



# Proposed Modification of Electricity Distribution and Transmission Licences

## NIE Networks One Year Extension to the RP6 Price Control

Consultation Paper  
25 January 2023



## About the Utility Regulator

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

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

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

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



### Our mission

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



### Our vision

To ensure value and sustainability in energy and water.



### Our values

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



## Abstract

We are publishing a consultation on licence modifications to enable a one year extension of the RP6 price control final determination into the 2024/25 year. The RP6 extension proposed licence modifications sets the amount NIE Networks will have to run their business and invest in the electricity network for the 2024/25 year.

## Audience

This document is likely to be of interest to the licence holder affected, consumers and consumer groups, other regulated companies in the energy industry, government and other statutory bodies.

## Consumer impact

The RP6 price control extension aims to set an efficient revenue cap to enable NIE Networks to deliver quality outputs that customers need. Northern Ireland Electricity Ltd costs are material and a controllable element of electricity tariffs and RP6 investment decisions are expected to underpin improvements in service delivery for consumers.



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Annex	Annex Title
Annex A	Proposed Article 14 modifications to Annex 2 of the Distribution Licence
Annex B	Proposed Article 14 modifications to Annex 2 of the Transmission Licence
Annex C	Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 – Modifications Proposed to Annex 2 of the Distribution Licence Held by Northern Ireland Electricity Networks (Ltd)
Annex D	Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 – Modifications Proposed to Annex 2 of the Transmission Licence Held by Northern Ireland Electricity Networks (Ltd)



# 1. Introduction

## Purpose of this document

- 1.1 Our principal objective in carrying out the duties associated with our electricity functions is to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity, as set out more fully in the Energy (Northern Ireland) Order 2003 (*the Energy Order*)<sup>1</sup>.
- 1.2 The Utility Regulator (UR) must carry out those functions in the manner which it considers is best calculated to further the principal objective, having regard in particular to:
- a) the need to secure that all reasonable demands Northern Ireland or Ireland for electricity are met; and
  - b) the need to secure that licence holders are able to finance the activities which are the subject of obligations imposed by or under Part II of the Electricity (Northern Ireland) Order 1992<sup>2</sup> (*the Electricity Order*) or the Energy Order.
- 1.3 The UR must also carry out its functions consistently with a number of other duties set out in full at Article 12 of the Energy Order.
- 1.4 In line with these duties, we are consulting on modifications we propose to make under Article 14 of the Electricity Order to the “Electricity Distribution Licence”<sup>3</sup> (*the Distribution Licence*) and the “Participate in Transmission Licence”<sup>4</sup> (*the Transmission Licence*) held by NIE Networks
- 1.5 The licence modifications set out in this consultation will extend the duration of NIE Networks current Price Control (RP6) by one year, moving the end date of the RP6 Price Control from the 31 March 2024 to the 31 March 2025.

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<sup>1</sup> <https://www.legislation.gov.uk/nisi/2003/419/contents>

<sup>2</sup> <https://www.legislation.gov.uk/nisi/1992/231/contents>

<sup>3</sup> The licence first granted to Northern Ireland Electricity on the 31 March 1992, last amended on the 16 August 2021.

<sup>4</sup> The licence first granted to Northern Ireland Electricity on the 31 March 1992, last amended on the 16 August 2021.



## Background for licence proposed modifications

- 1.6 We consulted on our draft approach for the RP7 price control in March 2022. Within the RP7 draft approach document<sup>5</sup>, we explained that the current RP6 price control for NIE Networks covers the period 1 October 2017 to 31 March 2024. We stated that our intention was that the RP7 price control would cover the period 1 April 2024 to 31 March 2030. Within the approach document we set out key milestones for the RP7 price control.
- 1.7 In its response to the draft approach document NIE Networks outlined reasoning why it considered the timelines outlined in our approach document to be challenging. It proposed that the RP7 business plan submission date be delayed by five months to 31 March 2023 (from October 2022). This would allow for a significant period of engagement with the Utility Regulator, and other stakeholders, during 2022, which NIE Networks believed would lead to a better and more informed RP7 Business Plan submission.
- 1.8 In our final approach document<sup>6</sup> for RP7 we explained that in setting revised key milestones for the RP7 we intended to take account of the response by NIE Networks, and consequently intended to consult on licence modifications for a one year extension to the current RP6 price control.
- 1.9 The proposed licence modifications set out in this consultation and itemised in Table 1.1 below, would, if adopted:
- a) Extend the duration of the RP6 Price Control by one year by amending the end date for RP6 from the 31 March 2024 to the 31 March 2025.
  - b) Introduce allowed values, unit rates and amounts for the RP6 extension year including values, rates and amounts for operational expenditure, capital expenditure and pension deficit repair.
  - c) Introduce values for the RP6 extension year necessary to calculate the return amount and associated financial parameters.
  - d) Extend the definition of various terms to include the year ending 31 March 2025.
- 1.10 We have also proposed modifications to the Reliability Incentive Model to include the year 2024/25 which is referenced in the licence and the outcome of which contributes to the calculation of Maximum Regulated Revenue.

