepare its plan in the context of their current stage of development and the long term needs for information and processes which would deliver asset management excellence over the life of its assets.
- 5.26 Our GD17 final determination advised that we expected the GDNs to continue to review and develop their plans for asset management during the price control period as this is an integral part of service delivery. In doing so we specifically asked the GDNs to:
- Focus on the information and processes necessary to inform decisions on asset investment and asset maintenance expenditure during GD17 and in future price controls to deliver the necessary level of service at a least whole life cost.
 - Look forward to key decisions they expected the Utility Regulator to make in the GD23 price control and ensure that the information necessary to inform such decisions has been collected and analysed over the GD17 period to provide robust information in the business planning process that all parties are familiar with in a timely way.

- 5.27 We introduced asset management development reporting into the Annual Cost Report to monitor delivery of this objective during GD17. This required GDNs to update their Asset Management Capability Assessment and Plans for Asset Maintenance and report on progress against the delivery of these plans, with a particular focus on the needs of the GD23 price control.
- 5.28 For GD23, we require GDNs to provide an update on their Capability Assessment and plans for Asset Management, including the steps they have taken, and plan to take, to achieve excellence in asset maintenance planning. We expect the submissions to provide confidence in the company's ability to assess the optimum range of medium term interventions and the level of investment required to maintain serviceability and to target future investment effectively. They should demonstrate that robust asset management processes are in place to inform business decisions and incorporate, as a minimum, an update of the information requested for GD17:
- A self-assessment of asset management capability against a recognised asset management methodology and identifying any further work required to achieve excellence in asset management planning.
 - An assessment of the data used to prioritise current interventions and to estimate future level of capital and operational investment in the medium to long term.
 - A plan to improve asset management capability which sets out how the company will address any weaknesses in its current methodologies and data necessary to improve asset maintenance planning, and timescale over which this will be achieved.
 - Evidence of how a range of top-down and bottom up techniques have been applied during the preparation of the company's business plan to assess the optimum level of asset interventions and investment over the GD23 period.
- 5.29 We will review and update our approach to asset maintenance planning as we complete our information requirements for GD23, taking account of the information submitted by the GDNs in their Annual Cost Reports.

Volumes

- 5.30 A robust assessment of future customer numbers and volumes of gas consumed is important in determining reasonable tariffs for the Price Control period an ensuring a consistent level of tariffs between Price Controls.

5.31 In relation to volumes of gas and connections, we consider it appropriate to use a bottom up approach similar to that of GD17, where we:

- Review the targeted number of connections by customer category and associated average burn volume assumptions (for domestic and tariff customer categories) and monthly volume usages (for contract customer categories).
- Review the assumptions around customer additions and over the period of GD23 in relation to all customer categories.
- Benchmark against actual output data from previous years, where applicable.

Duration of the Price Control

5.32 Over time we have extended the duration of price controls to provide greater freedom to network companies to plan and deliver efficiently. GD14 was of a 3 year duration, ending in 2016. GD17 has a 6 year duration. A longer price control duration has allowed us to:

- Reduced the burden on companies of more frequent price controls and provided more space to plan the efficient delivery of investment.
- Enabled GD23 to follow the OFGEMs RIIO price controls, allowing the UR to draw on Ofgem data to benchmark the GDNs against their GB counterparts.

5.33 Due to the amount of uncertainty that currently exists in the energy sector, OFGEM has reduced the duration of its latest price control (RIIO-2) from an 8 year to a 5 year duration.

5.34 We are proposing a 6 year duration for GD23. We believe that this provides a reasonable balance between the risk to consumers and GDNs of material changes in circumstances over the price control and while providing a framework which promotes stable long term delivery. We will also consider developing an appropriate change management process necessary to manage uncertainty over the duration of this price control.

Introduction of Business Plan Assessments

5.35 One of our aims for the GD23 is that GDNs should produce high quality, well evidenced business plans which can be accepted following limited scrutiny.

5.36 In our recent price control for SONI we introduced a process of Business Plan Assessment. This was structured around 8 test questions which we

would ask when we assess the quality of the business plan submission. These are grouped under 3 key themes which are set out below:

- ***Service contribution to good outcomes***
 - ◆ Test 1: *Delivering value for money*
- ***Services and costs***
 - ◆ Test 2: Delivering services and outcomes
 - ◆ Test 3: Securing cost efficiency and managing uncertainty
 - ◆ Test 4: Aligning risk and return
- ***Trust in delivery***
 - ◆ Test 5: Engaging customers, consumers and other stakeholders
 - ◆ Test 6: Ensuring resilience and governance
 - ◆ Test 7: Accounting for past delivery
 - ◆ Test 8: Securing confidence and assurance¹

5.37 We plan to carry out a similar assessment of the GD23 Business Plan submissions. This will consider how each GDN has performed in relation to these criteria and we will publish our assessment of the Business Plans as part of our draft determination. We expect to extend this approach to other network sectors providing a consistent comparative assessment of all network companies.

6. Stakeholder and Customer Engagement

General Stakeholder Engagement

- 6.1 Consumers remain at the centre of our consideration and we look to the GDNs to develop consumer engagement to ensure that consumers' views inform and influence expectations for service and future investment decisions.
- 6.2 In advance of publishing this Approach for consultation we undertook initial engagement with the following stakeholders:
- PNGL
 - firmus energy
 - SGN
 - Consumer Council for Northern Ireland
 - Department for the Economy.
- 6.3 During the GD23 price control process, we will continue to engage with these key stakeholders to ensure they understand our approach and can provide feedback on the key components of the price control. This will allow us to take full account of stakeholders' views in making a final determination and secure a successful outcome.
- 6.4 We will also consider taking on board the views of credit agencies and investors through ongoing liaison work.
- 6.5 We aim to ensure that the level of engagement level between stakeholders is sufficient to secure an effective working approach to the price control. However in the event that stakeholders seek further interaction and engagement, where possible, we will aim to accommodate and facilitate this in the interest of collaborative working and enabling a smoother price control process.

Working with the Consumer Council (CCNI)

- 6.6 CCNI will have a key role to play in the price control, in line with its statutory role. We already engaged with CCNI on the general development of our approach and the key issues which will be considered in GD23.

- 6.7 We will continue our engagement with CCNI on work streams such as consumer research into consumer priorities and the setting of new consumer and customer satisfaction measures.

Working with the GDNs

- 6.8 We have, and will continue to engage with the GDNs on an ongoing basis throughout all phases of the price control process, especially those related to queries between parties.
- 6.9 This engagement will include, in addition to consideration of GDNs' price control submissions and price control consultation responses, requests for additional information or clarification, where required, as well as bi-lateral meetings with the GDNs. Where appropriate, joint meetings with all GDNs may also be arranged. The timing and frequency of the meetings may vary during the different phases of the price control and will be agreed with the GDNs on an ongoing basis.

