Price Control for Northern Ireland's Gas Distribution Networks GD17

Update on Our Overall Approach

17 April 2015



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; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission	Value and sustainability in energy and water.
Our Vision	We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

We are publishing our final paper on the approach for GD17, the price control for the gas distribution companies Phoenix Natural Gas Ltd (PNGL) firmus energy (firmus) and Scotia Gas Networks (SGN) for the years from 2017 and onwards. The approach sets out a package of measures to continue the efficient growth of the gas industry in NI through building more pipelines and increased connections.

The price control will set out the amount the gas distribution companies will have to run their businesses and invest in the gas network. The key decisions for the companies will be on operating and capital expenditure allowances, targets for new gas pipelines and connections, proposed rate of return and the duration of the price control.

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 31% of the total domestic customer bill. 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 GD17 price control, we propose a range of measures designed to increase the number of consumers that can connect to the natural gas network and improve customer service for natural gas customers.

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ACRONYMS AND GLOSSARY

BPT	Business Plan Template
BSI	British Standards Institution
Capex	Capital expenditure
CAPM	Capital Asset Pricing Model. A model that describes the relationship between risk and expected return.
CCNI	Consumer Council for Northern Ireland
ceteris paribus	Other factors remaining constant
Competition Commission	The statutory body that deals with rejections of price controls and makes a new determination and decision after listening to the evidence from all related parties. From 1 April 2014, this organisation has changed its name to the Competition and Market Authority (CMA).
DETI	Department for Enterprise, Trade and Investment
Domestic Premises	Any premises at which the supply of gas is, or is to be, taken wholly or mainly for domestic purposes
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.
e.g.	For example
etc.	Et cetera (and so forth)
European Gas Directive	Directive 2009/73/EC of the European Parliament of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC
FCO	First Call Operative
firmus	firmus energy (Distribution) Ltd
FOIA	Freedom of Information Act
G2W	Gas to the West. This is the name of the project aiming to extend the Natural Gas Network, to other areas of the province, namely Dungannon,

	Cookstown, Maghreafelt, Enniskillen, Omagh and Strabrane
GB	Great Britain
GD14	This is the name given to the price control for PNGL and firmus. It covers the period 2014 – 2016 (calendar years).
GD17	This is the name given to the next price control for the NI GDNs. It is proposed to cover the period 2017 – 2022 (calendar years).
GD23	This is the name given to the next price control for the NI GDNs. It is proposed to cover the period for the calendar years 2023 and beyond.
GDN	Gas distribution network company – firmus, PNGL and SGN
I&C	Industrial and commercial
i.e.	that is
MEAV	Modern Equivalent Asset Valuation
NI	Northern Ireland
NIE	Northern Ireland Electricity
NIEH	Northern Ireland Energy Holdings
NIHE	Domestic Premises which are (or will be when built) owned by: (a) the Northern Ireland Housing Executive; or (b) 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.
Opex	Operating expenditure
PAS55	The British Standards Institution's (BSI) "Publicly Available Specification" for the optimised management of physical assets
Pi model	Model used for the calculation of conveyance charges for the GDNs.
PMICR	Post-Maintenance Interest Coverage Ratio
PNGL	Phoenix Natural Gas Limited
PNGL12	This is the name given to the price control for PNGL, covering calendar years 2012 and 2013.
PRE	Public Reported Escapes
PRS	Pressure Reduction Station. A pressure reduction equipment having an

	inlet pressure greater than 7 barg.
RAB	Regulatory Asset Base
Re	Regarding
RIGS	Regulatory Instructions and Guidance
RIIO-ED1	This is the first electricity 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 2015 to 31 March 2023.
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 2021.
RP5	This is the name given to the price control for NIE, covering the period from 1 April 2012 to 30 September 2017.
RPI	Retail Price Index
SGN	Scotia Gas Networks (NI) Limited
Shrinkage	Difference between the amount of gas that was recorded to have entered the distribution system and to have exited it. Includes: • gas loss through theft; • gas loss through leaks/emergencies; • own use.
SOC Code	Standard Occupational Classification Code
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.
Totex	Total expenditure, i.e. the sum of capex and opex.
TRV	Total Regulatory Value: the Depreciated Asset Value plus any incentive adjustments including the profile adjustment.
UKRN	United Kingdom Regulators Network

1 Introduction

Purpose of Document

1.1 The purpose of this document is to give an update on the "Discussion Document on our Overall Approach" that was published on the 19 December 2014[1] which set out for discussion our initial views on the high level approach in relation to the next price control for the two gas distribution networks in Northern Ireland, firmus energy (Distribution) Ltd ("firmus") and Phoenix Natural Gas Ltd ("PNGL"). This price control is referred to as GD17.

1.2 For the Gas to the West area, a licence has now been granted to Scotia Gas Networks(NI) Ltd and was published on the 11 February 2015[2]. GD17 will apply to certain aspects of their licence.

1.3 This document sets out our update on the approach to GD17 as follows:

- Chapter 1 outlines the background to this price control and outlines our role in line with our statutory duties;
- Chapter 2 provides a summary of the main responses from the discussion document that was published;
- Chapter 3 provides the update and approach to the GD17 price control process;
- Chapter 4 discusses the impact on consumers and the environment as well as how we will engage with stakeholders throughout the price control process;
- Chapter 5 provides the timetable and key milestones for GD17;
- Appendix 1 sets out the response received from the discussion document;
- Appendix 2,3,4 to this document show the maps of the licensed areas;
- Appendix 5 summarises and responds to the most important points of each consultation response, to this document.

Background

1.4 Our principal objective in carrying out our gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland, and to do so consistently with our fulfilment of the objectives set out in the

[1] http://www.uregni.gov.uk/uploads/publications/2014-12-19_GD17_Price_Control_Scope_-_Final.pdf
[2] http://www.uregni.gov.uk/uploads/publications/Scotia_Gas_Networks_Northern_Ireland_Ltd_Grant.pdf

European Gas Directive[3], and by having regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003.

1.5 In summary, taken in the round, we interpret our duties, in the context of carrying out price controls, as a broad mandate to secure the most cost efficient outcome – for the protection of consumers and the promotion of the gas industry in Northern Ireland – that also secures that the company can continue to finance the activities which are the subject of obligations placed on it, and that has due regard to all relevant factors.

1.6 We are a non-ministerial government department, accountable to the NI Assembly.

1.7 We set overall limits on how network prices can rise, or are required to fall, through a process called price controls.

1.8 The price control process must therefore start with the business plans (including actual data for previous years), as submitted by license holders, setting out their proposals for costs going forward. The information submitted will be scrutinised by us. In doing so, we seek to ensure that gas distribution licence holders deliver best value for money for all consumers.

1.9 In making decisions during the GD17 price control, we will ensure the conveyance charges are:

- sustainable;
- stable;
- transparent;
- predictable; and
- cost-reflective.

1.10 Our approach is based on best practice regulation of natural monopolies. Our task essentially consists of creating a framework within which, in return for providing monopoly services to an acceptable quality, the company receives a reasonable assurance of a revenue stream in future years that will cover its costs and ensure fairness for the consumer.

1.11 Northern Ireland currently has three gas distribution networks.

- PNGL own and operate the distribution network in the Greater Belfast and Larne areas; a map outlining the PNGL distribution licence area is shown Appendix 2: Map of the PNGL Greater Belfast and Larne Licensed Area.
- firmus own and operate the distribution network, normally called the ten towns. The ten towns licence area covers a greater geographical area including Ahoghill,

[3] Directive 2009/73/EC of the European Parliament and the Council of 13 July concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC

Antrim, Armagh, Ballyclare, Ballymena, Ballymoney, Banbridge, Bessbrook, Broughshane, Bushmills, Coleraine, Craigavon, Cullybackey, Derry~Londonderry, Laurelvale, Limavady, Lurgan, Maghaberry, Magheralin, Moira, Newry, Portadown, Portstewart, Tandragee, Warrenpoint. A map of the ten towns licence area is shown in Appendix 3: Map of the firmus Licensed Area.

- SGN own and operate the distribution network in Dungannon including Coalisland; Cookstown including Magherafelt;Enniskillen including Derrylin;Omagh and Strabane.Appendix 4: SGN Map of Towns to connect, provides an indication of the proposed network design at time of writing.

1.12 PNGL was awarded its conveyance licence in September 1996. It has over 182,000 customers connected within the Greater Belfast and Larne licensed area at the end of 2014.

1.13 firmus was awarded its conveyance licence in March 2005 and have over 25,000 customers connected within the ten towns licensed area at the end of 2014.

1.14 SGN was awarded its conveyance licence in February 2015 and is currently in the design and development phase of the network, with the first customers scheduled to be on from late 2016.

2 Responses from Discussion Document

Summary of Responses

2.1 A list of who responded is contained in Appendix 5, which also contains a more comprehensive response to each point raisied. All GDNs responsed along with Consumer representative groups.

2.2 The responses can be generalised as follows:

- Supportive of the 6 year duration of the Price Control
- Concerns on being able to deliver the Business Plan Submissions of GD17 by the 30 June 2015
- Concerns on how benchmarking data will be collected and used
- Clarification sought on what factors will be used in setting an appropriate Rate of Return

Duration of the Price Control

2.3 In our discussion document we considered that duration of six years for the price control period was the optimum period.

2.4 This was supported fully by all the GDNs, who stated that this would strike a reasonable balance between providing a predictable framework for planning and investments and addressing the uncertainties that necessarily become bigger as the planning horizon expands.

2.5 The next price control after GD17 would be GD23 which would come into effect on the 1 January 2023. This will be after RIIO-GD2 which will come into effect on the 1 April 2021, to enable any RIIO-GD2 innovations and benchmarking to be considered before the next PC.

2.6 We therefore will adopt duration of six years for the GD17 price control period.

Timelines for the Submission of the Price Control Information

2.7 The GDNs have different licence conditions on the lead time to provide information for the next price control, referred to as business plan submissions. The lead time for

business plan submissions prior to the price control start date is 15 months for PNGL and 12 months for firmus. SGN has an 18 month lead time in their licence.

2.8 In the discussion document on the overall GD17 approach we had indicated that all business plan information should be submitted by the 30 June 2015.