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<sup>5</sup> [RP7 approach document | Utility Regulator \(uregni.gov.uk\)](https://www.uregni.gov.uk/news-centre/final-approach-nie-networks-next-price-control-published)

<sup>6</sup> <https://www.uregni.gov.uk/news-centre/final-approach-nie-networks-next-price-control-published>



- 1.11 These modifications would allow the maximum regulated revenue to be calculated for the additional year of the RP6 price control period (1 April 2024 to 31 March 2025) for the purpose of setting tariffs for the distribution and transmission networks.





Type of Licence Modification	Licence	
	Distribution	Transmission
<b>Proposed modifications to extend the RP6 period</b>		
Modify the definition of RP6 to extend the duration of the price control by one year.	Annex 2 paragraph 1.1	Annex 2 paragraph 1.1
<b>Proposed modifications to allowances, rates and amounts for the extension year</b>		
Modify the Distribution Business allowed capex per RAB_D5Y to include a determined amount for the year t = 2025.	Annex 2 paragraph 4.32 Table 3	na
Modify the Distribution Business allowed capex per RAB_DN to include a determined amount for the year t = 2025.	Annex 2 paragraph 4.34 Table 4	na
Modify the Distribution Business allowed capex per RAB_TN to include a determined amount for the year t = 2025.	na	Annex 2 paragraph 4.32 Table 3
Modify the Distribution Business allowed capex per RAB_T5Y to include a determined amount for the year t = 2025.	na	Annex 2 paragraph 4.32 Table 3
Modify the Distribution undereaves allowance unit cost (UAU_2016) to include a determined amount for the year t = 2025.	Annex 2 paragraph 4.35 Table 5	na
Increase the constraint on the determination of additional allowed capex for trials to assess and demonstrate innovative future investment.	Annex 2 paragraph 4.38(c)	Annex 2 paragraph 4.35(e)
Modify the Distribution Business first metering fixed allowance (FMFA <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 4.42 Table 6	na
Modify the Distribution Business second metering fixed allowance (SMFA <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 4.44 Table 7	na
Make provision for the determination of additional metering allowance unit cost for additional Metering category C.	Annex 2 paragraph 4.46 Annex 2, add paragraphs 4.46A, 4.46B and 4.46C	na
Modify the aggregate amount metering category C 'Meter Replacement for theft' to take account of decisions to date under Annex 2 paragraph 4.50 of the distribution licence and the additional year of RP6.	Annex 2 paragraph 4.48(a)	na
Modify the real price effects & productivity factors (RPEPF <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 4.52 Table 9	na
Modify the Distribution Business allowed opex amount (AO <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 6.13 Table 10	Annex 2 paragraph 6.13 Table 4
Modify the pension deficit amount (P_2016 <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 7.1 Table 11	Annex 2 paragraph 7.1 Table 5



Type of Licence Modification	Licence	
	Distribution	Transmission
<b>Proposed modification of dates to apply to the extension year</b>		
Modify the definition of additional allowed capex (ACDR <sub>Xt</sub> ) to include amounts determined for the year t = 2025.	Annex 2 paragraph 4.38(d)	na
Modify the definition of allowed opex other amount to include amounts determined for the term NES <sub>t</sub> for the year t = 2025.	Annex 2 paragraph 6.15	Annex 2 paragraph 6.15
Modify the definition of the correction factor amount (K <sub>t</sub> ) to include amounts calculated for the year t = 2025	Annex 2 paragraph 11.1(b)	Annex 2 paragraph 11.1(b)
Modify the time when the charge restriction conditions cease to apply to the 1 October 2025.	Annex 2 paragraph 15.2	Annex 2 paragraph 15.2

Note: na – not applicable to the relevant licence

**Table 1.1: Overview of proposed licence modifications**

1.12 Before making any modifications to licence conditions using its powers under Article 14 of the Electricity Order, UR must give notice<sup>7</sup>:

- a) stating that it proposes to make modifications;
- b) setting out the proposed modifications and their effect;
- c) stating the reasons why it proposes to make the modifications; and
- d) specifying the time within which representations with respect to the proposed modifications may be made.

