GD23 - Gas Distribution Price Control 2023-2028

Draft Determination - Main Report

March 2022

About the Utility Regulator

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

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

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

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.

Our vision

To ensure value and sustainability in energy and water.

Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

We are publishing a draft determination for GD23, for the three gas distribution networks in Northern Ireland – Firmus Energy, Phoenix Natural Gas Limited and SGN Natural Gas which covers the six year period from 2023 to 2028. It includes our assessment of efficient levels of operational expenditure, capital expenditure and the costs of financing the long term development of gas distribution networks. We are consulting on these proposals until 26 May 2022.

Audience

Regulated utilities, regulatory community, consumers, their representatives and representative and statutory bodies.

Consumer impact

This draft determination would result in a reduction in network charges per annum (before inflation) for domestic consumers of around £17 in the FE area, £25 in the PNGL area and £47 in the SGN area compared to the business pan submissions. For industrial and commercial customers the reductions in Network costs will be greater given their higher consumption levels. While any reduction in costs is welcome, we recognise that these potential savings will be off-set by the higher levels of inflation and very high market prices for gas which consumers are currently experiencing.

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Executive Summary

GD23 Price Control

This draft determination for the GD23 price control sets out our proposals on the financing of, and outputs for, the three gas distribution network operators (GDNs) in Northern Ireland (NI) for the six year period from 2023 to 2028. The three GDNs - Firmus Energy (FE), Phoenix Natural Gas Limited (PNGL) and SGN Natural Gas (SGN) distribute gas to consumers in defined areas under licences granted by the Utility Regulator (UR). Each GDN is subject to our economic regulation under the conditions of their respective licences.

In this price control we set values and parameters which will be used to calculate future gas distribution tariffs during the GD23 price control period. These values and parameters take account of the future development the network, capital and operating expenditure, rate of return on capital and other financial issues. The impact of these proposals on consumers is also a key aspect of our assessment, particularly the expected impact on distribution charges and consumer bills.

The development of the Natural Gas network in Northern Ireland

The development of the current gas distribution networks commenced in 1996. PNGL developed the network in the greater Belfast Area first; then FE started serving the Ten Towns Area ranging from Newry to Derry/Londonderry from 2005; and, most recently, SGN started serving consumers in the west from 2017 through the Gas to the West project. By the end of 2020, the distribution network had extended to make gas accessible to over half a million gas consumers, with over half of these already connected.

In December 2021, the Department for the Economy (DFE) published its new Energy Strategy “A path to net zero energy”. The strategy highlights the intention to utilise our modern gas infrastructure and the potential to generate and import zero carbon gases as a means of decarbonisation. While work is already underway to facilitate the injection of biomethane into the network, the route to fully decarbonised gas is uncertain and a further consultation is planned on Decarbonising Heat. In the meantime, as natural gas has lower emissions than oil, the strategy continues to encourage people with access to the gas network to connect to it while recognising that it is not economic or viable to extend the network to all homes.

In the previous price control (GD17) we included plans to complete the infill of gas mains in most of the main cities, towns and larger villages already served by the GDNs. Our draft determination for GD23 allows for this infill to be continued and completed.

In our Approach to GD23, we set out how we assess the economics of further extensions of the gas network on a case by case basis. The key principle we apply, is that the gas mains should only be laid where there is a reasonable prospect that the initial outlay cost will be paid back over the useful economic period at current tariff levels. This ensures that tariffs for existing customers do not increase to subsidise future extensions.

Neither FE nor PNGL proposed any additional network extensions in their plans for GD23. SGN proposed to extend the gas network to cover a further 4200 properties in nine areas which are close to existing gas mains. We have not included these extensions in our draft determination because they proved to be uneconomic as a package. There is also a need to further review the economic assessment to take account of recent connection rates. Our assessment suggests that we are at, or close to, the limit of the economic extension of the gas network when assessed against our current economic test. Taking account of the development of the network to date and the direction of travel of DFE's Energy Strategy, there is a need to review the means by which decisions are made on what is, or is not, economic for future network extensions. Our determination allows for future decision on extensions to be made in advance of the next price control.

Supporting gas network connections

While 291,000 properties have connected to the gas network at the end of 2020, by the end of GD23 there will still be around 250,000 properties close to a gas main which will not have connected. The GD23 price control continues to support connections to the gas network by providing for a free connection at the time the connection is made, with the cost of the connection paid for by all consumers over a period of time.

In the past, we have provided a connection incentive mechanism which supported the GDNs to promote new connections. In the last price control (GD17), we increased the incentive rate to include a ‘new areas’ allowance to support the development of connections as the network extended. In GD23, we propose to remove the new areas allowance at the start of GD23 and glide path to a ‘cost to serve’ which allows GDNs to proactively respond to connection requests by the end of GD23.

Financial aspects

We have actively challenged the activities and costs proposed by the GDNs to develop, maintain and operate the gas distribution networks.

We undertook a detailed assessment of capital expenditure (capex) challenging both the need for investment and the future costs of investment. Following this assessment, we have not included the following: investment in further extensions to the network; some reinforcement work (which may be confirmed at a later date); and, work proposed on network resilience which should have formed an integral part of the original network layout. We have used a basket of works, similar to our approach to GD17, to determine future cost of investment based on recent costs. The total investment proposed for GD23 is £149.2m compared to £226.5m initially proposed by the GDNs, a reduction of 34%. Approximately, one third of this challenge relates to unit rates, with the rest linked to a reduction in work to be undertaken.

Having benchmarked operational expenditure (opex) with GDNs in GB, we concluded that differences in scale and stage of development meant we could not rely on this type of comparison. Instead, we undertook a detailed bottom up assessment of opex, taking into account the recent levels of expenditure. We have allowed additional costs, where outputs have changed, where requirements have changed or the GDNs have provided good asset maintenance reasons for additional activities. In the case of SGN, we have continued to rely on some costs submitted by the company when it applied for the licence for Gas to the West where there is no change in circumstance to justify varying these costs. Our estimate of overall operational expenditure for proposed for all GDNs within GD23 is £162.9m compared to £213.2m initially proposed by the GDNs, a reduction of 23%.

Our price control determinations, and the subsequent annual assessments of tariffs takes account of a general measure of inflation. In the past RPI, has been used but for GD23, we propose to adopt CPIH as the general measure of inflation. This change reflects concerns expressed by the UK Statistics Authority (UKSA) over the robustness of RPI. As a result, the UKSA urges Government and others to cease using RPI. The move to CPIH reflects changes the UKSA plan to make in 2030. However, moving to CPIH provides a more equitable distribution of cost between today's and future consumers, and it helps maintain financeablity of the GDNs in GD23 as the return earned on capital continues to reduce.

We have assessed an appropriate return on capital for each GDN using the Capital Asset Price Model (CAPM). In doing so we have taken account of regulatory precedents including the recent decisions by Ofgem for RIIO-GD2, which were also considered by the Competition and Markets Authority in its role as a statutory appeals body. Our decision reflects a trend of reducing financing costs which will result in lower gas network costs for consumers. We also tested the ability of the GDNs to finance their regulated businesses through a combination of debt and equity using some of the key financial indicators used by credit rating agencies. The real rates of return determined for GD23 are shown below in Table 1.

	FE	PNGL	SGN
Rate of Return - Pre tax	2.81%	2.59%	-
Rate of Return - Vanilla	-	-	2.76%

Table 1 - Rate of Return

We continue to take account of the long term development of the networks when determining revenues and tariffs for GD23, with tariffs smoothed to the end of a 'recovery period' (2045 for FE, 2046 for PNGL and 2057 for SGN). This approach allowed those who connected in the early stages of development to pay a reasonable price for network services, with the investment made by GDNs recovered over the longer term as more consumers connect. The profiling of revenues is captured in a Total Regulatory Value (TRV) which also includes the depreciated asset value. The revenues and tariffs raised in each price control include a return on capital on the TRV and contribute to the cost of paying down the TRV over time. The profile of the combined TRV for all GDNs to 2045 is shown in Figure 1. The TRV is at its peak of £930m at the start of GD23 and reduces to £325m by 2045.

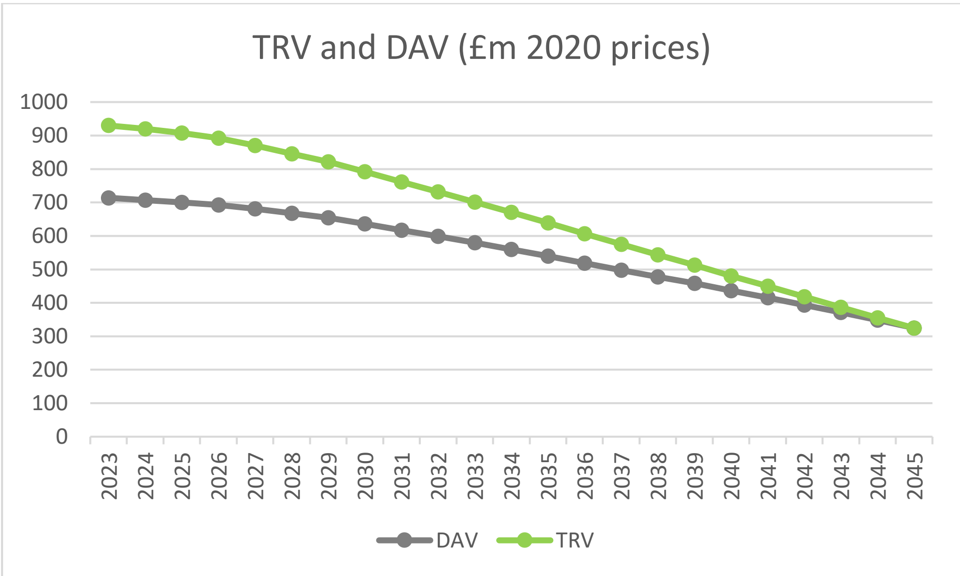


Figure 1: Total regulatory value (TRV) all GDNs to 2045.

The combined impact of our proposed draft determination is that consumers will pay less in GD23 than the GDNs initially proposed, and less than they currently pay (in real terms) as shown in Table 2 below.

2020 Prices	GD23 DD P1 tariff ppt	GD23 DD v submission	GD23 DD v GD17 FD	Customer saving v submission	Customer saving v GD17 FD
FE	40.34	-9%	-19%	-£16.60	-£37.09
PNGL	37.33	-14%	-17%	-£24.66	-£31.14
SGN	32.06	-27%	-3%	-£46.56	-£3.80

Table 2: Impact on domestic tariffs and charges

A summary of the draft determination for each GDN is provided in the tables below. These summaries compare the GDNs' Business Plan submission with our draft determination of operational expenditure (opex), capital expenditure (capex), (all post efficiency) revenue, additional properties passed and connections in the GD23 period.

Capex £m in Av 2020 prices	2023	2024	2025	2026	2027	2028	Total
FE submission	18.7	13.0	12.1	10.6	10.6	10.8	75.8
GD23 draft determination	11.9	7.8	7.5	7.2	7.2	7.1	48.6

Opex £m in Av 2020 prices	2023	2024	2025	2026	2027	2028	Total
FE submission	9.9	9.7	9.8	10.1	10.6	10.5	60.7
GD23 draft determination	7.9	7.8	7.8	7.8	8.2	8.2	47.7

Revenues £m in Av 2020 prices	2023	2024	2025	2026	2027	2028	Total
FE submission	24.7	26.1	27.0	27.9	28.6	29.3	163.5
GD23 draft determination	21.9	22.9	23.9	24.9	25.7	26.5	145.8

Properties passed	2023	2024	2025	2026	2027	2028	Total
FE submission	3,514	1,643	1,584	1,514	1,507	1,500	11,262
GD23 draft determination	3,106	1,250	1,250	1,250	1,250	1,250	9,356

Connections	2023	2024	2025	2026	2027	2028	Total
FE submission total	6,500	6,335	6,171	6,016	5,866	5,724	36,612
- Owner occupied	3,852	3,685	3,524	3,371	3,224	3,084	20,740
- New Build	1,500	1,500	1,500	1,500	1,500	1,500	9,000
- NIHE	1,000	1,000	1,000	1,000	1,000	1,000	6,000
- Small and medium I&C	148	150	147	145	142	140	872
- Large and Contract I&C	0	0	0	0	0	0	0
GD23 draft determination	6,095	5,833	5,566	5,300	5,033	4,767	32,594
- Owner occupied	3,697	3,433	3,169	2,905	2,641	2,377	18,222
- New Build	1,250	1,250	1,250	1,250	1,250	1,250	7,500
- NIHE	1,000	1,000	1,000	1,000	1,000	1,000	6,000
- Small and medium I&C	148	150	147	145	142	140	872
- Large and Contract I&C	0	0	0	0	0	0	0

Table 3: FE draft determination summary

Capex £m in Sep 2020 prices	2023	2024	2025	2026	2027	2028	Total
PNGL submission	20.5	19.8	20.3	20.7	17.2	15.8	114.3
GD23 draft determination	16.2	14.3	14.4	13.4	10.9	10.5	79.8

Opex £m in Sep 2020 prices	2023	2024	2025	2026	2027	2028	Total
PNGL submission	20.4	20.7	20.6	20.6	20.7	21.4	124.5
GD23 draft determination	17.2	16.7	16.4	16.5	16.4	16.4	99.6

Revenues £m in Sep 2020 prices	2023	2024	2025	2026	2027	2028	Total
PNGL submission	66.0	66.8	67.5	68.1	68.7	69.2	406.3
GD23 draft determination	58.0	59.1	60.2	61.2	62.2	63.1	363.9

Properties passed	2023	2024	2025	2026	2027	2028	Total
PNGL submission	5,579	3,265	3,365	3,465	3,564	3,564	22,802
GD23 draft determination	5,129	2,715	2,715	2,715	2,714	2,714	18,702

Connections	2023	2024	2025	2026	2027	2028	Total
PNGL submission total	7,322	7,059	6,727	6,637	6,627	6,521	40,893
- Owner occupied	4,522	4,159	3,727	3,612	3,502	3,396	22,918
- New Build	2,300	2,400	2,500	2,600	2,700	2,700	15,200
- NIHE	350	350	350	300	300	300	1,950
- Small and medium I&C	148	148	148	123	123	123	813
- Large and Contract I&C	2	2	2	2	2	2	12
GD23 draft determination	6,887	6,573	6,260	5,872	5,558	5,245	36,395
- Owner occupied	4,387	4,073	3,760	3,447	3,133	2,820	21,620
- New Build	2,000	2,000	2,000	2,000	2,000	2,000	12,000
- NIHE	350	350	350	300	300	300	1,950
- Small and medium I&C	148	148	148	123	123	123	813
- Large and Contract I&C	2	2	2	2	2	2	12

Table 4: PNGL draft determination summary

Capex £m in Av 2020 prices	2023	2024	2025	2026	2027	2028	Total
SGN submission	6.3	6.0	5.7	8.3	5.5	4.5	36.3
GD23 draft determination	3.7	3.4	3.8	4.3	2.7	2.9	20.8

Opex £m in Av 2020 prices	2023	2024	2025	2026	2027	2028	Total
SGN submission	4.2	4.3	4.4	4.7	5.4	5.0	28.0
GD23 draft determination	2.6	2.6	2.5	2.6	2.8	2.8	15.9

Revenues £m in Av 2020 prices	2023	2024	2025	2026	2027	2028	Total
SGN submission	6.7	7.0	7.4	7.8	8.2	8.6	45.6
GD23 draft determination	5.2	5.4	5.6	5.8	6.0	6.1	34.1

Properties passed	2023	2024	2025	2026	2027	2028	Total
SGN submission	2,944	2,873	3,181	4,414	1,794	1,736	16,942
GD23 draft determination	2,108	1,926	2,979	3,619	1,106	1,779	13,517

Connections	2023	2024	2025	2026	2027	2028	Total
SGN submission total	972	932	984	1,122	977	1,017	6,003
- Owner occupied	623	593	599	652	643	640	3,750
- New Build	200	203	182	108	81	43	817
- NIHE	89	53	92	180	88	184	686
- Small and medium I&C	57	82	109	180	162	150	739
- Large and Contract I&C	3	1	2	2	3	0	11
GD23 draft determination	1,044	1,009	868	820	687	511	4,939
- Owner occupied	735	659	583	508	432	356	3,273
- New Build	200	203	182	108	81	43	817
- NIHE	64	87	22	69	51	0	293
- Small and medium I&C	43	59	80	134	121	112	549
- Large and Contract I&C	2	1	1	1	2	0	7

Table 5: SGN draft determination summary

1. Introduction

Purpose of this Document

1.1 This document sets out the Utility Regulator's (UR) draft determination for the GD23 price control.

1.2 GD23 is the name given to the price control for the six-year-period from 1 January 2023 for the three gas distribution network operators (GDNs) in NI:

a) Firmus Energy (Distribution) Limited (FE).

b) Phoenix Natural Gas Limited (PNGL).

c) Scotia Gas Networks Northern Ireland Ltd (SGN).

1.3 The price control sets out the amount the GDNs have to run their business and invest in the gas network. Key decisions for the companies are the operational and capital expenditure allowances, proposed rate of return, forecast connections and volumes and the mechanisms which would allow the determination to the adjusted for inflation, changes in outputs or to address new issues which emerge.

1.4 The determination of revenues and tariffs in the GD23 period takes account of forecasts of costs and gas consumption beyond GD23. Forecasts are considered up to the end of the revenue recovery period for each GDN, which ranges from 2045-2057. This approach allows reasonable tariffs to be set in any one price control period, with early network develop costs recovered over the longer term.

1.5 This draft determination details the proposals of UR with respect to the GD23 price control period on allowances, incentive mechanisms and outputs. We have determined a weighted average cost of capital, and assessed the financeability of the GDNs to secure their ability to finance their regulatory activities. The draft determination also considers the expected impact of these proposals on consumers, in particular the expected impact on distribution charges and consumer bills.

1.6 The proposals detailed in this document are provisional, and subject to change as a result of responses and further information we receive from GDNs, from consumers and from stakeholders during the consultation period on this draft determination.

Our Statutory Duties and Regulatory Principles

1.7 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 NI, to do so consistently with our fulfilment of the objectives set out in the European Gas Directive, and by having regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003[1].

1.8 Gas distribution networks are natural monopolies, with each GDN providing the distribution network in separate defined areas. While the GDNs' licences set some limits on exclusivity of areas served in principle, in practice there is no opportunity for consumers to change their distribution network provider. In these circumstances, economic regulation serves as a surrogate for competition, to challenge the GDNs to operate efficiently and maintain and improve the level of service received by consumers.

1.9 An important part of this regulatory framework is periodic price controls. A price control is a method of setting the total allowed revenues a GDN is allowed to recover from consumers through a cap on revenues, or the maximum tariffs a GDN is allowed to charge through a price cap. In the GD23 price control, PNGL and FE are subject to revenue caps and SGN is subject to a price cap, continuing the approach applied in GD17.

1.10 Through price controls, economic regulators impose budgetary constraints on the regulated company or companies, while at the same time making sure that they are adequately financed. These constraints are based on direct challenge of the company's proposals, supported by external benchmarking of cost and service to establish the company's relative efficiency and performance.