Consumer Impact and Engagement

- 6.10 We will expect the GDNs consider how they will use existing and additional channels of consumer engagement to find out what consumers expect the GDNs to deliver in GD23. GDNs should:
- demonstrate how they have taken account of the views of consumers stakeholders in developing their plan, setting out what engagement was undertaken and how the engagement informed the business plan;
 - include details of any customer satisfaction surveys they have undertaken in their business plan submissions; and,
 - provide a public facing business plan which explains, in a way that can be understood by consumers, the impact and cost of their business plan.
- 6.11 In the first instance we expect GDNs to:
- prepare an inventory of their consumer contact by type of contact and communication channel;
 - show how they currently use structured and unstructured consumer contact information and follow up surveys to monitor consumer satisfaction and identify issues which are then addressed to improve consumer service; and,

- set out the steps they are currently taking to address the Utility Regulator's Consumer Protection Programme's (CPP) best practice frameworks project including developing best practice in engagement with vulnerable consumers.
- 6.12 We currently work with a Consumer Vulnerability Working Group which is chaired by CCNI to improve the way vulnerable consumers are served by water, gas and electricity utility providers. We believe that there is merit in the GDNs presenting their proposals in respect of vulnerable consumers to this group which includes representatives from bodies with an understanding of the needs of a wide range of vulnerable consumers.
- 6.13 We propose to work with the GDNs, CCNI and DfE through a joint Consumer Engagement Working Group (CEWG) to:
- Progress the gas equivalent of the water and electricity collective consumer engagement working groups, the gas CEWG. Such working groups have helped support NI Water and NIE Networks formulate their Business Plans and delivery against price control determinations.
 - Identify new and emerging high-priority consumer needs for consideration at GD23. Other price controls, through equivalent research programmes, have identified new consumer issues through engagement with consumers and stakeholders.
 - Consider opportunities for shared learnings / joint research at GD23. Joint working provides an opportunity to develop a richer understanding of consumer needs in a more cost effective way by sharing information and techniques and engaging in common research.
 - Agree Terms of Reference for a CEWG in the GD23 period, including development of new consumer focused metrics. Whilst any metric should provide 'actionable data' to GDNs, it is also important to align metrics across sectors and utilities to enable benchmarking of GDNs' customer service delivery over time.
- 6.14 Consumer engagement, as with any consumer research, must provide a company with the 'actionable data' with which it can respond to the consumer voice and meet consumers' needs through continuous service improvement. We will consider effective engagement with a range of stakeholders to be a pre-requisite to the submission of a well-justified business plan. As part of the development of GD23 we will require that the GDNs demonstrate that their plans are based on a sound understanding of consumer needs and stakeholder interests.

Customer Service

- 6.15 As indicated in paragraph 6.12, we will consider conducting consumer research to ensure the GD23 price control, and the GDNs, deliver services in the ways in which consumers expect.
- 6.16 During GD23 we will also consider revising the measures in place to ensure ongoing focus of the GDNs on consumer interests and needs. This may include the following:
- Increased focus on complaints data, especially complaints escalated to CCNI and ourselves and lessons learnt that can be derived from same.
 - Review of serviceability metrics used in NI and GB and, where relevant and appropriate, standardisation of such metrics across the GDNs. This may involve introduction of customer satisfaction surveys to be conducted by the GDNs on a regular basis. These surveys could be based on those in place in GB, they could be different surveys designed specifically for local utility consumers to support benchmarking across local utility providers, or they could be a combination of both.
- 6.17 This will, over time, facilitate a better monitoring of GDN performance in this area and may form the basis for the introduction of additional incentive mechanisms such as specific customer service incentives as part of future price controls.
- 6.18 In order to achieve these aims we will consider the introduction of GDN consumer focussed development objectives which may be linked to new incentives. Similar developmental objectives in our other price controls have proven ability to progress new metrics from formulation stage, to trialling and subsequent definitional adjustment & refinement, to their introduction as new metrics for annual monitoring by companies as part of the normal submission of RIGs.

Impact of Distribution Costs on Consumer Tariff

- 6.19 The average gas distribution charge for a domestic property is circa £180. The regulated revenues of the gas GDNs in 2020 is circa £90m.
- 6.20 The regulated tariffs for gas customers are comprised of the following main elements:
- Wholesale gas cost

- Transmission network cost
- Distribution network cost
- Operating cost of the supply business and supply margin

6.21 The below chart shows how each of these elements have combined to form the overall customer bill for Airtricity in the Phoenix Natural Gas area of Northern Ireland in 2020.