2.9 PNGL and firmus indicated that this timeline was inadequate for a number of reasons:

- The business plan submission templates should be done subsequent to the regulatory accounts (due for submission by the end of June 2015) so that 2014 actuals could be used as a basis;
- The new business plan submission formats are complex and untried, entailing a need for more time to discuss and resolve any ambiguity and ensure the templates are completed correctly;
- A period of more than three months is required between the publication of the final GD17 approach and the business plan submission to allow sufficient time for consideration of any areas subject to detailed scrutiny for the first time during this price control process.

2.10 PNGL and firmus both proposed a business plan submission deadline of end of September 2015, but PNGL also indicated that they could submit at an earlier date information on selected components of the price control which is not critical to the business plan submission template.

2.11 Taking into consideration the points raised by the GDNs, whilst also considering the need for us to have sufficient time to analyse the business plan submissions received from the GDNs, we propose to ask for phased submission of business plan information with further detail set out in section 3.

2.12 This will result in certain aspects of the Business Plan to be submitted by the 30 June 2015, with a final deadline for the main business plan submission template to be submitted no later than the 30 September 2015.

Benchmarking

2.13 Respondents had concerns regarding how benchmarking information would be used, given all three GDNs are at very different stages of development in the network, with licence holders being in operation for 0 years, 10 years and 19 years, of operation which would mean that one approach would not fit all companies.

2.14 Similarly they argued that the comparison with GB GDNs data from OFGEM was not appropriate given differences in age, scale and focus.

2.15 Some respondents indicated that benchmarking should not only lead to matching GB benchmarks, but should beat it.

2.16 We consider that benchmarking is wholly appropriate in a regulatory environment and will make appropriate adjustments to permit meaningful benchmark data that is applicable to NI GDNs and produces robust results.

2.17 We intend to work closely with UK Regulators Network (UKRN) to ensure that all benchmarking is completed to the highest, relevant standard.

Rate of Return

2.18 In our discussion document on the approach to GD17 we said we would consider:

- use of a standard CAPM (Capital Asset Pricing Model) methodology for assessing a suitable rate of return for the GDNs;
- use of all available similar regulatory settlements to benchmark appropriate rates;
- how tax will be treated in rate of return, after evaluating the current tax payments of the individuals GDN's;
- the issue of the TRV:totex ratio in applying CAPM.

2.19 On the last point above, we indicated the merits in exploring different rates of return on certain components of the TRV (Total Regulatory Value), to reflect the associated levels of risk faced. That is to say the TRV should be divided into a conventional RAB and a separate "pot", as indicated in GD14, a dual pot approach.

2.20 PNGL in particular has a very unique build up of the TRV, which can be broadly divided into two areas as follows:

1) Conventional RAB (Regulatory Asset Base), i.e. capex, opex, working capital, etc.

2) RAB based on regulatory commitment, i.e. deferred capex and historical outperformance.

2.21 It was further noted in GD14, that the PNGL Total Regulatory Value (TRV) is very high in comparison with ongoing capex and opex and, in applying CAPM, this would lead, ceteris paribus, to a lower rate of return than GB GDNs.

2.22 In its consultation response, PNGL, who is likely to be the only GDN impacted, disagreed strongly with a dual rate of return for different components of its TRV, with the following reasons cited:

- This would be conceptually flawed and difficult to implement since without significant changes to the Regulatory Framework different levels of risk could not be attached

to different elements of the TRV, nor could it be reasonably assumed that the TRV or any part thereof is entirely debt funded.

- This would be inconsistent with regulatory precedent and the PNGL12 Competition Commission Final Determination and thus be likely to increase the regulatory risk for Northern Ireland as a whole and PNGL in particular.

2.23 firmus indicated in their response that the GB headline WACC could not be used as an appropriate benchmark for NI due to differences in scales for NI and GB business, and that the market testing done as part of the Gas to the West application process should be used as a starting point.

2.24 We have further considered this area and taken into account the responses we have received. We have been clear all along that the purpose of considering options for dealing with the unusual RAB/TRV was to bring greater transparency to the issue. However we are not convinced that using a dual rate of return approach would bring significantly greater transparency and consider that applying the traditional CAPM approach can be just as transparent.

2.25 Indeed from the feedback in the responses it may be that the dual rate of return for a dual Pot TRV approach would risk causing even more confusion, and not be considered normal regulatory practise.

2.26 Having taken all this into account we have concluded that there is limited benefit from focusing on the dual rate of return option or two pot approach and we will focus our efforts on the standard CAPM approach, with one figure applied to the whole of the TRV.

2.27 We would reiterate that this will still require consideration of the issue around TRV: totex ratio and, in applying CAPM this may lead, ceteris paribus, to a lower rate of return than that of GB GDNs.

3 Update on Our Approach

Main Aim of GD17

3.1 The main aim for GD17 is to continue the growth and development of an economic gas network. This will mean a strong focus on ensuring the GDNs have appropriate incentives to grow their networks to allow new customers the opportunity to connect to natural gas. In addition it will mean an emphasis on having the right mechanisms in place so that GDNs remain committed to connecting those customers with access to natural gas.

Business Plan Submissions, Timelines and Publications

3.2 As indicated in Chapter 2 on the responses to the discussion document, it is envisaged that an updated timetable will allow more time for the GDNs to provide an improved quality of business plan.

3.3 A workshop was held on the 30 March 2015, with all the GDNs, to discuss in detail the business plan template on the key areas and allow for any problems identified in populating the template to be voiced. The introduction of new tabs was discussed briefly, namely the inclusion of tax calculations and updated RPE and efficiency tables. This proved a useful forum to identify key areas and clarity on how items should be recorded.

3.4 To that end, we have decided to delay the publication of the final Business Plan Submission Template, along with the Regulatory Instruction Guidance. From the original version which was published on the 20 December 2014, we have made some changes and additional information requests, and we plan to publish the final pack on the 14 May 2015. We believe this will enable better quality information to be provided, which should eliminate the need for additional information requests later on.

3.5 To ensure ongoing engagement we have decided to split the business pan submissions, into two phases.

3.6 By the 30 June 2015 we expect the GDNs to provide their views on the following areas where appropriate. This list is not exhaustive and there may be other areas for which the GDNs believe early engagement will be beneficial to justify their business cases:

- Rate of return paper;
- Asset management system update;
- Reinforcement/Security paper;
- Telemetry update paper;

- GDNs working together update paper;
- Benchmarking paper;
- Connection Incentive - Justification for continuance and GD14 performance update;
- Infill Allowances – Plan on how Infill Allowances could be developed, evidenced with:
    - Potential Projects NPV analysis (with lengths, costs and properties passed by tenure);
    - Amount of Pipe to be economically laid ;
    - Penetration rates justified;
    - Connection numbers annual profile and tenure split of customer connections;
    - Evidenced gas consumption by tenure;
    - Fuel poverty implications.
- Connection Policy;
- Innovation business plans;
- Smart metering paper;
- Copies of all relevant documents in relation to the procurement and award of the main pipe laying contractor and associated services i.e. Emergencies & Network Maintenance.

3.7 By the 30 September 2015, we expect the GDNs to provide following. Again this list is not exhaustive and it will be up to the GDNs to provide the relevant information which they feel justifies their business plan.

- Business Plan Template (BPT);
- Detailed Commentary of the BPT;
- Publication – Business Plans of GDN's - Public Version;
- Policy paper on how costs are allocated from Opex to Capex with Key Drivers provided;
- Policy papers on how costs are allocated within a group structure;
- Policy paper on how Unregulated Business actives impact on Regulated activities;
- Cost Reporting Template 2014.

3.8 We also expect a public version of the Business Plan, highlighting the key numbers and appropriate commentary to be published on the GDN's website, within a month of

submission. This is to allow all stakeholders to see the initial requests, envisaged by the GDNs, before the formal review of the BPT commences.

Firmus Price Cap –v- Revenue Cap

3.9 In the discussion document we indicated that we would consider the most appropriate type of control for each GDN.

3.10 PNGL has a revenue cap, which enables a certain level of stability, in terms of allowed revenues.

3.11 Firmus and SGN have both a price cap, which provides strong financial incentives to outperform in the start up phases of the business.

3.12 We now consider that as the Firms business is over 10 years old, it is appropriate to move them to a revenue cap. Our initial view is that the volume risk associated with a price cap works well in the early years when new connections are a large driver of volume performance. However new connections become less and less important as the company grows and a price cap becomes less effective at incentivising new connections.

3.13 We plan to issue a consultation, over the coming months , on the principles of changing the firmus licence before formal licence modifications.

Gas to the West

3.14 To recap, at the time of the publication of the discussion document on the approach for the GD17 price control, a decision had been reached that SGN was the preferred applicant for the Gas tot the West network. The licence was subsequently granted on the 11 February 2015.

3.15 In the discussion document we indicated that we would use GD17 price control to set allowances, where appropriate, for SGN, which is at the beginning of developing a new gas network.

3.16 The allowances for SGN will be informed from the cost submissions included as part of the competitive process for the award of the licence. The only area which was not set was capex unit rates which will be set as part of GD17 process.

3.17 As set out in the Conclusions paper of Gas to the West[4] we believe that a direct link between the cost information revealed in the application and the allowances provided in subsequent price controls is appropriate. In particular, we would not be minded to accept

[4] http://www.uregni.gov.uk/uploads/publications/2014-11-18_G2W_Determination_FINAL.pdf.

requests for increased allowances as a consequence of changes in the structure of costs or changes in the allocation of costs from parent or holding companies. However, we will consider requests for different allowances where these are the result of unforeseen significant changes in the market since the application was submitted.

3.18 The timing of when the SGN price control would come into effect, has also been considered. It has been decided that this will come into effect from the 1 January 2018. This is to coincide with the expected operational commencement date of the High Pressure pipeline in Q4 2017 and also ties into the 5 year control period of the applicant pack.

Recap on Main Areas of Approach

A Proportionate Approach

3.19 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 companies.