1.11 As part of a price control, we also establish a clearly defined set of outputs that the each GDN must deliver. When selecting these outputs, we aim to strike a balance between the clear definition and quantification of outputs while allowing the GDNs the flexibility they need to deliver them in the most effective way.

1.12 We interpret our duties as a requirement to:

a) secure the most cost efficient outcome for the protection of consumers and the promotion of the gas industry in Northern Ireland;

[1] The Utility Regulator's principal objective is set out in [Article 14 of the Energy (Northern Ireland) Order 2003]

b) ensure the gas distribution network operators can continue to finance the activities which are the subject of obligations placed on them; and

c) have due regard to all relevant factors.

1.13 It is our aim to do this by:

a) providing a strong foundation for the continued and long-term economic development of gas distribution networks, delivering service improvements to consumers;

b) challenging the GDNs to improve their efficiency and performance at an achievable and sustainable rate;

c) promoting long term planning by the GDNs and securing the continuity of necessary and efficient investment; and

d) ensuring that revenues and prices are set at the minimum levels that are consistent with efficient operation.

Development of the gas industry to date

1.14 NI currently has three gas distribution networks:

a) Firmus Energy (Distribution) Limited own and operate the distribution network, normally called the ten towns area.

b) Phoenix Natural Gas Limited (PNGL) own and operate the distribution network in the Greater Belfast and Larne areas and East Down.

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

1.15 The operating areas of these three companies are shown in Annex A - Map of licenced areas.

1.16 The current development of the network is summarised in Table 1.1. It shows the number of properties passed, and the number of properties connected to the end of 2020 for each GDN.

1.17 In this context, a 'properties passed' is one which is typically located within 50m of a gas main, subject to certain practical limitations, and is referred to as 'readily connectable'.

1.18 The number of connections covers all property types including domestic and industrial / commercial. 55% of properties passed were connected at the end of 2020. A total of over 230,000 properties which could connect remained to be connected. There is significant potential to connect further properties to the existing network.

GDN	Licence Awarded	Properties passed	Properties connected	Potential connections
PNGL	September 1996	350,711	235,170	115,541
FE	March 2005	158,516	54,590	103,926
SGN	February 2015	15,583	1,327	14,256
Total		524,810	291,087	233,723

Figures are correct up to the 31 December 2020

Table 1.1: Development of the gas network

1.19 Once GDNs complete the network development in GD17, and that already identified in the GD17 Price Control for completion in GD23, approximately 65% of properties in NI will have access to natural gas, should they choose to connect to the network.

Overall Approach and Timelines for GD23

1.20 The GD23 process began in late 2019, when meetings where held individually and collectively with all the GDN's, identifying the key issues and challenges that faced GD23.

1.21 In addition to the engagement with the GDNs, we also engaged with other key stakeholders, including representatives from the Consumer Council of NI (CCNI) and the Department for the Economy (DfE).

1.22 From this initial feedback we issued an Approach document[2] for GD23 for consultation in GD23. We received five responses to this. Having considered these responses we published our Final Approach document[3] for GD23 in November 2020.

1.23 At the same time, we engaged with the GDN's to develop the Business Plan Submission Templates and Commentary documents, including some supplemental papers. The Business Plan Submission Templates built on the GD17 Business Plan Templates and the Regulatory Information Guidance Templates used for annual cost and performance reporting. The Business Plans guidance and commentary, along with the supplemental papers were

[2] GD23 Approach 01.00 - Consultation published 2020-06-01.pdf (uregni.gov.uk)
[3] 2020-11-6 GD23 Final Approach- Final.pdf (uregni.gov.uk)

finalised and submitted to the GDN's on the 29 January 2021, and published[4] shortly thereafter.

1.24 At the end of June 2021, the GDN's submitted their business plans template, and commentary with supplemental papers. A requirement of the submission was to produce a public facing document that was published on each GDN website[5], to enable open dialogue with other stakeholders on the key issues.

1.25 The GD23 business plan submission was followed by a phase of analysis, and an exchange of information requests and responses between ourselves and the GDNs to clarify any issues and queries arising. We have considered the responses received from the GDNs in arriving at our draft determination.

1.26 We will review our proposals for GD23 in light of the responses received to our consultation on this draft determination. We envisage that this will entail a further phase of bilateral engagement between ourselves and the GDNs, as well as engagement with other key stakeholders between June and September 2022.

1.27 The publication of the GD23 final determination in September 2022 will be accompanied by a consultation on related licence modifications, with the consultation period scheduled to end on October 2022.

1.28 Following due consideration of the responses received to this consultation on licence modifications, we expect to publish our related decision in November 2022. The effective date of the licence modifications to be at least 56 days after the publication of the licence modification decision, in line with the requirements of Article 14(10) of the Gas (Northern Ireland) Order 1996. This period provides an opportunity for the licence holder which is subject to the price control, any other licence holder materially affected by the decision, a qualifying body or association representing one of those licence holders, and/or the CCNI to appeal the decision on the proposed licence modifications to the CMA (Competition and Markets Authority).

1.29 The GD23 price control will take effect on 1 January 2023.

1.30 The key milestones of the GD23 price control are summarised in Table 1.2 below.

[4] 2021-01-29 GD23 Business Plan Commentary and Guidance- Final.pdf (uregni.gov.uk)
[5] GD23_Business_Plan_2021.pdf (firmusenergy.co.uk), 300721-FINAL-GD23-Report.pdf (phoenixnaturalgas.com), https://sgnnaturalgas.co.uk/publication/67

GD23 Key Milestones	Revised timeline
GD23 Approach Document Consultation	1 June 2020
GD23 Approach Document Consultation Ends	7 August 2020
GD23 Approach Document published	6 November 2020
Business Plan information requirements published	31 January 2021
GDNs submit BPs for GD23	30 June 2021
UR publishes DD consultation for GD23	9 March 2022
DD consultation period ends	26 May 2022
GD23 FD and licence consultation published	September 2022
GD23 GDN licence modifications decision published	November 2022
GD23 Price control takes effect	1 January 2023

Table 1.2: Price Control Process Key Milestones up to Publication of GD17 Draft Determination.

Structure of this Document

1.31 This document is structured in a number of chapters as follows, each addressing different aspects of the price control:

a) The Executive Summary provides an overview over the key findings and proposed key decisions of this price control process.

b) Chapter 1, Introduction, provides an overview of: the purpose of this GD23 draft determination; our statutory duties and regulatory principles; and the development of the gas industry to date.

c) Chapter 2, Common Issues, provides an overview of the price control process and key aspects of same.

d) Chapter 3, Price Control Submissions and Current Performance, provides an overview of requests made by FE, PNGL and SGN and a discussion of GD17 performance to date.

e) Chapter 4, Volume & Connections, sets out estimates for consumption volumes and connection numbers that contribute to the determination of costs and the determination of revenues and tariffs.

f) Chapter 5, Operational Expenditure, summarizes the operating expenditure (opex) allowances requested by each GDN, our assessment of these costs and our proposed allowances for the GD23 price control period.

g) Chapter 6, Capital Investment, summarizes the capital expenditure (capex) allowances requested by each GDN, our assessment of the activities and costs proposed and our proposed allowances for the GD23 price control period.

h) Chapter 7, Energy Strategy, Innovation & Incentives, is our view with respect to funding of innovation initiatives both in general as well as with respect to specific innovations proposed by the GDNs including any appropriate incentives and how we propose to deal with the implications of the Energy Strategy.

i) Chapter 8, Stakeholder and Customer/Consumer Engagement, deals with approaches to engagement after consideration of the proposals and direction of travel.

j) Chapter 9, Uncertainty Mechanism, details our review of the uncertainty mechanism with respect to the GD14 and GD17 outturns as well as our proposals for the GD23 uncertainty mechanism.

k) Chapter 10, Financial Aspects, discusses different aspects relating to the finance implications of the price control, including rate of return, depreciation, tax, profile adjustments and financeability.

l) Chapter 11, Outputs, Outcomes & Allowances, summarises key aspects of the price control determination such as designated parameters and determination values.

m) Chapter 12 reviews the Business Plan Assessments of each GDN and provides a summary, with a more detailed assessment contained in the Annexes.

n) Chapter 13, Next steps for Consultation Response and Further Issues, clarifies details relating the consultation processes, provides an overview of the proposed next steps and summarises consequential changes as well as further issues we propose to address pursuant to the price control determination.

1.32 The main chapters in this draft determination provide a summary of our analysis and decisions with the detail of our assessment provided in supporting Annexes.

2. Common Issues

Duration of the GD23 Price Control

2.1 The optimum duration of a price control is a matter of judgement which needs to balance a number of factors:

a) The advantage of giving planning security to the GDNs and providing them with the flexibility to plan their business and to deliver these plans within the framework and constraints set by each price control; and,

b) The need to account for changes in external environment and external drivers which inform the overall level of charging that is possible, and which become less predictable as the planning horizon lengthens.

2.2 GD17 covered the six year period 2017 to 2022 for FE and PNGL, and a five year period 2018 to 2022 for SGN. When we consulted on our approach to GD23 we proposed a six year duration for the price control. This proposal was supported by all GDNs. We concluded that a that a six year duration provides a reasonable balance between the risk to consumers and GDNs of material changes in circumstances over the price control while providing a framework which promotes stable long term delivery.

2.3 We propose a six year duration for the GD23 price control, which will run from the 1 January 2023 to the 31 December 2028.

2.4 As a result, the next price control after GD23 will be GD29, which is expected to come into effect on 1 January 2029. This timeline will enable the material used in Ofgem's RIIO GD3 to be considered in our determinations for GD29 were appropriate.

Price Base

2.5 Our financial proposals are presented in a defined price base and are subject to inflation and other adjustments as necessary as set out in the determination and the GDN licence. There are slight differences in the price base used in the GDNs licences, two use average year prices and one using September prices. We have decided to follow the price base used in each GDNs licence through-out this draft determination as follows, unless indicated otherwise:

a) FE - Average 2020 prices.

b) PNGL - September 2020 prices.

c) SGN - Average 2020 prices.

2.6 This is consistent with the licences and respective Total Regulatory Value (TRV), used to calculate the conveyance charges.

2.7 While this means that costs and unit rates presented in this determination for PNGL, are not strictly comparable with those presented for FE and SGN, any differences are minor.

Form of the price control

2.8 FE and PNGL currently operate under revenue cap price control regimes, which have been in place since 2016 and 2006 respectively. Before that the companies operated under price cap regimes for a period of approximately 10 years from the initial grant of licence. Under a revenue cap regime the company is permitted to recover up to the maximum revenue determined through the price control. Annual tariffs are adjusted to reflect actual volumes of gas consumed and the company benefits if gas consumption is higher than estimated and does not carry any material risk if gas consumption is lower than expected. A revenue cap regime is appropriate for mature networks.

2.9 SGN currently operates under a price cap price control regime. Under a price cap regime we determine the tariffs the company is able to charge. This provides a strong incentive for companies to identify and connect new consumers during the initial stages of network development. SGN connected its first consumers in 2017, and continues to develop its network and build its consumer base.

2.10 Taking account of the responses to the public consultation on our Approach to GD23 on the form of the GD23 price control we propose to:

a) continue with a revenue cap price control regime for FE and PNGL; and

b) continue with a price cap price control regime for SGN.

Adjusting for inflation

2.11 Our draft determination for the GD23 price control is presented in a defined price base for each GDN as described at Paragraph 2.5.

2.12 As the price control is implemented the determination of revenues and tariffs are adjusted for inflation. The TRV is also adjusted for inflation to establish an opening value for subsequent price controls.

2.13 The general measure of inflation applied in GD17 and previous price controls was the Retail Prices Index (RPI), as published by the Office of National Statistics (ONS) each month in respect of all items.

2.14 We propose to change the general measure of inflation applied in the GD23 price control to the Consumer Prices Index including owner occupiers' housing costs (CPIH), as published by the ONS. Key decisions in the draft determinations for GD23 reflect this proposal, including:

a) The determination of a real weighted average cost of capital on a CPIH stripped basis.

b) The determination of a frontier shift on a CPIH stripped basis.

c) The calculation of the opening TRV for GD23 to ensure that the way in which CPIH is applied to future revenues and tariffs determined in 2020 prices reflects the inflation of the TRV to the end of the GD17 period using RPI.

2.15 RPI is no longer considered a robust measure of general inflation by those responsible for publishing it. It has been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as a National Statistic. The UK Statistics Authority (UKSA) has noted that: "*We have been clear that the RPI is not a good measure, at times significantly overestimating inflation and at other times underestimating it, and have consistently urged all – in Government and the private sector – to stop using it*."

2.16 In our approach to GD23, we noted proposals by the chair of UKSA to eventually cease the publication of RPI and, in the meantime, to incrementally adjust RPI to align with CPIH. In response to the UKSA's proposals, the Chancellor of the Exchequer ruled out any alignment beginning until at least 2025, but agreed with further consultations on this subject, before coming to a final decision. Pending the outcome of this work we stated our intention to continue using RPI for the GD23 Price Control, and make provisions for any changes which may be necessary if there is a material change in the methodology used to calculate RPI during the course of the Price Control.

2.17 However, following the UKSA's consultation, which closed in November 2020:

- The Chancellor of the Exchequer concluded that he would be unable to offer his consent to the implementation of a proposal (such that the UKSA intends to make) before the maturity of the final specific index-linked gilt in 2030.

- In light of the clarification provided by the Bank of England, and given the UKSA's position to address the shortcomings in the RPI in full at the earliest practical time, the UKSA's Chair replied to the Chancellor informing him that the UKSA would be able to legally and practically implement its proposal to the RPI in February 2030.

2.18 It is now clear that RPI will continue to be calculated, and published in its current form until 2030. It is likely that the UKSA will bring the methods and data sources of the Consumer Prices Index, including owner-occupiers' housing costs (CPIH) into RPI shortly thereafter. However, the pace at which this will happen is not yet clear. The decision made to delay any changes to RPI until 2030, means that it is no longer possible to begin a transition to CPIH in GD23 through process which aligns RPI with CPIH. As a result, we have concluded that we should now move to CPIH, as our general measure of inflation for GD23.

2.19 A change to CPIH ensures that the GD23 price control is based a method of assessing general inflation, which is considered robust by the relevant competent statistical authorities. However, this does result in a re-profiling of revenues. Inflation as measured by CPIH is generally lower than inflation measured by RPI. As a result, revenues and tariffs will increase in the short term as the real weighted average cost of capital increases to reflect lower level of general inflation. Over the longer term, the level of inflation applied to revenues and tariffs is lower and the TRV will subject to a lower level of general inflation. As a result revenues, and tariffs in the future should be lower.

2.20 A key consideration in our proposal to adopt CPIH as a general measure of inflation in GD23, has been its impact on key measures of financeability as the weighted average cost of capital reduces. One GDN raised concerns about its ability to finance its Business Plan at the rates of return proposed in its Business Plan and this issue would become more pronounced at the lower returns on capital proposed in this draft determination. This GDN suggested either:

a) an enhancement to revenue in GD23 through an enhanced rate of return with the additional revenue returned to consumers at the end of GD23 through the debt adjustment mechanism; or,

b) a change from RPI to CPIH as the general measure of inflation which would increase revenues in GD23 but reduce the level of inflation applied to the TRV.

2.21 Of these options we prefer a change to CPIH as this does not require more complex mechanisms to maintain financeability by enhancing revenues in for the GD23 period, only to deduct these additional revenues from the opening TRV at the start of GD29.

2.22 A move to CPIH has additional advantages:

a) Consumer Price Index (CPI) has become the commonly reported measure of consumer inflation used widely in society for both inflation targets and adjusting various payments by government.

b) Consumer Price Index including Housing (CPIH) is becoming increasingly common in regulation, for example: Ofwat and Ofgem have moved or shortly will move from RPI to CPIH.

c) The application of a robust measure of inflation in our price controls improves the alignment of payments with the way network services are consumed, improving intergenerational equity.

2.23 In December 2021, we informed the GDNs that we were considering moving to CPIH as our measure of general inflation in GD23. We highlighted the adjustments we planned to make to the price control, to protect both the interest of consumers and the interest of the GDNs if this change was made and asked the GDNs to provide general feedback on our approach and on any other changes which might be necessary to protect the interests of consumers and GDNs. In response, PNGL noted that UR's description of what is required regarding the RPI /CPIH move is appropriate. FE and SGN noted the need for consideration of a number of issues regarding NPV neutrality, and the assessment of return on capital.

2.24 In light of our proposal to adopt CPIH as the general measure of inflation in GD23, we ask that the GDNs consider whether our approach to the determination of weighted average cost of capital, real price effects and adjustments to the opening TRV for GD23, address the issues which might cause detriment to the GDNs and quantify any remaining detriment. Having considered these assessments we will decide whether further amendments to the weighted average cost of capital, real price effects and adjustments to the opening TRV for GD23 are necessary to address any detriment identified.

Future of Domestic Owner Occupied Connection Incentive.

2.25 Our proposals for the future funding of work necessary to promote and secure new connections to the gas network distinguishes between domestic owner occupied (OO) connections and all other types of connections, including domestic new build, social housing and industrial and commercial connections, collectively referred to as non-OO connections.

2.26 In GD23, we propose to:

- Continue to include allowances for advertising, marketing and development for Non-OO connections based on a review and challenge of historical costs.

- Continue to fund GDNs to make new connections so that consumers do not pay for these connections at the time they are made. The costs of new connections will continue to be recovered through revenues from all consumers over the long term.

- Transition from the OO connection incentive mechanism, which applied in GD17, to a cost to serve model which will allow GDNs to respond to connection request and support consumers through the connection process but will reduce the level of activity undertaken to actively promote connections.

2.27 The concept of 'cost to serve' is to cover GDNs reasonable costs of responding to contacts and supporting consumers through the connection process, including the cost of energy advisers. Our proposals include a lump sum allowance to support some advertising and marketing and a variable unit rate to cover the cost of staff who support consumers through the connection process.

2.28 We have proposed to move from an incentive mechanism to a cost serve approach for funding the promotion of OO connections, because a combination of declining levels of connections and stable or increasing estimates of the cost of securing connections, is driving up the average cost of actively promoting connections to the point that it is becoming uneconomic.

2.29 The fixed and variable rates used in the OO cost to serve revenue mechanism are shown in Table 2.1 below. The variable rate will be applied per connection. Cost of advertising and marketing, will be recovered as actual costs per annum up to the lump sum allowance.

	Lump sum £k/a	Variable rate £/connection					
		2023	2024	2025	2026	2027	2028
FE	150	274	242	210	187	180	173
PNGL	150	244	211	179	146	130	130
SGN	125	400	400	400	400	400	400

Table 2.1: OO connections cost to serve rates for GD23

2.30 A more detailed review of work necessary to promote connections in included as Annex Q. The annex focuses on the transition from an OO connection incentive to a cost to serve approach, including an assessment of the economic level of a connection incentive.