1.13 Notices under Article 14(2) of the Electricity Order have been issued in respect of the modifications to the Distribution Licence and the Transmission Licence proposed in this consultation and are included in this document as Annex A and Annex B respectively.

1.14 There is significant commonality between the reasons and effects of the licence modifications proposed, both for broad themes within each licence and between the licences. Therefore, in this consultation, we have first itemised the proposed modifications to the licences and we have then set out the reasons and effects of the modifications separately grouped by the following themes:

- a) Extending the duration of the RP6 Price Control.
- b) Introducing allowed values, unit rates and amounts for the RP6

<sup>7</sup> The Electricity Order Article 14(2)



extension year.

- c) Introducing values for the return amount and associated financial parameters for the RP6 extension year.
- d) Amending the definition of various terms to include the year  $t=2025$ .

## Document structure

1.15 This consultation paper is structured in a number of chapters as follows:

- Chapter 1 Introduction provides an overview of the purpose and structure of this consultation document and provides an overview of the proposed licence modifications.
- Chapter 2 Proposed Modifications to the Distribution Licence details the proposed modifications to the NIE Networks Distribution Licence which will extend the RP6 Price Control by one year, introduce allowed values, unit rates and amounts for the extension year, introduce values for the extension year for the return amount and associated financial parameters, and amend the definition of various terms to include the RP6 extension year.
- Chapter 3 Proposed Modifications to the Transmission Licence details the proposed modifications to the NIE Networks Transmission Licence which will extend the RP6 Price Control by one year, introduce allowed values, unit rates and amounts for the extension year, introduce values for the extension year for the return amount and associated financial parameters, and amend the definition of various terms to include the RP6 extension year.
- Chapter 4 Reasons and Effects of the Proposed Licence Modifications sets out the reasons and effects of the licence modifications proposed in Chapter 2 and Chapter 3, with the reasons and effects grouped by common themes both within and between the Distribution and Transmission licences.
- Chapter 5 Reliability Incentive details proposed changes to the Reliability Incentive Model based on customer minutes lost (CML) which was implemented for RP6 as well as the associated reasons and effects.
- Chapter 6 Next Steps provides details on how to submit responses to this consultation document and sets out our proposed timelines for the remainder of the licence modification process.



- 1.16 This consultation document is complemented by annexes:
- a) Giving formal statutory notice under Article 14(2) of the Electricity Order that UR proposes modifying the Distribution Licence (Annex A) and the Transmission Licence (Annex B).
  - b) Showing the proposed licence modifications for the Distribution Licence (Annex C) and the Transmission Licence (Annex D) as tracked changes to the current licence conditions. Within the annexes proposed deletions are indicated by red text that has been struck through, proposed additions are indicated by red text.

### **Approach**

- 1.17 In the interest of transparency and in line with best practice regulation, we have engaged with NIE Networks to discuss the detail of these proposed licence modifications in advance of publication, including providing the company with advance sight of the many of the proposed tracked changes to its licences at as early a stage as possible.
- 1.18 We note that this consultation document presents a further opportunity not only for NIE Networks but also for any other interested stakeholders to provide comments on the proposed modifications. Any final decision on licence modifications will take account of the responses to this consultation.
- 1.19 Section 6 below (Next Steps) provides details on how to respond to this consultation and sets out the key next steps and associated timelines for the remainder of the licence modification process.



## 2. Proposed Modifications to the Distribution Licence

### Overview

- 2.1 The overall purpose of the proposed modifications to the Distribution Licence is to extend the RP6 period by one year to end on the 31 March 2025.
- 2.2 The proposed modifications to the Distribution Licence are set out in this section of the consultation, grouped under the following themes:
- a) Extending the duration of the RP6 Price Control.
  - b) Introducing allowed values, unit rates and amounts for the RP6 extension year including for operational and capital expenditure and pension deficit repair.
  - c) Introducing values for the RP6 extension year for the calculation of the return amount and associated financial parameters.
  - d) Amending the definition of various terms to include the year  $t=2025$ .
- 2.3 In this section, the phrase  $t=2025$  refers to the Regulatory Reporting Year which ends on the 31 March 2025 (the RP6 extension year).
- 2.4 A marked up copy of the Distribution Licence showing the modifications itemised below is included as Annex C.