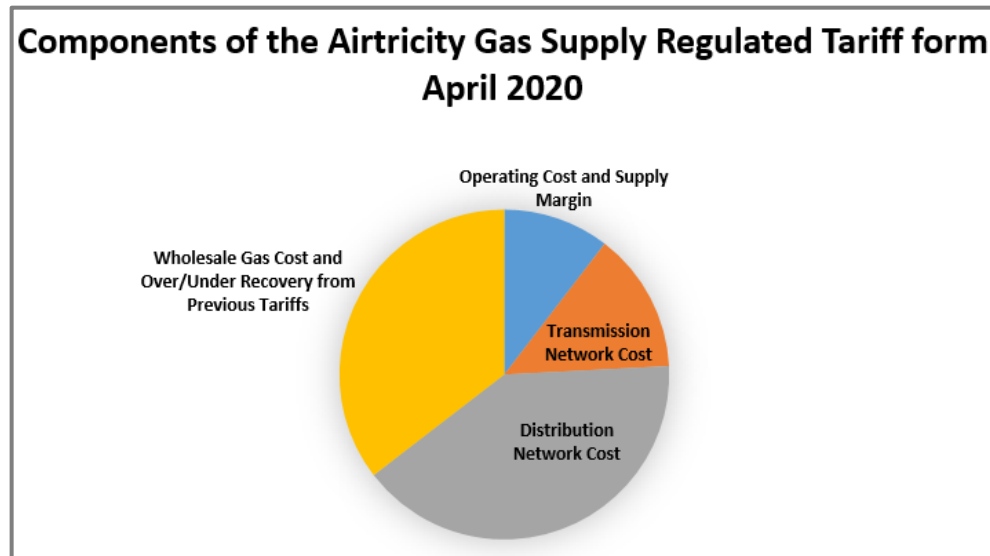


Figure 1: Components of a regulated tariff

6.22 Distribution network costs form the second largest cost component following the wholesale cost.

7. Efficiency Target

Overview

- 7.1 When setting an efficiency target, two effects need to be considered: catch-up efficiency toward the frontier and continued movement of the frontier over time or frontier shift.
- 7.2 **Catch-up efficiency** can be calculated in a number of ways including:
- A bottom-up approach which challenges company costs with a view to assessing what we consider to be an efficient allowance for each category.
 - A top-down approach to opex and capex analysis which benchmarks the total costs or parts of the costs of a GDN against comparable companies.
 - A combination of top-down and bottom-up analysis and benchmarking providing complementary assessments which we can use to triangulate to a robust view of an efficient level of costs.
- 7.3 In GD17 our determination of costs was based on a combination of bottom up analysis and targeted inter-company benchmarking which are outlined in our sections on operational and capital expenditure above. In GD23 we will continue to use these approaches and explore new top-down and bottom up techniques.
- 7.4 **Frontier shift** describes the efficiency gains resulting from companies becoming more efficient over time, e.g. through technological progress. The frontier shift in real terms can be calculated as follows in real terms:
- nominal input price increase, minus
 - forecast inflation index (RPI or CPI/H), minus
 - productivity increase

Catch-up with the industry frontier

- 7.5 In order to establish the efficiency gains a company can achieve by moving closer to the efficient frontier, it is necessary to establish the gap that exists between the performance of the company and the efficient frontier. The quality of any such analysis will depend on the availability and quality of comparator data, as well as on consideration of any special factors and

identification of atypical expenditure that may be materially relevant to the modelling.

- 7.6 It is important to note that the gap between the GDNs and the efficient frontier cannot be established until we receive the GDNs' GD23 submissions and our determination. Prior modelling data analyses will be required, as is normal with any modelling, and will consider GDNs current data alignment to any new comparator data we might obtain in time to inform GD23.
- 7.7 Although no final decisions are made in this approach document, we set out below some key techniques which we will consider incorporating in our modelling to assess catch-up efficiency.
- 7.8 We will consider using a combined top-down and bottom-up approach for the assessment of the efficiency gains the GDNs can achieve through catching-up with the efficient frontier. No one method can provide a single estimate of the required efficiencies with absolute accuracy, we prefer to combine a variety of approaches and therefore estimate from a triangulated viewpoint.
- 7.9 We then compare our proposed efficiency targets with experience of efficiencies delivery from similar industries and arrive at our efficiency view and targets 'in the round'. This means, any additional or reductions in cost pressures which a company is likely to face over the price control period must also be counterbalanced against any efficiency gap to the frontier, the size of such efficiency gap and how long we determine is reasonable to remove some or all of the gap during the price control period.
- 7.10 Where appropriate we propose to also consider atypical expenditure and special cost factors. We note that we expect the GDNs, as part of their business plan submissions, to indicate any atypical expenditure and special cost factors they consider relevant and material. We will issue materiality thresholds for consideration of special cost factors during pre-determination consultation with GDNs, including our proposed partnership approach to model development with the GDNs through a working group.
- 7.11 Any atypical expenditure submission around the base year(s) used for efficiency modelling may reduce a company's base year expenditure going forward, whilst allowing for a smaller estimate of any inefficiency compared to frontier performance. Depending on eventual approach to modelling and use of comparator data, some atypical adjustment(s) may require identification for modelling purposes only, whilst not subsequently applied to the base year expenditure used to roll forward.
- 7.12 Further detailed guidance and timescales around submission of both special factors and atypical expenditures will be issued as part of our business plan information requirements to GDNs. The benchmarking process will, as far

as is possible, compare data from NI GDNs against comparable GB GDN data.

- 7.13 Query processes will follow (i) our sending out of business plan information requirements to GDNs, (ii) the GDNs submitting their business plans, (iii) our draft and final determinations and, finally (iv) any company submissions in response to our draft determination, will provide the opportunity to fine tune any local GDN data which is deemed materially different to GB GDN comparator datasets due to reasons other than efficiency.
- 7.14 Like any regulator we propose to consider, as part of our top-down analysis, a number of different modelling approaches, including:
- Historical expenditure models, including Totex (total expenditure) as well as other types of expenditure aggregation. Totex models can be expected to better account for opex-capex trade-offs.
 - Activity and/or operational or functional level analysis that may take into account a greater number of potential factors that explain costs better than alternative models.
 - Models based on historic data that have the benefit of being anchored in actual (as opposed to forecast data).
 - Models using forecast data to take into account GDNs' views on how costs will change over the price control period.
- 7.15 To ensure as like-for-like comparison of local GDNs to their GB counterparts as possible, we shall consider whether any non-controllable or controllable costs might be better excluded from top-down efficiency models to help improve model robustness.
- 7.16 When setting catch-up efficiency targets, we will consider the following:
- Rate of catch-up.
 - Application of efficiency discounts to various expenditure items.
- 7.17 Aspects we propose to consider when determining the rate of catch-up include (but are not necessarily limited to) the following:
- Size of remaining efficiency gap.
 - GDNs' business plans.
 - Regulatory precedent for catch-up rates.
 - What other utilities have achieved at similar stages of development.

- What efficiency we believe is achievable overall ie the net efficiency challenge.

Frontier shift

7.18 As part of the frontier shift calculation, the impact of input price inflation needs to be established. As the nominal prices for different types of cost inputs can develop in different ways, it is good practice to distinguish between different cost categories. As part of the GD17 price control, we differentiated between the cost categories shown in Table 1 below. For GD23, we propose to consider the following:

- Maintain as a minimum the cost categories already identified as part of GD17.
- Consider the data provided by the GDNs as part of their submissions and of best practice applied as part of other price controls and review whether a further differentiation of the cost category “Other” is appropriate.
- Maintain the differentiation between opex and capex with respect to the assessment of the impact of input price inflation for the different cost categories.
- Consider the data provided by the GDNs, of the approach used by Ofgem for other GDNs in GB and of best practice applied as part of other price controls and review whether the percentage splits for opex and capex between the different cost categories is still appropriate. This will include a review of whether and under what particular circumstances company-specific weightings might be used.

Cost category	Opex	Capex
Labour (direct and contracted)	52%	56%
Materials	6%	19%
Equipment / Plant	1%	4%
Other	41%	21%

Table 2: Cost Categories and Weightings for Efficiency Analysis as part of GD17 Price Control

7.19 In line with the approach taken as part of the GD17 price control, we will consider basing our assumptions for the cost indices and nominal input cost price increases across a variety of different cost categories and their forecast

increases using either our own extrapolation of trends in indices/nominal time series or publically available forecasts.