Future issues not covered in the GD23 determination

NI Executive Energy Strategy

2.31 In December 2021, the DfE published its new Energy Strategy "A path to net zero energy". The strategy highlights the intention to utilise our modern gas infrastructure and the potential to generate and import zero carbon gases as a means of decarbonisation. While we are currently working with the gas industry to facilitate the injection of biomethane into the network, the route to fully decarbonised gas is uncertain, and a further consultation is planned by DfE on Decarbonising Heat.

2.32 Further work will be required to achieve full decarbonisation of the gas network, including the development policy, regulation and practical solutions for the decarbonisation of gas networks including the potential injection of biomethane and hydrogen. The GDNs are key stakeholders and contributors in facilitating this development. At this stage, it is not possible to anticipate what future costs will be necessary to allow the network to adapt to the use of zero carbon gases or fund activities by the GDNs to support decarbonisation.

2.33 Our draft determination for GD23 makes provision for one additional full-time equivalent in each GDN to work on the impacts of the Energy Strategy. We expect the GDNs to continue to work together on these issues, optimising the use of resources and collaborating on innovation projects and studies to maximise benefits for consumers. This would include developing a plan of activities a year ahead for additional work necessary to support decarbonisation of gas. This plan should take account of opportunities for external sources of funding for innovation and development work.

2.34 The GD23 draft determination does not make any allowance for future costs to support the decarbonisation other than the additional staff described above. We will consider the annual submissions the GDNs make in respect of additional costs relating to the implementation the Energy Strategy and the decarbonisation of gas and make provision for costs we determine to be necessary and efficient through the GD23 Uncertainty Mechanism.

Future metering solutions

2.35 Our draft determination for GD23 does not take account of two potential changes to gas metering.

- In our GD23 Approach Document we advised that we were minded to transfer responsibility for meter reading from supply companies to the GDNs and add greater clarity on roles and responsibilities. We indicated that we would make provision for future allowances for meter reading if the timeline for this work did not align with the Price Control process.

- The GDNs are currently working together to procure a new domestic pre-payment meter to a common specification including some enhanced functionality. Our draft determination is based on historical metering costs, and therefore does not take account of any future metering solution.

2.36 The GDNs acknowledged our proposals in respect of meter reading their business plan submissions. They expressed the view that further consideration, engagement and time would be required to allow proposals for the transfer of these obligations to be fully considered, timelines for implementation to be agreed and for support systems to be put into place. The need to align this work with future metering solutions being considered through the Gas Metering Solutions Group, was also noted.

2.37 On the basis that the consideration of the future provision of services was ongoing, none of the GDNs made any allowances for associated costs in GD23, and based their price control submissions on current Licence provisions and meter reading arrangements.

2.38 We will continue to progress this work stream separately to the GD23 determination. As part of this work we plan to engage with the GDNs in relation to the additional costs and the timetable for delivery, with a view to ensuring the provision of efficient and effective meter reading and inspections is achieved. Submissions from the GDNs with respect to future licence conditions related to this issue will then be sought outside the GD23 process. The GDNs are therefore not expected to respond on these proposals as part of the draft determination consultation process.

2.39 Changes required in the future as a consequence of the outcome of this work and any associated transfer of responsibility will be considered through the GD23 Economic Project Mechanism which covers work not included in the determination subsequently found to be either economic, or necessary. This might include as appropriate, approval of additional allowances to cover efficient additional costs of meter reading or a variation to the unit cost of meter installation embedded in the GD23 Uncertainty Mechanism.

FE distribution / supply separation

2.40 Condition 1.16 of FE's licence requires it to achieve full managerial and operational independence of the Authorised Business from any Associated Business once it has 100,000 consumers connected to its gas conveyance network. It is possible that this will occur towards the end of the GD23 period.

2.41 In its Business Plan Submission, the company stated that, at the time of writing, the nature of its business separation remains uncertain, and as such, presents challenges for both FE and the UR in assessing appropriate and efficient costs associated with undertaking this licence obligation. The company did not include an estimate of the costs of business separation within its business plan and proposed that cost estimates should be submitted at a later date and considered under the materiality threshold mechanism within the GD23 Uncertainty Mechanism. The company anticipated that this submission would be made in late 2026 / early 2027 (on current projections of connections), allowing time for any changes necessary to be implemented in advance of the 100,000 connections threshold being reached.

2.42 The GD23 draft determination does not make any allowance for future one-off or enduring costs of business separation. We will consider any submission the company makes in respect of business separation and make provision for costs we determine to be necessary and efficient through the GD23 Uncertainty Mechanism.

3. Price Control Submissions and Current Performance

GD23 Business Plan Submissions

Overview

3.1 The GDN's submitted on the 30 June 2021, the Business Plan Submission templates and commentary that they need to run their business in detail for the next 6 years, along with some forecasting beyond this period.

3.2 The documents provided were based on the requirements as published[6] by us on the 29 January 2022, in consultation with the GDN's in advance, which were similar to the GD17 requirements. A public facing version was also required to be published, for transparency and informing the wider stakeholder group:

a) FE - [GD23 Business Plan 2023 - 2028]

b) PNGL - [Our GD23 Business Plan (2023 - 2028)]

c) SGN - [SGN Natural Gas GD23 Business Plan]

3.3 This section provides an overview of the key focus areas as proposed by each GDN for GD23 as per its Business Plan submission. For a comparison, we have included the final GD17 FD numbers, (For FE this was the GD17 CMA remitted matters) that exclude any additions/adjustments that may have been added at a later stage, during the course of GD17.

3.4 We note that this section does not cover our views with respect to submissions. This detailed analysis and assessment forms part of the subsequent chapters of this GD23 draft determination document.

FE

Price Control period	Rate of Return Pre Tax	Total Capital Investment - 6 Years (Avg 2020 prices)	Total Operating Expenditure - 6 Years (Avg 2020 prices)	New Connection-All	Revenue for 6 Years (Avg 2020 prices)
GD23	3.16%	£75.8M	£60.7M	36,600	£163.5M
GD17 FD	4.32%	£102.4M	£46.0M	19,400	£133.1M

Table 3.1: FE - GD23 Business Plan Submission & GD17 Final Determination

[6] GD23 Regulatory Instructions and Guidance for Business Plan Submission | Utility Regulator (uregni.gov.uk)

PNGL

Price Control period	Rate of Return Pre Tax	Total Capital Investment - 6 Years (Sept 2020 prices)	Total Operating Expenditure - 6 Years (Sept 2020 prices)	New Connection-All	Revenue for 6 Years (Sept 2020 prices)
GD23	3.33%	£114.3M	£124.5M	40,893	£406.2M
GD17 FD	4.26%	£100.8M	£98.5M	49,886	£380.5M

Table 3.2: PNGL - GD23 Business Plan Submission & GD17 Final Determination

SGN

Price Control period	Rate of Return Post Tax	Total Capital Investment - 5/6 Years (Avg 2020 prices)	Total Operating Expenditure -5/6 Years (Avg 2020 prices)	New Connection-All	Revenue for 5/6 Years (Avg 2020 prices)
GD23 (6 Years)	3.44%	£36.3M	£28.0M	6,000	£45.6M
GD17 FD (5 Years)	5.30%	£47.9M	£9.9M	8,692	£22.2M

Table 3.3: SGN - GD23 Business Plan Submission & GD17 Final Determination

GD17 Cost and Performance Review

Overview

3.5 When assessing the GD23 business plans submitted by the GDNs and the appropriateness of the assumptions made and allowances requested, it is important to do this with consideration of the actual performance against the previous price control (GD17). This is an important part of the scrutiny process of the price control and review; whether the requests are reasonable and justified. This does not review the forecasts of 2021, and 2022, made by the GDN's.

3.6 Annex B provides further details of the actual performance, adjusted for the Uncertainty Mechanism were appropriate and any additions that have been included/approved to provide a better assessment of true performance against the price control targets set. Previously, we have published a similar report for the last price control, which is referred to as the "Cost and Performance Report for GD14"[7] that was published in July 2018, which covered the full duration of that control period, which was for 3 years.

[7] 2018-07-04 GD14 Cost and Performance report - Final.pdf (uregni.gov.uk)

3.7 Below, we provide a summary of how each GDN has performed in GD17.

3.8 Some of the cost allowances and targets included in the GD17 Final Determination (FD) are adjusted through an Uncertainty Mechanism to account for actual delivery (for example connections made and properties passed). The Uncertainty Mechanism also takes account of other adjustments to the GD17 price control such as additional network extensions which were approved after the final determination.

3.9 For both FE and PNGL, this will be a total of 4 years from 2017 to 2020 and for SGN as their price control started in 2018, this will be a total of 3 years from 2018 to 2020.

FE

3.10 Table 3.4 provides a comparison of FE's actual costs and outputs (Actual Totals) against the adjusted costs allowances and targets (GD17 FD Totals) for the first four years of GD17.

3.11 FE has out-performed the GD17 determination to date. The company laid more mains and passed more properties than planned, bringing forward work originally scheduled for GD23 into the GD17 period. This helped FE deliver more connections than anticipated. The company out-performed its capital allowances by 11% and opex allowances by 3% showing improved efficiency in delivery. The volume of gas consumed in the FE area was marginally less than forecast, due to large Industrial and Commercial (I&C) customers closing down in the early stages of GD17.

FE (2020 prices)	KM Mains Laid	Properties Passed	Connections	Capex (£m)	Opex (£m)	Therms of gas (M)
GD17 FD Updated Totals	474.2	47,579	18,811	75.9	29.2	249.5
Actual Totals	604.4	57,951	22,443	67.3	28.3	245.0

Table 3.4: Summary of totals for each key area from 2017-2020

PNGL

3.12 Table 3.5 provides a comparison of PNGL's actual costs and outputs (Actual Totals), against the adjusted cost allowances and targets (GD17 FD Totals) for the first four years of GD17. PNGL has out-performed the GD17 determination to date.

3.13 The company has laid more mains and passed more properties in GD17 than planned, and this has contributed to an out performance on connections. The company out-performed its capital allowances by 4% and opex allowances by 7% showing improved efficiency in delivery. The volumes of gas consumed in the PNGL area was slightly greater than expected, as a result of additional connections and higher than expected average consumption.

PNGL (2020 prices)	KM Mains Laid	Properties Passed	Connections	Capex (£m)	Opex (£m)	Therms of gas (M)
GD17 FD Updated Totals	250.6	23,190	33,292	70.8	66.6	617.5
Actual Totals	330.2	31,556	34,747	68.8	62.2	619.0

Table 3.5: Summary of totals for each key area from 2017-2020

SGN

3.14 Table 3.6 provides a comparison of SGN's actual costs and outputs (Actual Totals) against the costs allowances and targets (GD17 FE Totals) for the first three years of its GD17 price control (2018 to 2020).

3.15 This was SGN's first price control since the award of a licence in February 2015. The price control allowances, including rate of return were set largely by the competitive competition for the award of the licence. The company has not performed as expected in the first three years of GD17.

3.16 Capital expenditure was in line with expectations, with the company spending 1% more than the adjusted capital allowances. However, SGN underperformed in respect of operational expenditure in these 3 years, spending £2.1 million (68%) more than the Final Determination allowances. Connections, properties passed and volumes were all below the targets and projections of the GD17 determination. Delays to the completion of the Gas to the West High Pressure (HP) and Intermediate Pressure (IP) feeder mains under the High Pressure licence and lower than expected rates of connections of industrial and commercial properties contributed to this under performance. SGN was successful in connecting the larger energy consumers in its area, and gas consumption at the end of 2020 was 84% of GD17 projections.

3.17 Connections, properties passed and volumes were all below the allowances set at GD17, which was mainly due to delays to the commissioning of the High Pressure (HP) mains, which supplies the Intermediate Pressure (IP) feeder mains and the knock on effect of not having gas available.

SGN (2020 prices)	KM Mains Laid	Properties Passed	Connections	Capex (£m)	Opex (£m)	Therms of gas (M)
GD17 FD Updated Totals	166.7	15,690	4,940	22.1	3.1	55.2
Actual Totals	185.4	15,218	1,320	22.4	5.2	38.0

Table 3.6: Summary of totals for each key area from 2018-2020

4. Volume & Connections

Introduction

4.1 Our determinations of tariffs for GD23 are based on a reasonable estimate of connections and the volumes of gas consumed in each network area. In making our determination we take account of the future development of the network and smooth tariffs to the end of the recovery period for each GDN (2045, 2046 and 2057 for FE, PNGL and SGN respectively).

4.2 We have reviewed the estimates of connections and gas consumption which the GDNs provided in their Business Plan submissions. We have adjusted some of these estimates for this draft determination. The detail of our assessment is included as Annex C. In this Chapter we provide an overview of the main adjustments made and provide information on connections and consumption in the GD23 period for each GDN.

4.3 Our estimates of gas consumption are based on current consumptions per property for various types of properties. We have applied an energy efficiency adjustment period beyond 2028 to take account of the possibility that energy consumption is likely to reduce in the future as the energy efficiency of appliances and buildings improve.

Overview of the main adjustments to connections and consumption volumes.

4.4 We have amended the number of domestic owner-occupied (OO) connections to take account of transition from the use of a connection incentive in GD17 to a cost to serve as the means of funding the promotion of OO connections in GD23. We have assumed that connection rates will reduce to 60% of 2022 estimates for FE and PNGL by 2028 (60% of 2020 values in the case of SGN).

4.5 We have reduced the number of new build connections in GD23, taking a more cautious approach than the GDNs. We have accepted the numbers of NIHE connections proposed by the GDNs.

4.6 We have adjusted SGN connection numbers to reflect the exclusion of additional network extensions proposed by the GDN for GD23.

4.7 We have adjusted consumption per property to reflect consumption in the period 2017 to 2020.

4.8 We have generally accepted the numbers of I&C connections proposed by FE and PNGL which reflect current rates of connection in relatively mature networks. Both companies operate under a revenue cap price control which means that they are not exposed to volume risk and do not lose or gain revenue if volumes of gas consumed is higher or lower than anticipated.

4.9 We have not included additional volumes for major I&C connections identified by FE pending confirmation that these are likely to proceed. We will review this for the final determination.

4.10 We set SGN's I&C connections targets for GD17 from the Gas to the West licence application process. The company has under-performed against its targets for GD17. Based on this experience it has estimated connections for the end of GD23 which are lower than those originally expected for the end of GD17. Because the company is subject to price cap regulation, its revenue is dependent on the connections achieved and the volume of gas consumed. This provides a strong incentive for the company to secure new connections. As a result of under-performing against connection targets in GD17, the company has recovered less revenue than expected in the GD17 period.

4.11 For GD23, we consider it appropriate to determine I&C connection targets for SGN on the company's estimates for GD23. These estimates reflect both the company's experience in GD17 and its engagement with the industrial and commercial sector to date. In recognition of the challenges the company has experienced to date in securing I&C connections, and the balance of risk and reward associated with price cap regulation, we have reduced the number of I&C connections in the draft determination from the company's estimates by 25% for small and medium I&C and by 33% for large I&C. This provides an opportunity for the company to invest in promoting I&C connections to deliver and possibly exceed its own estimates of I&C connections and volumes in GD23.

Determined connections and volumes

FE – determined connections and volumes

4.12 Determined connections and volumes for FE are shown in Table 4.1.

Connections	2023	2024	2025	2026	2027	2028	Total
Domestic owner occupied	3,697	3,433	3,169	2,905	2,641	2,377	18,222
Domestic new build	1,250	1,250	1,250	1,250	1,250	1,250	7,500
Domestic NIHE	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Industrial and commercial	148	150	147	145	142	140	872
Total	6,095	5,833	5,566	5,300	5,033	4,767	32,594

Volumes('000 therms)	2023	2024	2025	2026	2027	2028	Total
Domestic owner occupied	12,424	13,914	15,293	16,561	17,720	18,768	94,680
Domestic new build	4,914	5,307	5,700	6,093	6,487	6,880	35,381
Domestic NIHE	6,577	6,890	7,204	7,518	7,831	8,145	44,164
Industrial and commercial							
Very small I&C	1,844	1,981	2,118	2,252	2,384	2,513	13,092
Small I&C	8,303	8,303	8,303	8,303	8,303	8,303	49,819
Medium I&C	6,574	6,574	6,574	6,574	6,574	6,574	39,443
Large and Interruptible	33,345	33,701	34,170	34,641	34,722	34,722	205,301
Total	73,981	76,670	79,362	81,942	84,020	85,905	481,880

Table 4.1: GD23 determined connections and volumes - FE

PNGL – determined connections and volumes

4.13 Determined connections and volumes for PNGL are shown in Table 4.2.

Connections	2023	2024	2025	2026	2027	2028	Total
Domestic owner occupied	4,387	4,073	3,760	3,447	3,133	2,820	21,620
Domestic new build	2,000	2,000	2,000	2,000	2,000	2,000	12,000
Domestic NIHE	350	350	350	300	300	300	1,950
Industrial and commercial	148	148	148	123	123	123	813
Total	6,887	6,573	6,260	5,872	5,558	5,245	36,395

Volumes(‘000 therms)	2023	2024	2025	2026	2027	2028	Total
Domestic owner occupied	58,052	59,956	61,718	63,340	64,820	66,160	374,047
Domestic new build	22,019	22,793	23,567	24,341	25,115	25,889	143,723
Domestic NIHE	17,003	17,114	17,224	17,327	17,422	17,517	103,606
Industrial and commercial							0
Very Small I&C	5,951	6,028	6,105	6,175	6,236	6,298	36,793
Small I&C	21,957	22,094	22,231	22,368	22,505	22,642	133,796
CHP	269	269	269	269	269	269	1,616
Firm I&C	11,388	11,458	11,527	11,597	11,666	11,736	69,371
CHP	4,920	4,920	4,920	4,920	4,920	4,920	29,517
Firm I & C	14,126	14,126	14,126	14,126	14,126	14,126	84,759
Interruptible I&C	15,317	15,317	15,317	15,317	15,317	15,317	91,904
	171,003	174,075	177,005	179,780	182,397	184,873	1,069,132

Table 4.2: GD23 determined connections and volumes - PNGL

SGN – determined connections and volumes

4.14 Determined connections and volumes for SGN are shown in Table 4.3.

Connections	2023	2024	2025	2026	2027	2028	Total
Domestic owner occupied	735	659	583	508	432	356	3,273
Domestic new build	200	203	182	108	81	43	817
Domestic NIHE	64	87	22	69	51	0	293
Industrial and commercial	43	59	80	134	121	112	549
Total	1,044	1,009	868	820	687	511	4,939

Volumes(‘000 therms)	2023	2024	2025	2026	2027	2028	Total
Domestic owner occupied	1,039	1,304	1,540	1,748	1,926	2,076	9,634
Domestic new build	94	159	220	267	297	317	1,355
Domestic NIHE	243	266	283	297	316	324	1,730
Industrial and commercial							
Small I&C	50	78	117	176	246	310	978
Medium I&C	138	238	375	585	835	1,068	3,238
Large I&C	912	951	989	1,028	1,105	1,105	6,091
Contract I&C	28,006	28,137	28,279	28,279	28,279	28,279	169,256

Table 4.3: GD23 determined connections and volumes - SGN

Energy efficiency adjustment

4.15 In GD17 we estimated future consumption volumes based on reasonable estimates of current consumptions per property or specific information on some larger users where this was available.