### Proposed modifications to extend the RP6 period

#### ***RP6 definition***

- 2.5 We propose to change the definition of the term 'RP6' in paragraph 1.1 of Annex 2 from:

*'means the period commencing on 1 October 2017 and ending on 31 March 2024'*

to

*'means the period commencing on 1 October 2017 and ending on 31 March 2025'.*



## Proposed modifications to distribution allowed values, rates and amounts for the RP6 extension year

### *Allowed capex for 5 year Distribution RAB – AC\_D5Y<sub>t</sub>*

- 2.6 We propose to replace the existing Table 3 of Annex 2 of the Distribution Licence with Table 2.1 below to include a determined value for the RP6 extension year for the Distribution Business allowed capex per RAB\_D5Y.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
RAB_D5Y	8.451	11.069	9.016	7.071	6.483	5.941	7.974	7.676

**Table 2.1: The Distribution Business allowed capex per RAB\_D5Y for each Regulatory Reporting Year t (£ million, 2016 prices)**

### *Allowed capex for Distribution RAB – AC\_DN<sub>t</sub>*

- 2.7 We propose to replace the existing Table 4 of Annex 2 of the Distribution Licence with Table 2.2 below to include a determined value for the RP6 extension year for the Distribution Business allowed capex per RAB\_DN.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
RAB_DN	31.772	63.005	62.470	61.940	61.414	60.893	60.379	79.801

**Table 2.2: The Distribution Business allowed capex per RAB\_DN for each Regulatory Reporting Year t (£ million, 2016 prices)**

### *Distribution undereaves allowance unit cost UAU\_2016*

- 2.8 We propose to replace Table 5 of Annex 2 of the Distribution Licence with Table 2.3 below to include a determined value for the RP6 extension year the Distribution Business undereaves allowance unit cost for UAU\_2016.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
RAB_UAU_2016	411.86	408.36	404.89	401.46	398.05	394.67	391.32	388.00

**Table 2.3: The Distribution Business undereaves allowance unit cost for UAU\_2016 for each Regulatory Reporting Year t (£, 2016 prices)**



***Constraint on the value of  $ACDR_{X_t}$***

2.9 We propose to replace sub-paragraph 4.38(c) of Annex 2 of the Distribution Licence with the following to allow further trials to assess and demonstrate innovative future investment in the Distribution System to be undertaken before the end of the RP6 extension year:

*the total additional allowance which may be determined for trials undertaken to assess and demonstrate innovative future investment in the Distribution System shall not, taken together with the total additional allowance that may be determined by the Authority pursuant to paragraph 4.35(e) of Annex 2 of the successor transmission licence, exceed £9.536 million in 2015/16 prices;*

***First metering fixed allowance ( $FMFA_t$ )***

2.10 We propose to replace the existing Table 6 of Annex 2 of the Distribution Licence with Table 2.4 below to include a determined value for the RP6 extension year for the Distribution Business first metering fixed allowance.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
First metering fixed allowance ( $FMFA_{2016t}$ )	0.462	0.924	0.924	0.924	0.924	0.924	0.924	0.924

**Table 2.4: The Distribution Business first metering fixed allowance for each Regulatory Reporting Year t (£ million, 2016 prices)**

***Second metering fixed allowance ( $SMFA_t$ )***

2.11 We propose to replace the existing Table 7 of Annex 2 of the Distribution Licence Table 2.5 below to include a determined value for the RP6 extension year for the Distribution Business second metering fixed allowance.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
Second metering fixed allowance ( $SMFA_{2016t}$ )	0.676	1.351	1.351	1.351	1.351	1.351	1.351	1.351

**Table 2.5: The Distribution Business second metering fixed allowance for each Regulatory Reporting Year t (£ million, 2016 prices)**





***Distribution Business additional metering allowance unit cost for additional Metering category C***

- 2.12 We propose to replace the formula for the Metering volume driven allowance ( $MVA_t$ ) in paragraph 4.46 of Annex 2 of the Distribution Licence with the following formula to include each additional Metering Category C determined by the Authority under paragraph 4.46B of Annex 2.