3.20 We will adopt and apply a number of principles to ensure that our approach is proportionate. These principles are:

- GDN's business plan templates will be published on the 14 May 2015, along with the accompanying instructions and will be populated and submitted by the GDN's to ensure a consistent and correct format is used at all times.
- 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 the net impacts from such increases and any decrements.
- Benchmarking will be used where possible and a triangulated approach adopted to ensure that allowances are efficient and that efficiency targets are reasonable but challenging. Regional differences and relativities will be incorporated into our analyses across both opex and capex efficiency targets, including regional wages and Regional Price Adjustment respectively.
- Where possible, any allowances set shall be closely aligned to clearly defined outputs and relevant drivers.
- Costs related to external factors which may or may not happen and about which there are no obvious firm estimates form part of the so called "uncertainty mechanism" which is described in more detail in paragraphs 3.132 to 3.139.

- If insufficient information is available to make an informed determination, either on grounds of whether the costs will or won't materialise or in absence of any firm estimate if they do materialise, some areas may be subject to re-openers.
- The price control will be based on a standard 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.
- Allowances will not be given for profit margins for any related parties performing services for the GDNs, where relevant.

3.21 We will adopt a light touch approach if:

- there is evidence to show that the company is comparatively efficient;
- past costs are a strong indicator of future costs;
- there is insufficient data to support a more robust approach.

3.22 We will adopt a more detailed approach if:

- the company is comparatively inefficient;
- past costs are a weak indicator of future costs;
- data is available for econometrics, serviceability measures, outputs and so on.

3.23 We would expect GDNs to provide 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.

3.24 We also propose to consider as part of our price control, where relevant and appropriate, best practice relating to other price controls and findings from our project to make network price controls more consistent, by adopting cross-utility approaches, principles and standards of regulation.

Information Requirements

3.25 We will continue to ensure that the information we require from the GDNs is proportionate but sufficient to:

- allow the GDNs to communicate their business plans to us in a clear and effective manner; and
- ensure that we can submit the plans to effective and focused scrutiny.

3.26 For GD17 we will:

- continue to use and build on the information requirements that we developed for annual/cost reporting, maintaining the key objectives of continuity and simplicity;
- require the GDNs to submit their business plans in the format as provided, with sufficient historic information included and with an explanation, that can be understood by the customers, of the impact and cost of these business plans;
- ask each GDN to provide a plan of potential connections for the development of its gas distribution network which explains how it has assessed the potential for extending the network to pass and connect additional properties,
- add additional information requirements where necessary, for example to support efficiency assessments and capture information on current issues;
- build on the common working together that is already present within the gas industry and seek further alignment between price control submissions and other processes;
- consider whether further amendments to the format of our price control determination or other regulatory submissions e.g. regulatory accounts are necessary to ensure clarity and reconciliation between them;
- use appropriate methods to check and verify key information, as requested (in particular with respect to but not necessarily limited to information re: pipes laid and connections);
- use today's prices as a price basis, with actual or assumed RPI indices to enable switching to other price bases, if necessary;
- reserve the right to appoint, where appropriate, an examiner to examine the recording of relevant information by the GDNs;
- reserve the right to request, where appropriate, an audit of specified information relating to the GD17 price control, including specification of the terms on which an auditor is to be appointed by the GDNs for that purpose and of the nature of the audit to be carried out by that person.

3.27 In support of the drive for provision of high quality robust submissions, we expect the GDNs to:

- demonstrate that the GDN Boards take responsibility for and sign-off the assurance of the data and plans submitted for the GD17 price control;
- provide reliable, consistent driver-based information with appropriate explanations of any changes in numbers or circumstances;
- provide any information as requested in the timelines as specified;

- be able to demonstrate that all costs are necessary to run an efficient well managed business;
- demonstrate the basis of apportionment of costs shared between group and related parties.

Efficiency Targets

Overview

3.28 When setting an efficiency target, two effects need to be considered: catch-up to frontier performance and continued movement of the frontier over time.

3.29 The move of the frontier – or 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:

Frontier shift in real terms	=	input price increase	minus
		forecast RPI (measured inflation)	minus
		productivity increase	

3.30 The move towards the frontier describes the efficiency gains a company can achieve through catching-up with the economic frontier.

3.31 In order to account for the two effects when determining opex and capex allowances as part of the GD17 price control, we will proceed in the following manner:

- Use a bottom-up approach to opex and capex analysis to analyse, for each of the main opex and capex cost categories (and broken down into further sub-categories if and as appropriate) the data submitted by the GDNs with a view to assessing what we consider to be an efficient allowance for each category. In doing so, we will consider any atypical expenditure and special factors, as relevant and appropriate and we may use a variety of techniques as further detailed in paragraphs 3.54 to 3.90 for opex and 3.91 to 3.117 for capex.
- Use a top-down approach to opex and capex analysis, as described in paragraphs 3.33 to 3.44, to analyse, for the GDN as a whole, the efficiency gap against a company operating at our chosen performance benchmark (not necessarily the frontier or least cost where this is not appropriate) and to determine, based on the results using a common base year, the catch-up target we expect the GDN to meet during the course of the price control. A variety of efficiency modelling approaches are being considered for GD17, which may involve pre and/or post modelling adjustments and special factors. We will then consider applying this catch-up target to the base year forecast for each of the main opex and capex categories. Our base

year costs will be adjusted for consideration of any atypical expenditure and the level deemed applicable. We are minded to set out materiality thresholds as part of our special factors process, structured around our timetable for efficiency modelling.

- Determine the opex and capex allowances with consideration of the results of both, top-down and bottom-up analysis. For consistency with the GD14 price control, we propose to refer to these allowances as pre-efficiency allowances as they do not yet reflect our frontier shift assumptions for the GDNs.
- Establish frontier shift in real terms and apply it to the pre-efficiency allowances to establish the post-efficiency allowances, including any catch-up efficiencies, as described in paragraphs 3.46 to 3.53.

3.32 Thus, when setting our opex and capex determinations for the GDNs, we will apply efficiency targets which reflect our analysis of the appropriate speed of catch-up to benchmark performance (as part of the bottom-up and top-down analysis where our analysis indicates that a GDN is not yet operating at the benchmark) as well as a further efficiency discount to reflect our assumed shift in the frontier. The real frontier shift target may be variously positive or negative, reflecting whether productivity increases are expected to outweigh the anticipated real price effects (weighted average of nominal cost increases/decreases i.e. forecast costs minus general or RPI inflation) faced by an efficient company.

Catch-up with the Frontier

3.33 In order to establish the efficiency gains a company can achieve by moving closer to the economic frontier, it is necessary to establish the gap that exists between the performance of the company and the 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 atypical events that might be relevant.

3.34 It is important to note that at this stage, we cannot fetter our discretion regarding the approach for setting frontier catch-up targets. This means that related methodologies or decisions cannot be finalised until the receipt of the GDNs' GD17 submissions and our determination. To do so could result in adopting a suboptimal approach and in turn have a harmful effect on consumers and/or the GDNs.

3.35 We set out below some key considerations which we will consider in our modelling. Since econometric modelling involves the consideration of a variety of techniques available, there is the inevitable requirement to use judgement where the estimation contains an element of uncertainty (both over data assumptions and statistical properties applying to competing modelling choices).

3.36 As indicated in paragraph 3.31, we will consider using a combined top-down and bottom-up approach for the assessment of the efficiency gains a company can achieve through catching-up with the economic 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 estimates as part of a triangulated approach (incorporating two or more modelling approaches whenever possible). We then compare our proposed efficiency targets with experience of efficiency delivery from similar industries and arrive at our determination decisions by taking our efficiency view and targets 'in the round'. This means, any additional cost pressures which a company faces must also be counterbalanced against the size of any efficiency gap and how long we determine is reasonable to attempt to remove either some or all of the gap during the price control period.

3.37 With a view to enhancing the options for and quality of benchmarking, we will consider aligning our top-down catch-up efficiency modelling approach with Ofgem's as part of the RIIO-GD1 price control, where reasonable and possible, and will undertake our own modelling using GB and local datasets.

3.38 In doing so, we propose to also consider atypical events and special regional or company-specific factors for the NI GDNs, where relevant and appropriate. We note that we expect the GDNs, as part of their business plan submissions, to indicate any atypical events and special factors they consider relevant. We also note that we may apply materiality thresholds for consideration of special factors. Any atypical expenditure submission around the base year(s) used for efficiency modelling will likely reduce a company's base year expenditure going forward, whilst allowing for a smaller estimate of any inefficiency compared to frontier performance ceteris paribus. As part of the benchmarking, we intend to compare the data of the NI GDNs against comparable data of the GB GDNs, where reasonable and possible. Query processes in the immediate periods post (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 for differences in cost treatment rather than (in)efficiency.

3.39 Like Ofgem, we propose to consider as part of our top-down analysis a number of different modelling approaches[5], including:

- totex (total expenditure) models to account for opex-capex trade-offs in our comparative efficiency assessment and identify the companies that have minimised total costs;
- activity level analysis at the disaggregated level, "middle-up" modelling;
- models based on historic data that have the benefit of being anchored in actual (as opposed to forecast data); and potentially

[5] For further details see e.g. Ofgem: RIIO-GD1: Initial Proposals, 27 July 2012, pp. 26-29 and Ofgem: RIIO-GD1: Final Proposals – Supporting document – Cost efficiency, 17 December 2012, p. 8.

- models using forecast data to take into account GDNs' views on how costs will change over the price control period.

3.40 To ensure a like-for-like comparison of local GDNs to their GB counterparts we shall consider which non-controllable or controllable costs we might exclude from top-down efficiency models, including whether such analyses inform a sensitivity analysis of modelling results.

3.41 Based on our assessment, for each GDN, of the efficiency gap to the benchmark, we propose to set, as part of the GD17 price control process, catch-up targets for each GDN.

3.42 When setting catch-up efficiency targets, we will consider the following aspects:

- regional differences (including regional wages and Regional Price Adjustment applied to opex and capex modelling respectively);
- rate of catch-up; and
- applicability of targets (especially around their applicability to any non-controllable element of costs we may deem necessary and appropariate).

3.43 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; and
- what efficiency we believe is achievable overall.

3.44 We will consider applying catch-up efficiency targets to some or all of the controllable and uncontrollable cost items. We propose that our decision will be informed by considerations including (but not necessarily limited to) the:

- key areas from which the efficiency gap originates; and
- regulatory precedent for catch-up targets.