4.16 We recognised the possibility that energy consumption was likely to reduce in the future as the energy efficiency of appliances and buildings improved. In GD17 we applied an energy efficiency adjustment to future gas volumes of 20% beginning in the first year of the next price control (GD23).

4.17 The GDNs applied similar energy efficiency adjustments to estimates of future gas consumptions in their Business Plans:

a) FE applied an energy efficiency adjustment of 25% starting in 2023 profiled to the end of the revenue recovery period in 2045;

b) PNGL applied an energy efficiency adjustment of 20% starting in 2023 profiled to the end of the revenue recovery period in 2046; and

c) SGN applied an energy efficiency adjustment of 30% starting in 2029 profiled to the end of the revenue recovery period in 2057.

4.18 We have based consumptions in GD23 and beyond on current average consumption for the various property types. We do not consider it appropriate to apply an energy efficiency adjustment to estimated consumptions in the GD23 period pending the introduction of wider support for energy efficiency measures. In this period, conversion from oil to gas will make a contribution to overall energy efficiency, but this is already factored into current average gas consumptions. We have concluded that it is appropriate to assume that the impact of future energy efficiency will be greater than allowed in GD17. We have assumed that this will reach 25% for FE and PNGL by the end of their revenue recovery periods in 2045 and 2046 respectively. We believe it is reasonable to assume that energy efficiency measures will continue beyond this and have assumed that energy efficiency in the SGN area will reach 30% by the end of the company's energy recovery period in 2057 (28% by 2045). The energy efficiency adjustments applied in the draft determination are:

a) for FE - an energy efficiency adjustment of 25% was applied starting in 2029 profiled to the end of the revenue recovery period in 2045;

b) for PNGL - an energy efficiency adjustment of 25% was applied starting in 2029 profiled to the end of the revenue recovery period in 2046; and,

c) for SGN - an energy efficiency adjustment of 30% was applied starting in 2030 profiled to the end of the revenue recovery period in 2057.

5. Operational Expenditure

Overview

5.1 This chapter of the GD23 draft determination summarises the operational expenditure (opex) proposed by the three Gas Distribution Network operators (GDNs) in their business plans and sets out our initial conclusions on reasonable levels of operational expenditure for GD23. It provides a high level summary of a more detailed assessment which is set out in Annex D to this draft determination.

5.2 Operational expenditure covers the costs the day-to-day activities carried out by the GDNs to operate and maintain their assets, manage their businesses and interact with consumers. To provide structure to our assessment, we collect and analyse opex under 23 cost categories which form the basis for the presentation of costs in this chapter and the structure of the detailed assessments in Annex D. Under each of these cost categories we consider a further breakdown by activities such as staff, materials, professional and legal fees, etc. to inform our decisions.

5.3 Table 5.1 below provides a comparison of the total operating expenditure requested by each GDN for GD23, and the allowances included in the draft determination following our assessment of the company submissions.

GDN (£m 2020 prices)	GD23 Opex request	GD23 Opex Draft Determination Pre-Efficiency	Opex adjustment	Opex adjustment %
FE	60.6	48.5	(12.1)	20%
PNGL	124.3	101.5	(22.9)	18%
SGN	28.0	16.2	(11.8)	42%

Note 1. Figures may not sum due to rounding.

Table 5.1: Summary of totals for each key area from 2017-2020

5.4 In the remainder of this chapter we provided a breakdown of the opex requested by each GDN and the allowances included in the draft determination by cost category. This analysis is presented in the following tables:

- Table 5.2– FE
- Table 5.3 - PNGL
- Table 5.4 - SGN

5.5 A brief explanation is provided after each table for the changes made for the five cost categories with the largest adjustments. The detailed explanation of the adjustments is included in Annex D.

FE Opex Summary

FE Categories (£m)	GD23 Submission	Draft Determination	Difference
Asset Management	0.7	0.5	0.2
Operations Management	1.9	1.6	0.3
Emergency Call Centre	1.9	1.4	0.5
Customer Management	2.2	1.8	0.4
System Control	1.8	1.5	0.4
Emergency	6.5	5.5	1.0
Metering	6.8	6.2	0.6
PRE-Repairs	0.9	0.7	0.2
Maintenance	5.1	4.3	0.8
Other Direct Activities	0.0	0.0	0.0
IT & Telecoms	4.4	3.4	0.9
Property Management	7.2	6.5	0.7
HR & Non-operational Training	0.8	0.7	0.1
Audit, Finance & Regulation	5.4	4.4	1.0
Insurance	2.0	1.5	0.5
Procurement	0.1	0.1	0.0
CEO & Group Management	1.3	1.3	0.0
Stores & Logistics	0.1	0.0	0.1
AMD (OO)	9.0	4.8	4.1
AMD (Non-OO)	1.4	1.4	-0.1
Trainees & Apprentices	0.5	0.3	0.2
Non-Controllable Opex	0.3	0.3	0.0
Supplier of Last Resort	0.2	0.2	0.0
Total (Pre Efficiency)	60.6	48.5	12.1

Note 1. Figures may not sum due to rounding.

Table 5.2: FE Summary of Opex for GD23 DD

5.6 A brief explanation is provided below for the changes proposed to FE's opex for the five cost categories with the largest adjustments:

a) ***Advertising & Market Development (OO)*** – For GD23 we are proposing to replace the Connection Incentive with a 'Cost to Serve' allowance. The concept of Cost to serve is to cover the GDNs reasonable costs of responding to contacts and supporting consumers through the connection process, including the cost of energy advisers. To enable preparation by the GDN's of this change, we are proposing a glide path down from the existing connection incentive allowance levels in 2022, by moving fully to what we consider a reasonable cost to serve allowance by 2028. Our proposals also include a fixed allowance to support understanding and awareness of the gas sector. These cost to serve allowances are significantly lower than the connection incentive revenues estimated by the GDNs which included greater expenditure on promotional activities and financial incentives.

b) ***Emergency Jobs*** – Three factors contribute to the reduction in estimated costs of emergency jobs. The volume of emergency jobs allowed for in the draft determination is less than that submitted by FE, because we have forecast lower connection numbers for the GD23 period. We have projected costs on the basis of the historic proportion of customer calls that become emergency jobs. FE had proposed an increasing proportion in GD23. The 5% cost pressure uplift that FE had applied to work being undertaken by its period contractor from 2023 onwards was not allowed, consistent with the approach we have adopted for capital investment.

c) ***Audit Finance and Regulation*** – FE has requested professional and legal fees which contain uplifts over and above those requested by other GDNs for consultancy advice associated with price control reviews. Consequently, we have not allowed this scale of uplift for the GD23 draft determination. We have however allowed an allowance for price control costs at an efficient level for the 2027 and 2028 years.

d) ***IT and Telecoms*** – FE has requested substantial increases in this area and we note that FE costs in this area are higher than for a GDN which has more customers. We observe that FE received in GD17 a substantial allowance in 2017 (Capex), to replace its IUS/IT Transformation, but note that this development has still not occurred and is still pending in 2022, in which a separate request is also made for "New IUS Distribution Replacement Licensing", which is based on estimates from its connected supply business. We have rolled forward the majority of 2020 actuals costs for GD23. We plan to review this area further, for the Final Determination.

e) ***Maintenance*** – The main cost challenges applied to FE's maintenance allowance can be summarised as follows. Governor reactive maintenance projections were reduced to reflect the lower estimate of GD23 installations used in our Capex assessment, and average unit rates derived from 2017-2020 data were applied. The job duration for strategic valve inspection was reduced by 25%. This is based on a reasoned assumption that one and a half days should be sufficient for completing inspections on average, supported by the fact this reduction delivers an overall unit cost which is more comparable to PNGL's. The number of valve covers needing replaced during GD23 was projected from a lower base (derived from historic data) than FE and the cumulative length of mains was used to estimate annual increases rather than the sizeable percentage uplifts applied by FE. We based the telemetry allowance for Daily Metered Sites on the stable customer numbers submitted in FE's BPT tables rather than the much higher number used by FE to estimate its costs. We also used the average unit cost for 2017 to 2020 to determine our allowance rather than the higher 2020 unit cost used by FE. The 5% cost pressure uplift that FE had applied to work being undertaken by its period contractor from 2023 onwards was not allowed, consistent with the approach we have adopted for capital investment.

PNGL Opex Summary

PNGL Categories (£m)	GD23 Submission	Draft Determination	Difference
Asset Management	1.7	1.6	0.1
Operations Management	3.3	3.0	0.4
Emergency Call Centre	2.8	2.8	0.0
Customer Management	5.2	4.7	0.5
System Control	0.9	0.7	0.1
Emergency	9.0	8.2	0.9
Metering	14.4	12.9	1.5
PRE-Repairs	5.8	5.2	0.6
Maintenance	15.5	13.5	2.0
Other Direct Activities	0.0	0.0	0.0
IT & Telecoms	3.4	3.3	0.0
Property Management	24.0	16.2	7.8
HR & Non-operational Training	1.6	1.5	0.2
Audit, Finance & Regulation	6.6	5.7	1.0
Insurance	6.4	4.1	2.3
Procurement	0.5	0.5	0.0
CEO & Group Management	10.7	8.3	2.4
Stores & Logistics	0.2	0.2	0.0
AMD (OO)	7.8	4.8	3.0
AMD (Non-OO)	3.3	3.1	0.2
Trainees & Apprentices	0.0	0.0	0.0
Non-Controllable Opex	1.3	0.9	0.3
Supplier of Last Resort		0.3	-0.3
Total (Pre Efficiency)	124.3	101.5	22.9

Note 1. Figures may not sum due to rounding.

Table 5.3: PNGL Summary of Opex for GD23 DD

5.7 A brief explanation is provided below for the changes proposed to PNGL's opex for the five cost categories with the largest adjustments:

a) ***Property Management (Mainly Network Rates)*** – We have used a formula linked to revenue to set the network rates allowance for PNGL. This is consistent with the approach we use for FE and SGN. PNGL has acknowledged that the figures contained within their GD23 business plan submission for network rates contained an error. We accepted the PNGL resubmission on network rates, with the exception that we profiled a 'flat rate in the pound' for all years in GD23 as this has a consistent approach of how we have set network rates for both FE and SGN. While we have included a reasonable estimate of network rates for GD23, these costs will eventually be updated through the GD23 uncertainty mechanism to reflect actual costs, subject to PNGL demonstrating that it has taken appropriate actions to minimise valuations.

b) ***Advertising & Market Development (OO)*** – For GD23, we are proposing to replace the Connection Incentive with a 'Cost to Serve' allowance. The concept of Cost to serve is to cover the GDNs reasonable costs of responding to contacts and supporting consumers through the connection process, including the cost of energy advisers. To enable preparation by the GDN's of this change, we are proposing a glide path down from the existing connection incentive allowance levels in 2022 by moving fully to what we consider a reasonable cost to serve allowance by 2028. Our proposals also include a fixed allowance to support and aid the understanding and awareness of the gas sector. These cost to serve allowances are significantly lower than the connection incentive revenues estimated by the GDNs which included greater expenditure on promotional activities and financial incentives.

c) ***CEO and Group Management*** – These costs are driven by the senior management team, as well as professional and legal fees together with other associated areas. Consistent with GD17, we have used benchmarked rates for senior positions and rolled forward 2020 actual costs for all other areas.

d) ***Insurance*** – PNGL projected significant increases over the GD23 period when compared to 2020 actual costs. For the draft determination we used the 2020 actuals, apart from for car insurance (Large company car fleet) where benchmark data was used. We note that historically PNGL insurance costs have experienced both annual increases and decreases and there has not been any period of sustained increases. However, we may undertake further analysis of PNGL insurance costs in advance of the GD23 final determination.

e) ***Maintenance*** - The main cost challenges applied to PNGL's maintenance allowance can be summarised as follows. We removed costs associated with a proposal to install pressure monitoring at governor bins during the GD23 period. Costs for the installation of additional pressure monitoring sites have been allowed, which along with district stations, will provide better pressure monitoring coverage of the entire network. We are not convinced of the benefit of providing further pressure monitoring within the network at governor bin level at significant additional cost to consumers. Funding for work to inspect protective steel plates above strategic mains has also been removed as we do not consider that this has been investigated sufficiently enough to date to establish the risk, need and benefit. We would expect a well evidenced business case based on a representative sample of investigations to be provided to justify the level of activity and cost requested. Finally, in line with the approach established and adopted in previous price controls, we have removed the profit element from maintenance work due to be undertaken by PNGL's related company, Phoenix Energy Services (PES), during the GD23 period.

SGN Opex Summary

SGN Categories (£m)	GD23 Submission	Draft Determination	Difference
Asset Management	0.3	0.2	0.1
Operations Management	1.6	1.3	0.3
Emergency Call Centre	0.7	0.6	0.1
Customer Management	0.4	0.3	0.1
System Control	0.3	0.2	0.1
Emergency	1.1	1.1	0.0
Metering	0.8	0.8	0.0
PRE-Repairs	0.1	0.1	0.0
Maintenance	3.0	2.9	0.0
Other Direct Activities	0.0	0.0	0.0
IT & Telecoms	0.8	0.2	0.6
Property Management	2.4	1.9	0.4
HR & Non-operational Training	0.1	0.1	0.0
Audit, Finance & Regulation	2.5	1.8	0.7
Insurance	0.0	0.0	0.0
Procurement	0.0	0.0	0.0
CEO & Group Management	2.8	0.6	2.1
Stores & Logistics	0.0	0.0	0.0
AMD (OO)	7.8	2.1	5.7
AMD (Non-OO)	3.0	1.4	1.6
Trainees & Apprentices	0.0	0.0	0.0
Non-Controllable Opex	0.3	0.3	0.0
Supplier of Last Resort	0.0	0.1	-0.1
Total (Pre Efficiency)	28.0	16.2	11.8

Note 1. Figures may not sum due to rounding.

Table 5.4: SGN summary of Opex for GD23 DD

5.8 A brief explanation is provided below for the changes proposed to SGN's opex for the five cost categories with the largest adjustments:

a) ***Advertising & Market Development (OO)*** – For GD23 we are proposing to replace the Connection Incentive with a 'Cost to Serve' allowance. The concept of Cost to serve is to cover the GDNs reasonable costs of responding to contacts and supporting consumers through the connection process, including the cost of energy advisers. To enable preparation by the GDN's of this change, we are proposing a glide path down from the existing connection incentive allowance levels in 2022 by moving fully to what we consider a reasonable cost to serve allowance by 2028. Our proposals also include a fixed allowance to support and aid the understanding and awareness of the gas sector. These cost to serve allowances are significantly lower than the connection incentive revenues estimated by the GDNs, which included greater expenditure on promotional activities and financial incentives.

b) **CEO and Group Management (mainly Managed Service Agreement) -** This service is provided by the SGN Group, which provides Head Office support for various activities. The draft determination use SGN's estimates of Managed Service Agreement costs included by the company in its application for the Gas to the West distribution licence. The licence application pack specifically indicated that beyond the first price control we would "not be minded to accept 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."

c) ***Advertising & Market Development (non-OO)*** – SGN requested allowances for incentive payments to small and medium I&C consumers to encourage connections. This was not requested at the time of the G2W Application process and we note that the G2W Application Pack stated 'only if the successful applicant has included such incentives in their application will these be funded by price control allowances'. Consequently, we have not provided allowances for incentive payments. We also note no payments have been made by SGN presently in this area. We have however provided for staff costs for this area.

d) ***Audit Finance and Regulation*** - SGN has requested professional and legal fees which contain uplifts over and above those requested by other GDNs necessary for consultancy advice associated with price control reviews. Consequently, we have not allowed this scale of uplift for the GD23 draft determination. We have however allowed an allowance for price control costs at an efficient level for the 2027 and 2028 years.

e) ***IT and Telecoms*** - SGN requested substantial increases to upgrade/introduce IT systems in GD23. As in GD17 we have considered the SGN request against the criteria which were set out in the G2W Application Information Pack. Our view is that SGN was best placed to estimate these costs at the time it applied for the distribution licence and there has been no material change in circumstance or scale of operation since then. For the draft determination we have included core IT and Telecoms allowances for the GD23 period, which are consistent with the SGN G2W bid.

6. Capital Investment

Overview

6.1 This chapter of the GD23 draft determination summarises the capital expenditure (capex) proposed by the three GDNs in their business plans, and sets out our initial conclusions on reasonable levels of capital expenditure for GD23. It provides a high level summary of a more detailed assessment which is set out in Annex F to this draft determination.

6.2 Capital expenditure covers the investment used by the GDNs to build the networks of gas mains and other assets used to distribute natural gas to domestic and industrial & commercial properties, install services and meters to those properties and replace those assets over time. To provide structure to our assessment, we collect and analyse capex under 10 investment categories which form the basis for the presentation of costs in this chapter and the structure of the detailed assessments in Annex F.

6.3 The overall investment proposed by the GDNs for GD23 is presented in Table 6.1 below. In total, the GDNs proposed investment of £226.5m before the application of a frontier shift.

6.4 Table 6.2 below shows our draft determination for each GDN using the same structure and investment categories presented in Table 6.1. The total investment proposed for GD23 is £155.2m before the application of a frontier shift and deduction of customer contributions. Once these adjustments are made, the net capital investment proposed for GD23 is £149.2m.

Investment category	Capital investment for GD23 (£m)			
	FE (Av 2020)	PNGL (Sept 2020)	SGN (Av 2020)	Total (Various)
7 bar mains	0.000	13.731	0.000	13.731
LP, 2 bar and 4 bar mains	16.001	12.631	19.869	48.500
Individually funded	0.000	5.855	0.000	5.855
Pressure reduction	1.095	2.941	2.806	6.843
Domestic services	37.994	38.154	7.544	83.691
Domestic meters	8.627	26.209	0.990	35.827
I&C services	2.321	1.721	2.430	6.473
I&C meters	2.688	4.407	0.893	7.988
Other capex	1.466	2.077	0.300	3.842
TMA	5.632	6.624	1.492	13.747
Totals	75.823	114.349	36.324	226.497

Note 1. Figures may not sum due to rounding.

Table 6.1: Capital investment proposed by the GDNs for GD23

Investment category (£m)	Capital investment for GD23 (£m)			
	FE (Av 2020)	PNGL (Sept 2020)	SGN (Av 2020)	Total (Various)
7 bar mains	0.000	6.392	0.000	6.392
LP, 2 bar and 4 bar mains	6.396	5.319	12.280	23.995
Individually funded	0.000	5.853	0.000	5.853
Pressure reduction	0.649	1.701	0.000	2.350
Domestic services	26.598	28.142	3.784	58.525
Domestic meters	8.166	24.117	0.855	33.137
I&C services	1.895	1.708	1.256	4.859
I&C meters	2.068	3.803	0.991	6.861
Other capex	1.207	1.766	0.300	3.273
TMA	3.489	4.741	1.732	9.962
Totals	50.467	83.543	21.199	155.208
Frontier shift	-0.872	-1.484	-0.383	-2.739
Customer contributions	-0.950	-2.285	-0.005	-3.240
Totals net of FS and contributions	48.645	79.773	20.811	149.229

Note 1. Figures may not sum due to rounding.

