Utility Regulator
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RP7 - NIE Networks Price Control 2025-2031

Final Determination Annex O
Metering
30 October 2024

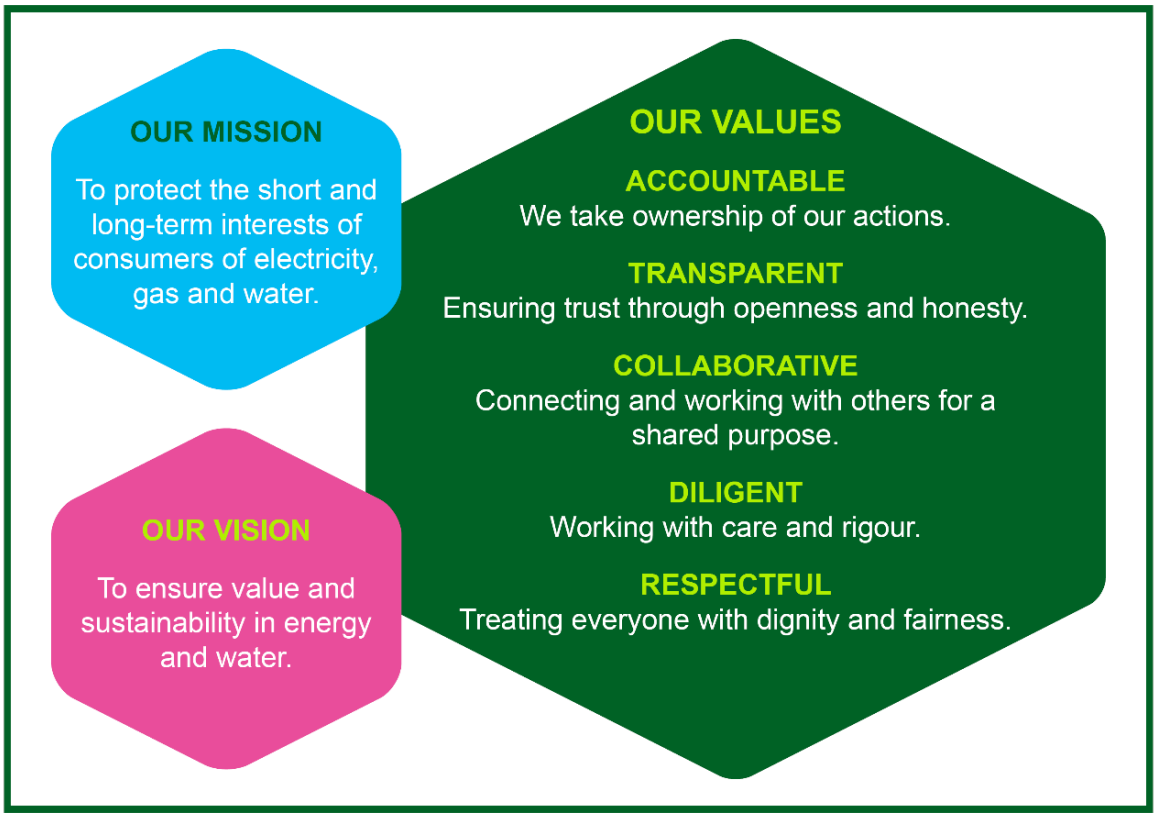
About the Utility Regulator

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

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

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

We are based at Queens House in the centre of Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls; Networks and Energy Futures; and Markets and Consumer Protection. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Abstract

This annex provides the Utility Regulator's detailed assessment of NIE Networks' metering expenditure for the RP7 price control period.

Audience

NIE Networks, consumers, consumer representatives, consumer groups, other regulated companies in the energy industry, government, and other bodies with an interest in the energy industry.

Consumer impact

The overall consumer impact of RP7 is set out in the main final determination report. The estimates of metering expenditure in this annex contribute to the determination of tariffs for RP7.

Contents

Executive Summary

Metering constitutes a range of activities including meter reading, meter installations/changes, meter recertifications and other tasks that support NIE Networks' market operations functions.

In Great Britain (GB), distribution network operators (DNOs) do not perform these activities. As a result, we exclude NIE Networks' direct costs and indirect costs associated with performing its metering functions from our top-down benchmarking and conduct a separate cost analysis.

As requested in the Utility Regulator's published RP7 business plan requirements, NIE Networks' submission was based on existing metering arrangements and obligations. Following both the RP7 business plan requirements publication and NIE Networks' subsequent submission, the Department for the Economy announced[1] on 28 June 2023 that it will develop a plan for the implementation of electricity smart meters and systems. However, smart metering proposals and developments have been excluded from our assessment of metering for RP7 and will be dealt with under a reopener mechanism or further licence modifications as appropriate.

NIE Networks set out its proposals for RP7 metering related expenditure, and overhead costs allocated to metering, within its market operations submissions.

Subsequent to the draft determination publication, NIE Networks provided a revised submission for the metering services direct costs element, as result of the conclusion of a meter procurement exercise.

We have assessed and considered the proposals, revised submission and the relevant draft determination responses and representations made by NIE Networks and other stakeholders in reaching our final determination.

The key changes from draft to final determination are as follows:

- Increased meter reading allowance to account for the forecast growth in meters to be read as result of new connections.
- New meter categories and unit rates created for meter configurations that are forecast to be demanded by consumers installing low carbon technologies (LCTs).
- Allowances based on outturn data updated to include the now available outturn data from the 2023/24 reporting year.

Our final determination has been primarily based on outturn costs NIE Networks has incurred over the RP6 period to date in fulfilling its metering functions, along with

[1] https://www.economy-ni.gov.uk/articles/smart-meters-update

some specific adjustments for RP7. It is our view that this is the most appropriate approach given that all of the metering functions are well established, and we are not convinced that further scope and cost changes are not adequately addressed by related price control mechanisms.

Our assessment is based on four broad categories of activity:

- Meter reading
- Metering services
- Other metering costs
- Fault and overhead costs

Meter reading

NIE Networks collect and process meter reading data on behalf of suppliers from all its c.930,000 customer premises throughout Northern Ireland. Under NIE Networks' Overall Standards, it is required to obtain a meter reading from 99.5% of customers once per year. To achieve this, NIE Networks aims to read each meter on a quarterly basis, which involves over 3.6 million visits to customer premises per annum.

To set the meter reading allowance for RP7 we used the RP6 average annual outturn costs with an adjustment to account for NIE Networks' forecast growth in connections. Our final determination meter reading allowance is £25.11m, which is a £0.44m (1.7%) reduction from NIE Networks' RP7 request.

Metering services

NIE Networks install, exchange and alter electricity meters at the request of customers and electricity suppliers, or if the meter has reached the end of its certified lifecycle. Unit rate allowances are set for the direct onsite material and labour costs for 16 metering categories, with the final allowance adjusting with the volume delivered. This ensures that the final allowance will reflect actual activities driven by external factors such as consumer demand which NIE Networks is not in control of. A separate ex-ante allowance is set for the indirect cost element of metering services, incurred primarily in employment of staff who manage and administer the programme and meter stock.

For the direct costs element, we have accepted the requested unit rate for the low volume categories associated with high load and high voltage installations. For the high volume categories, we have primarily based allowances on long term RP6 outturn costs. Three new meter categories and unit rates, set to the company’s request, have been created for meter configurations that are forecast to be demanded by consumers installing LCTs. For the indirect costs element, we developed a methodology that used the number of direct activities as a scalar for the

indirect costs. This used the company's RP7 forecast direct activity volume to multiply the RP6 indirect cost per direct job to provide our determined allowance. The indirect allowance remains fixed.

Based on NIE Networks' forecast activity for each metering category our final determination meter services direct allowance is £27.42m, which is a £3.56m (12%) reduction from NIE Networks' revised RP7 request. Our final determination metering services indirect allowance is £11.86m, which is a £4.84m (29%) reduction from NIE Networks' RP7 request. This provides a forecast total metering services allowance of £39.29m.

Other metering costs

Other metering costs consist of four key areas including keypad operating activity, transactional services, transactional income and revenue protection activities to detect and deter cases of electricity theft.

For the purposes of the final determination, we have retained the previous approach. This bases future allowances on the RP6 run rate. The only difference is that the rate now includes the latest available year. There has been no real increase in these costs at the end of RP6 and we do not think consumers should pay for services being provided to suppliers.

Fault and overhead costs

Faults, business support and other overheads make up the remainder of the market operations request. The activities include the direct cost of repairing metering faults, control / customer contact centre costs and the market operations allocation of costs associated with general overheads such as HR, finance, stores, training etc.

The company has failed to justify the significant increases expected in metering overheads. Neither do we consider it appropriate to provide a top-down efficiency scope uplift in line with benchmarking results. No other DNOs in GB undertake these activities. As such, efficiency benchmarking in other areas is not applicable to market operations.

For the final determination we have retained the RP6 run rate approach. The only difference is the inclusion of the latest year data and correction of an inflationary mistake at the draft stage. We also incorporate bottom-up allowances for the market operations IT spend.

Table 1 below provides NIE Networks' request, inclusive of revisions, along with our draft and final determinations. Fuller detail of our considerations and methods in reaching our determination is provided in the body of this annex.

Metering £m 2021/22 prices	NIE Networks' Proposal	Draft Determination	Final Determination
Meter Reading	25.56	23.99	25.11
Metering Services	47.69[2]	38.03	39.29
Other Metering Costs	4.12	2.53	2.54
Fault and Overhead Costs	47.81	41.31	43.40
Total Metering	**125.18**	**105.86**	**110.34**

Note 1. Figures may not sum due to rounding.

Table 1: RP7 metering summary

All allowances in this annex are presented in 2021/22 prices (October 2021 inflation index) and before the application of real price effects and on-going efficiencies.

Market services

NIE Networks' proposals for the market services element of its market operations functions are assessed in the Information Technology sections of the final determination. Market services include the operation of IT systems and provision of data, including metering data, that supports retail and wholesale electricity markets.