$$MVA_t = \sum_{All\ C} \left( (MV_{C_t} * MAU_{2016_{C_t}}) + (AMV_{C_t} * AMAU_{2016_{C_t}}) \right) * RPI_t / RPI_{2016}$$

- 2.13 We propose to define an additional term  $AMV_{C_t}$  used to calculate the Metering volume driven allowance ( $MVA_t$ ) in paragraph 4.46 of Annex 2 of the Distribution Licence as follows:

**$AMV_{C_t}$**  *‘means the volume of Metering units installed (whether as a new Metering unit or replacement or adjustment of an existing Metering unit) in respect of Regulatory Reporting Year t, for each additional Metering Category C identified by the Authority in a decision made under paragraph 4.46B of this Annex;’*

- 2.14 We propose to define an additional term  $AMAU_{2016_{C_t}}$  used to calculate the Metering volume driven allowance ( $MVA_t$ ) in paragraph 4.46 of Annex 2 of the Distribution Licence as follows:

**$AMAU_{2016_{C_t}}$**

*‘is the additional metering allowance unit cost, in a 2016 price base, in respect of Regulatory Reporting Year t, for each additional Metering Category C, determined by the Authority in a decision made under paragraph 4.46B of this Annex.’*

- 2.15 We propose to add the following text after Table 8 of Annex 2 of the Distribution Licence which will allow additional Distribution Business Metering category C to be added and additional metering allowance unit cost (2016 prices) to be determined for these additional categories:

**4.46A Additional metering allowance unit costs for additional Metering category C -  $AMAU_{2016_{C_t}}$**

**4.46B** *For the purpose of this Annex, an additional metering allowance unit cost ( $AMAU_{2016_{C_t}}$ ) is any unit rate which the Authority determines, in a published decision, to be appropriate for an*





*additional Metering Category C which is identified in that decision.*

- 4.46C *The value of any additional metering allowance unit cost in respect of an additional Metering Category C (AMAU\_2016\_C<sub>t</sub>) shall be that which the Authority considers appropriate in all the circumstances, and for these purposes:*
- a) *no additional metering allowance unit cost may be determined in respect of any outputs or costs that are funded through other provisions of this Annex;*
  - b) *an additional metering allowance unit cost may be determined for an additional Metering category C only if the meters are to be installed in Regulatory Reporting Year t=2025 and the additional metering allowance unit cost has been determined by the Authority in a published decision in advance of Regulatory Reporting Year t=2025, or such later time as the Authority may determine in a published decision;*
  - c) *the Licensee shall provide such information, including in such manner, format and within such period, as may be required by the Authority (and notified to the Licensee) for the purposes of making its determination;*
  - d) *the Authority may follow such procedure as it considers appropriate prior to making its determination, including by providing for any audit, assessment or consultation in respect of any information provided to it or on behalf of the Licensee (whether or not in accordance with a requirement to do so); and;*
  - e) *the Authority may make its determination subject to conditions with which the Licensee shall be required to comply as if they were specified in this Annex, including in particular conditions as to any monitoring, audit and reporting in relation to any additional Metering Category C.*

***Meter Replacement for theft – metering volume driven allowance (MVA<sub>t</sub>)***

- 2.16 We propose to replace the figure of 7,700 metering units in paragraph 4.48(a) and paragraph 4.50(b) of Annex 2 of the Distribution Licence with 17,700 metering units. This is because the Utility Regulator previously



granted approval to extend the provision within the RP6 price control for the 'meter replacement for theft' programme by a further 10,000 metering units.

***Real price effects & productivity factor (RPEPF<sub>t</sub>)***

2.17 We propose to replace the existing Table 9 of Annex 2 of the Distribution Licence with Table 2.6 below to include a determined value for the RP6 extension year for the Distribution Business real price effect & productivity factor. The rates in this table are applied to the metering RABs in Tables 6, 7 and 8 of Annex 2.