Table 6.2: Capital investment included in the GD23 draft determination

6.5 In assessing the Business Plan submissions:

a) We considered some additional information from the GDNs which increased the total proposed investment from £226m to £230m.

b) Where we disagreed with the need for the investment we excluded these items from the determination. The majority of this relates to the exclusion of resilience mains; network extensions to towns that are not currently served by natural gas networks; and, reductions to the number of services and meters we expect GDNs to install in the GD23 price control period (c£48m). Some of the work excluded in the draft determination might eventually be carried out in GD23 through the uncertainty mechanism as the need is confirmed.

c) We challenged the increase in costs of delivery proposed by the GDNs, relying on the historical unit costs for delivery in 2017 to 2020 to determined investment in GD23 (c£27m).

6.6 The impact of these steps and the challenge to the overall investment plans for GD23 is shown on Figure 6.1.

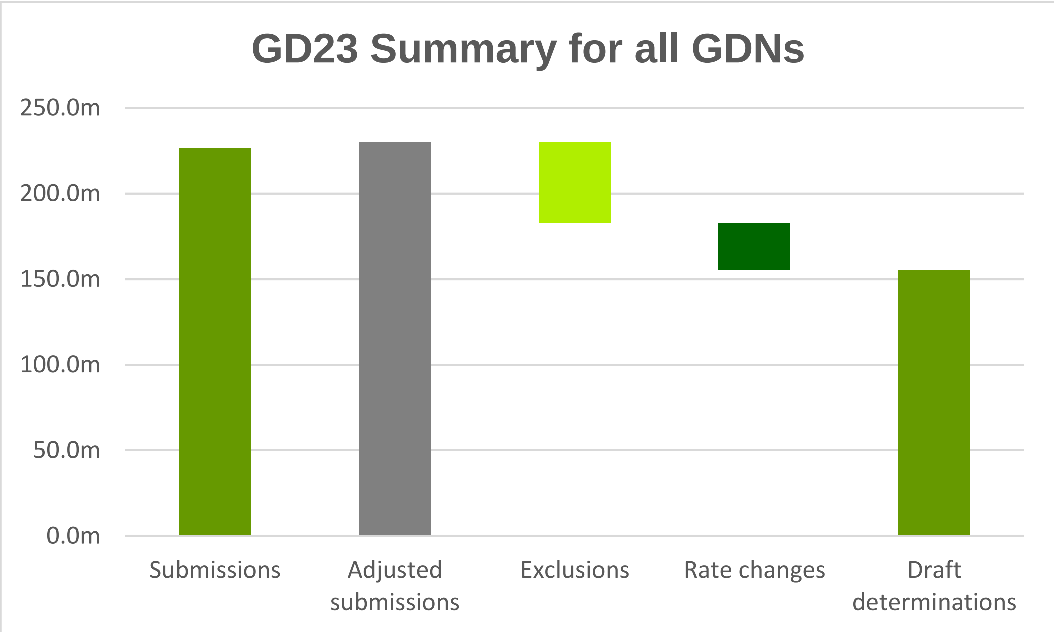


Figure 6.1: GD23 draft determination summary for all GDNs

6.7 The detail of our assessment is included in Annex F. The following section provides a summary of our proposals for the capital investment for each GDN. Information on the general principles underpinning the material exclusions and unit rate reductions are then set out starting at Paragraph 6.9 below.

Capex summary for the GDNs

6.8 A summary of the business plan submission and our draft determination of capital investment for each GDN is shown in the following tables.

Investment category (£m) - FE	Sub	Adj sub	Excl	Rates change	Rates change	Draft determ
7 Bar Mains	0.0	0.0	0.0	0.0	0%	0.0
LP, 2Bar or 4Bar Mains	16.0	15.8	-8.4	-1.0	-13%	6.4
Individually Funded	0.0	1.2	-1.2	0.0	0%	0.0
Pressure Reduction	1.1	1.4	-0.7	0.0	2%	0.6
Domestic Services	38.0	38.0	-3.8	-7.6	-22%	26.6
Domestic Meters	8.6	8.6	-1.1	0.6	8%	8.2
I&C Services	2.3	2.3	0.0	-0.4	-18%	1.9
I&C Meters	2.7	3.1	-0.7	-0.3	-14%	2.1
Other Capex	1.5	1.5	0.0	-0.3	-18%	1.2
TMA	5.6	5.6	-2.1	0.0	0%	3.5
Total	75.8	77.4	-18.0	-9.0	-15%	50.5
Total (post FS, net of contributions)						48.6

Note 1. Figures may not sum due to rounding. Gross figures, Average 2020 prices

Table 6.3: FE capital investment draft determination summary

Investment category (£m) - PNGL	Sub	Adj sub	Excl	Rates change	Rates change	Draft determ
7 Bar Mains	13.7	13.7	-2.7	-4.6	-42%	6.4
LP, 2Bar or 4Bar Mains	12.6	12.6	-5.7	-1.6	-23%	5.3
Individually Funded	5.9	5.9	0.0	0.0	0%	5.9
Pressure Reduction	2.9	2.9	-1.2	0.0	0%	1.7
Domestic Services	38.2	38.2	-3.7	-6.3	-18%	28.1
Domestic Meters	26.2	26.2	-1.3	-0.8	-3%	24.1
I&C Services	1.7	1.7	0.0	0.0	-1%	1.7
I&C Meters	4.4	4.5	-0.6	-0.2	-4%	3.8
Other Capex	2.1	2.1	0.0	-0.3	-15%	1.8
TMA	6.6	6.6	-1.9	0.0	0%	4.7
Total	114.3	114.5	-17.1	-13.8	-14%	83.5
Total (post FS, net of contributions)						79.8

Note 1. Figures may not sum due to rounding. Gross figures, September 2020 prices

Table 6.4: PNGL capital investment draft determination summary

Investment category (£m) - SGN	Sub	Adj sub	Excl	Rates change	Rates change	Draft determ
7 Bar Mains	0.0	0.0	0.0	0.0	0%	0.0
LP, 2Bar or 4Bar Mains	19.9	20.3	-6.0	-2.0	-14%	12.3
Individually Funded	0.0	0.0	0.0	0.0	0%	0.0
Pressure Reduction	2.8	2.8	-2.8	0.0	0%	0.0
Domestic Services	7.5	7.5	-1.3	-2.5	-40%	3.8
Domestic Meters	1.0	1.0	-0.2	0.0	5%	0.9
I&C Services	2.4	2.4	-0.6	-0.5	-30%	1.3
I&C Meters	0.9	0.9	-0.2	0.3	50%	1.0
Other Capex	0.3	0.3	0.0	0.0	0%	0.3
TMA	1.5	3.0	-1.3	0.0	0%	1.7
Total	36.3	38.2	-12.4	-4.7	-18%	21.2
Total (post FS, net of contributions)						20.8

Note 1. Figures may not sum due to rounding. Gross figures, Average 2020 prices

Table 6.5: SGN capital investment draft determination summary

General capex principles and themes

6.9 The following sections outline some of the general themes underpinning the material reductions we have made to capital investment in our draft determination.

Exclusions

6.10 The ‘resilience’ schemes proposed by FE and PNGL have been removed. These schemes provided additional interconnection in already developed networks to reduce the risk of a loss of supply due to a pipe burst. Our position is that the companies should have provided resilience in their original economic layout of the network, and that they should complete any further work necessary within the price control mechanisms.

6.11 Most of FE’s reinforcement schemes have been removed. Most of these schemes were planned for the start of GD23, but the company has confirmed they are generally not required until the end of GD23. Given the uncertainty over the need for these schemes, we have moved the investment to 2029 (i.e. beyond GD23). However, the work could be accelerated under the economic project mechanism if the need is confirmed.

6.12 SGN asked for funding to infill several towns and villages outside of their original development plan. SGN’s economic appraisal of these towns demonstrated that they did not meet our economic test as a group (i.e. that the investment would not increase tariffs) and so we have removed this investment from the draft determination. We are open to reconsidering this infill in the future if circumstances change.

6.13 Pressure reduction for SGN has been removed in its entirety. In its submission SGN has asked for additional governors for its eight core towns. However, in the first 4 years of GD17 it installed significantly fewer numbers of governors than it was funded for. Our position on the core towns is that the timing of governor installations is SGN's choice, and the money to fund this work exists in the current price control. If it chooses not to install them in GD17, then consumers should not have to pay for the installation a second time. The capex roller mechanism will still allow SGN to install these governors in GD23 even if it chooses not install them in the GD17 period.

6.14 We have reduced the number of connections and meters for all GDN's. This will be corrected for actuals through the uncertainty mechanism.

Cost Rate Adjustments

6.15 We have generally determined unit rates based on actual investment in 2017 to 2020.

6.16 PNGL 7 bar reinforcement has been allowed, but with a material reduction in unit rates. Our rates are based on the outturn of reinforcement projects completed in GD17 and the East Down extension.

6.17 The GDNs asked for large increases in service costs suggesting that the cost of services had been cross subsidised by mains construction work in the past. There is no external evidence for this, and we are not clear why it should have happened, so we have discounted the argument for the increase.

6.18 The capitalised cost percentages for all GDNs had increased as a consequence of them maintaining the level of capitalised costs against a declining volume of work. Our draft determination applies a constant percentage of capitalised costs, consistent with historic levels of capitalisation.

6.19 The GDNs asked for a 4-6% uplift for current cost pressures related to Covid-19 recovery, Brexit and energy prices. Our draft determination assumes that these impacts are either short term and/or reflected in general inflation. As a result, we have maintained our approach to Real Price Effects (RPEs) which reflect the long term differential between our general measure of inflation and the long term inflation of the costs of capital works undertaken by the GDNs.

6.20 The Traffic Management Act (TMA) reduction is a function of the other reductions in the determination. We include an allowance for future implementation of the TMA, estimated as 10% of the cost of mains and services. Unless the TMA is implemented, the costs will be deducted from the opening TRV for GD29.

7. Energy Strategy, Innovation & Incentives

Overview

7.1 The sections below are the summary of our proposals for this area. The full details of the representations made by the GDN's in their Business Plan submissions, any assessments made or discussion by us for any emerging topics are contained within the following Annexes:

a) Annex G - Energy Strategy.

b) Annex H - Incentives and Innovation.

7.2 We note that Innovations and the Energy Strategy, are closely linked, but we make a distinction between the projects which relate to the:

a) Energy Strategy (i.e. focus on a reduction in carbon emissions and a phasing out of fossil fuels).

b) Innovation (i.e. Projects not related to the energy Strategy that require investment in the business, over and above normal activities).

Energy strategy

7.3 The Energy Strategy, which was published in December 2021[8] by the DfE, set out key elements of the energy strategy, with focus being made on a reduction in carbon emissions and a phasing out of fossil fuels.

7.4 This has provided a direction of travel that is closely linked with Innovation in its aim to reduce carbon emissions, although further work will be required to fulfil all its objectives.

7.5 UR is aware that our statutory duties may be amended as a result of the energy strategy and this will be taken into account for any of the decarbonisation/energy strategy submissions we receive from GDNs.

7.6 As the practicalities of the energy strategy become clearer, the gas industry must work through the implications and find practical solutions to achieve net zero carbon while considering the required resources necessary to achieve these aims.

7.7 The consequences of the Energy Strategy and the costs associated with achieving the aims will only become clearer as the elements within the energy strategy are further progressed. As a regulator we have a duty to

[8] Energy Strategy - Path to Net Zero Energy | Department for the Economy (economy-ni.gov.uk)

protect both current and future consumers, in line with this we have proposed a ring fenced uncertainty mechanism to help achieve the ambitions within the energy strategy. This means that an allowance will be provided as need is identified.

7.8 This ring-fenced uncertainty mechanism will capture costs from the energy strategy which will not be subject to the materiality threshold. UR still reserves the right to turn down certain submissions of low materiality if the resources required by UR to analyse the submissions are unreasonably extensive for the value of the submission.

7.9 Any project that requires funding from this ring fenced uncertainty mechanism, will require a business case submission to us. These projects will be analysed, must have prior approval from us in most cases and meet the core principles below:

a) Demonstrate how the project will contribute to the achievement of net zero carbon.

b) Illustrate how the proposal incorporates a reduction in fossil fuel usage.

c) Demonstrate how the project aligns with the core aims detailed in the energy strategy.

7.10 The energy strategy is a live document that will be regularly updated and as such we have approved an allowance for one decarbonisation analyst for each of the separate GDNs to ensure each of the separate companies are aware of the latest changes and have an employee to help support this. We are aware of the joint working the Gas Network companies have undertaken to date and welcome this approach.

7.11 UR actively encourages joint submissions from all 3 GDNs, aiming to utilise the synergies between all 3 companies, ensuring the best possible outcome for the consumers of NI. This is in line with the effective joint working the GDNs have established in the relation to the Energy Strategy work to date.

Innovation

7.12 It is our view that successful innovation is best driven by the GDNs operating under an appropriate price control framework. Such a framework should allow them to make decisions on what innovation investments to make, taking into account the impact these investments will have on reducing costs and improving outputs. The GDNs will then be rewarded through the price control framework for resulting outperformance to the end of the GD23 price control period, and consumers will benefit in the long run from improved services and lower prices.

7.13 We consider that this approach should remain the principal mechanism for delivering innovation. It provides maximum flexibility for the GDNs to make innovation decisions, aligns the benefits for consumers and GDNs and avoids the risk of a regulator being asked to make choices from a list of potential innovation projects, which may or may not work.

7.14 The assessment of these innovation projects may include a pain gain mechanism to ensure that there is sufficient alignment between the objectives of the innovation project and how the costs associated will impact the consumers of NI.

7.15 It is important to note that the "Innovation Funding Principles" are necessary for any innovation submission to ensure proper consideration is given to the risks and rewards around innovation projects. We however encourage all submissions and if there are valid explanations around any of the principles these will be taken into consideration.

Incentives

7.16 Incentives are an important part of the regulatory framework to ensure that the GDN's continue to develop the network, in the most efficient manner possible and to that end, we summarise the main incentives for GD23 as follows:

a) The determination of opex allowances and capex allowances, subject to the uncertainty mechanism and capex sharing mechanisms provides a strong incentive for GDNs to out-perform in GD23 and reveal lower more efficient costs for GD29.

b) The properties passed incentive will remain to encourage extensions within the already developed areas in the network.

c) The cost of debt mechanism will remain and will not change from the GD17 incentive set.

d) SGN will also remain on a price cap for GD23 as it continues to offer strong incentives to outperform on gas volumes set, when network is still in a developing stage.

8. Stakeholder and Customer/Consumer Engagement

Background to Consumer Engagement and Consumer Protection

8.1 For us, a commitment to consumers is central to our work and it is essential that protecting and supporting consumers that may be at risk of detriment, as well as providing customers with high levels of service, are at the core of NI gas distribution networks' delivery priorities. In our document "Approach to GD23" we highlighted the importance of consumer engagement and protection regarding not only the development of the GD23 submissions, but also in relation to the ongoing work of the gas networks. We looked to the GDNs to further develop existing engagement with consumers and stakeholders to ensure the consumer is at the heart of GD23 business plan submissions.

8.2 As part of our approach, we asked GDNs to consider how they will use existing and additional channels of consumer engagement to find out what consumers expect GDNs to deliver in GD23. We asked GDNs demonstrate how they have taken account of the views of consumers and stakeholders in developing their plans, setting out what engagement was undertaken and how the engagement informed respective business plans. Specifically, we asked companies to prepare an inventory of their consumer contacts by type of communication channel and show how they currently use structured and unstructured consumer contact information and follow up surveys to monitor consumer satisfaction, identifying issues which they address to help improve consumer service. We asked GDNs to set out the steps they are currently taking to address our Consumer Protection Programme (CPP) and Best Practice Framework, especially development of best practice engagement with and day to day contacts with vulnerable consumers.

8.3 Each GDN provided substantive submissions setting out the wide range of consumer and stakeholder engagement undertaken as part of their day to day activities and in formulation of their business plans. We provide an overview of these submissions below.

8.4 All GDNs acknowledged the importance of the delivery of the Best Practice Framework under UR's Consumer Protection Programme, including enhanced provision for vulnerable consumers. All GDNs committed to participating in its implementation once developed and finalised. We welcome the recognition by the GDNs of the importance of meaningful consumer engagement, in terms of dialogue with existing and future customers, and our encouragement of new consumer focused performance metrics and KPIs, to help shape future outcomes and drive continuous improvement.

8.5 We note that following the companies' submissions, each network operator presented their proposals in respect of vulnerable consumers to the Consumer Vulnerability Working Group.

Overview of the GDNs consumer and stakeholder engagement

FE - Overview of consumer and stakeholder engagement

8.6 In FE's GD23 submission, we note and welcome the acknowledgement of and the commitment to participate in the Consumer Protection Programme and the Best Practice Framework project. The FE Consumer and Stakeholder GD23 Supplementary Paper identified many areas where the company is already working to engage with and support a variety of stakeholders and customers via a wide range of communication channels both digital and non-digital.

8.7 We particularly welcome the statement that FE is committed to addressing vulnerability and that it is to remain a priority for the business during the GD23 price control period. Furthermore, the company's commitment to develop a Customer Vulnerability Strategy before the start of GD23 and attain BSI 18477 accreditation (Inclusive Service Provision) early in the GD23 price control period is a very positive step towards supporting consumers and is evidence of FE engagement with the Consumer Protection Programme.

8.8 In the submission, FE provided information on their bespoke and ongoing research supporting the development of the GD23 business plan. We note the focus on consumer awareness, connecting to natural gas and customer satisfaction. We also note that FE has used the research to support the development of their GD23 submission under the themes of financeability and cost to connect, customer service and perceptions of natural gas and environmental issues. We can see from the submission that the company has considered the feedback from consumers, identified what they currently do to support consumers but importantly, and in keeping with our Approach to GD23, identified what further action they are proposing to take to support consumers in areas of key concern. We welcome the proactive nature of this consumer engagement with the specific actions and outcomes.

8.9 FE has identified in the submission that as part of developing their Customer Vulnerability Strategy there will be further research and engagement with consumers in vulnerable circumstances and consumer representatives. In addition to this, FE has stated that it intends to look to work completed by GB GDNs in order to develop ‘best practice’ approaches locally.

8.10 We welcome that FE has identified that a “top-down” level of commitment and awareness of vulnerability amongst staff is required to deliver a stand out level of service, and we note that the company is working to enhance this approach across the company, including listening to staff themselves who may have knowledge of or experience vulnerable situations. We note the existing vulnerability staff training undertaken which will be a good foundation for FE to build upon for the Best Practice Framework and principles on culture, ethos and training.

8.11 FE has completed a solid evidence gathering programme and has identified lessons learned from this engagement and activities to take forward to enhance service and experience across the customer base.

PNGL - Overview of consumer and stakeholder engagement

8.12 The PNGL GD23 Business Plan submission recognises the importance of delivering services in a manner that acknowledges the needs of all consumers and embraces them into business delivery that the company continues to develop in alignment with the objectives of our Consumer Protection Programme. We welcome PNGL's statement of intent towards outcome-based, consumer-focused delivery.