[2] NIE Networks' metering services proposal is as per its revised submission received following the draft determination publication.

1. Meter Reading

1.1 NIE Networks collect and process meter reading data for all its c.930,000 customer premises throughout Northern Ireland. While data can be obtained remotely via telecommunication links from meters at c.13,000 commercial and industrial premises, the vast proportion of meters are read manually by its meter reading staff.

1.2 Under NIE Networks' Overall Standards, it is required to obtain a meter reading from 99.5% of customers once per year. To achieve this, NIE Networks aims to read each meter on a quarterly basis, which involves over 3.6 million visits to customer premises per annum.

1.3 In addition to obtaining meter reads, NIE Networks' meter readers also perform visual inspections of the metering equipment at the customers property and report back any potential hazards. This contributes to its legal obligations under the Electricity Safety, Quality and Continuity Regulations (Northern Ireland).

NIE Networks' RP7 proposal

1.4 NIE Networks set out its proposal for RP7 meter reading expenditure within its market operations submission document, as per Table 1.1 below. The proposal was based on a continuation of the existing overall meter reading strategy.

Meter Reading Expenditure £m	2026	2027	2028	2029	2030	2031	RP7 Total
NIE Networks Proposal	4.27	4.27	4.26	4.26	4.25	4.25	25.56

Note 1. Figures may not sum due to rounding.

Table 1.1: NIE Networks' meter reading proposal

1.5 Despite a projected 1% annual increase in the number of connected customers and thus meter reads, NIE Networks proposed a flat annual expenditure profile throughout RP7. It anticipates continued development and exploration of more efficient meter reading methods via various digital channels, as well as increased cooperation with suppliers, will enable it to keep expenditure consistent.

Draft determination

1.6 It is not possible to assess NIE Networks' meter reading costs against other distribution network operators in GB, as electricity suppliers provide this service, and smart metering rollout is also progressing there. However, we consider that the actual outturn costs reported in the annual Regulatory

Instructions and Guidance submission (RIGs) and in the business plan submission, provide a good benchmark for the future costs.

1.7 At RP6, the determined allowance was based on NIE Networks' outturn costs, with an incremental annual increase of 0.8% to align with the forecasted growth in its customer base.

1.8 NIE Networks has proposed c£4.26m annual average expenditure over RP7, this is a 6.5% increase over the RP6 annual average to March 2023 of £3.99m.

1.9 Over RP6 to date we have not observed any growth in expenditure, even though the customer base has increased by c.1% annually.

1.10 Reviewing further back beyond RP6, annual meter reading expenditure has not trended with growth in customer base, as demonstrated in Figure 1.1 below. Meter reading expenditure in 2023 was 10% (£0.46m) lower than in 2013, when adjusted for inflation, despite a 10% (86k) increase in customer base.

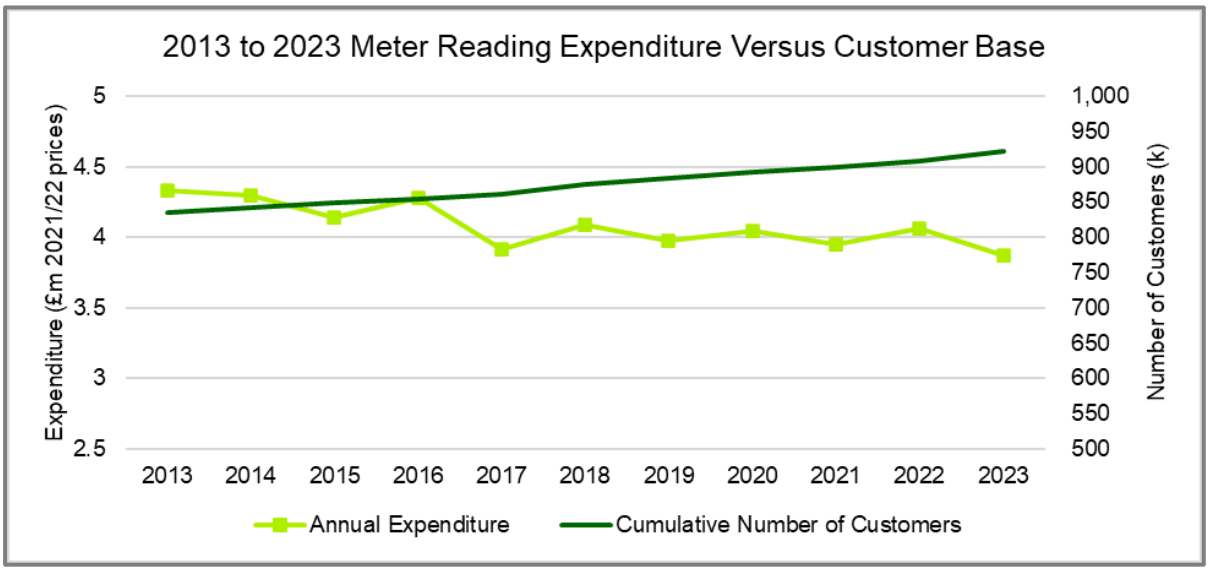


Figure 1.1: 2013 to 2023 meter reading expenditure versus customer base

1.11 NIE Networks expects to add an additional 9.1k customers per year on average through the rest of RP6 and to the end of RP7. However, given the historical trends, and the company's stated intention to continually develop more efficient meter reading methods, we see no reason to increase meter reading expenditure for RP7. We, therefore, have set our draft determination allowance of £3.99m using the RP6 annual average to March 2023.

Final determination

1.12 NIE Networks' response stated that it considered that the Utility Regulator's use of historic RP6 costs to be incorrect, as those outturn costs do not truly reflect expenditure required to adequately fulfil its meter reading requirements. It states that it suffered from lower than required staffing levels due to recruitment difficulties and staff turnover in the early periods of RP6, and instead the Utility Regulator should base its allowance on outturn costs from the 2021/22 reporting year onwards. It also disagreed with the draft determination allowance not accounting for the c.1% annual forecast growth in connections (number of meters to be read).

1.13 We disagree with the company's view that the use of historic RP6 costs is the incorrect approach. Meter reading requirements have not changed since the start of RP6, nor is any change to be accounted for in RP7 allowances, that would render the use of early RP6 years costs to be inappropriate. It is our view that recruitment difficulties are an issue for the company to manage and resolve, and our use of longer-term data will reduce the influence on determined costs of what should be short term difficulties.

1.14 We agree with NIE Networks that the meter reading allowance should account for an increasing number of connections, which was our approach taken for RP6. Our analysis for the draft determination revealed that outturn costs were not trending with customer base growth. On further assessment our view is that the company has been historically meeting its c.1% annual productivity challenge for this area, which has offset any additional costs related to c.1% annual growth in customer base. The allowance determined in this annex is before the application of the 1% productivity challenge detailed in our frontier shift annex. Therefore, we have adjusted the allowance to increase annually in line with NIE Networks' annual forecast % growth in connections from the current number of connections reported at 2023/24 through to the end of RP7.

1.15 Our final determination for meter reading expenditure during RP7 is set out in Table 1.2 below. Our final determination is a £444k (1.7%) reduction from NIE Networks' RP7 request.

Meter Reading Expenditure £m	2026	2027	2028	2029	2030	2031	RP7 Total
NIE Networks Proposal	4.27	4.27	4.26	4.26	4.25	4.25	25.56
Draft Determination	3.99	3.99	3.99	3.99	3.99	3.99	23.99
Final Determination	4.08	4.12	4.16	4.21	4.25	4.29	25.11

Note 1. Figures may not sum due to rounding.

Table 1.2: Meter reading final determination

2. Metering Services

2.1 Metering services consists of two metering capital expenditure programmes, meter installs/changes and meter recertification and replacement.

2.2 Both programmes consist of a direct cost element, which includes the cost for the meter and/or onsite direct labour for completing an individual metering services task. Direct costs are subject to a volume driver, meaning a determined unit rate for each metering services task is set, then the actual volume completed during the price control providing the adjusted allowance. This approach is a result of NIE Networks' limited control over work volumes in most cases, and it provides greater protection to the company and consumers if forecasts prove inaccurate.

2.3 Both programmes also include indirect costs element. These are the costs that are incurred primarily in employment of staff who manage and administer the metering services programmes and meter stock. Other indirect costs include vehicles, tools and equipment used to support the programmes. As these costs are less directly affected by the volume of work undertaken, an ex-ante allowance is determined.

Meter installs/changes direct costs

2.4 NIE Networks provide a range of standard metering services such as the installation, exchange and alteration of electricity meters at the request of both customers and electricity suppliers. This includes metering across the full range of electricity consumers and generators, including domestic, commercial and industrial properties.

NIE Networks' RP7 proposal

2.5 NIE Networks set out its proposal for RP7 meter installs/changes direct costs expenditure within its market operations submission document, as per Table 2.1 below. In addition to the three existing credit, keypad and commercial metering categories, three new unit cost categories have been proposed for RP7 to capture LCT related metering specifications.

Meter Type	Unit Cost (£)	Forecast Volume	RP7 Total (£m)
Credit Meters	30.59	182,981	5.60
Keypad	84.73	106,366	9.01
Commercial	238.57	11,950	2.85
LCT (Basic)	41.58	89,893	3.74
LCT (Higher)	73.60	10,576	0.78
LCT (Advanced)	198.44	5,288	1.05
Total		407,053	23.03

Note 1. Figures may not sum due to rounding.

Table 2.1: NIE Networks meter installs/changes direct costs proposal

2.6 NIE Networks based its proposed unit costs for the three existing categories (credit, keypad and commercial meters) on historical outturn costs. It then adjusted the labour element to take account of changes within the forecast job mix in each category and added an estimated increase to the material costs. It anticipates material cost increases due to inflation, increasing costs of electronic components used in electricity meters and other supply chain cost increases in recent years.

2.7 NIE Networks is currently undergoing a meter procurement process which will establish actual material costs. After its business plan submission, NIE Networks made the Utility Regulator aware that based upon findings from its ongoing procurement process it now considers that there would be reduced availability of non-smart meter suppliers which may mean higher unit costs.