- 7.20 In line with the approach taken as part of the GD17 price control, we will consider determining the opex and capex nominal input price increase forecast for each year of the price control period by calculating the weighted average of the input price increases for the different cost categories. We will consider determining the opex and capex real input price increase forecast for each year of the price control period by subtracting the RPI forecast from the nominal input price increase forecast.
- 7.21 In line with the approach taken as part of the GD17 price control, we will consider assuming a separate annual average productivity increase for both opex and capex based on analysis from a number of sources. In doing so we will also consider best regulatory practice applied as part of other price controls.
- 7.22 As in GD17, we will consider establishing the capex and opex base year with consideration of the years on which the input data for the GD23 price control process was based. In line with the approach previously taken at GD17 price control, we will consider applying opex/capex real price effects and productivity increases for each year, starting from the year following the base year to the end of the price control period.
- 7.23 We will consider applying the relevant compound real price effect and ongoing productivity increase factors to opex/capex allowances in order to determine the opex/capex allowances net of efficiencies (frontier shift plus any catch-up and plus/minus incremental/decrements in expenditure categories) for each year of the price control. Whilst as part of the GD17 final determination we have published the opex/capex allowances for each year of the price control period and for the price control period as a whole as an aggregate and not broken down into the different cost items, we will consider for GD23, in order to facilitate improved monitoring of performance against price control targets we will publish the opex/capex allowances net of efficiencies for each year of the price control period and for the price control period as a whole. These will be presented at cost item level and as totals across all controllable cost items.

8. Operational Expenditure

Overview

- 8.1 The approach set out in this chapter provides a broad view of how we might assess particular elements of operational expenditure based on our previous experience and regulatory best practice. It is important to note that at this stage we cannot fetter our discretion regarding our approach to setting pre-efficient allowances, as doing so could result in adopting a suboptimal approach and in turn have a harmful effect on consumers and/or the GDNs.
- 8.2 The primary method used to challenge operational expenditure in GD17 was a bottom up assessment of the detailed proposals submitted by the GDNs, supported by targeted benchmarking of GDN costs in areas such as maintenance, metering and emergencies. This approach will form part of our assessment for GD23. We will also consider ways of benchmarking the costs of the GDNs against the costs of GDNs in GB (see Chapter 7 for more detail).
- 8.3 The Regulatory Instructions and Guidance (RIGs) for annual/cost reporting issued to the GDNs include a series of main opex cost categories which will provide a framework for our detailed bottom up assessment. Where appropriate, we may also conduct a more detailed analysis for selected expenditure types, including, but not necessarily limited to, staff and network rates.
- 8.4 Where applicable, internal recharges will be reviewed and benchmarked against prior years and against deemed efficient third party costs for any goods/services provided. In all cases, a 'value for money' approach will be adopted, to ensure consumers gain a fair deal in not having such goods/services outsourced on a third party arm's length transaction basis.
- 8.5 We may also consider additional information in our analysis such as (but not necessarily limited to) the views of industry and subject matter experts outside our own organisation.
- 8.6 We will consider opportunities to benchmark core business costs such HR costs or IT costs against similar costs incurred by other industries.
- 8.7 In light of the ongoing uncertainty regarding the implementation of the TMA (Traffic Management Act) and its effect on operating costs, we propose to include an estimate of TMA costs in the opex allowances. This will only be necessary in the event that a decision on the timing and details of the TMA has not been made by the time of our determination. This estimate would be subject to retrospective adjustment as part of the uncertainty mechanism at

the time of the next price control. This would be in line with our approach as part of the GD17 price control and protect both the GDNs (in the event that actual costs turn out to be higher than the estimate) and consumers (in the event that implementation is delayed or that the impact is less than the estimate). Should a decision on timing and details of the TMA have been taken before our determination, we will consider basing our determination on this decision. Rates for TMA allowances would then not be included in the uncertainty mechanism, but there would still be a retrospective adjustment for the TMA cost drivers.

- 8.8 The main opex categories used in the GD17 price control and subsequent annual reporting are set out below. Further information on our proposed approach to the bottom up assessment of these cost are set out in the remainder of this chapter.

Work Management

- ◆ Asset Management
- ◆ Operations Management
- ◆ Customer Management (Emergency Call Centre)
- ◆ Customer Management (Including Non-Emergency Call Centre) & Network Support (Including System Mapping)
- ◆ System Control

Work Execution

- ◆ Emergency
- ◆ Metering
- ◆ PRE Reports
- ◆ Maintenance
- ◆ Other Direct Activities

Business Support

- ◆ IT & Telecoms
- ◆ Property Management
- ◆ HR & Non-operational Training

- ◆ Audit, Finance & Regulation
- ◆ Insurance
- ◆ Procurement
- ◆ CEO & Group Management
- ◆ Stores & Logistics

Other Opex Categories

- ◆ Advertising & Market Development (owner-occupied and non-owner-occupied properties)
- ◆ Trainees & Apprentices
- ◆ Non-Controllable Opex

Work Management

Asset Management

- 8.9 The GDNs asset management costs are in the main driven by its associated staff costs incurred in managing the network’s assets. Our approach to determining staff costs is discussed in section 8.43.
- 8.10 Where companies propose further investment in asset management systems they should explain how these will improve service or have resulted in savings in operational costs which are sufficient to justify the investment.

Operations Management

- 8.11 We will consider the following areas in relation to the day to day planning and supervision of the operatives and contractors working within the work execution processes as follows:
- ◆ First Line Managers.
 - ◆ Depot Managers.
 - ◆ Safety, Health and Environmental.
 - ◆ Operations support.
- 8.12 The GDNs costs for these activities are driven by staff costs. Our approach to determining staff costs is discussed in section 8.43.

Customer Management (Including Emergency/ Non-Emergency Customer Call Centre) & Network Support (Including System Mapping)

- 8.13 We will review this area covering the following categories:
- ◆ Call centres (including central emergency call centre charge for emergency service).
 - ◆ Customer services and commercial/contract management departments that handle enquiries/complaints, monitor standards, manage contracts etc.
- 8.14 We will consider using call centre cost benchmarking, both between the NI GDNs and with other GDNs, where reasonable and possible. In doing so, we will consider specifics of the NI natural gas network which may impact on the number of calls, such as relatively high prepaid meter basis, new gas connections, any adverse weather conditions and any other pertinent factors.
- 8.15 The GDNs costs for customer service and management activities are mainly driven by staff costs. Our approach to determining staff costs is discussed in section 8.43. In GD17 we reallocated a portion of these costs to be recovered by the GDNs through the connection incentive. Depending on the outcome of our review of the connection incentive we will consider if we will take a similar approach for GD23.

System Control

- 8.16 We plan to review the existing arrangements for monitoring the safe flow of gas through the network and the associated costs incurred. The related costs should represent the cost of running the control room (e.g. staff costs of resource working within the control room). Our approach to determining staff costs is discussed in section 8.43.