8.13 From the PNGL submission, it is clear that the inclusion of consumer engagement and protection are recognised at a strategic level in the organisation with the application of key principles of engagement via an engagement strategy reviewed at senior executive level twice yearly. This approach mirrors the principles around culture, ethos and training from our Best Practice Framework which has been recently published.

8.14 In the development of its GD23 submission, PNGL provided evidence of ongoing longitudinal research with connected and unconnected customers around experience of connection and service as well as propensity to switch to natural gas. The research also explores the ongoing experience consumers have with PNGL and its contractors. This research has been supplemented with bespoke research for GD23 focussing on the needs of consumers in vulnerable circumstances as well as senior stakeholder workshops. This demonstrates how PNGL have taken account of the views of consumers and stakeholders in developing their plan.

8.15 PNGL's submission also identified company engagement with local community groups to support marginalised and disadvantaged consumers alongside a programme of stakeholder engagement with a broad range of groups and organisations across a variety of platforms, digital and non-digital.

8.16 A key area to note is PNGL's development and progress of a Consumer Vulnerability Strategy. PNGL has been proactive in this work area, stating an intention to develop a dedicated vulnerability strategy workstream for completion within the current GD17 price control period. We welcome that PNGL has aligned development of their strategy to our ongoing Consumer Protection Programme and has embraced our definition of vulnerability. The establishment of vulnerability working groups, which include a cross section of PNGL senior managers, to challenge all consumer interaction with the aim to deliver high quality and best practice, sets the tone for the organisation's approach to supporting consumers. PNGL's vulnerability training module for all staff, to ensure the service provided meets specific consumer needs, training with expert organisations and the appointment of vulnerability champions across the organisation, is evidence PNGL is committed to a high level of consumer engagement which should result in enhanced customer service.

SGN - Overview of consumer and stakeholder engagement

8.17 In the submission, SGN highlighted their principles around consumer and stakeholder engagement including providing measurable benefits, inclusivity and diversity, responsiveness and ongoing improvement. There was evidence of engagement with a wide range of stakeholder organisations, including consumer representative bodies. The submission would have benefitted from more detail on the type and depth of engagement with these organisations and what the results of these interactions had on the development of its GD23 submission and the company’s work in general.

8.18 We note the commitment to and success in customer service provision by the SGN parent company and welcome the “whole organisation” approach to consumer first, led by the Chief Executive. As company culture, ethos and training are key components of the Best Practice Framework it is noteworthy this is already a building block of SGN’s approach to customer service and we look forward to seeing how this is built upon during the GD23 price control period. We welcome SGN’s commitment to collaborate with us, consumer groups and other utility companies to develop strategies and support mechanisms to deliver Best Practice for NI consumers. We also note SGN’s acknowledgement of the wide range of potential vulnerable circumstances that consumers may experience and welcome SGN’s approach to work collaboratively with organisations to identify, engage and communicate with these groups of consumers.

8.19 SGN's submission provided information on research that SGN commissioned to support the development of its GD23 business plan. We note the research focuses on brand awareness, propensity to switch to natural gas, customer satisfaction with a gas installation and some research on alternative fuel sources. We believe that SGN's future research should include more engagement directly with consumers in vulnerable circumstances as it expands its consumer base so that this consumer group can be appropriately represented in future business planning. We welcome SGN's commitment to vulnerable consumers in its plans for GD23 as this is a key component of our Best Practice Approach, currently out for consultation, and should be adopted in future consumer engagement and research planning.

Consumer and Stakeholder Engagement in GD23

8.20 In recent years, industry have sought greater clarity from UR on what they need to do to ensure the fair treatment of vulnerable consumers. Increased clarity and consistency across all utilities will be achieved through the implementation of our Best Practice Framework and the Consumer Protection Programme.

8.21 Our Best Practice Framework will impact GDN activities such as vulnerable consumer identification, assistance, staff training, care register delivery (including volume, reach, awareness and promotion), and monitoring and reporting. The Best Practice Framework will also extend into senior management leadership and company ethos around consumer vulnerability issues.

8.22 The GD23 GDN submissions have highlighted some of the good work that network operators are already delivering or are proposing. We are mindful of the 'starting position' of many of our regulated companies when it comes to operationalising the concept of vulnerability and their ability to date to develop appropriate consumer interventions, and have considered and highlighted this in our Best Practice Framework document.

8.23 In GD23 we expect all GDNs to continue to work on their development and implementation of the Best Practice Framework for Consumer Protection as the approach to delivery, content, monitoring and reporting is developed.

8.24 During GD23 we will continue to use our preferred partnership approach with the GDNs and key stakeholders, to review GDNs delivery against local consumer needs and expectations. This may include the following:

- Increased focus on complaints data, especially those complaints escalated to CCNI and any lessons learned.

- Review of the consumer metrics used in Northern Ireland and GB and, where relevant and appropriate, standardisation of such metrics across our local GDNs and energy companies to enable cross sectoral comparison.

8.25 The above will, over time, facilitate better monitoring of GDN performance, better comparison between GDNs and local energy counterparts and may form the foundation for the introduction of additional consumer service incentive mechanisms in future price controls.

8.26 Agreeing on the timetable for GD23 new consumer focused metrics, KPIs and targets by the end of 2024 is a developmental objective for GD23. We shall work to develop this to ensure their introduction provides the actionable data GDNs will need to ensure they meet consumer needs and expectations throughout the GD23 price control period.

9. Uncertainty Mechanism

Detailed Approach – UR Proposals

9.1 We have included a number of mechanisms within this determination to reduce the risk to GDNs or to incentivise them to deliver outputs consistently with our statutory duties as described in Chapter 1, Section 2.

9.2 This chapter summarises these mechanisms and, where appropriate, references the sections of this document where the rationale and operation of the mechanisms are described in more detail.

9.3 The primary methodology that we use is termed the "uncertainty mechanism". This will be implemented at the time of the GD29 price control, by adjusting determined allowances for differences between actual and allowed costs or outputs (for example, connection activity).

9.4 Adjustments fall into one of six categories as set out in our determination, namely:

- ***Output based*** – we determine a unit price (Capex) or unit allowance (Opex). The value included in the cost base is the determined unit price/unit allowance (e.g. cost of meter/connections incentive) multiplied by the forecast driver for that item (e.g. number of connections). Any difference in the driver (e.g. higher connections) between the determination and outturn will result in an adjustment at the time of GD29 (i.e. determined unit rate/unit allowance x actual driver output less determined unit rate/unit allowance x forecast driver output).

- ***Pass through*** – Any difference between the allowance in the determination and the actual costs incurred will result in a retrospective adjustment at the time of GD29.

- ***Ring fenced*** – This item has been included in the determination but will be removed through an adjustment in GD29 unless we determine that the costs (or adjusted costs) are necessary and efficient.

- ***Nominated output*** – an allowance included for the delivery of a specific project proposed by the GDN after undertaking a detailed technical assessment to identify a need and the optimum way of meeting that need. If the GDN subsequently decides that the work is not necessary or can be deferred to a later date, we will either remove the investment from the price control or re-profile the allowance to reflect actual delivery. If the company decides that an alternative solution will deliver the same output, we will review the proposal and determine whether the original allowance should be maintained or the allowance adjusted to reflect a change of output.

- ***Materiality Threshold*** – this covers additional projects which are not included within the final determination but are subsequently approved by us and cost above £120k. Further detail is provided from paragraph 9.33 below.

- ***Capex Risk Sharing*** – to be applied at the last stage of the Uncertainty Mechanism once all other adjustments have been calculated. We propose to introduce a common 35:65 capex sharing mechanism for all GDNs as detailed further in Chapter 11.

- ***Economic Project Mechanism*** – allowances for major new projects not included in our determination, delivery of the Energy Strategy objectives or Innovative projects including new metering solutions and meter reading.

9.5 The methodology ensures adjustments also include the impact of the allowed cost of capital from the date of the difference in expenditure to the date that the adjustment is made. For example, the GD23 adjustments are grossed up for applicable return to the end of 2028, prior to inclusion into the opening TRV for GD29. The adjustments will follow methodology used to calculate the GD17 adjustments or as updated below.

9.6 The determined unit rates/unit allowances applied in the uncertainty mechanism will be post efficiency.

GD17 Review and Adjustments – UR Proposals

FE uncertainty mechanism adjustments for GD17

9.7 GD17 included an uncertainty mechanism for FE similar to the mechanism that has been proposed below for this GD23 price control period.

9.8 In respect of the FE, GD17 uncertainty mechanism adjustments the draft adjustments proposed are as follows:

FE Uncertainty Adjustments (RPI £Av-14) £000's	GD14	GD17
GD14 Actualised Adjustment	(185)	
GD17 Capex Adjustment		14,758
GD17 Capex Return Adjustment		1,221
GD17 Opex Adjustment		253
GD17 Debt Adjusted WACC Adjustment		(6,459)
GD17 Depreciation Adjustment		711

Note 1. Figures may not sum due to rounding.

Table 9.1: FE Draft Uncertainty Mechanism Adjustments

9.9 All the above adjustments are added or removed from the closing TRV for 2022 appropriately, giving a draft TRV at 1st January 2023 for FE of £248.9m [£av. 2020 CPIH].

PNGL uncertainty mechanism adjustments for GD17

9.10 GD17 included an uncertainty mechanism for PNGL similar to the mechanism that has been proposed below for this GD23 price control period.

9.11 In respect of the PNGL GD17 uncertainty mechanism, adjustments the draft adjustments are proposed as follows:

PNGL Uncertainty Adjustments (RPI £Sept-14) £000's	GD14	GD17
GD14 Actualised Adjustment	(248)	
GD17 Capex Adjustment		(1,351)
GD17 Capex Return Adjustment		594
GD17 Opex Adjustment		134
GD17 Q & CC Movement Adjustment		(335)
GD17 Debt Adjusted WACC Adjustment		(36,063)
GD17 Depreciation Adjustment		(309)
GD17 Capex Roller Adjustment		71
GD17 Greater Belfast Infill Adjustment		(85)
GD17 Housing Association Adjustment		297

Note 1. Figures may not sum due to rounding.

Table 9.2: PNGL Draft Uncertainty Mechanism Adjustments

9.12 All the above adjustments are added or removed from the closing TRV for 2022 appropriately, giving a draft TRV at 1st January 2023 for PNGL of £652.4m [£Sep 2020 CPIH].

SGN uncertainty mechanism adjustments for GD17

9.13 The SGN GD17 price control period started from 1st January 2018. At this time we calculated a pre price control allowance for 2016 & 2017 in order to form a 2018 Opening Asset Value for the GDN of £3.7m [£Av. 2014 RPI].

9.14 The OAV calculation for SGN has been updated for GD23 using actual outturn information, resulting in an adjusted Opening Asset Value (OAV) for GD17 of £1.9m [£Av. 2014 RPI].

9.15 GD17 included an uncertainty mechanism for SGN similar to the mechanism that has been proposed below for this GD23 price control period.

9.16 In respect of the SGN GD17 uncertainty mechanism adjustments the draft adjustments are proposed as follows:

SGN Uncertainty Adjustments (RPI £Av-14) £000'S	GD17
GD17 Capex Adjustment	(9,357)
GD17 Capex Return Adjustment	(1,502)
GD17 Opex Adjustment	(3,040)
GD17 Depreciation Adjustment	(1,266)

Note 1. Figures may not sum due to rounding.

Table 9.3: SGN Draft Uncertainty Mechanism Adjustments

9.17 All the above adjustments are added or removed from the closing TRV for 2022 appropriately, giving a draft TRV at 1st January 2023 for SGN of £30.9m [£av. 2020 CPIH].

GD23 Uncertainty Mechanism – UR Proposals

FE

9.18 In respect of GD23 FE capex allowances, the proposed items subject to an uncertainty adjustment are those shown in Table 9.4 below:

Capex Item	Uncertainty Mechanism applicable in GD23
7 Bar Mains	There are no outputs for FE in GD23.
Feeder and infill mains	Output based on actual number of properties passed, annual average number of metres of infill laid per property passed up to a cap of 10.30m and determined unit rate until the completion of the infill projects identified in GD17 in 2023 and on a cumulative basis covering GD17 and 2023. From this point (2024-2028), the general infill cap of 5.16m and determined unit rate will apply. Additional incentive and penalties will apply as outlined in Annex F.
New build mains	Output based on actual number of properties passed, annual average number of metres of infill laid per property passed up to a cap of 9.50m and determined unit rate.
Individually funded	There are no outputs for FE in GD23.
Pressure reduction	Not applicable in GD23.
Domestic and I&C services	Output based on connections and determined unit rates.
Domestic and I&C meters	Output based on connections and determined unit rates.
Domestic and I&C meters end-of-life replacement	Output based on the actual number of meters replaced which are 20 years older or more.
Other capex	Not applicable in GD23.
Traffic Management Act	Ring fenced.
Additional projects	The economic project mechanism will apply to new projects which are shown to be either economic or necessary including work associated with delivery of the Energy Strategy or deemed to be innovative.
Materiality Threshold	Subject to future UR determinations
Capex Risk Sharing	Applied as per Chapter 11

Table 9.4: FE Capex Uncertainty Mechanism

9.19 The determined rates for the capex uncertainty mechanisms are:

- The basket of works unit rates set out in Annex F following the application of the frontier shift.
- Except for infill mains and new build mains where the blended basket of works unit rates set out in Annex F will apply.

9.20 In respect of GD23 FE opex allowances, the proposed items subject to uncertainty adjustment are those shown in Table 9.5 below:

Opex Item	Uncertainty Mechanism applicable in GD23
Property Management	Network Rates based on turnover as set out in the Annex D - Opex Detail.
Licence Fees	Pass Through.
Advert. & Market Dev. (OO)	Actual Connections Output based on Owner Occupied connections (As se out in Annex D - Opex Detail).
Supplier of Last Resort	Ring-fenced – Annex D Opex Detail.
Materiality Threshold	Subject to future UR determinations.
Additional Projects	The economic project mechanism will apply to new projects which are shown to be either economic or necessary including work associated with delivery of the Energy Strategy or deemed to be innovative.

Table 9.5: FE Opex Uncertainty Mechanism

9.21 Further detail and determined rates for the opex uncertainty mechanism in relation to:

- Network Rates, Licence Fees, Supplier of Last Resort, and Advert & Market Dev (OO), are set out in Annex D - Opex Detail.
- Energy Strategy is set out in Annex G.

9.22 It should be noted that the opex allowances, as set in Annex D, are set pre-efficiency. They will be updated to reflect the frontier shift as per Annex E.

PNGL

9.23 In respect of GD23 PNGL capex allowances, the proposed items subject to uncertainty adjustment are those shown in Table 9.6 below:

Capex Item	Uncertainty Mechanism applicable in GD23
7 Bar Mains	Nominated outputs for defined projects as detailed in Annex F.
Feeder and infill mains	Output based on actual number of properties passed, annual average number of metres of infill laid per property passed up to a cap of 5.16m and determined unit rate will apply. Additional incentive and penalties will apply as outlined in Annex F.
New build mains	Output based on actual number of properties passed, annual average number of metres of infill laid per property passed up to a cap of 9.50m and determined unit rate.
Individually funded	Output based on actual number of properties passed, annual average number of metres of infill laid per property passed up to caps of Greater Belfast - 14.30m and determined unit rate. Whitehead - 9.00m and determined unit rate. East Down - 11.52m and determined unit rate.
Pressure reduction	Not applicable in GD23.
Domestic and I&C services	Output based on connections and determined unit rates.
Domestic and I&C meters	Output based on connections and determined unit rates.
Domestic and I&C meters end-of-life replacement	Output based on the actual number of meters replaced which are 20 years older or more.
Other capex	Not applicable in GD23.
Traffic Management Act	Ring fenced.
Additional projects	The economic project mechanism will apply to new projects which are shown to be either economic or necessary including work associated with delivery of the Energy Strategy or deemed to be innovative.
Materiality Threshold	Subject to future UR determinations
Capex Risk Sharing	Applied as per Chapter 11

Table 9.6: PNGL Capex Uncertainty Mechanism

9.24 The determined rates for the capex uncertainty mechanisms are:

- The basket of works unit rates set out in Annex F following the application of the frontier shift,
- except for infill mains and new build mains where the blended basket of works unit rates as set out in Annex F will apply.

9.25 In respect of GD23 PNGL opex allowances, the proposed items subject to uncertainty adjustment are those shown in Table 9.7 below:

Opex Item	Uncertainty Mechanism applicable in GD23
Property Management	Network Rates based on turnover as set out in the Annex D - Opex Detail.
Licence Fees	Pass Through.
Advert. & Market Dev. (OO)	Actual Connections Output based on Owner Occupied connections (As se out in Annex D - Opex Detail.
Supplier of Last Resort	Ring-fenced – Annex D Opex Detail.
Materiality Threshold	Subject to future UR determinations.
Additional projects	The economic project mechanism will apply to new projects which are shown to be either economic or necessary including work associated with delivery of the Energy Strategy or deemed to be innovative.

Table 9.7: PNGL Opex Uncertainty Mechanism

9.26 Further detail and determined rates for the opex uncertainty mechanism in relation to:

- Network Rates, Licence Fees, Supplier of Last Resort, and Advert & Market Dev (OO), are set out in Annex D - Opex Detail.
- Energy Strategy are set out in Annex G.

9.27 It should be noted that the opex allowances, as set in Annex D are set pre-efficiency. They will be updated to reflect the frontier shift as per Annex E.

SGN

9.28 In respect of GD23 SGN capex allowances, the proposed items subject to uncertainty adjustment are those shown in Table 9.8 below:

Capex Item	Uncertainty Mechanism applicable in GD23
7 Bar Mains	There are no outputs for SGN in GD23.
Feeder and infill mains	Output based on actual number of properties passed, annual average number of metres of infill laid per property passed up to a cap of 11.50m and determined unit rate will apply. Additional incentive and penalties will apply as outlined in Annex F.
New build mains	Output based on actual number of properties passed, annual average number of metres of infill laid per property passed up to a cap of 9.50m and determined unit rate.
Individually funded	There are no outputs for SGN in GD23.
Pressure reduction	Not applicable in GD23.
Domestic and I&C services	Output based on connections and determined unit rates.
Domestic and I&C meters	Output based on connections and determined unit rates.
Domestic and I&C meters end-of-life replacement	Not applicable in GD23.
Other capex	Not applicable in GD23.
Traffic Management Act	Ring fenced.
Additional projects	The economic project mechanism will apply to new projects which are shown to be either economic or necessary including work associated with delivery of the Energy Strategy or deemed to be innovative. For avoidance of doubt this may include consequential changes to volumes.
Materiality Threshold	Subject to future UR determinations
Capex Risk Sharing	Applied as per Chapter 11

Table 9.8: SGN Capex Uncertainty Mechanism

9.29 The determined rates for the capex uncertainty mechanisms are:

- the basket of works unit set out in Annex F following the application of the frontier shift set,
- except for infill mains and new build mains where the blended basket of works unit rates set out in Annex F will apply.