2.8 NIE Networks was not in position to provide actual quotations for the meter costs, but requested a mechanism be made available to review determined unit costs within the RP7 period. It should also be noted that NIE Networks propose that procuring and installing smart meters, even prior to smart systems availability, should be considered as that project progresses. It proposes that this is a low regrets option in comparison to continuing to procure and install traditional meters, which would subsequently be replaced by a smart meter.

2.9 NIE Networks provided the following examples of LCT metering configurations that will be assigned to its proposed new metering categories:

- LCT Basic – Typically a domestic or small-scale commercial customer who require the installation of a basic two rate meter to facilitate a standard time of use (Day/Night) tariff.
- LCT Higher - Typically a domestic/small-scale commercial customer

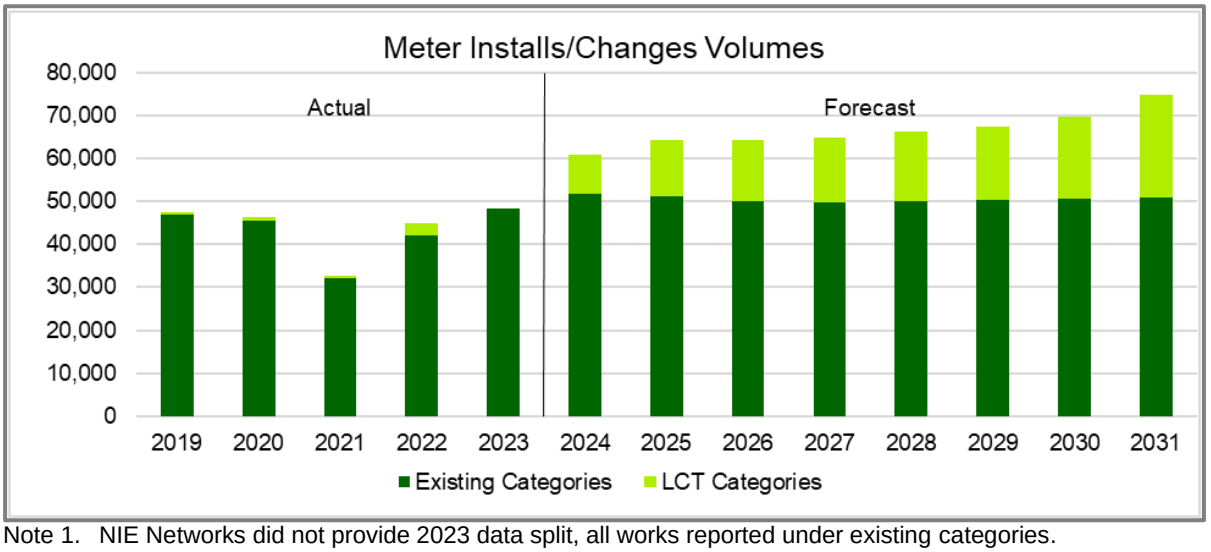
who requires a more specialised metering configuration, for example, a multi-element meter to facilitate more 'specialised' tariffs which include heat functionality (i.e. Economy 7) or a three-phase meter to accommodate increased loads from LCTs.

- LCT Advanced - Typically a larger scale commercial customer who requires more specialised metering to facilitate larger scale LCT integrated technologies and advanced tariff configurations.

2.10 In order to generate a proposed unit cost for the three new LCT metering categories, NIE Networks retrospectively analysed jobs of that type, carried out in the 2022 calendar year. Like the existing metering categories, an estimated uplift was applied to outturn materials costs.

2.11 In RP6, NIE Networks assigned LCT related meter jobs and costs to the appropriate existing metering category. However, LCT requests have increased in volume, and it expects a continuing increase in proportion to the existing metering categories through RP7, as demonstrated in Figure 2.1 below. As a result, NIE Networks believes that continuing to absorb these higher cost jobs into the existing RP6 categories is inappropriate.

2.12 NIE Networks has forecast that volumes for existing categories will remain stable through RP7, with the LCT jobs in addition to existing run rates. Aside from a reduction in 2021 reporting year due to Covid restrictions, existing volumes have been relatively stable in RP6. NIE Networks has stated that customer/supplier requests to change meters to Bluetooth enabled keypad+ meters are contributing to maintaining this level of activity.



Note 1. NIE Networks did not provide 2023 data split, all works reported under existing categories.

Figure 2.1: Actual and forecast meter installs/changes

Draft determination

2.13 At draft determination stage, we did not allow the three new LCT meter categories in the draft determination. Additional unit cost categories and cost rate for these specialised configurations may prove necessary when we complete our review[3] of the connection charging methodology or as smart metering is implemented. However, pending the outcome of that work, we do not intend to make any specific provision for these changes in the RP7 price control. The existing licence already makes provision for additional meter categories and unit cost rates to be added as the need arises through a decision by the Utility Regulator.

2.14 For the existing metering categories, we assessed NIE Networks proposed unit costs against the historical outturn unit costs. When comparing to the RP6 average to March 2023, we found NIE Networks' proposals to be higher by 7% for credit, 22% for keypad and 37% for commercial.

2.15 NIE Networks included an estimated increase on its unit costs due to estimated material costs increases. However, we had not been provided with evidence and detailed costs beyond NIE Networks' estimations and commentary at the time we prepared the draft determination. We were not convinced that any potential cost increases would fall outside the scope of our frontier shift adjustments. As a result, when determining unit rates, we did not account for NIE Networks' estimated material cost increases.

2.16 NIE Networks also cited the forecast job mix within each category as justification for an uplift in its proposed unit costs. We expect variation in job mix would be accounted for in the existing outturn costs which span multiple years, therefore we did consider the job mix as a reason not to rely on the outturn data.

2.17 In further analysis of the RP6 data we found the average outturn costs for the 2021 reporting year to be an outlier from the other reporting years. Compared to average for the other RP6 years to March 2023, unit costs for the 2021 year were higher by 25% for credit, 14% for keypad and 34% for commercial. NIE Networks provided commentary along with its 2021 Regulatory Instructions and Guidance submission (RIGs) on the increased average unit cost, stating that it was mainly as a result of Covid-19 restrictions which had severely disrupted the efficient delivery of this metering work programme. We therefore excluded costs and volumes for the 2021 reporting year from our benchmark analysis.

[3] https://www.uregni.gov.uk/consultations/call-evidence-electricity-connection-policy-framework-review

2.18 We set the unit rates for the three existing metering categories at the outturn average for RP6 to March 2023, excluding the 2021 reporting year data.

2.19 In response to our query[4], NIE Networks provided detail on the number and type of existing metering category jobs it carried out in RP6, that would be considered LCT metering jobs. We used this data to allocate the forecast LCT volumes to the existing metering categories, as shown in Table 2.2 below.

	Credit	Keypad	Commercial
LCT Basic	95%	5%	0%
LCT Higher	95%	5%	0%
LCT Advanced	34%	2%	64%

Table 2.2: Allocation of LCT meter categories' volumes

2.20 Following reallocation of the LCT metering volumes, our draft determination for meter installs/changes unit costs, and subsequent forecast total RP7 expenditure, is set out in Table 2.3 below.

Meter Type	Unit Cost £		UR Amended Volumes	RP7 Total (£m)			
	NIE Networks Proposal	UR DD		NIE Networks Proposal	UR DD	Change +/-	Change %
Credit Meters	30.59	27.77	280,210	5.59	7.78	2.18	39.0%
Keypad	84.73	68.16	111,494	9.01	7.60	-1.41	-15.7%
Commercial	238.57	165.46	15,349	2.85	2.54	-0.31	-10.9%
LCT (Basic)	41.58	N/A	0	3.74	0	-3.74	-100%
LCT (Higher)	73.60	N/A	0	0.78	0	-0.78	-100%
LCT(Advanced)	198.44	N/A	0	1.05	0	-1.05	-100%
Total			407,053	23.03	17.92	-5.10	-22.2%

Note 1. Figures may not sum due to rounding.

Table 2.3: Meter installs/changes direct costs draft determination

Final determination

2.21 NIE Networks' business plan submission included estimated costs increases for meter material costs that it expected from its meter procurement process. For the draft determination we did allow these estimated costs increases, as they were not yet evidenced, and we were comfortable cost pressures would be accounted for in our real price effects adjustments. Subsequent to the draft determination publication, NIE Networks' meter procurement process completed, and it provided the actual meter material costs through a revised

[4] UR-0425

business plan submission in February 2024, in advance of its draft determination consultation response.

2.22 The revised business plan submission unit costs for the meter installs/changes programme compared to original business plan are provided in Table 2.4 below.

Meter Type	Original RP7Submission Unit Cost (£)	Revised RP7Submission Unit Cost (£)	Change %
Credit Meters	30.59	30.18	-1.3%
Keypad	84.73	78.89	-6.9%
Commercial	238.57	226.32	-5.1%
LCT (Basic)	41.58	37.92	-8.8%
LCT (Higher)	73.60	59.80	-18.8%
LCT(Advanced)	198.44	165.96	-16.4%

Table 2.4: Revised submission unit costs for meter installs/changes

2.23 The revised unit costs submission represents a £1.49m decrease from the original submission in forecast expenditure, when NIE Networks' RP7 forecast volumes for each installs/changes meter type are applied.

2.24 NIE Networks provided feedback on our draft determination proposals in conjunction with its revised submission. Further response was also provided in its formal consultation response. It requested we accept its new proposed unit rates and argued we were incorrect in our use of long-term RP6 outturn costs to set allowed unit rates. It also disagreed with our decision and rationale for disallowing the new proposed LCT metering categories.

2.25 In its revised submission NIE Networks provided the calculations of the impact of the new meter procurement contracts on each of the metering categories material costs. It applied the material costs to its outturn costs to provide an updated unit rate. The material costs changes represented a 1.4% (£0.23m) increase on the outturn costs, when NIE Networks' RP7 forecast volumes for each installs/changes meter type are applied.