Work Execution

Emergency

- 8.17 We propose to consider the call centre model and first response activities when setting our allowances on emergency costs.
- 8.18 We will consider, where reasonable and possible, additional information such as relevant benchmarking data and material NI or GDN-specific special factors.

Metering

- 8.19 We propose to consider an analysis of historic and forecast GDN data when assessing metering costs. We may also consider, where reasonable and possible, additional information such as relevant benchmarking data and material NI or GDN-specific special factors.
- 8.20 We expect GDNs to provide information on unit costs of metering activities (such as meter replacement, and battery replacement) and information on future levels of activities based on asset inventory information and cycle times for maintenance. We will consider how this information can be used to assess future changes in expenditure and to benchmark costs between GDNs.
- 8.21 We expect GDNs to consider both consumer expectations and needs in relation to meter functionality. They should have regard to this as they set out their proposals for the long term management of meter stock, the implications of any proposed changes to metering policies and costs. Specifically this should have due regard to:
- The impact of the roll-out of smart meters in other jurisdictions, including (but not limited to) meter costs, meter availability, cost of operations and maintenance.
 - The availability existing technology e.g. U6 credit meters, as the roll out of smart meters continues elsewhere.
 - Consumer impact, including the lack of a remote top-up capability in current pre-payment meters which have been exposed during the COVID19 lockdown.
- 8.22 We are current engaging with companies in relation to short term metering issues. We are considering undertaking a meter reading review to establish if the responsibility for meter reading is more appropriate to remain the responsibility of gas suppliers, as is currently the case, or if it should be transferred to the GDNs. If this review is not completed in time for any changes to be incorporated in GDN Business Plans and our final determinations, we reserve the right to re-open this area during the period when GD23 will be in force to secure the funding of any transfer of responsibilities.

PRE Repairs

- 8.23 We propose to consider an appropriate metric on GDN repair cost forecasts, based on the size of the network, and whether a driver such as e.g. MEAV (Modern Equivalent Asset Valuation) should be used.

Maintenance

- 8.24 Maintenance activities are direct activities required for the examination, repair and upkeep of plant and equipment within the network. These activities can be split into three types:
- ◆ Planned or Routine maintenance (i.e. maintenance activities that recur at a regular interval).
 - ◆ Reactive or Non-routine maintenance (i.e. maintenance activities that recur non-regularly, but can generally be expected).
 - ◆ Exceptional items maintenance (any maintenance activities that are neither routine nor non-routine maintenance).
- 8.25 We expect GDNs to provide information on unit costs of maintenance activities (such as the inspection and maintenance of regulators) and information on future levels of activities based on asset inventory information and cycle times for maintenance. We will consider how this information can be used to assess future changes in expenditure and to benchmark costs between GDNs.
- 8.26 We plan to benchmark at a detailed activity level if we consider that we have sufficient robust benchmark maintenance activities.

Other Direct Activities

- 8.27 We will consider assessing any costs for other direct activities on a case-by-case basis. We note that we expect the GDNs to provide sufficient detail on the nature of these activities as well as justification for the associated costs to inform our analysis.

Business Support Costs

General considerations

- 8.28 We will consider reviewing actual costs incurred and benchmark these areas where appropriate. In GD17 we reallocated a portion of these costs to be recovered by the GDNs through the connection incentive. Depending on the outcome of our review of the connection incentive we will consider if we will take a similar approach for GD23.

IT and Telecoms

- 8.29 The IT & telecoms cost category covers the provision of IT services for day to day service delivery. For example, this should include Graphical

Information Systems (GIS) costs, in this area. We will review actual costs incurred and benchmark these areas where appropriate.

Property Management

- 8.30 The Property Management cost category covers the activity of managing, providing and maintaining non-operational premises. This should include costs such as rent, rates (business), utilities costs including electricity, gas and water, maintenance/repair costs of premises and the provision of the facilities/property services such as reception, security, access, catering, mailroom, cleaning and booking conferences.
- 8.31 A significant element of property management costs relates to network rates. We have in the past set network rates using a formula which links the allowance to determined revenues. Our approach to network rates is discussed in section 8.46.

HR and Non - Operational Training

- 8.32 HR covers provisions of the HR function i.e. the full range of professional activity for an individual's career path from recruitment to retirement and post retirement where applicable, e.g. management and administration of pension payments and from related professional advice to directly resolving grievances for staff. We will review actual costs incurred and benchmark these areas where appropriate.

Audit, Finance and Regulation

- 8.33 Audit Finance & Regulation covers performing the statutory, regulatory and internal management cost and (business support activity) performance reporting requirements and customary financial and regulatory compliance activities for the network. We will review actual costs incurred and benchmark these areas where appropriate.

Insurance

- 8.34 The Insurance cost category covers support and expertise to develop the business risk profile, managing the claims process and provision of information and understanding to the business in relation to insurable and uninsurable risks.
- 8.35 We will consider reviewing in detail the cost make-up of the insurance sub categories as well as performing benchmarking against peers and actual outputs from prior years, where appropriate.

Procurement

- 8.36 This cost category covers the procurement of goods & services in the support of the business operations, through the management of procurement contracts with suppliers. We will review actual costs incurred and benchmark these areas where appropriate.

CEO and Group Management

- 8.37 This cost category covers costs related to communications, group strategy, legal department, corporate responsibility and investor relations, board members, ring fence compliance and credit reference agencies. We will review actual costs incurred and benchmark these areas where appropriate.

Stores and Logistics

- 8.38 The Stores and Logistics cost category covers the activity of managing and operating stores. We will review actual costs incurred and benchmark these areas where appropriate

Other Opex Categories

Advertising & Market Development (owner-occupied and non-owner-occupied properties)

- 8.39 Our approach to Advertising & Market Development for owner occupied properties will be informed by our review of the connection incentive as discussed in section 10.6. We may expect the GDNs to include any related corporate overheads costs within this category (both staff related and business support related) depending upon the outcome of our review of the connection incentive. It is important to note that OO (Owner Occupied) properties are those domestic premises which do not fall into the definition of:
- Domestic New Build; or
 - NIHE or Housing Association.
- 8.40 Our approach to Advertising & Market Development for non owner occupied properties will be to review actual costs incurred and to take account of projected growth in non owner occupied connections in the price control period. We expect the GDNs to explain how it has apportioned staff costs between the Advertising and Market Development owner occupied and non owner occupied categories.

Trainees & Apprentices

- 8.41 We will consider reviewing actual costs incurred and benchmark where appropriate.

Non-Controllable Opex

- 8.42 We will consider reviewing all items proposed to be non-controllable on a case-by-case basis to ascertain that this classification remains appropriate. In GD17 the only non controllable cost allowed was licence fees.