9.30 In respect of GD23 SGN Opex allowances, the proposed items subject to uncertainty adjustment are those shown in Table 9.9 below:

Opex Item	Uncertainty Mechanism applicable in GD23
Property Management	Network Rates based on turnover as set out in the Annex D - Opex Detail.
Licence Fees	Pass Through.
Advert. & Market Dev. (OO)	Actual Connections Output based on Owner Occupied connections (As set out in Annex D - Opex Detail.
Supplier of Last Resort	Ring-fenced – Annex D Opex Detail.
Materiality Threshold	Subject to future UR determinations.
Additional projects	The economic project mechanism will apply to new projects which are shown to be either economic or necessary including work associated with delivery of the Energy Strategy or deemed to be innovative.

Table 9.9: SGN Opex Uncertainty Mechanism

9.31 Further detail and determined rates for the opex uncertainty mechanism in relation to:

- Network Rates, Licence Fees, Supplier of Last Resort, and Advert & Market Dev (OO), are set out in Annex D - Opex Detail.
- Energy Strategy are set out in Annex G.

9.32 It should be noted that the opex allowances, as set in Annex D, are set pre-efficiency. They will be updated to reflect the frontier shift as per Annex E.

Materiality Thresholds

9.33 In line with our approach as part of GD17 price control, we will have a materiality threshold for 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. We would only expect to approve such costs where they are linked to new outputs, and not part of normal operational work.

9.34 Any costs must be submitted to UR with a business case, before any approval for additional allowances would be granted for this area. Any expenditure incurred in advance of approval would be very unlikely to be approved.

9.35 The materiality threshold is set at £120k (GD14 and GD17 was set at £100k and an increase has been made for inflation) per project for the duration of the GD23 price control period, however we may be minded to review this for the Final Determination. This materiality threshold is the same for each of the three GDNs.

9.36 Consideration will also be made for any issues arising that could not reasonably have been foreseen, or for which realistic estimates with respect to the associated costs could not reasonably be made at the time of the price control determination and which are reasonably outside the control of the GDNs, such as European Directives or equivalent local legislation which the GDNs are required to implement. Whilst we will still require a robust business case for any projects, or initiatives to deal with such issues from the GDNs, we note that we may also consider them, as relevant and appropriate, if the materiality threshold is not met.

9.37 In taking decisions on granting of additional allowances we will consider the balance between the unforeseen costs and any cost reductions or revenue gains achieved during the price control period.

Rate of Return Adjustment – PNGL & FE

9.38 As well as the adjustments that will be made with respect to opex and capex described above we will also make adjustments for rate of return.

9.39 The methodology for making these adjustments is the same as GD17 and we will publish a spreadsheet along with the Final Determination.

Tax Allowance Adjustment – SGN

9.40 As part of the SGN licence we are required to set an annual tax allowance for the business due to WACC being set on a vanilla basis.

9.41 The GD23 allowance is determined at nil per annum and it is forecast to be 2034 when the first tax becomes payable. We will discuss this matter further with SGN but is unlikely to require further consideration during GD23. However, it is however important to establish the principle of tax allowance adjustment.

10. Financial Aspects

Detailed Approach – UR Proposals

Overview

10.1 This chapter sets out the financial aspects of our price control calculations.

Rate of Return

10.2 The financial model provides for the GDNs to earn a return on their allowed expenditures up until the point of recovery of those expenditures from customers. The value of this return is calculated as a weighted average of the costs of the equity and debt finance that the companies have to pay to investors.

10.3 In calculating the allowed cost of equity, we, like most economic regulators, uses the Capital Asset Pricing Model (CAPM) to determine the returns that shareholders require in exchange for their equity investments. CAPM estimates the required return to be a function of the risk-free rate (Rf), the expected return on the market portfolio (Rm) and a firm-specific measure of risk (beta of βe) as follows:

- Return on equity = Rf + βe . (Rm – Rf)

10.4 The interest that lenders demand from companies, unlike the returns required by shareholders, is something that is directly observable. Our task in putting a value to the cost of debt is to use available data to benchmark the interest that we would expect efficiently financed businesses with to pay on their borrowings.

10.5 The overall cost of capital proposed by the GDNs in their GD23 Business Plan submissions are shown in Table 10.1 in real RPI stripped terms.

GDN	GD17 WACC	GD23 BP pre tax	GD23 BP vanilla
FE	4.32%	3.16%	2.52%
PNGL	4.26%	3.33%	2.61%
SGN	5.30%	4.34%	3.44%
Note 1: The GD17 RoC is the rate at the final determination. The actual rate paid for FE and PNGL has reduced as a result of the debt mechanism. Note 2. SGN licence allows for a vanilla WACC and separate remuneration of tax. FE and PNGL receive a pre-tax WACC with no further remuneration of tax when it arises.			

Table 10.1: Business Plan Cost of Capital

10.6 In setting the rate of return for GD23, we have taken the advice from consultants First Economics [9] to determine a reasonable cost of capital for each GDN taking account of its current embedded debt and its particular risk profile.

10.7 Table 10.2 summarises the detail within First Economics report and are presented on CPIH stripped basis.

	PNGL		FE		SGN	
	Low	High	Low	High	Low	High
Gearing	0.55	0.55	0.55	0.55	0.55	0.55
Cost of debt (%)	0.6	0.6	1.0	1.0	1.1	1.1
Risk-free rate (%)	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Market return (%)	6.5	6.5	6.5	6.5	6.5	6.5
Asset beta	0.33	0.37	0.33	0.37	0.39	0.43
Equity beta	0.64	0.73	0.64	0.73	0.78	0.84
Post-tax cost of equity (%)	3.78	4.45	3.78	4.45	4.79	5.30
Tax rate	24.75	24.75	24.75	24.75	24.75	24.75
Pre-tax cost of equity (%)	5.02	5.92	5.02	5.92	6.37	7.04
Pre-tax WACC (%)	2.59	2.99	2.81	3.21	3.47	3.77
Vanilla WACC (%)	2.03	2.33	2.25	2.55	2.76	2.99

Table 10.2: Cost of Capital Ranges

10.8 The calculations give a real pre-tax cost of capital of 2.59% to 2.99% for PNGL, 2.81% to 3.21% for FE and a vanilla cost of capital of 2.76% to 2.99% for SGN.

10.9 These figures are lower than the current rates of return reflecting:

a) the downward drift in market interest rates since 2016; and

b) the downward adjustments that there have been within wider regulatory thinking on the appropriate CAPM cost of equity parameters to apply to regulated utility businesses.

10.10 For the draft determination, we have chosen to use a return at the low-point of the range established by our consultant. This makes no allowance within asset beta for the Northern Ireland regulatory model and includes a reduction for PNGL and FE due to their low totex to TRV ratio. We have made an appropriate adjustment to SGN asset beta on account of its greater exposure to demand risk.

[9] The First Economics report can be found at Annex I.

10.11 We will also retain the cost of debt adjustment mechanism for PNGL and FE first used in GD17.

10.12 The rate of return assessment is based on financial information at 30 September 2021. It will be updated for the final determination to take account of the latest available financial data including any changes in forward curves for debt.

Financeability

10.13 Article 14 of the Energy (Northern Ireland) Order 2003 requires us to carry out our functions in the manner we consider is best calculated to further our principal objective, having regard to the need to secure that licence holders are able to finance their licence obligations (amongst other things).

10.14 This duty is framed similarly to the financing duties of other UK regulators and can broadly be taken in practice to mean that the price control ought to be set at a level which would allow an efficient network company to finance its licensed activities. It is therefore necessary for us to consider financeability as an integral part of a price review.

10.15 In assessing whether this draft determination leaves each GDN in a position where they will be able to finance their activities during the GD23 period, we have considered the ability that the companies will have to utilise both equity and debt finance.

10.16 The key determinant of the companies' ability to access equity finance is the allowed return on equity. As noted in Annex I, we have built returns by considering the level of returns that investors are likely to be able to get from other equity investments and by positioning the return offered by PNGL, FE and SGN logically against these alternative investments. Accordingly, we are satisfied that each GDN ought to be capable of securing equity finance on an ongoing basis throughout the next six years.

10.17 As far as borrowing is concerned, it will be important for the GDNs to maintain investment-grade credit quality. One determinant of the companies' credit worthiness in the eyes of lenders will be the level of cashflows that the networks generate under our price controls. A second key factor will be, the amount of borrowing that the companies attempt to take on. We influence the first of these things, but the second is firmly in the hands of the GDNs' Boards.

10.18 In Table 10.3 to Table 10.5,we present the results of some modelling that we have produced to understand the projected level of key financial ratios if the GDNs select a gearing that is in line with the 55% figure that we use in our cost of capital calculations. The modelling assumes that the companies set prices, carry volumes and incur costs (i.e. opex, capex and interest costs) in line with the allowances feeding into the calculation of allowed revenues, as set out in the earlier sections of this document.

	2023	2024	2025	2026	2027	2028	Average
FFO Interest Cover	3.3	3.4	3.6	3.7	3.9	4.0	3.6
PMICR	1.8	1.7	1.6	1.5	1.5	1.4	1.6
Nominal PMICR	3.0	2.9	2.8	2.8	2.7	2.6	2.8
FFO / Net Debt	7.0%	7.4%	8.0%	8.5%	8.9%	9.4%	8.2%
Gearing	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%

Table 10.3: FE Modelling

	2023	2024	2025	2026	2027	2028	Average
FFO Interest Cover	3.9	4.0	4.2	4.4	4.6	4.8	4.3
PMICR	1.8	1.7	1.6	1.5	1.3	1.4	1.6
Nominal PMICR	3.2	3.1	3.1	2.9	2.8	2.9	3.0
FFO / Net Debt	7.7%	8.1%	8.6%	9.0%	9.5%	10.1%	8.8%
Gearing	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%

Table 10.4: PNGL Modelling

	2023	2024	2025	2026	2027	2028	Average
FFO Interest Cover	4.7	4.7	4.9	4.9	4.8	4.9	4.8
PMICR	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Nominal PMICR	2.5	2.5	2.5	2.5	2.5	2.5	2.5
FFO / Net Debt	11.8%	11.9%	12.7%	12.6%	12.1%	12.6%	12.3%
Gearing	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%

Table 10.5: SGN Modelling

10.19 The evidence that we have seen in rating agency reports, as well as analysis conducted by other UK regulators, indicates that a GDN will normally need to maintain post-maintenance interest cover ratio (PMICR) of at least 1.4 times and gearing of no more than 70% in order to obtain a BBB credit rating.

10.20 Assuming a notional gearing of 55% throughout our modelling, for FE and PNGL, we observe from results in the above tables average PMICR during the six-year period is above 1.4 times.

10.21 SGN modelling results show an average PMICR marginally below 1.4 times however other ratios have headroom in terms of any thresholds which rating agencies consider.

10.22 This demonstrates an internal consistency between the gearing and cost of debt estimates that we inserted into our cost of capital calculations and shows that PNGL, FE and SGN should each be capable of maintaining access to debt finance during the GD23 period.

10.23 In conclusion, we are of the view that all three GDNs are capable of financing their activities during the GD23 period via a prudent choice of capital structure.

11. Outputs, Outcomes & Allowances

Risk Sharing Mechanism

11.1 At present each GDN is subject to a capex risk sharing mechanism. The mechanisms have developed in different ways and have been introduced into the process in different ways;

- A Capex Roller Incentive Mechanism is included in the FE licence and was switched on for GD14 and GD17.
- Currently PNGL are subject to a Capex Roller Incentive calculation similar to FE but outside the licence, as 'switched on' for the PC03 Price Control. A supplemental document forms part of the PNGL12 Final Determination to describe this in detail.
- A Capex Roller Incentive Mechanism is also included in the SGN licence, however the condition is switched-off and replaced with a simpler mechanism within the uncertainty mechanism, as introduced in GD17.

11.2 For GD23, in the interest of simplicity and consistency, we are minded to switch off the capex roller mechanisms for FE and PNGL and apply an approach similar to that used for SGN throughout GD17.

11.3 We suggest that we amend the Capex Roller Incentive for GD23 to be a simple 35% symmetrical sharing of outperformance for all companies applied as part of the uncertainty mechanism.

11.4 In practice, this would mean that the company would take 35% reward or risk of all outperformance or underperformance on capex targets.

11.5 The mechanism would be applied at the last stage of the Uncertainty Mechanism after all other adjustments have been calculated.

Impact on Consumer Bills

11.6 Table 11.1 below sets out a summary of the impact on customers. The percentage columns look at the impact of our draft determination on the distribution tariff compared to the GDNs submission and compared to the current tariff. The final cash columns look at the impact on total customer bills of our draft determination compared to the GDNs submission and the current tariff respectively.

11.7 The modelling we have applied in the final determination produces a significant drop in domestic distribution tariffs of 9%, 14%, and 27% compared to the FE, PNGL and SGN submissions respectively.

11.8 In comparison with current GD17 distribution tariffs the final determination produces a reduction of 19%, 17%, and 3% for FE, PNGL and SGN respectively.

11.9 If we convert the reduction in tariffs into the impact on customers' overall bills, this results in domestic customers paying around £16, £24, and £46 less per annum when compared to the FE, PNGL AND SGN submissions respectively. For I&C customers the difference would obviously be much larger.

11.10 When compared to the GD17 tariff, the impact on customer's overall bill would be a reduction of £37.09, £31.14, and £3.80 per annum for FE, PNGL and SGN respectively. For I&C customers the difference would obviously be much larger.

GDN	GD23 P1 tariff	GD23 distribution tariff v BP submission	GD23 V GD17 distribution tariff	Customer Saving (per annum) v BP submission	Customer Saving v GD17
FE (Av. £2020)	40.34	-9%	-19%	-16.60	-37.09
PNGL (Sep £2020)	37.33	-14%	-17%	-24.66	-31.14
SGN (Av. £2020)	32.06	-27%	-3%	-46.56	-3.80

Table 11.1: Impact on Domestic Customer Bills

Designated Parameters and Determination Values

FE

11.11 Table 11.2 and Table 11.3 show the proposed designated parameters and determination values respectively for FE.

Designated Parameter	Value
r_t	0.0281
n	2028
m	2022
q	2045
CPIH	108.9
f_t	0.5
W	5
g	0
h	0
d	1
l	33

Table 11.2: FE - Proposed Designated Parameters

All values in £(000's)	£av. 2020						
Description (For Conveyance Categories i and Formula Years t)	**Determination Values**	**t=2023**	**t=2024**	**t=2025**	**t=2026**	**t=2027**	**t=2028**
Volume (therms)	$V_{E,i,t}$ (I)	25759	28092	30315	32424	34421	36306
Volume (therms)	$V_{E,i,t}$ (II)	8303	8303	8303	8303	8303	8303
Volume (therms)	$V_{E,i,t}$ (III)	6574	6574	6574	6574	6574	6574
Volume (therms)	$V_{E,i,t}$ (IV)	1664	1664	1664	1664	1664	1664
Volume (therms)	$V_{E,i,t}$ (V)	13982	13982	13982	13982	13982	13982
Volume (therms)	$V_{E,i,t}$ (Vi)	17699	17699	17699	17699	17699	17699
Capital Expenditure	$C_{E,t}$	11861	7762	7468	7209	7238	7107
Operating Expenditure	$O_{E,t}$	7875	7831	7762	7846	8159	8178
Annual Depreciation	$D_{E,t}$	8242	8429	8604	8735	8861	8940
Cash Flow (calculated in accordance with Condition 4.6.6)	$F_{E,t}$	2166	7327	8689	9817	10297	11170
Revenue Per Unit	$P_{E,i,t}$ (I)	0.4034	0.4034	0.4034	0.4034	0.4034	0.4034
Revenue Per Unit	$P_{E,i,t}$ (II)	0.2834	0.2834	0.2834	0.2834	0.2834	0.2834
Revenue Per Unit	$P_{E,i,t}$ (III)	0.2540	0.2540	0.2540	0.2540	0.2540	0.2540
Revenue Per Unit	$P_{E,i,t}$ (IV)	0.2017	0.2017	0.2017	0.2017	0.2017	0.2017
Revenue Per Unit	$P_{E,i,t}$ (V)	0.2380	0.2380	0.2380	0.2380	0.2380	0.2380
Revenue Per Unit	$P_{E,i,t}$ (Vi)	0.2162	0.2162	0.2162	0.2162	0.2162	0.2162
Total Revenue	$R_{E,t}$	21903	22921	23918	24871	25694	26454

Depreciated Asset Value (calculated in accordance with Condition 4.6.7)	$DAV_{E,t}$	213631	212964	211828	210301	208678	206844
Total Regulatory Value (calculated in accordance with Condition 4.6.8)	$TRV_{E,m}$						240955
Profile Adjustment	$PA_{E,m}$						34111

Table 11.3: FE – Proposed Determination Values

PNGL

11.12 Table 11.4 and Table 11.5 show the proposed designated parameters and determination values respectively for PNGL.

Designated Parameter	Value
r_t	0.0259
n	2028
m	2022
q	2046
CPIH	109.2

Table 11.4: PNGL – Proposed Designated Parameters

All values in £(000's)	£Sept. 2020						
Description (For Conveyance Categories i and Formula Years t)	Determination Values	t=2023	t=2024	t=2025	t=2026	t=2027	t=2028
Volume (therms)	$V_{E,i,t}$ (I)	103025	105891	108615	111182	113593	115863
Volume (therms)	$V_{E,i,t}$ (II)	21957	22094	22231	22368	22505	22642
Volume (therms)	$V_{E,i,t}$ (III)	30704	30773	30843	30912	30981	31051
Volume (therms)	$V_{E,i,t}$ (IV)	15317	15317	15317	15317	15317	15317
Capital Expenditure	$C_{E,t}$	16098	14296	14357	13458	10968	10596
Capital Creditors	$CC_{E,t}$	-5126	-4826	-4836	-4686	-4271	-4209
Operating Expenditure	$O_{E,t}$	17222	16725	16384	16507	16384	16428
Annual Depreciation	$D_{E,t}$	21404	21964	22534	23077	23363	23588
Cash Flow (calculated in accordance with Condition 4.6.6)	$F_{E,t}$	25768	27584	29285	30992	34288	35912
Working Capital	$Q_{E,t}$	-6853	-6623	-6419	-6280	-6120	-5988
Revenue Per Unit	$P_{E,i,t}$ (I)	0.3733	0.3733	0.3733	0.3733	0.3733	0.3733
Revenue Per Unit	$P_{E,i,t}$ (II)	0.3360	0.3360	0.3360	0.3360	0.3360	0.3360
Revenue Per Unit	$P_{E,i,t}$ (III)	0.3165	0.3165	0.3165	0.3165	0.3165	0.3165
Revenue Per Unit	$P_{E,i,t}$ (IV)	0.1592	0.1592	0.1592	0.1592	0.1592	0.1592
Total Revenue	$R_{E,t}$	57997	59135	60220	61246	62215	63130
Depreciated Asset Value (calculated in accordance with Condition 4.6.7)	$DAV_{E,t}$	461264	453596	445419	436613	425820	412828