2.26 It is our view that this increase should not be considered as exceptional and that it should warrant consideration beyond the existing price control adjustments for real price effects. We have therefore disallowed the cost changes due to the new meter procurement contracts.

2.27 We assessed the outturn unit rates NIE Networks used as the base for the adjustments for the new meter procurement contracts. We queried[5] these base outturn unit rates as we could not reconcile all of the metering

[5] Pre-Final Determination query UR-0018

categories with any period or periods of outturn data. In its response NIE Networks' detailed that it used the 2021/22 reporting year outturn costs, from which it made an adjustment to keypad category to include material costs from 2019/20 and 2020/21 reporting years, as it considered the 2021/22 costs to be abnormal. This selected adjustment represented a 15.2% (£2.01m) increase on the 2021/22 outturn costs, when RP7 forecast volumes for each installs/changes meter type are applied. Excluding the selected adjustment, the use of the single 2021/22 year data represented a 0.6% (£0.1m) decrease on the full RP6 to March 2023 outturn costs, excluding the 2020/21 reporting year data as per our draft determination approach.

2.28 It is our view that making selected adjustments to outturn data and limiting benchmark data to a single reporting year is not a good basis for setting a price control. It is our view that outturn costs for established programmes are a suitable basis for future allowances. Following receipt of the 2023/24 reporting year's data, our approach uses 5.5 years (2020/21 excluded) of outturn RP6 data, which provides almost a full price control period sample and will reflect a mix of factors that influence costs such as meter types, job complexity and consumer demands. We believe this is the most reasonable approach and it is our basis for the final determination.

2.29 Following engagement with NIE Networks and further review of its retail market arrangements with suppliers, we have become aware that, contrary to our view at the draft determination, the costs of installing the three proposed LCT related metering categories are already fully socialised. The meter types mainly provide time of use and/or type of use tariff capability to facilitate tariff types that are already available, with no requirement for a direct contribution from the customer requesting the new or altered metering arrangement.

2.30 NIE Networks currently allocate and claim allowances for these LCT metering jobs from the existing unit rates, but the costs of both materials and labour generally exceed the existing rates. NIE Networks has argued that the volume of these requests has historically been proportionally low enough for the additional costs to be absorbed within the existing unit rates, however with the growth, absorbing the costs is no longer appropriate. NIE Networks has provided data to evidence this growth, from c.2% of the supplier/customer requested work programme in early RP6 to c.16% in the first 9 months of the 2023/24 reporting year. NIE Networks forecasts these LCT meter configurations will constitute 25% of the supplier/customer requested work programme across RP7.

2.31 Given this information we are presented with the following options:

a) Maintain the draft determination position of using RP6 outturn data

and RP6 meter categories.

b) Blend the additional costs and forecast volumes for the LCT related metering types to the existing RP6 meter categories.

c) Provide unit rates for the requested new metering categories.

2.32 The first two options risk either, underfunding the company, should the requests for the LCT related metering types continue to grow, or overfunding the company, should forecast growth not materialise.

2.33 We have therefore decided to provide unit rates for the requested new metering categories, as it provides the greatest protection against forecast inaccuracies. It also has enabled the setting of lower and, in theory, more accurate unit rates for the existing metering categories. This has been achieved through stripping the costs and volumes associated with installing the LCT metering types during RP6 from the existing metering categories outturn, as further detailed in paragraph 2.35.

2.34 We assessed the unit rates NIE Networks provided in its revised submission for these three new metering categories. The impact of the new meter procurement contracts on each of these new metering categories resulted in a net reduction when applying the RP7 forecast volumes. We have therefore decided to accept the submitted unit rates for these categories.

2.35 NIE Networks provided the number of these LCT metering type jobs it has completed through RP6 and what existing metering category the LCT type jobs had been allocated to. Using this volume information and the submitted/accepted unit rates for these new LCT metering categories, we stripped these costs from the existing metering categories outturn to provide updated average unit rates for the existing categories. It is our view that this adjustment will give more reflective unit rates for the future jobs that will be allocated to the existing and newly available categories.

2.36 The new LCT metering categories are to allocate costs whenever a new meter is required, such as at a new installation job or an exchange job at an existing installation. Other works not requiring a new or replacement meter, such as meter repairs or inspections, should be allocated to the appropriate existing category. The types of meters and configurations to be installed and reported under each of the LCT categories are as follows:

- LCT (Basic) - Import/export credit meter configurations and single phase multi rate meters.
- LCT (Higher) - Three phase programmable multi rate import/export meters and multi rate keypad meters.

- LCT (Advanced) - Single phase multi element meters and others that support advanced tariff configurations for large energy users.

2.37 In the lead up to the final determination publication, NIE Networks made further representations that our approach of using long-term RP6 data was incorrect, and we should only use 2022 data onwards. It stated that including the early RP6 year data in the averages would lead to setting to an inappropriately low allowance.

2.38 Figure 2.2 below provides a comparison of annual outturn unit rates from the RP6 years for the RP6 meter install/changes programmes. As we are allowing the new LCT meter job types for RP7 as per NIE Networks' request, we have stripped LCT meter job related costs from the RP6 data. We have applied NIE Networks' RP7 forecast volume to each unit rate and totalled to provide the overall costs and observe the forecast RP7 impact. For comparison, we have also provided NIE Networks' submission and our RP7 final determination, calculated using the same method. As demonstrated by the outturn data, there is no significant upwards trend or change between early and late years of RP6, therefore we have found no substance to the company's view.

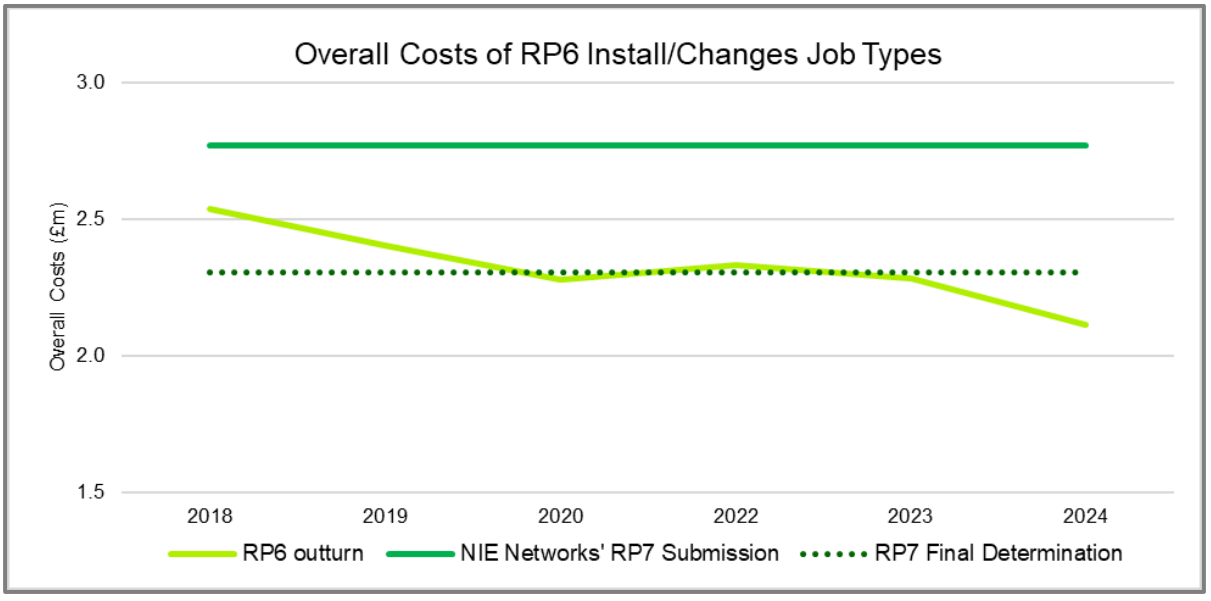


Figure 2.2: Comparison of install/changes unit rates

2.39 Our final determination for meter installs/changes unit costs, and subsequent forecast total RP7 expenditure, based on NIE Networks' forecast volumes, is set out in Table 2.5 below.

Meter Type	Unit Cost (£)		Volumes	RP7 Total (£m)			
	NIE Networks Proposal	UR FD		NIE Networks Proposal	UR FD	Change +/-	Change %
Credit Meters	30.18	26.81	182,981	5.52	4.91	-0.62	-11.2%
Keypad	78.89	65.10	106,366	8.39	6.92	-1.47	-17.5%
Commercial	226.32	168.28	11,950	2.70	2.01	-0.69	-25.6%
LCT (Basic)	37.92	37.92	89,893	3.41	3.41	0	0%
LCT (Higher)	59.80	59.80	10,576	0.63	0.63	0	0%
LCT(Advanced)	165.96	165.96	5,288	0.88	0.88	0	0%
Total			407,053	21.54	18.76	-2.78	-12.9%

Note 1. Figures may not sum due to rounding.
Note 2. NIE Networks' proposal information is as per its revised submission received following the draft determination publication.

Table 2.5: Meter installs/changes direct costs final determination

2.40 We will apply the existing volume driver uncertainty mechanism to all categories. However, we do not agree with the proposal for a review of unit rates during the price control as this reduces the incentive for NIE Networks to control and reveal lower costs which would benefit consumers in the future.

Meter recertification and replacement direct costs

2.41 Meter recertification and replacement relates to NIE Networks' statutory obligations to use meters that remain within their certified period. As such, it is required to replace a meter when it reaches the end of its prescribed certification life.

2.42 This programme also includes other metering asset replacement works not listed in the statutory obligations, but carried out in line with good industry practice to ensure these assets are functioning correctly. These other assets include meters at generators, bulk supply points and high voltage customers.

2.43 Finally, also included within this area is NIE Networks' meter replacement for theft programme. This is a project specifically devised to replace a certain type of keypad meter, that was susceptible to tampering.

NIE Networks' RP7 proposal

2.44 NIE Networks set out its proposal for RP7 meter recertification and replacement direct costs expenditure within its market operations submission document, as per Table 2.6 below.