3.45 As outlined in paragraph 3.31, we propose to consider the catch-up efficiency targets thus established, together with the findings from the bottom-up opex and capex analysis, when determining allowances.

Frontier Shift

3.46 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 inputs can develop in different

ways, it is good practice to distinguish between different cost categories. As part of the GD14 price control, we have differentiated between the cost categories shown in Table 1 below. For GD17, we will do the following:

- maintain as a minimum the cost categories already identified as part of GD14;
- review – with consideration of the data provided by the GDNs as part of their submissions and of best practice applied as part of other price controls – if a further differentiation of the cost category "Other"[6] 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;
- review – with consideration of 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 – if the percentage split 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 can be used, as done by the Competition Commission in their determination on the NIE RP5 price control, rather than using weightings for a notional or frontier company; and,
- consider further adjustment to better align with our decisions for allowed special factors treatment and/or application of a Regional Price Adjustment to capex benchmarking.

Table 1: Cost Categories and Weightings for Efficiency Analysis as part of GD14 Price Control

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

3.47 In line with the approach taken as part of the GD14 price control, we will, where reasonably possible, base our assumptions for RPI and nominal input cost price increases across a variety of different cost categories and their forecast cost increase using either our own extrapolation of trends in indices/nominal time series and/or published forecasts deemed relevant. The above table should not be considered as the approach to be taken for GD17, but merely what was used in GD14, for information purposes.

[B]By this we mean that further cost categories, which during the GD14 price control have been subsumed under "Other", would be identified for which the impact of input price inflation should be assessed separately; we would expect, however, that an "Other" cost category will remain for which such individual assessment of the impact of input price inflation does not make sense.

3.48 In line with the approach taken as part of the GD14 price control, we will in determining the opex and capex nominal input price forecast for each year of the price control period, by calculating the weighted average of the various input price increases for the different cost categories. We will determine the opex and capex real input price increase forecast for each year of the price control period by subtracting RPI forecast from the nominal input price forecast.

3.49 In line with the approach taken as part of the GD14 price control, we will assume average annual productivity increases for both opex and capex based on our analyses of productivity improvement and assessment of others' analyses.

3.50 As in GD14, we will establishing the base year for opex and the one for capex with consideration of the years on which the input data for the GD17 price control process was based. In line with the approach taken as part of the GD14 price control, we will apply 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. In doing so, we will, for any years prior to the start of the GD17 price control period, use the same approach as described in paragraphs 3.47 to 3.49 for the years of the price control period, and will decide whether to apply actuals or long run averages depending upon availability.

3.51 We will apply the relevant compound real price effect and ongoing productivity increase factors (calculated as detailed in paragraph 3.50) to the controllable pre-efficiency opex/capex allowances in order to determine the controllable post-efficiency opex/capex allowances for each year of the price control. Whilst as part of the GD14 final determination we have published the controllable post-efficiency 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 controllable cost items, forGD17 – in order to facilitate improved monitoring of performance against price control targets – we shall publish the controllable post-efficiency opex/capex allowances for each year of the price control period and for the price control period as a whole, both broken down into cost item level and as a total across all controllable cost items.

3.52 In line with the approach taken as part of the GD14 price control, we will decide determining the overall post-efficiency opex/capex allowance for each year of the price control period and for the price control period as a whole by adding the allowances for the uncontrollable opex/capex cost items to the total controllable post-efficiency opex/capex allowances.

3.53 With consideration of the feedback received from the GDNs, we will adopt the following approach for the retrospective adjustment of real price effects during the price control period: No retrospective adjustment, i.e. real price effects used as part of the GD17 determination will be based on ex-ante forecasts.

Operational Expenditure

Overview

3.54 The approach set out in paragraphs 3.55 to 3.90 provides a broad view of how we will assess particular elements of operational 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.

3.55 In line with the Regulatory Instructions and Guidance for annual/cost reporting issued to the GDNs in July 2014, we will distinguish, as part of the GD17 price control, between the following main opex cost categories:

- 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
  - Advertising & Market Development (owner-occupied[7] and non-owner-occupied properties)
  - Trainees & Apprentices
  - Non-Controllable Opex

3.56 In the Regulatory Instructions and Guidance for annual/cost reporting issued to the GDNs in July 2014, costs relating to the following expenditure types were classified as uncontrollable: Shrinkage, Licence Fees and Bad Debt[8].

We would highlight this was not an indication of any decision on part of the GD17 price control on which costs are uncontrollable and, having reviewed this matter, we have decided that only licence fees will be treated as uncontrollable for the GD17 price control.

3.57 The costs within each of the main opex categories may be comprised of different expenditure types. For the GD17 price control, we will distinguish the same expenditure types as in the Regulatory Instructions and Guidance for annual/cost reporting issued to the GDNs in July 2014. We note, however, that Shrinkage and Bad Debt are now considered to be controllable.

3.58 Where applicable, internal recharges will be reviewed and benchmarked against prior years and against deemed efficient 3rd 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 3rd party arms length transaction basis.

3.59 As set out in paragraph 3.31, we will , as part of the GD17 price control, a combined top-down and bottom-up approach as a basis for our opex analysis. When determining the opex allowances, we will use the results of both, top-down and bottom-up analysis. Paragraphs 3.33 to 3.44 detail our approach for the top-down analysis, paragraphs 3.54 to 3.90 our approach for the bottom-up analysis. In particular, paragraphs 3.63 to 3.90 include examples of what we mean by bottom-up benchmarking

[7] It should be noted that the term owner occupied properties, as used in this document and defined in Acronyms and Glossary, comprises privately rented properties.
[8] As indicated in the Regulatory Instructions and Guidance for annual/ cost reporting issued to the GDNs in July 2014, we understand "Bad Debt" to be the amounts owed by third parties that are unlikely to be paid due. This includes, but is not limited to, debts from long-term disputes re: network damages.

3.60 We will decide, as part of our bottom-up analysis of the different cost categories, costs relating to all expenditure types. Where appropriate, we will also conduct a separate, more detailed analysis for selected expenditure types, including, but not necessarily limited to, manpower and network rates.

3.61 We will use benchmarking using both a top-down and bottom-up approach. It should be noted that as part of the top-down approach, benchmarking will include focus on assessing the efficiency of the GDN as a whole against other GDNs. Where relevant and appropriate, we will decide as part of our opex analysis whether and how we may incorporate additional information such as, but not necessarily limited to, the views of industry and subject matter experts outside our own organisation.

3.62 In light of the ongoing uncertainty regarding the implementation of the TMA (Traffic Management Act) and its effect on operating costs, we will decide, should a decision on the timing and details of the TMA not have been taken by the time of our determination, to include, where relevant and appropriate, an estimate of TMA costs in the opex allowances. Such additional allowance will be subject to a retrospective adjustment as part of the uncertainty mechanism at the time of the next price control. This is in line with our approach as part of the GD14 price control and protects 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 decide how to base our determination incorporating this new information; 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.

Work Management

Asset Management

3.63 We expect the company to assess and report on its asset management planning capability.

3.64 The company should set out its approach to asset maintenance planning and explain how it has assessed the changes in operational practice and investment required.

Operations Management

3.65 We will use the following areas in relation to the day to day planning and supervision of the operative and contractors working within the work execution processes as follows:

- First Line Managers;
- Depot Managers;
- Safety, Health and Environmental; and
- Operations support.

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

3.66 We will review this area covering the following categories:

- Call centres (including central emergency call centre charge for emergency service).We will consider the emergency call centre operations separately from other call centre and customer management activities
- Customer services and commercial/contract management departments that handle enquiries/complaints, monitor standards, manage contracts etc.

3.67 We will use the call centre cost benchmarking, both between the NI GDNs and with other GDNs, where reasonable and possible. In doing so, we will use the 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.

System Control

3.68 We willreview the existing arrangements for monitoring the safe flow of gas through the network and the associated costs incurred.

Work Execution

Emergency

3.69 We will use the call centre model which will consider the likely number of emergency jobs which can be expected when setting our allowances on emergency costs.

3.70 We will use, where reasonable and possible, additional information such as relevant benchmarking data and material NI- or GDN-specific special factors.

Metering

3.71 We will use an analysis of historic and forecast GDN data when assessing metering costs. We will use, where reasonable and possible, additional information such as relevant benchmarking data and material NI- or GDN-specific special factors.

3.72 Furthermore, we will also use, where relevant and appropriate, the implications of any changes to metering policies in Northern Ireland, such as the introduction of smart metering, should it occur during the GD17 price control period. We expect that the GDNs will set out their views on future metering strategy as part of their business plans.

PRE Repairs

3.73 We will use an appropriate metric on GDN repair cost forecasts, based on the size of the network, and whether a driver such as e.g. MEAV[9] (Modern Equivalent Asset Valuation) should be used.

3.74 We will consider these costs net of recoveries and will assess if appropriate recoveries are being achieved

Maintenance

3.75 Maintenance activities are those direct activities required for the examination and repair of plant and equipment within the network. These activities can be split into three types:

- routine maintenance (i.e. maintenance activities that recur at least annually);
- non-routine maintenance (i.e. maintenance activities that recur regularly, but in intervals larger than one year); and
- exceptional items maintenance (any maintenance activities that are neither routine nor non-routine maintenance).

3.76 We plan to benchmark at a detailed activity level if we believe that we have sufficient robust benchmark maintenance activities.

3.77 We will explore, as part of the GD17 price control process, the possibility of using (MEAV)[10] as a driver when assessing maintenance cost requests. Following the approach used in GB, this will require companies to undertake an inventory of their network assets and their replacement values. It is expected that the primary driver would be above ground assets, as this is understood to drive most of the maintenance cost. We will consider customer numbers as an alternative primary driver for costs relating to non-exceptional maintenance activities.

Other Direct Activities

3.78 We will use 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

In General

3.79 We will use reviewing actual costs incurred and benchmark these areas where appropriate.

Insurance

[9] See paragraph 3.77 for further details on MEAV.
[10] MEAV is employed by Ofgem as a means of creating an equivalent new network which can be used as a scale driver for various cost activities. MEAV can recognise the size, asset base and complexity of a network, and represents the cost of creating an equivalent new network.