Total Regulatory Value (calculated in accordance with Condition 4.6.8)	$TRV_{E,m}$						565458
Profile Adjustment	$PA_{E,m}$						162827

Table 11.5: PNGL – Proposed Determination Values

SGN

11.13 Table 11.6 and Table 11.7 show the proposed designated parameters and determination values respectively for SGN.

Designated Parameter	Value
r_t	0.0276
n	2028
m	2022
q	2046
CPIH	108.9
f_t	0.5
w	5
g	0
h	0
d	0
l	33
δ_t	0
$x_{O,t}$	0
$x_{U,t}$	0
α_t	0.4

Table 11.6: SGN – Proposed Designated Parameters

All values in £(000's)	£Av. 2020						
Description (For Conveyance Categories i and Formula Years t)	**Determination Values**	**t=2023**	**t=2024**	**t=2025**	**t=2026**	**t=2027**	**t=2028**
Volume (therms)	$V_{E,i,t}$	1427	1808	2161	2488	2786	3027
Volume (therms)	$V_{E,i,t}$ (II)	138	238	375	585	835	1068
Volume (therms)	$V_{E,i,t}$ (III)	655	693	732	770	847	847
Volume (therms)	$V_{E,i,t}$ (IV)	258	258	258	258	258	258
Volume (therms)	$V_{E,i,t}$ (V)	16764	16895	17037	17037	17037	17037
Volume (therms)	$V_{E,i,t}$ (VI)	0	0	0	0	0	0
Volume (therms)	$V_{E,i,t}$ (VII)	11242	11242	11242	11242	11242	11242
Capital Expenditure	$C_{E,t}$	3673	3372	3828	4293	2740	2906
Operating Expenditure	$O_{E,t}$	2601	2634	2549	2585	2760	2757
Annual Depreciation	$D_{E,t}$	1571	1586	1611	1652	1653	1734
Tax	$T_{E,t}$	0	0	0	0	0	0
Cash Flow (calculated in accordance with Condition 4.6.6)	$F_{E,t}$	-1068	-612	-788	-1105	473	461
Revenue Per Unit	$P_{E,i,t}$ (I)	0.3206	0.3206	0.3206	0.3206	0.3206	0.3206
Revenue Per Unit	$P_{E,i,t}$ (II)	0.3206	0.3206	0.3206	0.3206	0.3206	0.3206
Revenue Per Unit	$P_{E,i,t}$ (III)	0.3097	0.3097	0.3097	0.3097	0.3097	0.3097
Revenue Per Unit	$P_{E,i,t}$ (IV)	0.1763	0.1763	0.1763	0.1763	0.1763	0.1763
Revenue Per Unit	$P_{E,i,t}$ (V)	0.1763	0.1763	0.1763	0.1763	0.1763	0.1763

Revenue Per Unit	$P_{E,i,t}$ (VI)	0.1763	0.1763	0.1763	0.1763	0.1763	0.1763
Revenue Per Unit	$P_{E,i,t}$ (VII)	0.1334	0.1334	0.1334	0.1334	0.1334	0.1334
Total Revenue	$R_{E,t}$	5205	5394	5589	5773	5972	6124
Depreciated Asset Value (calculated in accordance with Condition 4.6.7)	$DAV_{E,t}$	39004	40790	43006	45648	46735	47906
Total Regulatory Value (calculated in accordance with Condition 4.6.8)	$TRV_{E,m}$						39366
Profile Adjustment	$PA_{E,m}$						-8540

Table 11.7: SGN – Proposed Determination Values

12. Business Plan Assessments

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

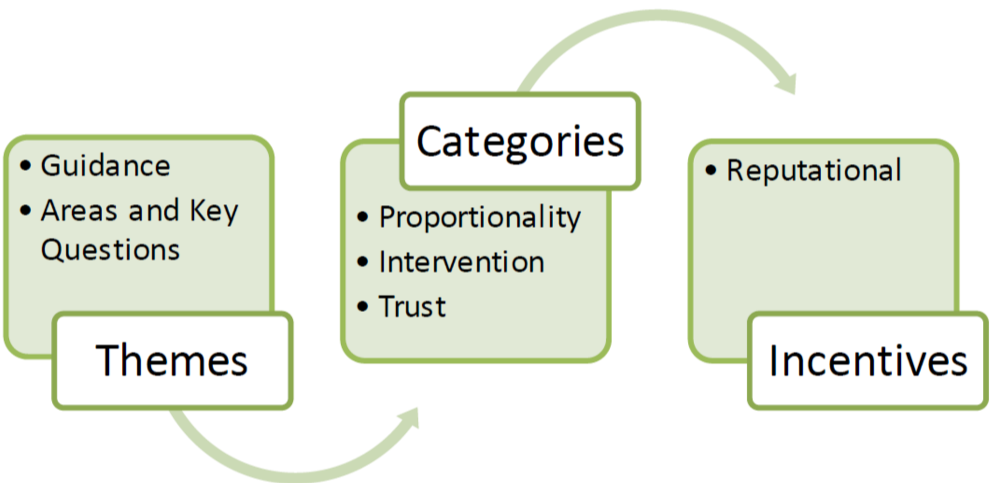
12.2 When we set out our approach to GD23, we signalled that we planned to carry out an assessment of the GD23 Business Plan submissions. We committed to discuss further with GDN's and then provide more detailed guidance on our expectations for the Business Plan submissions, including a list of test questions.

12.3 In our recent price control for SONI we introduced a process of Business Plan Assessment. The assessment was structured around keys questions to be asked of the business plan submissions. The questions were grouped around key areas, or 'themes'.

12.4 We issued a draft Business Plan Assessment (BPA) document to the GDNs in December 2020. This was followed with discussion on the assessment approach with the GDNs during January 2021. A final version of the business plan assessment document was issued February 2021.

12.5 The assessment considers how each GDN has performed in relation to the established criteria. This section of the document is our assessment of the Business Plans as part of our draft determination. We expect to extend this approach to other network sectors providing a consistent comparative assessment of all network companies.

12.6 Our approach consists of areas which we will review ('themes') and categories we will consider. Our view on the quality of the GDN's business plans is based upon this. The illustration below summarises the process and key features of the approach.



12.7 In coming to our view, we have received and taken on board helpful input and suggestions from the SONI Business Plan Assessment as published in its Draft Determination.

12.8 We consider that our view provides a picture of our expectations of what is important. GDN's business role, services and activities should be well aligned with the interests of customers, consumers, other stakeholders and the wider energy system. We consider that the categorisation, when coupled with our framework and other expectations/guidance on business plans:

- allow GDN's to take ownership of its plan. It should also be answerable to stakeholders for what follows from it.
- clarifies that lesser regulatory intervention can be expected in the GDN's business plan if it is of higher quality.
- gives GDN's greater opportunity to shape its role over the price control period, what activities and level of service is funded through the price control, and aspects of the regulatory framework.
- clarifies that there will be a higher degree of trust in GDN's if its business plan is of higher quality.

Theme areas

12.9 As we indicated, the themes provide a strong basis for us to provide clear regulatory expectations and policy priorities.

12.10 The themes have been structured according to three areas:

- Service contribution to good outcomes.
- Services and costs.
- Trust in delivery.

12.11 In relation to the number and type of theme areas, we were conscious of balancing the need of having enough distinct areas of key importance, whilst ensuring there are not too many such that overall focus is diminished.

Categories

12.12 Our business plan assessment is built up from the categorisation below for each of the theme areas. This is structured around a number of questions, which we ask when assessing the quality of the business plan submissions.

12.13 These are grouped under three key themes and areas which are set out below:

- Theme 1 - Service contribution to good outcomes.
  - ♦ Area 1: Delivering value for money for Consumers.
- Theme 2 - Services and costs.
  - ♦ Area 2: Delivering services and outcomes.
  - ♦ Area 3: Aligning Risk and Return.
- Theme 3 - Trust in delivery
  - ♦ Area 4: Engaging customers, consumers and other stakeholders.
  - ♦ Area 5: Ensuring resilience.
  - ♦ Area 6: Accounting for past delivery.

12.14 The questions in turn are set out in more detail in the table below.

Areas	Questions
Area 1: Delivering Value for Consumers	Q1. How well has the company demonstrated that its proposed services and tariffs requested for GD23 provide value for money?
Area 2: Delivering services and outcomes.	Q2. To what extent has the company set out and clearly described, in an accessible way, the full range of services that it proposes to provide?
Area 3: Aligning risk and return.	Q3. To what extent has the company explained and justified its proposed Rate of Return?
	Q4. What confidence has the company given about its financial resilience under its business plan proposals?
Area 4: Engaging customers, consumers and other stakeholders.	Q5. What is the quality of the company's engagement?
	Q6. How well has the company demonstrated that findings from its engagement have been incorporated into its business plan proposals?
	Q7. How well has the company demonstrated that its engagement will be incorporated into ongoing activities?
Area 5: Ensuring resilience.	Q8. How well has the company demonstrated an understanding of the range of risks that could impact on its delivery, service quality, performance, viability and costs?
Area 6: Accounting for past delivery.	Q9. How well has the company given evidence for, and explained, its performance over the GD17 period?

Table 12.1: Areas and their respective questions.

12.15 We set out our categorisation expectations in the table below

Categories	Features
A: Exceptional	Exceptional and stretching business plan. Excellent responses across most test areas. Limited regulatory intervention to translate to price control package. Relatively high degree of trust in company.
B: Good	Good plan but falling short of being an exceptional and stretching plan. Excellent responses in some test areas. Some regulatory intervention and therefore less trust than Category A.
C: Meeting Basic Expectations	Plan does not evidence how best to serve customers and stakeholders. Significant concerns and lack of excellent responses across all test areas. Extensive regulatory intervention and therefore less trust than Category B.
D: Poor	Self-serving business plan with poor responses in multiple test areas. Extensive regulatory intervention to translate to price control package. Severe concerns about company's ability to deliver outcomes for stakeholders and consumers. Requirement for detailed monitoring of company during the price control period.

Table 12.2: Business plan categorisation expectations

GDN Self-Assessments

12.16 We also asked GDNs to complete a self-assessment against the criteria as part of their business plan submissions:

- A brief statement setting out how the GDN has approached delivering an exceptional business plan in each theme area.
- A reference to the key documentation in the business plan, which provides the supporting evidence to these statements.

12.17 From a presentational perspective, the GDNs opted for a range of file formats to present the information, from spreadsheet to MS Word based.

12.18 This in turn provided for a range of lengths, amounts of detail and background and associated text in the self-assessment submissions.

12.19 For future price control processes, we are open to discussing the pros and cons of different approaches to the self-assessment area with the GDNs. For example, continuing with the current approach which gives GDNs some flexibility in presentation, or in agreeing a more uniform approach across the industry.

12.20 The GDNs were asked to make a Self-Assessment of their business plans and each indicated that every area of their respective plan was at the "Exceptional" level.

UR Assessment

12.21 We have reviewed the GDNs business plans including self-assessments and have made our own assessment of the submissions made to us.

12.22 Included for each GDN is an Annex that provides a more thorough summary of our assessments based on these questions.

- Annex M - FE BPA.
- Annex N - PNGL BPA.
- Annex O - SGN BPA.

12.23 In the paragraphs below we take each GDN in turn and provide a summary of our assessment for each GDN.

Summary for FE Energy

12.24 FE was asked to make a Self-Assessment of its business plans and indicated that every area of the plan was "Exceptional".

12.25 FE's business plan provided well-evidenced rationale with 27 supplementary papers that set out its proposed services and activities for GD23 in an accessible and comprehensive way. Their plan proposes an 11% reduction in conveyance charges as well as bringing natural gas to an additional (c.37k) customers by the end of the GD23 period. The reduction in tariffs is largely due to a reduced rate of return and changes in volumes, the former of which FE provide good evidence and clear rationale for. FE has calculated its Rate of Return to secure the investment anticipated to deliver its goals for the network during the GD23 period and carried out financeability analysis to demonstrate how it would achieve a strong investment grade for funding purposes. It is clear how engagement with consumers and stakeholders has influenced their Business Plan submission. The business plan gives good detail on the feedback FE has received from ongoing engagement activities, and how this feedback has informed its plans for GD23; this includes a detailed overview of activities that will occur during the first three years of GD23. Risks were identified through FE’s risk register, and are reviewed regularly and supported by a management plan. They submitted an annual cost reporting metrics with accompanying commentary for the years 2017 to 2020, showing self-awareness when discussing performance over the GD17 period. FE’s public facing document was of good quality, however, it could have been more accessible, given its target audience of customers and consumers.

12.26 Overall, the FE business plan received a rating of **Good**.

Summary for Phoenix Natural Gas Ltd

12.27 PNGL was asked to make a Self-Assessment of its business plans and indicated that every area of the plan was "Exceptional".

12.28 PNGL details how it intends to develop its business during GD23, giving a clear and comprehensive explanation of services that will be provided and any that fall outside its scope. PNGL's submission has been subject to review from external consultants (NERA) and also sought to benchmark their financial structure against other companies in the sector to ensure that they are aligned to industry standards. PNGL has undertaken a robust programme of consumer and stakeholder engagement, across core audiences, and importantly, hard-to-reach audiences, to inform its business strategy and to ensure it continues to deliver the best possible service and value for money for its consumers and the communities during the GD23 period. In addition to this, they have provided explanations of how they will ensure that their services deliver the right outcome or where enhancements could be made and have made clear where sections of their Business Plan have been shaped by their stakeholder and consumer engagement. PNGL has prepared its Business Plan under the assumption of 'business as usual' throughout the GD23 period. Reasonable endeavours have been made to forecast for key activities and considerations have been made for specific market indicators that will affect opex and capex forecasts. PNGL provided the detailed risk analysis it has undertaken in assessing the ongoing resilience of its asset, and its GD17 performance report was clear and succinct, providing a strong overview of the key outcomes from the GD17 period. The public facing version of PNGL's business plan was also presented in a clear and accessible fashion.

12.29 Overall the PNGL business plan was rated as **Good** with one area identified as **Exceptional**.

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Summary for SGN Natural Gas

12.30 SGN was asked to make a Self-Assessment of its business plans and indicated that every area of the plan was "Exceptional".

12.31 SGN's Business Plan submission provided sufficient detail in most areas, but less than expected to account for tariff increases and what value it will generate for consumers. SGN has provided evidence that the proposed Rate of Return has been tested against possible alternatives, and has suitably assessed the financeability of its business plan, looking at the long-term sustainability of the company, the value to customers and reasonable levels of returns for retaining and attracting capital. It is clear that SGN have engaged with their customers and stakeholders as part of its GD23 Business Plan submission, recognising the need for a continuous, systematic loop of engagement, insight gathering and improvement, allowing for a strong commitment to engagement, and importantly, utilising the insights to create a better Business Plan submission and enhance the business going forward. When examining risks, a key consideration was balancing financial risk between its business and customers and as a result, the plan has been structured so that customers will not be disadvantaged by a change in forecasts. SGN also recognise the uncertainty around the role of the gas networks in a decarbonised energy system. In its assessment of its GD17 performance it is clear that SGN sought to understand the differences between what was expected and what was delivered, identifying areas of significant difference between its forecast and actual expenditure. Finally, SGN’s business plan was professionally presented and data was available in a variety of formats, its public facing paper also being of high-quality and clearly understanding its target audience.

12.32 Overall, the SGN business plan received a rating of **Good** with one area Meeting Basic Expectations.

13. Next steps for Consultation Response and Further Issues

Submission of Consultation Responses

13.1 This is an open consultation paper. We invite stakeholders to express a view on any particular aspect of the paper or any related matter. Responses should be received on or before 12 noon on Thursday 26 May 2022 and should be addressed to:

Paul Harland

Network Assets

Queens House

14 Queen Street

Belfast

BT1 6ED

Tel: 028 9031 1575

Email: Gas_networks_responses@uregni.gov.uk

with cc to paul.harland@uregni.gov.uk

13.2 Our preference would be for responses to be submitted by e-mail.

13.3 Your response may be made public by us. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'

13.4 If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential

13.5 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 2018 (DPA)).

13.6 As stated in the GDPR Privacy Statement for consumers and stakeholders, any personal data contained within your response will be deleted once the matter being consulted on has been concluded though the substance of the response may be retained.

13.7 This document is available in other accessible formats, such as large print, Braille, audio cassette and a variety of relevant minority languages if required. Please contact Paul Harland on either 028 9031 1575 or email: Gas_networks_responses@uregni.gov.uk with cc to paul.harland@uregni.gov.uk to request this.

13.8 It is also envisaged that work will continue with key stakeholders, during the consultation phase to ensure that all areas are made clear, on how decisions have been reached.

13.9 If appropriate, we can have individual discussions with interested parties. Please contact us if you consider this to be more suitable.

Key milestones

13.10 Table 13.1 provides an overview over the Key milestones and associated timelines for the GD23 price control process.

GD23 Key Milestones	Revised timeline
GD23 Approach Document Consultation	1 June 2020
GD23 Approach Document Consultation Ends	7 August 2020
GD23 Approach Document published	6 November 2020
Business Plan information requirements published	31 January 2021
GDNs submit BPs for GD23	30 June 2021
UR publishes DD consultation for GD23	9 March 2022
DD consultation period ends	26 May 2022
GD23 FD and licence consultation published	September 2022
GD23 GDN licence modifications published	November 2022
GD23 Price control takes effect	1 January 2023

Table 13.1: Price Control Process Key Milestones up to Publication of GD17 Draft Determination.

Process after DD publication

Final Determination and Licence modifications

13.11 We will reconsider our determination in light of the responses received to our consultation on the GD23 draft determination document. We envisage that this will entail a further phase of bilateral engagement between ourselves and the GDNs, as well as engagement with other key stakeholders between June to September 2022.

13.12 Our GD23 final determination is due to be published on 21 September 2022, and will account for our findings from consideration of the consultation responses received and comments made as part of this engagement.

13.13 The publication of the GD23 final determination will be accompanied by a consultation on related licence modifications, of which we will consider any response and then make a final decision of the licence modifications to be published on the 2 November 2022.

Change in Ownership Structure

13.14 It is possible that any GDN could end up under common ownership. Under the terms of their licences, any change of ownership must be approved by us.

13.15 Our expectation, in particular if any GDN came under common ownership, is that there may be synergies and other cost savings that can be achieved.

13.16 As a consequence, it may be appropriate to re-open this price control for any change of ownership depending on the exact timing. If the businesses come under common ownership we would seek to ensure that the resulting synergy cost savings are shared between the GDNs and consumers.

Lessons Learnt

13.17 In line with good regulatory practice, we plan to conduct a lessons learnt process to take place within the 1st year of 2023, after the GD23 price control process has been completed.

13.18 As part of this lessons learnt process we intend to capture feedback from the GDNs, key stakeholders as well as internally from our colleagues on key aspects of the price control process.

13.19 We wish to use this information to implement improvements to the way in which we conduct price controls and apply them to future price control processes, where reasonable and possible.

Further Issues

13.20 As part of this GD23 draft determination we have identified some issues, which we consider to be beyond the scope of the GD23 price control determination. We would plan to continue work on these areas were appropriate and identify broadly the key issues for the GD23 final determination.