Other Expenditure Types

Staff

- 8.43 For GD17 we did not set an explicit staff cost allowance, as staff costs form part of most of the cost categories within the ACRT, rather than being an individual cost category. We expect to follow a similar approach for GD23. We will expect each GDN to provide evidence as why their projected FTEs for the price control period should differ from the base year and historic level of FTE's. We may also use breakdown of staff data by SOC (Standard Occupational Classification) Code for benchmarking purposes.
- 8.44 Included under the staff opex will be all staff-related additional costs that can be calculated using the presented drivers (for example, commission, entertainment, allowances, travel & subsistence, car allowance and fleet costs).
- 8.45 We will consider assessing assumptions around all inputs/driver data for reasonableness through benchmarking and actual outputs from previous years, where deemed appropriate.

Network Rates

- 8.46 For determining network rates allowances, we will consider retaining the formula based calculation in relation to network rates in line with our approach for GD17. However, we will consider reviewing this and, where appropriate, updating the multiplier assumptions applied to revenue and the agreed rateable values as advised by the Land & Property Services (LPS).
- 8.47 We expect GDNs to be able to demonstrate that they have taken all steps to minimise their rates valuations.

9. Capital Investment

9.1 The approach set out in this chapter provides a broad view of how we might assess particular elements of capital expenditure based on our previous experience and best regulatory practice. It is important to note that at this stage we cannot fetter our discretion regarding our approach to setting pre-efficient allowances. To do so could result in adopting a suboptimal approach and in turn have a harmful effect on consumers and/or the GDNs.

9.2 In line with the Regulatory Instructions and Guidance for annual/cost reporting issued to the GDNs, we will consider distinguishing, as part of the GD23 price control, between the following main capex categories:

- **Growth** including: connecting individual large I&C (industrial and commercial) customers; passing additional (domestic, small and/or medium I&C) properties; reinforcing the network and increasing security of supply
- **Replacement** of assets which have reached the end of their economic life.
- **Other Capex** including: system operations; IT and related Telecoms; Commercial Gas Trading IT; plant, tools & equipment; land, buildings, furniture and fittings; security; vehicles and wheeled plant and other

9.3 We expect GDNs to:

- provide clear and well evidenced plans for investment;
- demonstrate that these plans have the support of consumers; and,
- provide a clear statement of the methodologies used to cost future investment which shows how costs relate to current costs and have been reviewed and challenged to drive out further efficiencies.

9.4 We will consider a combination of top-down and bottom-up approach as a basis for our capex analysis for the determination of capital allowances in GD23.

9.5 In line with the approach taken as part of the GD17 price control, we will consider using 'basket of works' approach to benchmark capex expenditure between GDNs. The key steps in this process are:

- Identify the items of work contained within the basket.
- Assess to what extent cost elements are fixed, i.e. not dependent on the level of workload carried out.

- Select a standard set of unit rates to be used for each of the items within the basket.
- Identify the workloads and associated costs submitted by the companies for these items over a relevant time period.
- Calculate the product of the company workload and the standard unit rate for each work item.
- Rescale these for each work item so that the total work item cost equals the company's submission.
- Establish an efficient level of performance for the basket of items in the base year.
- Calculate the efficient level of performance for each of the work items in that year, without and with consideration of fixed costs.
- Roll this performance forward to the years of the price control period, using In line with the approach taken as part of the GD17 price control, we will consider classifying all capex cost items as controllable.

- 9.6 We will also consider bottom up capex estimates provided by the GDNs, historical run-rates of expenditure and relevant benchmarking data. We will give greater weight to costing methods which have a clear link to historical costs and relevant benchmark data.
- 9.7 As described in Section 8.7 in respect of opex we propose to include an allowance for the potential impact of the Traffic Management Act on construction costs which would then be subject to adjustment through the uncertainty mechanism.
- 9.8 Further investment in extending the network (growth) should be completed on an economic basis. It should be supported by an economic analysis which assesses the whole life cost of the investment having regard to aspects including (but not necessarily limited to) costs, rate of return, conveyance tariffs, average consumption, properties passed and connection rates for same per customer category and identify the distribution tariff necessary to support the investment.
- 9.9 Where this principle is not appropriate (reinforcing the network and security of supply) a sound business case must be justified before any approvals can be granted.
- 9.10 Most capital allowances will to be subject to review and adjustment as part of the uncertainty mechanism so that consumers continue to pay for the

quantum of assets which have been delivered. Where appropriate, we will also consider determining lump sum allowances which are subject to the cost risk sharing mechanisms of the respective licences.

9.11 We expect GDNs to consider both consumer expectations and needs in relation to meter functionality. They should have regard to this as they set out their proposals for the long term management of meter stock, the implications of any proposed changes to metering policies and costs. Specifically this should have due regard to:

- The impact of the roll-out of smart meters in other jurisdictions, including (but not limited to) meter costs, meter availability, cost of operations and maintenance.
- The availability existing technology e.g. U6 credit meters, as the roll out of smart meters continues elsewhere.

Consumer impact of the lack of a remote top-up capability in current pre-payment meters which have been exposed during the COVID19 lockdown.

9.12 Capital cost estimates will be subject to the application of a frontier shift to reflect the impact of real price effects and on-going productivity improvements.

10. Incentives and Innovations

Overview – Incentives

- 10.1 Incentives are an important part of the Regulatory framework
- 10.2 A number of incentives have used in previous price controls, to aid and promote efficient and economic development of the gas industry. The GD17 price control included the following main incentives:
- Connection Incentive
 - Properties Passed Incentive
- 10.3 Both the Connection Incentive and the Properties Past incentives are being considered for use as part of the GD23 price control and are discussed in greater detail below.
- 10.4 We welcome views on other incentives for GD23 which will work to improve performance or reduce costs to consumers. Where GDNs intend to propose new incentives for GD23 they should discuss their proposals with the Utility Regulator well in advance of the business plan submission. Proposals for additional incentive mechanisms should demonstrate how they work in the interest of consumers.

Connection Incentive

- 10.5 A key aspect of the initial development of the gas industry in Northern Ireland has been the need to persuade consumers to convert to natural gas to and realise environmental benefits and ensure the network can be delivered at a competitive tariff.
- 10.6 To support the GDNs in acquiring connections we have included funding in previous price controls for marketing and advertising as well as the costs of engaging with individual consumers when they apply for a connection. Initially this was in the form of ex-ante allowances and, more recently in the form of a connection incentive payment for each new owner-occupied connection.
- 10.7 This Connection Incentive Payment has been subject to a level of non-additionality. This means that we only provide the incentive payment for each connection acquired above a certain threshold which recognises that some consumers will connect to natural gas in the absence of active marketing and promotion by network companies.