Recertification	Unit Cost (£)	Forecast Volume						RP7 Total (£m)
		2026	2027	2028	2029	2030	2031	
Credit Meters	36.23	23,596	21,348	16,319	15,980	14,687	11,534	3.75
Keypad	90.33	12,373	2,796	4,403	4,080	6,392	15,269	4.09
Commercial	192.36	2,666	1,022	1,139	1,965	1,164	852	1.70
Other Asset Replacement								
110/33Kv BSP & Substation Metering	1,771.02	8	6	27	48	0	2	0.16
Power Stations > 100 MW	6,089.78	2	1	1	1	1	1	0.04
Generator Metering <100MW and >1MW	848.29	6	2	1	2	1	2	0.01
HV Demand Metering >1MW	429.56	33	4	2	3	3	2	0.02
HV Demand Metering <1MW	353.98	20	3	2	2	1	2	0.01
Meter Replacement for Theft								
Keypad Replacement	153.65	1000	1000	1000	731	0	0	0.57
Total Meter Recertification and Replacement								
Total Direct Programme		39,706	26,182	22,894	22,813	22,249	27,663	10.36

Note 1. Figures may not sum due to rounding.

Table 2.6: NIE Networks' meter recertification and replacement direct costs proposal

2.45 NIE Networks based its proposed unit costs on historical outturn costs. It then adjusted the labour element to take account of changes within the forecast job mix in each category and added an estimated increase to the material costs. It anticipates material cost increases due to inflation, increasing costs of electronic components used in electricity meters and other supply chain cost increases in recent years.

2.46 NIE Networks is currently undergoing a meter procurement process which will establish actual material costs. After its business plan submission, NIE Networks made the Utility Regulator aware that based upon findings from its ongoing procurement process it now considers that there would be reduced availability of non-smart meter suppliers which may mean higher unit costs.

2.47 NIE Networks was not in position to provide actual quotations for the meter costs, but requested a mechanism be made available to review determined unit costs within the RP7 period. It should also be noted that NIE Networks propose that procuring and installing smart meters, even prior to smart systems availability, should be considered as that project progresses. It proposes that this is a low regrets option in comparison to continuing to

procure and install traditional meters, which would subsequently be replaced by a smart meter.

2.48 Recertification volumes are calculated using NIE Networks' forecasted number of meters in service that will have reached the end of their prescribed certification life during RP7. NIE Networks forecast RP7 annual average volume of c.25k is lower than RP6, c.30k, due to the age profile of its meter population. However, it will not replace the number it anticipated in RP6, as Covid impacted this programme, and therefore will carry some RP6 volume forward to the start of RP7. The use of a volume driver for these activities will ensure that NIE Networks will only be funded for the work it has carried out in RP6.

2.49 The other metering assets replacement volumes are based on the number identified by NIE Networks as reaching the end of their recommended lifecycle during RP7.

2.50 In early 2016 NIE Networks agreed a programme with the Utility Regulator and the suppliers to replace keypad meters that were susceptible to tampering. The number that could be replaced was originally capped at 20,000, which was then extended to 30,000 in 2019. NIE Networks has made a provision in RP7 for this programme to continue, but at a reduced annual volume, as the population of the meter type has been reduced by other replacement activities. It does not anticipate the need to utilise the full 30,000 volume allowed; at the end of the 2022 reporting year, it had replaced 20,873, with 29,569 as the final forecast.

Draft determination

2.51 For the draft determination, we assessed NIE Networks proposed unit costs against the outturn unit costs for each category. When comparing the three recertification programmes and the replacement for theft programme to the RP6 average through March 2023, we discovered that NIE Networks' proposals were higher by 11% for credit, 15% for keypad, 25% for commercial and 18% for theft replacements.

2.52 NIE Networks included an estimated increase on its unit costs due to estimated material costs increases. However, we had not been provided with evidence and detail beyond NIE Networks estimations and commentary at the time of the draft determination. We were not convinced that any potential cost increases would fall outside the scope of our frontier shift adjustments. As a result, when determining unit rates, we did not account for NIE Networks' estimated material cost increases.

2.53 NIE Networks also cited the forecast job mix within each category as justification for an uplift in its proposed unit costs. We expect variation in job

mix would be accounted for in the existing outturn costs which span multiple years, therefore we did not consider the job mix as a reason not to rely on the outturn data.

2.54 In further analysis of the RP6 data we found the average outturn costs for the 2021 reporting year to be an outlier from the other reporting years, for these four high volume categories. Compared to average for the other RP6 years to March 2023, unit costs for the 2021 year were higher by 75% for credit, 14% for keypad, 2% for commercial and 59% for theft replacements.

2.55 NIE Networks provided commentary along with its 2021 RIGs submission on the increased average unit cost, stating that it was mainly as a result of Covid-19 restrictions which had severely disrupted the efficient delivery of this metering work programme. We therefore excluded costs and volumes for the 2021 reporting year from our benchmark analysis for these four high volume categories for the draft determination.

2.56 We set the unit rates for the three recertification programmes and the replacement for theft programme at the outturn average for RP6 to March 2023, excluding the 2021 reporting year data.

2.57 For the other metering asset replacement programmes, we found that NIE Networks' proposed unit costs were largely in line with or lower than RP6 outturn to March 2023. The only exception to this was the Power Stations > 100 MW category, which was 18% higher than outturn. However, only three jobs of this type have been reported to date, and these installations are quite bespoke, therefore we have not relied on the outturn data. We set the unit costs for the other metering asset replacement programmes at NIE Networks' proposed unit rates.

2.58 Our draft determination for meter recertification and replacement unit costs, and subsequent forecast total RP7 expenditure, based on NIE Networks' forecast volumes, is set out in Table 2.7 below.

Meter Type	Unit Cost (£)		Volume	RP7 Total (£m)			
	NIE Networks Proposal	UR DD		NIE Networks Proposal	UR DD	Change +/-	Change %
Credit Meters	36.23	29.11	103,465	3.75	3.01	-0.74	-19.7%
Keypad	90.33	76.91	45,313	4.09	3.49	-0.61	-14.9%
Commercial	192.36	153.49	8,808	1.70	1.35	-0.34	-20.2%
110/33Kv BSP & Substation Metering	1,771.02	1,771.02	91	0.16	0.16	0	0%
Power Stations > 100 MW	6,089.78	6,089.78	7	0.04	0.04	0	0%
Generator Metering <100MW and >1MW	848.29	848.29	14	0.01	0.01	0	0%
HV Demand Metering >1MW	429.56	429.56	47	0.02	0.02	0	0%
HV Demand Metering <1MW	353.98	353.98	30	0.01	0.01	0	0%
Meter Replacement for Theft							
Keypad Replacement	153.65	126.21	3,731	0.57	0.47	-0.10	-17.9%
Total Meter Recertification and Replacement							
Total Direct Programme			161,506	10.36	8.57	-1.79	-17.3%

Note 1. Figures may not sum due to rounding.

Table 2.7: Meter recertification and replacement direct costs draft determination

Final determination

2.59 As detailed in paragraph 2.21, NIE Networks provided a revised submission for the metering unit rates as a result of the completion of its meter procurement process. The revised business plan submission unit costs for the meter recertification and replacement programme compared to original business plan is provided in Table 2.8 below.

Meter Type	Original RP7Submission Unit Cost (£)	Revised RP7Submission Unit Cost (£)	Change %
Credit Meters	36.24	35.43	-2.2%
Keypad	90.33	78.05	-13.6%
Commercial	192.36	162.05	-15.8%
110/33Kv BSP & Substation Metering	1,771.02	1,771.02	0%
Power Stations > 100 MW	6,089.78	6,089.78	0%
Generator Metering <100MW and >1MW	848.29	848.29	0%
HV Demand Metering >1MW	429.56	429.56	0%
HV Demand Metering <1MW	353.98	353.98	0%
Teleswitch/Telemeter	N/A	105.02[6]	N/A
Keypad Meter Replacement for Theft	153.65	139.91	-8.9%

Table 2.8: Revised submission unit costs for meter recertifications and replacements

2.60 The revised unit costs submission represents a £1m decrease from the original submission in forecast expenditure, when RP7 forecast volumes for each recertification and replacement type are applied.

2.61 NIE Networks provided feedback on our draft determination proposals in conjunction with its revised submission. Further response was also provided in its formal consultation response. It requested we accept its new proposed unit rates and argued we were incorrect in our use of long-term RP6 outturn costs to set allowed unit rates.

2.62 NIE Networks did not adjust its submission for the five high capacity/high voltage recertification types. We accepted the submission for these types at the draft determination and our position is unchanged for the final determination.

2.63 NIE Networks did not provide a unit rate request for the telemeter/teleswitch[7] replacement programme in its original submission, as it anticipated this programme would complete in RP6. However, upon review, it was assessed that there will be a low volume of telemeter/teleswitch jobs potentially still to be carried out in RP7. Therefore, NIE Networks provided a unit request for this category in its revised submission along with a forecast volume.

[6] Request for unit rate to continue telemeter/teleswitch programme provided subsequent to draft determination
[7] Telemeter/teleswitch meters utilise a radio signal that will be discontinued in June 2025

2.64 In its revised submission NIE Networks provided the calculations of the impact of the new meter procurement contracts on each of the adjusted and new metering categories material costs. It applied the material costs to its outturn costs to provide an updated unit rate. The material costs changes represented a 2.7% (£0.25m) increase on the outturn costs, when RP7 forecast volumes for each adjusted and new recertification and replacement type are applied.

2.65 It is our view that this increase should not be considered as exceptional and that it would warrant consideration beyond the existing price control adjustments for real price effects. We have therefore disallowed the cost changes due to the new meter procurement contracts.

2.66 We assessed the outturn unit rates NIE Networks used as the base for the adjustments for the new meter procurement contracts. We queried[8] these base outturn unit rates as we could not reconcile all of the metering categories with any period or periods of outturn data. In its response NIE Networks' detailed that it used the 2022 reporting year outturn costs, from which it made an adjustment to the keypad category to include material costs from 2020 and 2021 reporting years, as it considered the 2022 costs to be abnormal. This selected adjustment represented an 8.5% (£0.75m) decrease on the 2022 outturn costs, when RP7 forecast volumes for each adjusted recertification and replacement type are applied. Excluding the selected adjustment, the use of the single 2022 year data represented a 13.9% (£1.3m) increase on the full RP6 to March 2023 outturn costs, excluding the 2021 reporting year data as per our draft determination approach.