Year	Real price effect & productivity factor (RPEPF <sub>t</sub> )
t=2018	0.98309
t=2019	0.97475
t=2020	0.96647
t=2021	0.95826
t=2022	0.95013
t=2023	0.94206
t=2024	0.93406
t=2025	0.92613

**Table 2.6: The Distribution Business real price effect & productivity factor for each Regulatory Reporting Year t**

***Allowed opex amount – AO<sub>2016t</sub>***

2.18 We propose to replace the existing Table 10 of Annex 2 of the Distribution Licence with Table 2.7 below to include a determined value for the RP6 extension year for the Distribution Business allowed opex amount.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
Allowed Opex Amount (AO <sub>2016t</sub> )	29.296	57.903	57.368	56.872	56.377	55.912	55.447	51.109

**Table 2.7: The Distribution Business allowed opex amount for each Regulatory Reporting Year t (£ million, 2016 prices)**



***The pension deficit amount – P<sub>2016t</sub>***

2.19 We propose to replace the existing Table 11 of Annex 2 of the Distribution Licence with Table 2.8 below to include a determined value for the RP6 extension year for the pension deficit amount – P<sub>2016t</sub>.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
Historic Deficit Repair	6.723	13.467	13.476	13.464	13.478	13.497	13.591	13.591
ERDC Disallowance	(1.756)	(3.595)	(3.597)	(3.594)	(3.597)	(3.603)	(3.627)	(3.627)
Pension deficit amount (P <sub>2016t</sub> )	4.967	9.873	9.879	9.870	9.881	9.895	9.963	9.963

**Table 2.8: The Distribution Business pension deficit amount for each Regulatory Reporting Year t (£ million, 2016 prices)**

**Proposed modifications to dates to apply to the RP6 extension year**

***Additional allowed capex – ACDR<sub>Xt</sub>***

2.20 We propose to change the definition of the **ACDR<sub>Xt</sub>** term in paragraph 4.38(d) of the Distribution Licence to include Regulatory Reporting Year t=2025. This is to facilitate an allowance which may be determined in respect of any project to address load growth due to the introduction of low carbon technologies.

***Allowed opex other amount – AOO<sub>t</sub>***

2.21 We propose to change the **NES<sub>t</sub>** term under paragraph 6.15 of Annex 2 of the Distribution Licence to extend the period where sums can be approved under the **NES<sub>t</sub>** term to include the Regulatory Reporting Year t=2025. The **NES<sub>t</sub>** term relates to costs related to either of:

- A New Energy Strategy IT solution; or
- any significant changes required to the specification of the information technology systems utilised by the Licensee for the purposes of providing the Market Data Service or the Market Registration Service



***The correction factor amount –  $K_t$***

- 2.22 We propose to change the **correction factor amount –  $K_t$**  term under paragraph 11 of Annex 2 of the Distribution Licence to include Regulatory Reporting Year  $t=2025$ .

***Duration of the charge restriction conditions***

- 2.23 We propose to replace paragraph 15.2 of Annex 2 of the Distribution Licence in relation to **Disapplication** with:

*‘The Distribution Charge Restriction Conditions outlined in paragraph 3.2 do not apply to tariff years from 1 October 2025 onwards. In the absence of modifications to those provisions, the Licensee shall not be able to increase (in nominal terms) any of the tariffs or charges contributing to its Regulated Distribution Revenue above the levels applicable on 1 October 2024.’*

- 2.24 We propose to replace paragraph 15.5(b) of Annex 2 of the Distribution Licence in with:

*‘31 March 2025’.*



## 3. Proposed Modifications to the Transmission Licence

### Overview

- 3.1 The overall purpose of the proposed modifications to the Transmission Licence is to extend the RP6 period by one year to end on the 31 March 2025.
- 3.2 The proposed modifications to the Transmission Licence are set out in this section of the consultation, grouped under the following themes:
- Extending the duration of the RP6 Price Control by one year.
  - Introducing allowed values, unit rates and amounts for the RP6 extension year including for operational expenditure, capital expenditure and pension deficit repair.
  - Introducing values for the RP6 extension year for the calculation of the return amount and associated financial parameters.
  - Amending the definition of various terms to include the year  $t=2025$ .
- 3.3 In this section, the phrase  $t=2025$  refers to the Regulatory Reporting Year which ends on the 31 March 2025 (the RP6 extension year).
- 3.4 A marked up copy of the Transmission Licence showing the modifications itemised below is included as Annex D.