3.80 We will 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.

Other Opex

Advertising & Market Development (owner-occupied[7] and non-owner occupied properties)

3.81 We will use retaining and developing the existing Connection Incentive Mechanism, through reviewing any assumption considered necessary and assessing its appropriateness for the future (whilst ensuring points 6 of paragraphs 5.52 & 6.44 of the GD14 final determination are given due consideration[11]).

3.82 We will look into the possibility of targeted allowances within the current Connection Incentive Mechanism, for Fuel-Poor consumers, to help drive connections to this customer type.

Trainees & Apprentices

3.83 We will review actual costs incurred and benchmark where appropriate.

Non-Controllable Opex

3.84 We will review all items proposed to be non-controllable on a case-by-case basis to ascertain that this classification remains appropriate.

Expenditure Types

Manpower

3.85 We will present in the submission template for GDN use to build up the manpower costs from a bottom-up approach, allowing clearly defined drivers, such as staff numbers by activity and grade to be applied in the aggregation and summation of salary and related requests for each activity and grade, as well as standard pre-populated drivers (for example, National Insurance etc).

3.86 We will request in the manpower data, the SOC (Standard Occupational Classification) Code for benchmarking purposes for at least one year. If other years are provided, we will also consider those. If just one year is available, we will assume that the remainder will largely be the same for the duration of GD17, unless indicated otherwise.

3.87 Included under the manpower opex will be all manpower-related additional costs that can be calculated using the presented drivers (for example, commission, entertainment, allowances, travel & subsistence, car allowance and fleet costs).

[11] Paragraphs 5.52 & 6.44 – Point 6 state that we expect to reduce the full per connection allowance by 50% from 2017 onwards, but that this will be subject to review and possible modification, dependent on the outcome of consultation as part of GD17.

3.88 We will assess assumptions around all inputs/driver data for reasonableness through benchmarking and actual outputs from previous years, where deemed appropriate.

Network Rates

3.89 For the granting of allowances, we will retain the formula based calculation in relation to network rates. However, we will consider reviewing and, where appropriate, updating the multiplier assumptions applied to revenue and the agreed rateable values as advised by the Land & Property Services (LPS).

3.90 We expect GDNs to be able to demonstrate that they have taken all steps to minimise their valuations.

Capital Expenditure

Overview

3.91 The approach set out in paragraphs 3.92 to 3.117 provides a broad view of how we will 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.

3.92 In line with the Regulatory Instructions and Guidance for annual/cost reporting issued to the GDNs in July 2014, we will distinguish, as part of the GD17 price control, between the following main capex categories:

- Growth
    - Mains
    - District Governors and Pressure Reduction Stations
    - Connections
- Replacement
    - District Governors and Pressure Reduction Stations
    - Service Governors
    - Meters
- Other Capex

We will, for all or some of these main categories, differentiate between further sub-categories if and as appropriate.

3.93 We recognise that the GDNs have manpower resources that are used in designing and constructing assets. As this manpower is normally classed as opex, an amount is reclassified to capex. We will consider based on the evidence contained in the Information request on “Provide policy paper on how costs are allocated from Opex to Capex with Key Drivers provided” (As requested in 3.8) before making a decision on what an appropatiate amount should be.

3.94 As set out in paragraph 3.31, we will use, as part of the GD17 price control, a combined top-down and bottom-up approach as a basis for our capex analysis. When determining the capex allowances, we will use the results of both, top-down and bottom-up analysis. Paragraphs 3.33 to 3.44 detail our approach for the top-down analysis, paragraphs 3.91 to 3.117 our approach for the bottom-up analysis.

3.95 In line with the approach taken as part of the GD14 price control, we will use, as part of the benchmarking for the bottom-up approach, an analysis technique which combines a group of work activities in a basket of work with the associated expenditure for the whole basket of expenditure into a basket of work. The basket of work can then be analysed and compared between benchmarks according to the volume of each work category. The key steps in the process are:

- identify the items of work contained within the basket;
- assess to which 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;
- 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 the forecast workloads.

3.96 In light of the ongoing uncertainty regarding the implementation of the TMA (Traffic Management Act) and its effect on operating costs, we will use, should a decision on the timing and details of the TMA not have been taken by the time of our determination,

including an estimate of TMA costs in the allowances subject to retrospective adjustment as part of the uncertainty mechanism at the time of the next price control.

3.97 In terms of “Customer Contributions” that is received from customers, for any activities that is paid for as required by the networks policies (such as connections policy) we will consider the effect of this contribution , in benchmarking appropriate Unit Rates and subsequently setting allowed unit rates.

3.98 In line with the approach taken as part of the GD14 price control, we will classifying all capex cost items as controllable.

Growth

Mains

3.99 Mains to grow the network can be laid for a number of reasons, including:

- connecting individual large I&C (industrial and commercial) customers;
- passing a number of additional (domestic, small and/or medium I&C) properties;
- reinforcing the network; and
- increasing security of supply.

3.100 As continued growth of the Network is still a priority, we believe that any further growth opportunities must be completed on an economic basis in a co-ordinated manner.

3.101 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.

3.102 Related allowances will be subject to review and adjustment as part of the uncertainty mechanism.

3.103 With respect to mains required to pass a number of additional domestic, small and/or medium I&C properties, we will give careful consideration to the appropriateness of the economic assessment and its underlying assumptions, 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.

3.104 In order to provide further incentives to the GDNs to develop the network, we will use, in line with our approach taken as part of the GD14 price control, a penalty/reward mechanism whereby the GDNs will have to pay penalties if they fail to meet the targeted number of properties passed and get rewards if they exceed these targets.

District Governors and Pressure Reduction Stations

3.105 In line with our approach as part of the GD14 price control, we will use in assessing costs for district governors and pressure reduction stations required to grow the network

based on an analysis of historic and forecast GDN data. We will also use the basket of works analysis, where relevant and appropriate.

3.106 We will consider retrospectively adjusting, as part of the uncertainty mechanism, the allowances for new district governors and pressure reduction stations based on the numbers actually installed.

Connections

3.107 Connections can comprise a number of elements, including:

- meters and meter governors;
- services and service governors;
- risers and laterals.

3.108 As part of the bottom-up approach to capex analysis, we will , in line with our approach as part of the GD14 price control, assessing costs for connections based on an analysis of historic and forecast GDN data. We will also use the basket of works analysis, where relevant and appropriate.

3.109 Furthermore, we will also use, where relevant and appropriate, the implications of any changes to metering policies in Northern Ireland, such as the introduction of smart metering, should it occur during the GD17 price control period. We expect the GDNs to include, as part of their business plan submissions:

- details on their metering policies with specific focus on arrangements re: the use of smart meters;
- an assessment of the expected impact of a policy decision for roll-out of smart meters in NI and/ or other jurisdictions, including (but not limited to) meter costs, meter availability, cost of operations and maintenance.

3.110 We will retrospectively adjust, as part of the uncertainty mechanism, the allowances for connections based on the number of connections actually made.

3.111 The GDNs in NI have historically operated a limited approach to user commitment. This has meant that users have largely had to pay nothing for economic gas connections. This situation has been part of a package to promote the growth of the industry and increase connections. However this approach is different to that applied in GB and Ireland and indeed in electricity in NI where users are expected to contribute to connection costs. The current gas policy of limited user commitment does bring some risk whereby a GDN could pay for a connection and the user subsequently shuts down leaving the cost of the connection stranded and paid for by other users.

3.112 As part of our work on G2W we highlighted that we would consider whether it was still appropriate to continue with the current policy. The alternatives could include a range of

approaches to user commitment including establishing a formal financial security policy or requiring a contribution to connection costs.

3.113 After considering the various options our view is that the current approach has been largely successful and will be the best approach to continue the growth of the industry. This is particularly important in light of the need to ensure strong growth in the G2W area.

Replacement

3.114 Replacement of district governors, pressure reduction stations, service governors and meters may be required due to such equipment reaching the end of its normal operating life or for other reasons (e.g. due to technical failures).

3.115 As part of the bottom-up approach to capex analysis, we will in assessing replacement costs based on an analysis of historic and forecast GDN data. We will also use the basket of works analysis, where relevant and appropriate.

Other Capex

3.116 In line with the Regulatory Instructions and Guidance for annual/cost reporting issued to the GDNs in July 2014, we will use the cost category "other capex" to include the following:

- System Operations;
- IT and related Telecoms;
- Commercial Gas Trading IT;
- Plant, tools & equipment;
- Land, buildings, furniture and fittings;
- Security;
- Vehicles and wheeled plant;
- Other.

3.117 We will assess the other capex based on justification provided by the GDNs for such cost as well as on historic and forecast GDN data. We will also use, where reasonable and possible, additional information such as relevant benchmarking data and material NI- or GDN-specific special factors.

Asset Maintenance

3.118 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. For GD17, we require GDNs to set out the steps they have taken and plan to take to achieve excellence in asset maintenance planning and to demonstrate how this gives confidence in the company's ability to assess the optimum range of medium term interventions and level of investment required to maintain serviceability and to target future investment effectively.

3.119 To demonstrate that robust asset management processes are in place to inform robust business decisions, we will require GDNs to:

- provide an assessment of their asset management capability against a recognised asset management methodology and identify any further work required to achieve excellence in asset management planning.
- provide an assessment of the data they currently use to prioritise current interventions to estimate future level of capital and operational investment in the medium to long term.
- prepare a plan to improve their 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.
- show how a range of top-down and bottom up techniques have been applied during the preparation of their business plans to assess the optimum level of asset interventions and investment over the GD17 period.

3.120 We will develop our approach to asset maintenance planning as we complete our information requirements for GD17 and provide a paper for guidance in this area, before the end of May 2015.

Volumes

3.121 The level of scrutiny in this area is based on the type of price control that is in effect.

3.122 PNGL are subject to a revenue cap, reflective of its network age and it being in a more mature state.

3.123 The firmus network is still expanding and is currently subject to a price cap. As the pool of large gas consumers, connecting to the network gas is largely established, the opportunity to outperform on volumes diminishes. We believe that moving firmus to a revenue cap, is more appropriate in the circumstances and will shortly consult on changing this to a revenue cap.