2.67 It is our view that making selected adjustments to outturn data and limiting benchmark data to a single reporting year is not a good basis for setting a price control. Following receipt of the 2024 reporting year's data, our approach uses 5.5 years (2021 excluded) of outturn RP6 data, which provides almost a full price control period sample and will reflect a mix of factors that influence costs such as meter types and job complexity. We believe this is the most reasonable approach and it is our basis for the final determination.

2.68 In the lead up to the final determination publication, NIE Networks made further representations that our approach of using long-term RP6 data was incorrect, and we should only use 2022 data onwards. It stated that including the early RP6 year data in the averages would lead to setting to an inappropriately low allowance.

2.69 Figure 2.3 below provides a comparison of annual outturn unit rates from the RP6 years for the high-volume meter recertification programmes; credit,

[8] Pre-Final Determination query UR-0018

keypad and commercial. These three programmes represent 93% of the forecast RP7 recertification and replacement volume. We have applied NIE Networks' RP7 forecast volume to each unit rate and totalled to provide the overall costs, and observe the forecast RP7 impact. For comparison, we have also provided NIE Networks' submission and our RP7 final determination, calculated using the same method. As demonstrated by the outturn data, there is no significant upwards trend or change between early and late years of RP6, therefore we have found no substance to the company's view.

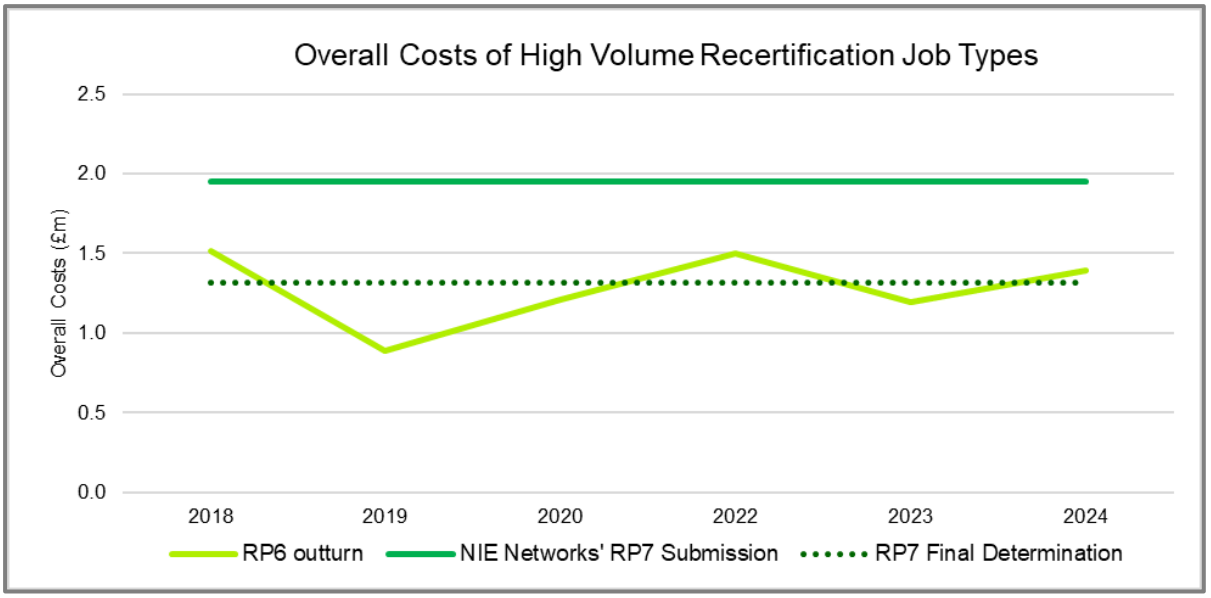


Figure 2.3: Comparison of recertification unit rates

2.70 Our final determination for meter recertification and replacement unit costs, and subsequent forecast total RP7 expenditure, based on NIE Networks' forecast volumes, is set out in Table 2.9 below.

Meter Type	Unit Cost (£)		Volume	RP7 Total (£m)			
	NIE Networks Proposal	UR FD		NIE Networks Proposal	UR FD	Change +/-	Change %
Credit Meters	35.43	29.87	103,465	3.67	3.09	-0.58	-15.7%
Keypad	78.05	75.40	45,313	3.54	3.42	-0.12	-3.4%
Commercial	162.05	159.15	8,808	1.43	1.40	-0.03	-1.8%
110/33Kv BSP & Substation Metering	1,771.02	1,771.02	91	0.16	0.16	0	0%
Power Stations > 100 MW	6,089.78	6,089.78	7	0.04	0.04	0	0%
Generator Metering <100MW and >1MW	848.29	848.29	14	0.01	0.01	0	0%
HV Demand Metering >1MW	429.56	429.56	47	0.02	0.02	0	0%
HV Demand Metering <1MW	353.98	353.98	30	0.01	0.01	0	0%
Teleswitch/Telemeter	105.02	86.69	500	0.05	0.04	-0.01	-17.5%
Meter Replacement for Theft							
Keypad Replacement	139.91	124.04	3,731	0.52	0.46	-0.06	-11.3%
Total Meter Recertification and Replacement							
Total Direct Programme			162,006	9.45	8.66	-0.79	-8.4%

Note 1. Figures may not sum due to rounding.
Note 2. NIE Networks' proposal information is as per its revised submission received following the draft determination publication.

Table 2.9: Meter recertification and replacement direct costs final determination

2.71 We will apply the existing volume driver to all categories. However, we do not agree with the proposal for a review of unit rates during the price control as this reduces the incentive for NIE Networks to control and reveal lower costs which would benefit consumers in the future.

2.72 If a final decision is made to install smart meters, we will review the cost impact on NIE Networks and consult on licence modifications to address any additional (or reduced) costs.

Metering services indirect costs

2.73 Metering services indirect costs are reported as a total figure across both the meter installs/changes and meter recertification and replacement programmes.

2.74 Indirect costs are those that are incurred primarily in employment of staff who manage and administer the metering services programmes and meter stock. Other indirect costs include vehicles, tools and equipment used to support the programmes. The full indirect costs allowance is determined because these costs are less directly affected by the volume of work performed.

NIE Networks' RP7 proposal

2.75 NIE Networks set out its proposal for RP7 metering services indirect costs expenditure for each programme within its market operations submission document, as per Table 2.10 below.

Metering Services Indirect Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
Meter installs/changes	2.29	2.33	2.25	2.22	2.37	2.37	13.83
Meter recertification and replacement	0.48	0.49	0.47	0.46	0.49	0.49	2.87
Total	2.77	2.82	2.72	2.68	2.86	2.85	16.70

Note 1. Figures may not sum due to rounding.

Table 2.10: NIE Networks' metering services indirect costs proposal by programme

2.76 Indirect costs are split on average 83:17, meter installs/changes versus meter recertification and replacement.

2.77 NIE Networks also provided the cost types for each programme, in £m to one decimal place. For simplicity we have combined the programmes' cost types, as per Table 2.11 below.

Metering Services Indirect Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
Staff Costs	1.9	2.0	1.9	1.9	2.0	2.0	11.7
Fleet and Fuel	0.6	0.6	0.6	0.6	0.6	0.6	3.6
Other	0.2	0.2	0.2	0.2	0.2	0.2	1.4
Total	2.7	2.8	2.7	2.7	2.8	2.8	16.7

Note 1. Figures may not sum due to rounding.

Table 2.11: NIE Networks' metering services indirect costs proposal by cost type

2.78 Indirect staff costs are for up to 27 full time meter installs/changes staff, and 5 meter recertification and replacement staff.

2.79 Fleet and fuel costs reflect the cost of vehicles and fuel for metering electricians and field support staff. Other costs include personal protective equipment and tools.

Draft determination

2.80 NIE Networks' metering services indirect expenditure proposals are a significant increase over current expenditure in this area. Through RP6 to date the annual average expenditure has been £1.47m. NIE Networks' RP7 proposal is an annual average of £2.8m, which is an 89% increase.

2.81 NIE Networks provided the following justifications for the increase:

- Increasing requirements in relation to the nature and complexity of work, which requires increased indirect staff support.
- Indirect activities that were previously outsourced and reflected within direct costs, now being carried out internally.
- Significant increases in average job volumes between RP6 and RP7.
- Lower than anticipated out-turn costs in RP6 to date due to lower work volumes during the Covid pandemic and difficulties in recruitment for some roles.

2.82 At draft determination stage we concluded that we would expect any changing nature and complexity of the metering services activities to be reflected more in the direct costs than indirect costs. However, if increased indirect support is required, we would expect NIE Networks to have made adjustments to ensure it meets these new realised demands, and therefore additional expenditure would be revealed in the current RP6 outturn costs.

2.83 If indirect costs are increasing as a result of carrying out activities internally that were previously outsourced and captured in direct costs, we expect NIE Networks would detail a reduction in its direct costs unit rates proposals. NIE Networks did not provide this information, and as we have set direct costs based on historical outturn, these costs will be captured in our direct costs unit rates

2.84 The increase in volume of metering services works as justification for increased indirect costs does not appear accurate. When comparing historic versus forecast total volume of metering services jobs we found the forecast average annual job volume for RP7 was only 22% higher than RP6 to date.

2.85 Figure 2.4 below shows the total metering services job volume, which has averaged c.77k annually in RP6 to date, increasing to a forecast annual average of c.95k in RP7. The LCT meter installs/changes forecast of c.18k on average annually is cause of the increase.