### Proposed modifications to extend the RP6 period

#### ***RP6 definition***

- 3.5 We propose to change the definition of the term 'RP6' in paragraph 1.1 of Annex 2 of the Transmission Licence from:

*'means the period commencing on 1 October 2017 and ending on 31 March 2024'*

to

*'means the period commencing on 1 October 2017 and ending on 31 March 2025.'*



## Proposed modifications to transmission allowed values, rates and amounts for the RP6 extension year

### ***Allowed capex – AC<sub>Xt</sub>***

- 3.6 We propose to replace the existing Table 3 of Annex 2 of the Transmission Licence with Table 3.1 below to include a determined value for the RP6 extension year for the Transmission Owner Business allowed capex per RAB\_TN and RAB\_T5Y.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
RAB_TN	4.720	9.359	9.280	9.201	9.123	9.045	8.969	7.149
RAB_T5Y	0.490	0.728	0.970	0.794	0.597	0.599	0.605	0.693

**Table 3.1: The Transmission Owner Business allowed capex per RAB\_X for each Regulatory Reporting Year t (£ million, 2016 prices)**

### ***Constraint on the value of ACTR<sub>Xt</sub>***

- 3.7 We propose to replace sub-paragraph 4.35(e) of Annex 2 of the Transmission Licence with the following to allow further trials to assess and demonstrate innovative future investment in the Transmission System to be undertaken before the end of the RP6 extension year:

*the total additional allowance which may be determined for trials undertaken to assess and demonstrate innovative future investment in the transmission system shall not, taken together with the total additional allowance that may be determined by the Authority pursuant to paragraph 4.38(c) of Annex 2 in the successor distribution licence, exceed £9.536 million in 2015/16 prices.*

### ***Allowed opex amount – AO<sub>2016t</sub>***

- 3.8 We propose to replace the existing Table 4 of Annex 2 of the Transmission Licence with Table 3.2 below to include a determined value for the RP6 extension year for the Transmission Business allowed opex amount.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
Allowed Opex Amount (AO <sub>2016t</sub> )	4.022	7.976	7.897	7.819	7.765	7.685	7.599	7.532



**Table 3.2: The Transmission Business allowed opex amount for each Regulatory Reporting Year t (£ million, 2016 prices)**

***The pension deficit amount –  $P_{2016t}$***

3.9 We propose to replace the existing Table 5 of Annex 2 of the Transmission Licence with Table 3.3 below to include a determined value for the RP6 extension year for the Transmission Business pension deficit amount.

Term	Value							
	t=2018	t=2019	t=2020	t=2021	t=2022	t=2023	t=2024	t=2025
Historic Deficit Repair	2.081	4.142	4.133	4.145	4.131	4.112	4.018	4.018
ERDC Disallowance	(0.544)	(1.105)	(1.103)	(1.106)	(1.103)	(1.097)	(1.073)	(1.073)
Pension deficit amount ( $P_{2016t}$ )	1.538	3.036	3.030	3.039	3.029	3.014	2.946	2.946

**Table 3.3: The Transmission Business pension deficit amount for each Regulatory Reporting Year t (£ million, 2016 prices)**

**Proposed modifications to dates to apply to the RP6 extension year**

***Allowed opex other amount –  $AOO_t$***

3.10 We propose to change the **NES<sub>t</sub>** term under paragraph 6.15 of Annex 2 of the Transmission Licence to extend the period where sums can be approved under the **NES<sub>t</sub>** term to include the Regulatory Reporting Year t=2025. The **NES<sub>t</sub>** term relates to costs related to any New Energy Strategy IT solution.

***The correction factor amount –  $K_t$***

3.11 We propose to change the **correction factor amount –  $K_t$**  term in paragraph 11 of Annex 2 of the Transmission Licence to include Regulatory Reporting Year t=2025 to allow the correction factor to operate in the RP6 extension year.

***Duration of the charge restriction conditions***

3.12 We propose to change paragraph 15.2 of Annex 2 of the Transmission Licence in relation to **Disapplication** by replacing the opening sentence with:



*‘The Transmission Charge Restriction Conditions outlined in paragraph 3.2 do not apply to tariff years from 1 October 2025 onwards. In the absence of modifications to those provisions, the licensee shall not be able to increase (in nominal terms) any of the tariffs or charges contributing to its Regulated Transmission Revenue above the levels applicable on 1 October 2024.’*