3.124 The SGN network is still at the very early stages of its development, with no customers planned until the end of 2016 at earliest. We believe that they have an opportunity to influence the development of the network, to prioritise the large consumers connecting

first. We therefore believe that a price cap is appropriate and will review on its suitability at the time of the next PC, namely GD23. We will use the figures included in the application pack as a starting point for setting SGN volumes.

3.125 In relation to volumes of gas and connections, we will use a bottom up approach similar to that of GD14, 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 losses by month over the period of GD17 in relation to all customer categories (with contract being on an individual named customer basis);
- benchmark against actual output data from previous years, where applicable.

Incentives & Innovations

Overview

3.126 Having reviewed a range of incentive mechanisms used as part of the GD14 price control, but also as part of other price controls such as RIIO-GD1, we will includethe following incentive mechanisms as part of GD17:

- Connection Incentive;
- Properties Passed Incentive.

3.127 As outlined in paragraph 34.22, we will review, during the GD17 price control period, the measures in place to ensure ongoing focus of the GDNs on consumer interests and needs. 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. Hence, we will undertake a further review of incentive mechanisms as part of the price control following GD17.

Connection Incentive

3.128 We will use the existing connection incentive mechanism, through reviewing any assumption considered necessary and assess its appropriateness for the future (whilst ensuring points 6 of paragraphs 5.52 & 6.44 of the GD14 final determination are given due consideration)[11].

3.129 We will look into the possibility of separate allowances and targeted connections within the current Connection Incentive Mechanism, for vulneraqble/fuel-poor consumers, to help drive connections to this customer type.

Properties Passed Incentive

3.130 In order to incentivise the GDNs to develop the network, we will have as part of GD17 a properties passed incentive in form of a penalty/reward mechanism. For further details see paragraph 3.104.

Other Incentives & Innovations

3.131 While we have been prescriptive on some incentives mechanisms, we encourage any of the GDNs to provide any further ideas or innovations as part of their GD17 business plan submissions that could make their business more efficient or offer an enhanced service for customers. This will be considered, if a robust and appropriate business case has been submitted which sets out clearly the detailed costs and benefits as well as how risks will be allocated.

Uncertainty Mechanism

Retrospective Adjustments

3.132 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 GD17, we will use three categories of retrospective adjustments:

- Output-based cost: For this cost, forecast outputs will be reconciled with actual outputs and allowances adjusted accordingly;
- 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.

3.133 We will refine the current uncertainty mechanism models, as part of the GD17 price control, to ensure they reflect the settlement of allowances which are based on outputs, ring-fenced or pass through costs.

3.134 It is our intention to publish the GD17 uncertainty mechanism models, to ensure transparency.

Reopeners

3.135 In light of the ongoing development of the natural gas market in Northern Ireland and the proposed duration of the GD17 price control period, developments may happen during the GD17 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 GD17 allowances. We will have appropriate re-openers for such developments, where relevant and material.

3.136 The main development of the SGN Network, is dependent on the High Pressure Network, being substantially complete by the end of 2017. If material circumstances arise, which prevent this from happening, which is reaonably outside the control of the lead contractor for this project, then a re-opener will apply to this specfic licence holder.

3.137 As indicated as part of our GD14 final determination, we will consider undertaking a meter reading review to establish if the responsibility for meter reading is more appropriate to continue to remain with the gas suppliers, as is currently the case, or if it should be transferred to the GDNs. There is a potential for this review and consultation to occur during the GD17 price control period. Based on the outcome of this consultation we reserve the right to re-open this area during the period when GD17 will be in force.

3.138 Should a smart metering programme be introduced in Northern Ireland during the GD17 price control period, we will consider undertaking a review of the associated implications for the GDNs. Based on the findings of that review, we may decide to re-open that area during the period when GD17 will be in force.

Materiality Thresholds

3.139 In line with our approach as part of GD14 price control, we will have a materiality threshold for material costs not foreseen at the price control determination but incurred as part of the GDN operations during the price control period. 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 is set at £100,000 per project for the duration of the GD14 price control period. However, we note that we may revise this threshold as part of GD17 if deemed appropriate. 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.

Financial Issues

Rate of Return

3.140 In relation to rate of return, we will:

- use a standard CAPM (Capital Asset Pricing Model) methodology for assessing a suitable rate of return for the GDNs;
- use all available similar regulatory settlements to benchmark appropriate rates;
- consider the issue of the TRV:totex ratio in applying CAPM;

- consider how tax will be treated in rate of return, after evaluating the current tax payments of the individuals GDN's.

3.141 We will review the appropriateness of the rate of return associated with the under-recoveries built up by firmus and consult where applicable. Under-recoveries represent the value accumulated by under-charging on conveyance in the early start up years, to help drive connections to the network and promote the use of gas.

Depreciation

3.142 As outlined in GD14, we will review and consult, if necessary, on the appropriateness and level of benefit gained in aligning the depreciation policies of all GDNs. Currently, firmus and PNGL have different policies in applying depreciation rates and useful economic lives.

Financeability

3.143 We will access the financeability of the licence holders, using established financial metrics, such as gearing, debt to TRV ratio, 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.

3.144 Sensitivity analysis will also form part of this assessment, to consider how the business could cope under shock conditions likely to impact the key business inputs, such as costs, volumes of gas and connections.

Profile Adjustment

3.145 We will review the need to retain a profile adjustment within the licences, or whether NI is ready to move to a more conventional GB regulatory type of practice.

Price Control Outputs

Form of Price Control

3.146 We will review the appropriateness of using a price cap versus revenue cap form of price control for each GDN; based on our review, we will decide whether a shift in control type is necessary in the best interests of consumers. We believe that it is approapraite to change firmus from a price cap to revenue cap and will commence a consultation process to make this change.

3.147 We will consider the feasibility of taking a related decision before the timeline for submission of business plans by the GDNs.

Profiling of Revenues

3.148 We will engage with GDNs in detail, to derive the most accurate profile of post GD17 allowances for modelling purposes.

3.149 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).

3.150 The accuracy of these post price control allowances is therefore important to minimise adjustments at the next price control review to compensate for inaccuracies.

TRV

3.151 In reviewing the use of the Profile Adjustment, we will decide whether future Opex costs are to be treated as per GB standard regulatory model and no longer capitalised.

Pi-Model

3.152 We will maintain Pi models similar to those published on our website on 7 July 2014[12]. This will ensure consistency for the GD17 price control, subject to any changes necessary to update such models.

3.153 The details contained within the price control submission will form the basis of the inputs for the Pi models.

Designated Parameters and Determination Values

3.154 We will review all designated parameters as part of the GD17 price control, to allow update for current circumstances, should any require alteration.

3.155 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.

3.156 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.

Firmus Under-Recoveries

3.157 In relation to firmus under-recoveries, we will continue to review firmus' plan to eliminate such under-recoveries by a reasonable date in the future. We will assess the implications of our review of the rate of return attached to such under-recoveries.

3.158 We will ensure appropriate inputs are used in the under-recovery spreadsheet calculations, enabling transparency and certainty of cumulative values of under recoveries.

[12] http://www.uregni.gov.uk/publications/phoenix_natural_gas_limited_and_firmus_energy_distribution_limited_models_a

4 Stakeholder Engagement and Social Impact

Update on Stakeholder Engagement

4.1 During the period after the discussion responses were received, we engaged with the following organisations on this area:

- PNGL
- firmus
- SGN
- Consumer Council for Northern Ireland (CCNI)
- Department for Enterprise, Trade and Investment (DETI)

4.2 It was agreed that it would be useful to have a round table discussion, with all parties present, which would see if a common ground could be established.

4.3 It become apparent that a lot of work is already undertaken by the GDNs in this area, but the focus is different for each respective GDN.

4.4 A common theme, for the GDNs, were the factors that influenced the decision of consumers to connect to the natural gas network.

4.5 Based on the time available, until the business plans are submitted on the 30 September 2015, it will not be possible to include a separate and additional round of consumer engagement for the GD17 submission.

4.6 However, we believe that the work undertaken during the process for GD17 will provide a solid foundation to develop both GDNs' ongoing consumer engagement and focus more explicitly upon how such engagement may influence GD23.

Approach to Stakeholder Engagement

General Stakeholder Engagement

4.7 During the GD17 price control process, we will engage with the key stakeholders to ensure they fully understand the key components of the price control, allow us to take full account of stakeholders' views in making a final determination and secure a successful outcome of GD17.

4.8 We will offer workshops and information sessions to interested parties at key stages of the price control process, to more fully engage on the issues that have been raised during the process. We will also consider arranging additional stakeholder workshops and information sessions as appropriate. This will allow all stakeholders an opportunity to be as fully informed as possible.

4.9 We will consider where appropriate, given the time available, to conduct some consumer research on specific topics, where relevant and appropriate. More specifically, we will consider:

- a large user focus group;
- a customer survey on customer willingness to contribute to specific service enhancements under the price control, where relevant;
- research into customer views on the expected GD17 impact on consumer bills in relation to the services to be delivered by the GDNs.

We will conduct any research in co-operation with the CCNI and our regulated companies, where relevant and appropriate, and to time it, where possible, so that the findings can inform the final determination.

4.10 We will expect the GDNs to:

- include in their business plan submission details of any customer satisfaction surveys they have already undertaken. Any further consumer questionnaires and/or engagement with consumers should evidence the involvement of ourselves alongside CCNI and DETI;
- demonstrate how they have taken account of the views of stakeholders in developing their plan, setting out what engagement was undertaken and how the engagement informed the business plan;
- provide a public facing business plan which explains, in a way that can be understood by consumers, the impact and cost of their proposed business plan.

Effective engagement is not a box ticking exercise or about the number of meetings or stakeholders addressed. Instead, it is about obtaining information about stakeholders' preferences and likely future needs and determining the deliverables and proposed approach in the plan reflecting these. Consumer engagement, as with any consumer research, must provide a company with the 'actionable data' with which it can respond to the consumers' voice and meet consumer needs through better planning.

Effective engagement with a range of stakeholders is a pre-requisite to a well-justified business plan.