- 10.8 In our final determination for GD17, we committed to reviewing the owner-occupied connection incentive for GD23. During the initial stages of this review we will ask GDNs to provide information on the effectiveness of the current mechanisms and provide their views, supported by evidence, on how the connection incentive should be developed.
- 10.9 Having assessed the evidence provided, we plan to consult on the future of the connection incentive as part of the consultation on the GD23 draft determination for GD23.
- 10.10 We welcome views or opinions regarding the future of the connection.

Properties Passed Incentive

- 10.11 The Properties Past Incentive is also designed to facilitate an increase in the numbers of customers that can connect to the network, whilst also acting as a check to ensure that any network expansion is done along an optimal route to engage as many potential customers as possible.
- 10.12 We are currently reviewing the Properties Past incentive and are considering continuing it until the remaining network development is.

Innovation

- 10.13 GD17 presented a framework of “Innovation Funding Principles” which outlined our requirements and criteria for any new innovation projects, as follows:
- Quantified and robust cost benefit analysis
 - Detailed and robust project plan for the innovation project
 - Credible and binding commitments from any project partners to participate in/contribute to funding the project, as well as proposed contingency arrangements in case any of the project partners should fall short of their obligations
 - Justification of why funding through the overall price control package is considered not appropriate/sufficient and why funding through specific innovation allowances and increased prices is requested
 - Explanation of how the GDN has arrived at its chosen bid for innovation and how this interacts with other innovation investments planned under the normal price control regime
 - Explanation of how the innovation bid was identified/prioritised and justified in consultation with consumers and other stakeholders

- Explanation of why there exists a barrier towards innovation which requires some form of regulator action to progress, and the consequences of the innovation not happening
- Details on what deliverables/benefits may be expected for local consumers from the research/development/trials
- Detailed risk assessment as well as details on and justification of proposed treatment of risk and reward
- Description of how the innovation, if successful, could be efficiently rolled out within the GDN and/or other NI or GB GDNs
- Justification of how the proposed innovation is different to anything that has occurred previously, whether within the GDN, another NI or GB GDN or within the wider industry

10.14 We would be minded to keep this criteria but welcome any views on particular innovations or efficient ways to approach innovation in GD23.

11. Uncertainty Mechanism

11.1 The uncertainty mechanism addresses uncertainties and reduces the related risks to consumers and GDNs by retrospectively adjusting price control allowances based on differences between actual and allowed costs or outputs. For GD23, we propose to consider three categories of retrospective adjustments:

- Output-based cost: For this cost, forecast outputs and related allowances will be reconciled with actual outputs and related allowances;
- Ring-fenced cost: This cost, based on its nature, is not known with certainty at the time of the determination. Submission of a fully justified business case will be required by the GDN for this cost to be approved;
- Pass through cost: A cost that is entirely outside of the control of the GDN to manage. Cost categories in these areas will be limited.

11.2 We will consider refining the current uncertainty mechanism models, as part of the GD23 price control, to ensure they reflect the settlement of allowances which are based on outputs, ring-fenced or pass through costs.

11.3 It is our intention to publish the GD17 uncertainty mechanism models, to ensure transparency on the outcome of GD17 and the impact this has on future tariffs.

Reopeners

11.4 In light of the ongoing development of the natural gas market in Northern Ireland and the proposed duration of the GD23 price control period, developments may happen during the GD23 price control which have a significant impact on the GDNs' cost base but for which impact and/or timing cannot be foreseen with a sufficient level of detail and confidence to allow for consideration as part of the GD23 allowances. We propose to consider having appropriate re-openers for such developments, where relevant and material, which are likely to be symmetrical for the Regulator and GDN's.

Materiality Thresholds

11.5 In line with our approach as part of GD17 price control, we will consider having a materiality threshold for significant costs not reasonably foreseeable at the price control determination but incurred as part of the GDN operations during the price control period. Eg Change of Law. GDNs

can request approval of such costs from us, provided they are above the materiality threshold and sufficiently justified with a robust business case. The materiality threshold was set at £100,000 per project for the duration of both the GD14 and GD17 price control periods. However, we note that we may revise this threshold as part of GD23, due to size and scale of different network operators and move to a percentage of conveyance revenue, which is similar to how OFGEM approach to these issues.

- 11.6 We may also introduce a De minus amount to ensure that any additional small amounts will not be considered, even if a necessary change is required, due to the time and effort required to produce and review a business case, which is disproportionate to the amount being requested.
- 11.7 In taking decisions on granting of additional allowances we will consider the balance between the material unforeseen costs and any unforeseen cost reductions or revenue gains achieved during the price control period, to ensure a fair balance to GDN's and consumers.

12. Financial Issues

GD23 Base Year

- 12.1 Our approach for the base year for expenditure and modelling will depend in large extent on whether we choose to adopt new efficiency models which rely upon (i) a single year of data, including NI Water and England & Wales datasets or (ii) pooled or panel data, drawn from more than a single year of data (and whether such a dataset is drawn from an equal or unequal number of years data by company).
- 12.2 We will calculate the GDNs price control base year following their submission of the 2021 business plan. We expect the GDNs business plans to detail any atypical or exceptional costs and a submission of any 'special cost factors' which explain why the company's expenditure might be higher or lower than comparative industry benchmark costs.
- 12.3 We will ask the GDNs to establish its baseline expenditure cost and identify foreseeable reductions, or increases, in costs for future years. For example we would expect the GDNs to detail any management initiatives it plans to undertake to reduce costs or mitigate cost increases and to identify any upward cost pressures.

Rate of Return

- 12.4 In relation to rate of return, we will consider:
- Using a standard CAPM (Capital Asset Pricing Model) methodology for assessing a suitable rate of return for the GDNs.
 - Using all available similar regulatory settlements to benchmark appropriate rates.
 - How tax should be treated in rate of return.
 - A fundamental review of the risks faced by businesses which no longer have a major construction programme.
 - Whether the cost of debt mechanism (introduced in GD17) should change from a 'benchmark to benchmark' approach to a 'benchmark to actual cost' approach.
- 12.5 The PNGL and firmus energy GD17 Rate of Return was calculated pre-tax, while the SGN Rate of Return was calculated post-tax. We will consider the merits of this approach again for GD23.

Financeability

- 12.6 We propose to consider the financeability of the licence holders, using established financial metrics, such as gearing, debt ratios and PMICR (Post-Maintenance Interest Coverage Ratio), etc., which can be used to benchmark the GDNs with the levels of an efficient, well-managed, regulated company.
- 12.7 Sensitivity analysis will also form part of this assessment, to ensure that the business could cope under shock conditions.
- 12.8 We will continue to rely on setting an appropriate WACC and depreciation allowance while considering financeability. This is premised on the idea that rational investors will recognise that the combination of a RAB and an independent regulator provides assurance of a return on and of capital over time.