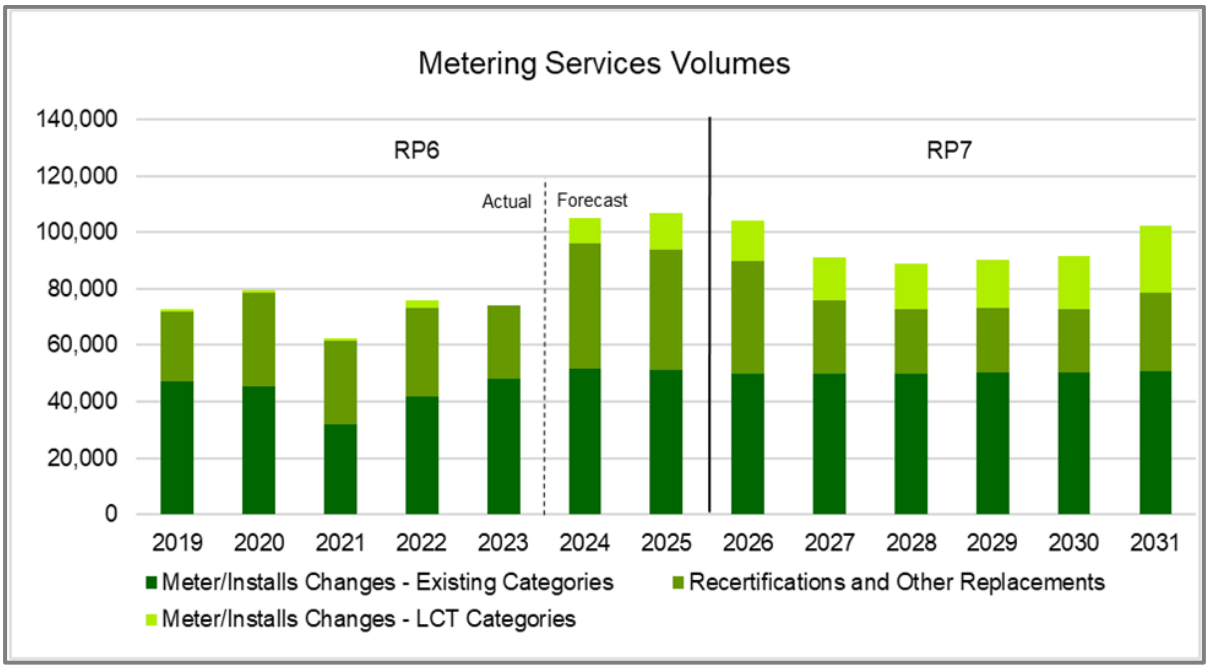


Figure 2.4: Actual and forecast metering services activity volume

2.86 In our draft determination for metering services indirect costs allowance we noted the forecast increase in activity, both as result a growth in LCT related metering and reduced activity during RP6 as result of Covid. Using the average RP6 expenditure would restrict NIE Networks ability to support an increase in direct activities.

2.87 We used NIE Networks RP6 volume of activity and outturn expenditure to calculate an average indirect cost per job. We then applied the average indirect cost per job to NIE Networks' RP7 forecast volume to determine an indirect cost allowance. We concluded that our methodology provided a reasonable basis to determine an efficient level of indirect expenditure to support the direct activities.

2.88 We did have concerns over NIE Networks' forecast level of activity. The 2023 reporting year volume was a forecast in the RP7 business plan submission, and we subsequently received actual data in the annual report. We have noted that the actual volume of total metering services direct activities 74,291, was 6,422 lower than forecast. We noted that we would receive the 2024 reporting year actual data prior to the final determination, and we would assess this data against NIE Networks' forecast. As a result, we would consider revising the volumes we have used to determine the indirect costs allowance.

Final determination

2.89 NIE Networks' draft determination response mainly requested that we ignore the early years of RP6, and that the RP7 allowances should be based on outturn costs from 2022 onwards. Reasons given by the company included:

a) Difficulties in recruitment, meaning full staff requirements were not fulfilled in early years of RP6.

b) Greater complexity in support work due growing number LCT metering arrangements requests, and subsequent issues.

c) Investment in training to facilitate more complex LCT metering arrangements.

2.90 In our view, the above issues are for the company to manage and should be short term difficulties or short term cost changes, and the use of long-term averages as the basis of for a determination helps mitigate against overly accounting for their impact. We recognise there may be greater complexity with the growth of LCT metering arrangements requests, but as the number of jobs of this type increase, we expect staff familiarity with the arrangements will also increase to become business as usual activity and NIE Networks to benefit from economies of scale.

2.91 We therefore have not been persuaded to adjust our approach to setting this allowance from the draft determination. However, we have updated the allowance to take account of the now available 2023/24 reported data. The calculated average indirect cost per metering services direct job that applies to our final determination calculation is £20.87. This was calculated by dividing the RP6 outturn indirect costs from 2018/19 up to 2023/24 (£9.235m) by the number of metering services direct jobs completed over the same period (442.5k). We excluded the first 6 months of RP6 data in 2018 as was assessed to a low cost outlier using this methodology.

2.92 As indicated in the draft determination we have assessed the direct programme volumes for the 2023/24 year against the forecast in NIE Networks' RP7 submitted business plan. Actual volumes for 2023/24 were c.78k versus the c.105k forecast. This caused concern as our methodology for setting the indirect costs allowance for RP7 uses NIE Networks' forecast, which is c.94k per year. On analysis we found that the actual volumes for the uncontrollable supplier/customer requested work element were not yet at the RP7 forecast level but were trending upwards. The more controllable recertification programme remains behind forecast/schedule, however meters still require recertification, meaning any undelivered RP6 volumes will need to be delivered in RP7. We have therefore continued to use NIE Networks' forecast volumes.

2.93 In the lead up to the final determination publication, NIE Networks made further representations that our approach of using long-term RP6 data was incorrect, and we should only use 2022 data onwards. It stated that including the early RP6 year data in the averages would lead to setting to an inappropriately low allowance.

2.94 Figure 2.5 below provides the annual outturn metering services indirect costs for RP6, NIE Networks' RP7 submission and our final determination. To aid comparison we have overlaid the price control periods such that year 1 of RP6 (2019) is contrasted with year 1 of RP7 (2026) etc. As demonstrated by the outturn data, our methodology in calculating the RP7 allowance, using the forecast direct activity volumes, has provided a higher allowance than that observed in the latter years of RP6, therefore we have found no substance to the company's view.

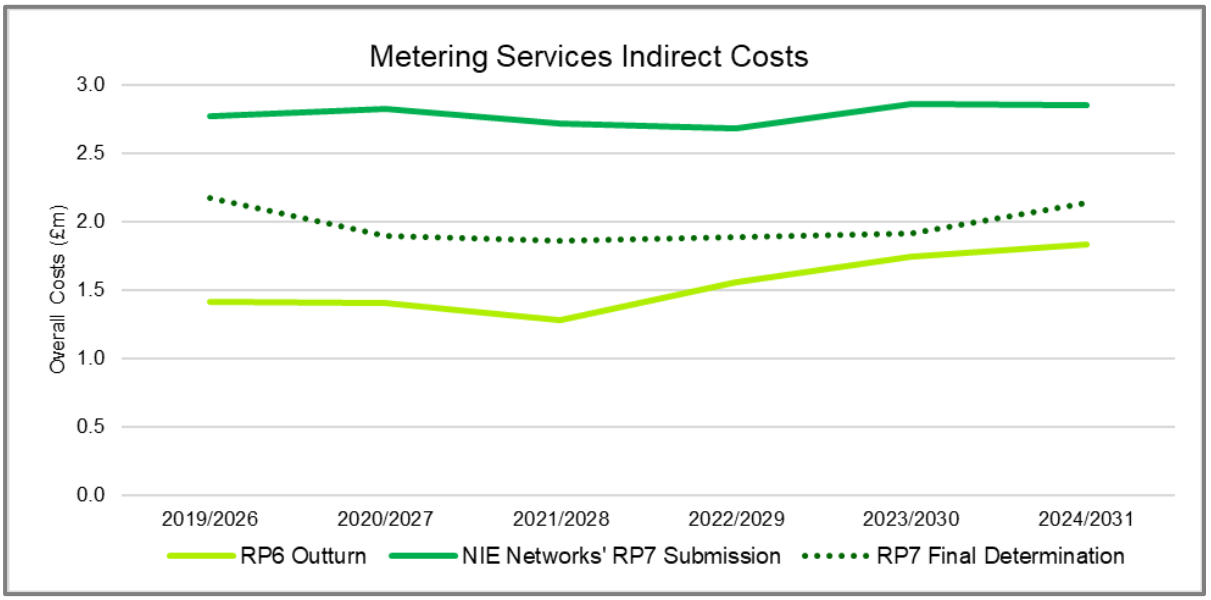


Figure 2.5: Comparison of RP6 and RP7 metering services indirect costs

2.95 Our final determination for metering services indirect costs expenditure, is set out in Table 2.12 below. This is the total across the meter installs/changes and meter recertification and replacement programmes.

Metering Services Indirect Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
NIE Networks' Proposal	2.77	2.82	2.72	2.68	2.86	2.85	16.70
Draft Determination	2.11	1.85	1.81	1.83	1.86	2.08	11.55
Final Determination	2.17	1.90	1.86	1.88	1.92	2.14	11.87

Note 1. Figures may not sum due to rounding.

Table 2.12: Metering services indirect costs final determination

3. Market Services (Enduring Solution)

3.1 Enduring Solution costs relate to IT systems and support and services which facilitate the Northern Ireland Retail Market. These IT systems require on-going support.

3.2 This includes costs associated with the hosting of IT infrastructure (servers and other hardware), licences and other third-party costs as well as the provision of technical services for incident resolution.

3.3 Analysis of this spend is covered separately in Annex W which relates exclusively to IT spend. For the purposes of the final determination, these costs have been provided for almost in their entirety.