4.11 We will also consider taking on board the views of credit agencies and investors through ongoing liaison work.

Working with the Consumer Council

4.12 The CCNI will have a key role to play in the price control in line with its statutory position. We therefore will engage with the CCNI on key strategic issues throughout the price control process so that it has an opportunity to represent consumers throughout the decision making process.

4.13 We will engage with CCNI as to whether we have any common work streams, that could be done in partnership, that would add value to the price control.

Working with the GDNs

4.14 We will engage with the GDNs on an ongoing basis throughout all phases of the price control process, especially those related to queries between parties.

4.15 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 PC and will be agreed with the GDNs on an ongoing basis.

Consumer Impact

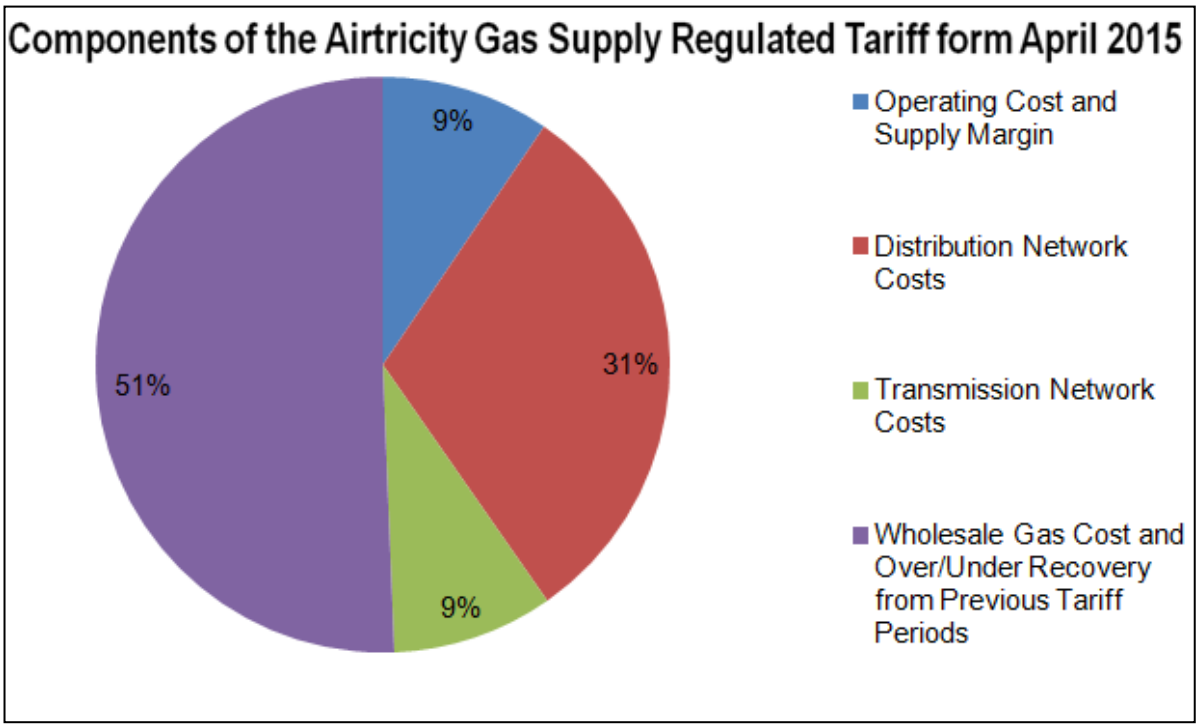
Impact of Distribution Costs on Consumer Tariffs

4.16 The regulated tariffs for gas customers are comprised of the following main elements:

- wholesale gas cost;
- operating cost of the supply business and supply margin;
- transmission network cost;
- distribution network cost.

4.17 The following graph shows how each of these elements make up the Airtricity Gas Supply (NI) Ltd (previously Phoenix Supply Ltd) regulated tariff that has been effective since April 2015.

Figure 1: Components of the Airtricity Gas Supply Regulated Tariff from April 2015



4.18 It is clear from this graph that, other than wholesale gas costs, the largest component of the Airtricity Gas Supply regulated gas tariff is the distribution network cost as it amounts to roughly 31% of the regulated tariff paid by consumers. The firmus energy regulated tariff is also comprised of the same components with similar percentage splits between each element.

4.19 It is important to note that the wholesale gas market can be volatile and there is no real control over the wholesale gas cost. The largest element of the tariff that is regulated is therefore the distribution network cost.

4.20 It is clear that distribution network cost, which will be determined as part of the price control process, has a significant impact on the final gas bill for consumers. Therefore, it is vital to have active consumer involvement during the price control process.

Customer Service

4.21 As indicated in paragraph 4.9, we will aim to conduct, as part of the GD17 preparation, consumer research to ensure the price control, and the GDNs, deliver services in the ways in which consumers expect.

4.22 We will revisit during the GD17 price control period, 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 the appropriateness and relevance of the Guaranteed and Overall Standards of Service already in place and implementation of a process of amendment where relevant and appropriate. This will require consultation with other organisations such as CCNI and DETI.
- Review of serviceability metrics used in NI and GB and, where relevant and appropriate, standardisation of such metrics across NI. 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[13], they could be different surveys designed specifically for local utility consumers, or they could be a combination of both. Ideally, some form of Net Promoter Scoring question should be included within any consumer questionnaire to enable benchmarking across local utility providers and their consumers.

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.

Environmental Impact and Energy Efficiency

4.23 As part of their operations, the GDNs connect customers to the natural gas network. This entails an increase in the burn of natural gas as well as a reduction in the burn of fuels these customers have been using up to their conversion to natural gas, i.e. in particular of oil and coal. The environmental impact of these changes can be measured as the related reduction of greenhouse gas emissions. In line with government guidance on the valuation of energy use and greenhouse gas emissions, the standard unit of account for greenhouse gas emissions is equivalent tonnes of carbon dioxide (tCO_2e), i.e. the equivalent amount of CO_2 that would have the same global warming potential as a given greenhouse gas emission. As part of the price control, we will publish the expected environmental impact resulting from GDNs' operations during the price control period.

[13] For further details, see e.g. Ofgem: RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 1.1, 30/05/2014.

5 Updated Timetable GD17

5.1 We have set out the key milestones to GD17 below. We expect all parties to work towards these milestone dates and will update all parties if there are any changes required.

Table 2: Key Milestones of GD17

Key Milestones of GD17	
Key Points	**Proposed Date**
Circulation of GD17 approach to key stakeholders, along with 1st Draft of Business Plan Submission Template (Spreadsheet)	19 December 2015
Workshop on GD17 approach	27 January 2015
Responses from GD17 approach document	10 February 2015
GDN Workshop on GD17 efficiencies	25 February 2015
Consumer Engagement workshop with GDNs, CCNI and DETI	20 March 2015
Business Plan Submission Template Workshop with GDN's	30 March 2015
Information requirements working-level meetings and approach to efficiencies workshop	January – March 2015
Publication of final approach document	17 April 2015
Publication of the business plan submission template (Spreadsheet) and related regulatory instructions and guidance	14 May 2015
Submission by the GDNs of Phase 1 of the business plans	30 June 2015
Potential Workshop for Buisness Plan Submission based on feedback	August 2015
Submission by the GDNs of Phase 2 of the business plans	30 September 2015
Publication by GDNs of the Public Facing Executive Summary	31 October 2015
Send "Information Requests" to GDNs for clarity on BPT	October 2015

Key Milestones of GD17	
Key Points	**Proposed Date**
Scheduled Meetings to discuss with GDNs the BPT	November 2015
Send “Information Requests” to GDNs for clarity on BPT	December 2015
Scheduled Meetings to discuss with GDNs the BPT	January 2016
Stakeholder workshop on draft determination	January 2016
GD17 publication of draft price control determination for consultation	15 March 2016
Closure of draft price control consultation	15 June 2016
Publication of final determination of GD17 and consultation on related licence modifications	15 September 2016
Decision on licence modifications relating to GD17	1 November 2016
Start of GD17 price control period	1 January 2017

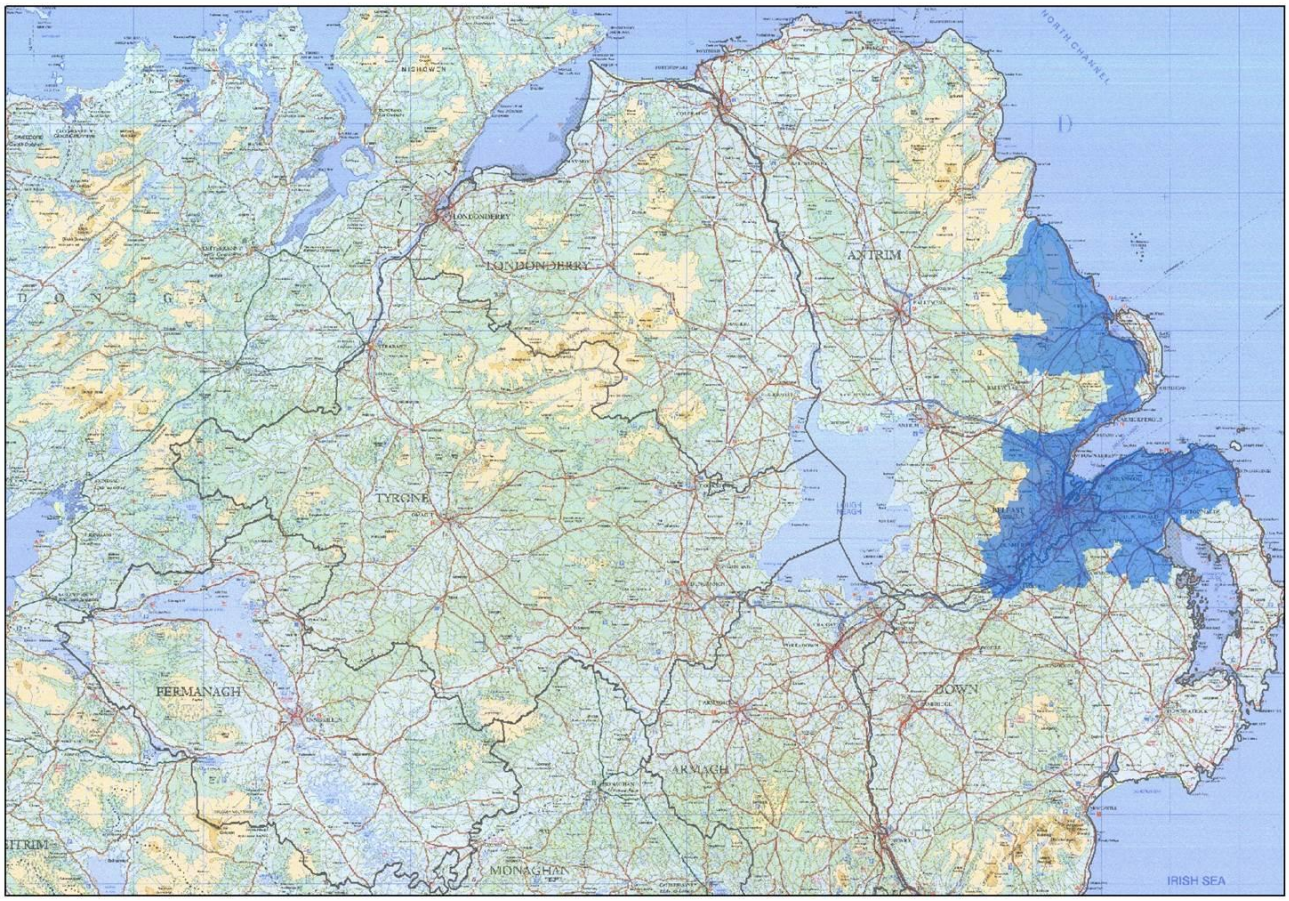
Appendix 1: Responses for the Discussion Document on our Overall Approach to Price Control for Northern Ireland's Gas Distribution Networks GD17