Capitalisation

- 12.9 We will expect the GDNs to outline their capitalisation policy over the GD23 period and explain any differences in its forecast capitalisation rates and policy compared to those used in prior years including the base year.

13. Price Control Outputs

Form of Price Control

- 13.1 PNGL and firmus currently operate under revenue cap price control regimes which have been in place since 2006 and 2016 respectively. Before that the companies operated under price cap regimes for a period of approximately 10 years from the initial grant of licence. The price cap regime provide strong incentives for the companies to identify and connect new consumers during the initial stages of network development. We do not intend to change the form of price control for PNGL or firmus.
- 13.2 SGN currently operates under a price cap price control regime. SGN connected its first consumers in 2017 and continues to develop its network and build its consumer base. At this stage we believe that it is appropriate to allow the business to develop over a further price control period before considering a change to a revenue cap price control regime.
- 13.3 We would welcome views on the appropriate form of price control.

Profiling of Revenues

- 13.4 Although allowances for a price control are determined at each review period, the phasing of allowances post price control is important in establishing allowed revenues and prices (dependent on the cap type the licensee is subject to). Making reasonable assessments of future revenues and volumes is important to ensure stable tariffs as the network develops in the long term.
- 13.5 We will engage with GDNs through the price control process to derive the most accurate profile of post determination GD23 allowances for tariff modelling purposes.

Pi-Model

- 13.6 We will expect the GDN's to submit a Pi tariff models, alongside their Business plans, that tie in with their financial data. This will ensure consistency for the GD23 price control, subject to any changes necessary to update such models.
- 13.7 This should be submitted with the most up to date Uncertainty Mechanism model, to provide clarity on actual outputs.

Designated Parameters and Determination Values

- 13.8 We will consider reviewing all designated parameters as part of the GD23 price control, to allow update for current circumstances, should any require alteration.
- 13.9 Determination values will be based on all information presented to us for consideration throughout the review period; this will include consideration of any engagement and responses to our draft determination, where applicable.
- 13.10 Any changes to Designated Parameters and Determination Values will require licence modifications. These will be consulted on and implemented with consideration of the consultation responses received.

14. Timelines

GD23 Key Milestones	Timeline
GD23 Approach Document Consultation	1 June 2020
GD23 Approach Document Consultation Ends	7 August 2020
GD23 Approach Document finalised	16 October 2020
Business Plan information requirements published	January 2021
GDNs submit BPs for GD23	June 2021
UR publishes DD consultation for GD23	December 2021
DD consultation period ends	February 2022
GD23 FD and licence consultation published	June 2022
GD23 GDN licence modifications published	September 2022
GD23 Price control takes effect	1 January 2023

Table 3: Key Milestones of GD23

15. Consultation Feedback

- 15.1 This is an open discussion document on the GD23 approach. We have not posed any specific questions in this paper. Instead we invite stakeholders to express a view on any particular aspect of this paper and the draft business plan templates.
- 15.2 If appropriate, we can have individual discussions with interested parties. Please contact us if you consider this to be more suitable.
- 15.3 If you wish to 7 August July 2020 at 12 noon and should be addressed to:
- Paul Harland
Network Manager
Utility Regulator
Queens House
14 Queen Street
BELFAST
BT1 6ER
Tel: 028 9031 1575
- E-mail: paul.harland@uregni.gov.uk
- 15.4 Our preference is that responses are submitted by e-mail.
- 15.5 Individual respondents may ask for their responses in whole or in part, not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, we will ask respondents to also supply us with the redacted version of the response that can be disclosed. As a public body and non-ministerial Government department, we are bound by the Freedom of Information Act (FOIA) which came into full force and effect on 1 January 2005. According to the remit of FOIA, it is possible that certain recorded information contained in responses can be put into the public domain. Hence, it is now possible that all responses made will be discoverable under FOIA – even if respondents ask the Utility Regulator to treat responses as confidential. It is therefore important that respondents note these developments and in particular, when marking responses as confidential or asking the Utility Regulator to treat responses as confidential, should specify why they consider the information in question to be confidential.

Appendix 1: NI Gas Distribution Network Operators Map



For exact clarification of individual licenced areas, reference should be made to the relevant licences

Appendix 2: Glossary

Reference	Definition
CAPM	Capital Asset Pricing Model. A model that describes the relationship between risk and expected return.
CMA	Competition and Markets Authority - The statutory body to deal with errors in price controls and makes a new decision after listening to the evidence from all related parties.
CPI & CPIH	Consumer Price Index and Consumer Price Index including Housing, which is a recognised and international inflation measure.
Domestic New Build	Domestic Premises which have never previously been owned or occupied by any person (that is they are, or are to be, newly built premises) and in respect of which the connection to the Network shall be made prior to the premises first being occupied, but excluding any such premises which fall within the definition of NIHE.
GD14, 17 and 23	The name for the Gas Distribution price controls. GD14 covers the calendar years (ie January –December) 2014 – 2016. GD17 covers the calendar years 2017 – 2022. GD23 covers the calendar years 2023 and beyond.
GDN	Gas distribution network company – firmus, PNGL and SGN
I&C	Industrial and commercial properties
NIEN	Northern Ireland Electricity Networks
NIHE	Domestic Premises which are (or will be when built) owned by: the Northern Ireland Housing Executive; or a housing association in Northern Ireland.
Ofgem	Office of Gas and Electricity Markets. Regulates the electricity and gas markets in Great Britain.
OO (Owner Occupied)	Domestic Premises which do not fall into the definition of: Domestic New Build; or NIHE or Housing Association.
Pi model	Model used for the calculation of conveyance charges for the GDNs.
PRE	Public Reported Escapes

Reference	Definition
RIGS	Regulatory Instructions and Guidance
RIIO-GD1	This is the first gas distribution price control by Ofgem under the new RIIO (Revenue = Incentives + Innovation + Outputs) model. The price control is set for an eight-year period from 1 April 2013 to 31 March 2021.
RIIO-GD2	This is the second gas distribution price control by Ofgem under the new RIIO (Revenue = Incentives + Innovation + Outputs) model. The price control is set to take effect on 1 April 2022 to 31 March 2027.
RPI	Retail Price Index – a measure of inflation
TMA	Traffic Management Act. The objective of the TMA is to tackle congestion and disruption on the road network. The TMA places a duty on local traffic authorities to ensure the expeditious movement of traffic on their road network and those networks of surrounding authorities. This has yet to come into force in Northern Ireland, at time of writing.
TRV	Total Regulatory Value: the Depreciated Asset Value plus any incentive adjustments including the profile adjustment.