4. Other Operating Costs

Metering costs (other)

4.1 Other metering costs consist of four cost/income lines. These include the following:

a) Keypad operating costs – contractual arrangements for the provision of the secure encryption service to support keypad vending and staff costs associated with keypad registration.

b) Transactional services – services to suppliers in support of the competitive retail market i.e. provision of data, re-energisation etc.

c) Transactional income – income in respect of transactional services that is derived from charging the supplier.

d) Revenue protection – activities to detect and deter cases of electricity theft and to collect money owed in relation to that illegal abstraction.

NIE Networks' RP7 proposal

4.2 The RP7 request with respect to these activities can be summarised in Table 4.1 as follows:

Other Metering Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
Keypad Operating Costs	0.32	0.32	0.31	0.32	0.31	0.32	1.89
Revenue Protection Services costs	0.34	0.34	0.34	0.34	0.34	0.34	2.05
Transactional Charges	0.45	0.45	0.45	0.45	0.45	0.45	2.70
Transactional Income	-0.42	-0.42	-0.42	-0.42	-0.42	-0.42	-2.51
Totals	0.69	0.69	0.68	0.69	0.68	0.69	4.12

Note 1. Figures may not sum due to rounding.

Table 4.1: NIE Networks' other metering costs proposal

4.3 It is largely expected that activities will continue as at present. NIE Networks has not made a case for any significant cost uplift for RP7. However, the keypad meters are forecast to rise by £0.1m per annum above the current RP6 run rate.

4.4 It is also noticeable that the transactional income is not expected to cover the transactional charge. This is the opposite to what has been occurring in RP6. We are also of the view that as these services are for the benefit of suppliers, general electricity consumers should not be required to pay a proportion.

Draft determination

4.5 For the purposes of the draft determination, we have simply applied the RP6 average run rates (to date) to forecast RP7 costs. The results are detailed in Table 4.2 below.

Other Metering Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
NIE Networks' Proposal	0.69	0.69	0.68	0.69	0.68	0.69	4.12
Draft Determination	0.42	0.42	0.42	0.42	0.42	0.42	2.53
Difference (+/-)	-0.27	-0.27	-0.26	-0.27	-0.26	-0.27	-1.60

Note 1. Figures may not sum due to rounding.

Table 4.2: Other metering costs draft determination

4.6 Overall we proposed a £1.6m reduction from the business plan request. NIE Networks was expected to justify cost increases if we were to reconsider our position for these activities.

Final determination

4.7 In their consultation response NIE Networks made various points with respect to other metering costs. These included the following:

- The company faced insufficient staffing levels for these other activities during the early years of RP6 due to difficulties in recruitment.
- Metering services business has since secured increased staff levels for keypad administration. However, this is only reflected in reported costs from 2022/23 onwards.
- Covid-19 pandemic disproportionality affected revenue protection activities due to social distancing requirements.
- Other metering costs have increased in the later years of RP6 as a result of an increase in the detection of electricity theft from revenue protection leads.
- NIE Networks intends to review the rates charged to suppliers for transaction services in due course, with a view to ensuring that any shortfall in transactional income is reduced.

4.8 Upon review of the latest data (2023-24), there has been no real terms increase in costs for these areas. We further note that the review of transactional charges to suppliers supports the position of our draft determination that this activity should not negatively impact on general electricity consumers.

4.9 For the purposes of the final determination, we have retained the same approach as previously. This bases future allowances on the RP6 run rate. The only difference is that the rate now includes the latest available year.

4.10 The impact of this is set out in Table 4.3 below.

Other Metering Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
NIE Networks' Proposal	0.69	0.69	0.68	0.69	0.68	0.69	4.12
Final Determination	0.42	0.42	0.42	0.42	0.42	0.42	2.54
Difference (+/-)	-0.27	-0.26	-0.26	-0.26	-0.26	-0.27	-1.59

Note 1. Figures may not sum due to rounding.

Table 4.3: Other metering costs final determination

Fault and overhead costs

4.11 Faults, business support and other overheads make up the remainder of the market operations request. The activities can be summarised as follows:

a) Faults and emergency costs – the direct cost of repairing metering faults which present a risk to safety or result in a supply interruption.

b) Control centre and customer contact centre – market operations allocation of these activity costs to reflect their role in the management of metering faults.

c) Other overheads – market operations allocation of costs associated with general overheads such as HR, finance, stores, training etc.

NIE Networks' RP7 proposal

4.12 The request with respect to these activities can be summarised as follows:

Fault and Overhead Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
Metering Overheads - Capex	1.31	1.31	1.69	1.53	1.41	1.41	8.67
Allocation of overheads - Market Opening	0.97	0.94	0.95	0.97	0.99	0.99	5.80
Allocation of overheads - Meter Reading	1.99	1.90	1.96	2.02	2.07	2.08	12.02
Metering - Faults and Emergency	0.47	0.47	0.47	0.47	0.47	0.47	2.81
Allocation of overheads - Metering	3.09	2.98	3.05	3.10	3.15	3.15	18.52
Totals	7.83	7.59	8.12	8.08	8.08	8.10	47.81

Note 1. Figures may not sum due to rounding.

Table 4.4: NIE Networks' fault and overhead costs proposal

Draft determination

4.13 We were relatively content with the cost request for faults and emergency expenses which were much aligned to the RP6 position. The capex metering overhead request was forecast to increase substantially without explanation. We were not minded to support this unjustified uplift.

4.14 For other general overhead cost lines, we adopted the RP6 run rate. However, to this we added almost the full £13.7m[9] allowance for additional IT spend. The result is set out in Table 4.5 below.

Fault and Overhead Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
Metering Overheads - Capex	0.32	0.32	0.32	0.32	0.32	0.32	1.94
Allocation of overheads - Market Opening	0.85	0.83	0.87	0.88	0.88	0.88	5.19
Allocation of overheads - Meter Reading	2.04	1.98	2.09	2.12	2.12	2.12	12.47
Metering - Faults and Emergency	0.45	0.45	0.45	0.45	0.45	0.45	2.70
Allocation of overheads - Metering	3.12	3.05	3.18	3.22	3.22	3.22	19.01
Totals	6.79	6.63	6.91	6.99	6.99	7.00	41.31

Note 1. Figures may not sum due to rounding.

Table 4.5: Fault and overhead costs draft determination

4.15 The draft determination position represented a £6.5m reduction on the business plan request. The majority of this disallowance was focused on the metering overheads which were unexplained and forecast to be materially above current levels.

4.16 As with other reductions, NIE Networks was expected to justify cost increases if we were to reconsider our position for these expenses.

Final determination

4.17 In their consultation response NIE Networks made various points with respect to fault and overhead costs. These included the following:

- Using the bottom-up assessment, the company forecast that the total expenditure for fault and overhead costs for RP7 was £47.8m.
- UR should apply the same top-down uplift as applied to the indirect cost baseline allowance[10], to account for the modelled efficiency gap.
- UR should also apply a volume-based uplift and add in allowed IT

[9] The £13.7m allowance and split is adopted from the company response to query UR-0435 as a result of the IT replan.
[10] See IMFT&I benchmarking in Annex D

costs as determined.

4.18 The company has not shared their bottom-up assessment for these costs. Neither has it explained or justified the significant increases expected in metering overheads. In the absence of this detail, we are not minded to make any adjustment to our methodology for setting allowances.

4.19 Neither do we consider it appropriate to provide a top-down efficiency scope uplift in line with benchmarking results. No other DNOs in GB undertake these activities. As such, efficiency benchmarking in other areas is not applicable to market operations. This is the reason these costs are assessed on a bottom-up basis. NIE Networks argued that difference in IMFT&I costs revealed by benchmarking related to scope differences between its activities and those of GB distribution companies. We do not agree that this should apply to metering activities.

4.20 Furthermore, a volume-based uplift does not seem necessary for overheads related to business support costs.[11] Whilst the capex scalar uplift is considered appropriate for closely associated support staff to deliver a larger capital programme, it does not follow that additional metering work would necessarily facilitate uplifts in HR / finance / administration costs etc.

4.21 We have however provided an uplift to account for the additional IT spend which is considered appropriate. It is also worth noting that the increased investment in the property portfolio has been fully provided for elsewhere in the allowances[12], so there is no need to further adjust market operation overheads for these additional costs.

4.22 For the final determination we have retained the RP6 run rate approach. The only difference is the inclusion of the latest year data and correction of an inflationary mistake at the draft stage. We have again incorporated bottom-up allowances for the market operations IT spend.

[11] NIE Networks response to query UR-0382 clarified that these costs covered support services such as IT, Finance, Procurement, HR & Training, Administration Support, along with investment in Land and Buildings.
[12] The full TUoS/DUoS impact of property cost allowances (excluding allocation to connections) is captured in the IMFT&I (Inspections, Maintenance, Faults, Tree-cutting and Indirect cost) provisions.

Fault and Overhead Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
Metering Overheads - Capex	0.30	0.30	0.30	0.30	0.30	0.30	1.80
Allocation of overheads - Market Opening	0.95	0.93	0.96	0.96	0.96	0.96	5.73
Allocation of overheads - Meter Reading	2.16	2.10	2.17	2.19	2.19	2.19	13.00
Metering - Faults and Emergency	0.52	0.52	0.52	0.52	0.52	0.52	3.11
Allocation of overheads - Metering	3.28	3.21	3.30	3.32	3.32	3.32	19.75
Totals	7.21	7.07	7.26	7.29	7.29	7.29	43.40

Note 1. Figures may not sum due to rounding.

Table 4.6: Fault and overhead costs final determination

4.23 The result of our deliberations is a £4.4m reduction on the total requested, as set out in Table 4.7 below.

Fault and Overhead Costs £m	2026	2027	2028	2029	2030	2031	RP7 Total
NIE Networks' Proposal	7.83	7.59	8.12	8.08	8.08	8.10	47.81
Final Determination	7.21	7.07	7.26	7.29	7.29	7.29	43.40
Difference (+/-)	-0.62	-0.53	-0.87	-0.79	-0.80	-0.81	-4.41

Note 1. Figures may not sum due to rounding.

Table 4.7: Fault and other overhead costs final determination

4.24 The allowance does however represent a material uplift from current RP6 spend. This is mostly due to the impact of higher IT costs being allocated to market operations due to increases in IT spend.