A1.1 On 19 December 2014, we published a discussion document on our overall approach to the GD17 price control. We invited responses to the document, to be received no later than 10 February 2015.

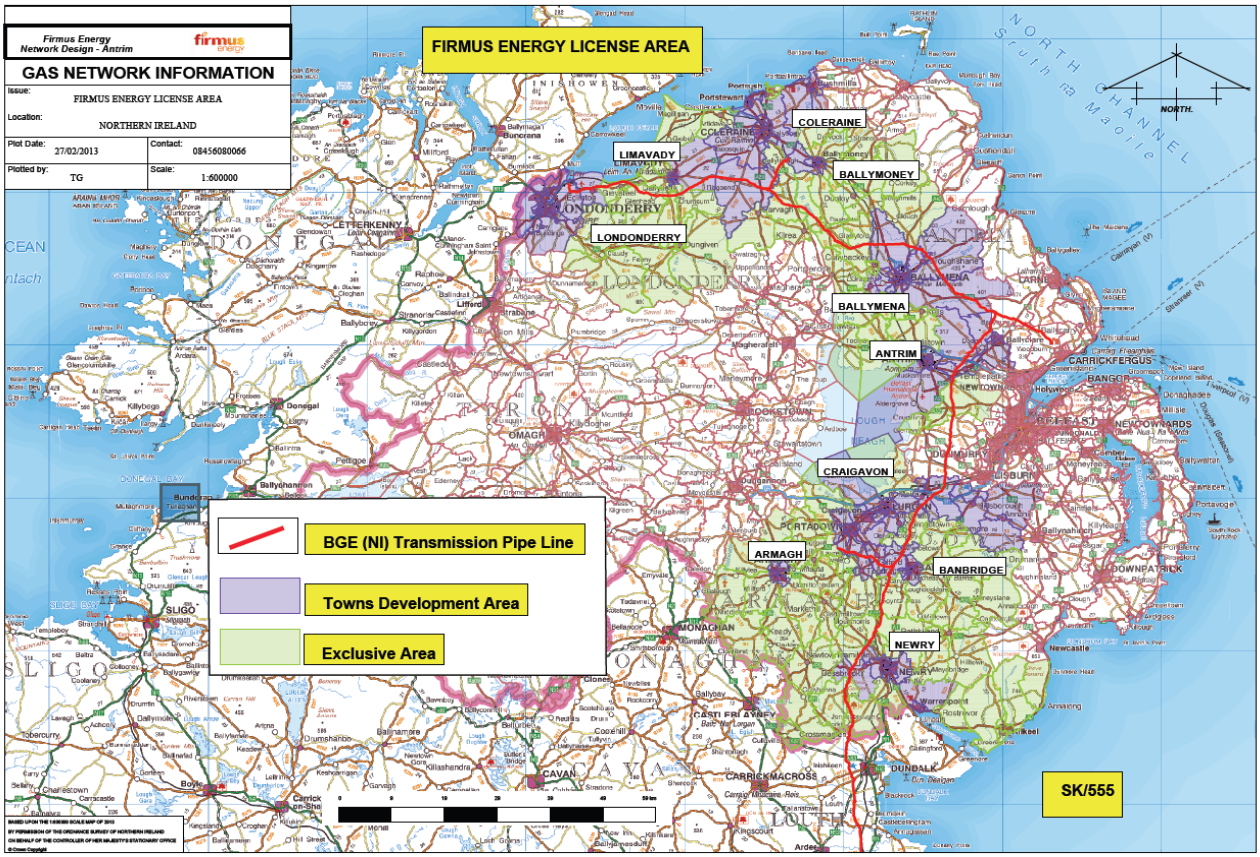
A1.2 We received responses from the following organisations:

PNGL	http://www.uregni.gov.uk/publications/pngl_response_to_gd17_approach
firmus	http://www.uregni.gov.uk/publications/fe_response_to_gd17_approach
SGN	http://www.uregni.gov.uk/publications/sgn_ni_response_to_gd17_Approach
Major Energy Users' Council (MEUC)	http://www.uregni.gov.uk/publications/meuc_response_to_gd17_approach
Manufacturing Northern Ireland (Manufacturing NI)	http://www.uregni.gov.uk/publications/manufacturing_ni_response_to_gd17_approach
CCNI	http://www.uregni.gov.uk/publications/ccni_response_to_gd17_approach

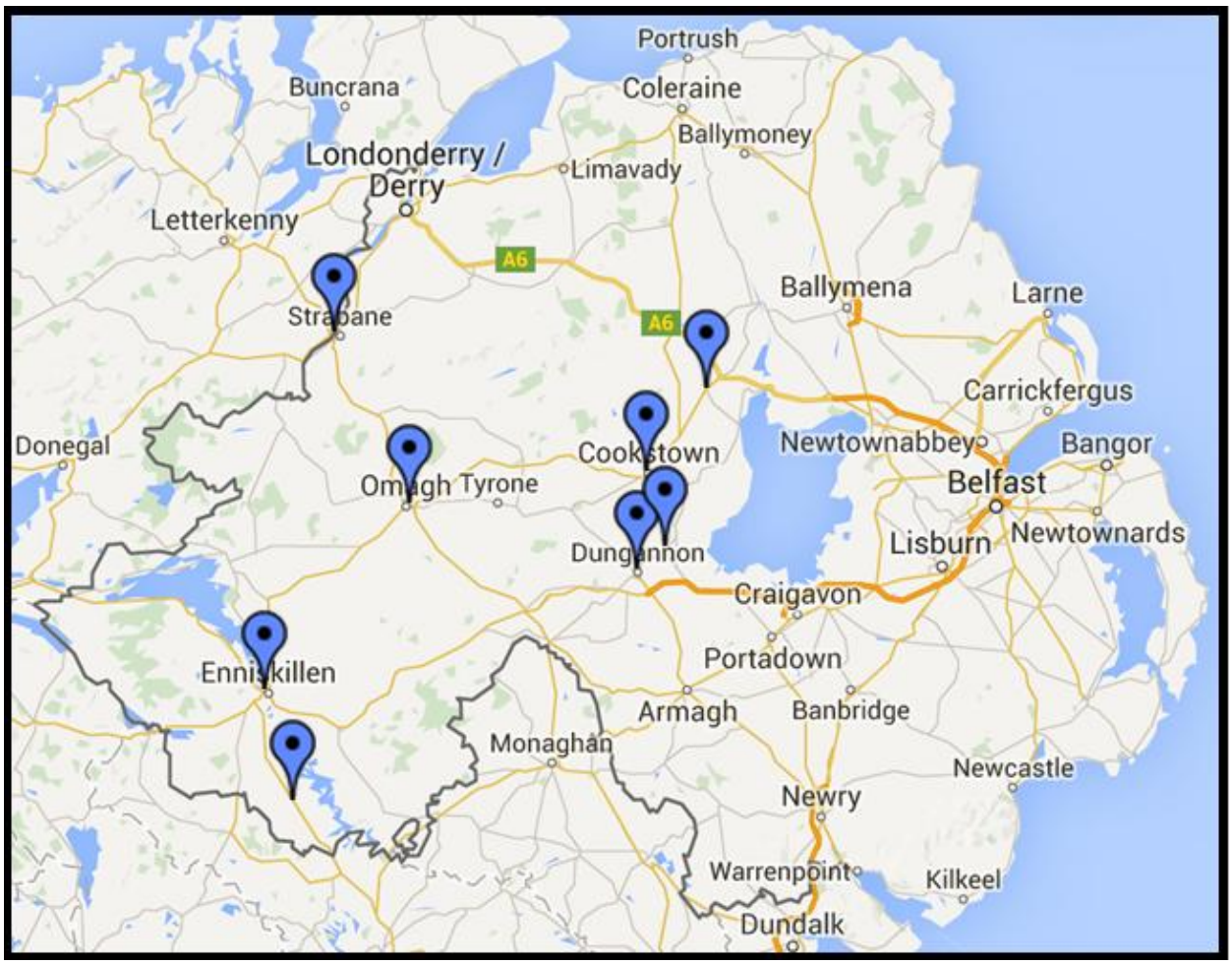
Appendix 2: Map of the PNGL Greater Belfast and Larne Licensed Area



Appendix 3: Map of the firmus Licensed Area



Appendix 4: SGN Map of Towns to connect



Appendix 5: UR Responses to Discussion on Approach

A5.1 Our responses to responses received on on our overall approach to the GD17 price control are summarised in the following document:

http://www.uregni.gov.uk/publications/ur_response_to_gd17_approach_responses