3.13 We propose to change paragraph 15.5(b) of Annex 2 of the Transmission Licence in with:

*‘31 March 2025’.*





## 4. Reasons and Effects

### Introduction

- 4.1 Before making modifications to a licence under Article 14 of the Electricity Order, UR must set out the proposed modifications and their effects, stating the reasons why it proposes making the modifications.
- 4.2 There is significant commonality between the reasons and effects of the licence modifications proposed in Sections 2 and 3 of this consultation, both for broad themes within each licence and between the licences. In this section we have then set out the reasons and effects of the modifications proposed above grouped by the following themes:
- Extending the duration of the RP6 Price Control.
  - Introducing allowed values, unit rates and amounts for the RP6 extension year.
  - Introducing values for the RP6 extension year for the calculation of the return amount and associated financial parameters.
  - Amending the definition of various terms to include the year t=2025.

### Proposed modifications to extend the RP6 period

#### *Proposed modifications to extend the RP6 period*

- 4.3 Proposed modifications to extend the RP6 period are summarised in Table 4.1 below.

Type of Licence Modification	Licence	
	Distribution	Transmission
<b>Proposed modifications to extend the RP6 period</b>		
Modify the definition of RP6 to extend the duration of the price control by one year.	Annex 2 paragraph 1.1	Annex 2 paragraph 1.1

**Table 4.1: Proposed modifications to extend the RP6 period**

#### *Reasons for extending the RP6 period*

- 4.4 We consulted on our draft approach for the RP7 price control in March 2022. Within the RP7 draft approach document<sup>8</sup>, we explained that the current RP6

<sup>8</sup> [RP7 approach document | Utility Regulator \(uregni.gov.uk\)](https://www.uregni.gov.uk/rp7-approach-document)



price control for NIE Networks covers the period 1 October 2017 to 31 March 2024 and our intention that the RP7 price control would cover the period 1 April 2024 to 31 March 2030. Within the approach document we set out key milestones for the RP7 price control.

- 4.5 In its response to the draft approach document NIE Networks outlined reasoning why it considers the timelines outlined in our approach document to be challenging in terms of the scale of work to be undertaken, as well as the backdrop of unprecedented levels of uncertainty affecting related issues and that these issues include:
- a) the scale of the challenges emerging for RP7, including a step-change in investment which NIE Networks will be proposing in its Business Plan, driven by:
    - (i) the requirements of the Climate Change Act (Northern Ireland) 2022 and the Energy Strategy, including increased renewables, decarbonisation of heat and transport, and a more flexible, resilient and integrated energy system;
    - (ii) increased investment to maintain network resilience, performance and risk indicators;
    - (iii) the scale of the transmission investment programme identified by the System Operator for Northern Ireland (SONI); and
  - b) the unprecedented level of uncertainty including in relation to the geopolitical situation (the Russian war in Ukraine etc.), an associated focus on energy security, inflationary pressures and supply chain challenges, energy price crisis, and the uncertain pace and detail of delivery of the Climate Change Act and Energy Strategy in Northern Ireland.
- 4.6 NIE Networks response proposed that the RP7 business plan submission date be delayed by five months to 31 March 2023 (from October 2022). This would allow for a significant period of engagement with the Utility Regulator, and other stakeholders, during 2022, which NIE Networks believed would lead to a better and more informed RP7 Business Plan submission.
- 4.7 We agree with the need to extend the RP6 period to allow for further engagement and development of plans and determinations for the subsequent RP7 period. In our final approach document<sup>9</sup> for RP7 we explained that in setting revised key milestones for the RP7 we intended to take account of the response by NIE Networks, and consequently intended

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<sup>9</sup> <https://www.uregni.gov.uk/news-centre/final-approach-nie-networks-next-price-control-published>



to consult on licence modifications for a one year extension to the current RP6 price control. The proposed licence modifications are therefore necessary to enable a one-year extension to the current RP6 price control.

### ***Effects of extending the RP6 period***

- 4.8 The effect of the proposed modifications is to extend the RP6 period by one year. If these modifications come into effect, the RP6 period which currently ends on the 31 March 2024 will end on the 31 March 2025.

## **Proposed modifications to allowances, rates and amounts for the RP6 extension year**

- 4.9 Annex 2 of the Distribution Licence and the Transmission Licence set out how the Maximum Regulated Revenue will be calculated for the purpose of calculating tariffs. These calculations are based on determined allowances, rates and amounts for each year of the RP6 period.
- 4.10 A consequence of extending the RP6 period is a need to determine the allowances, rates and amounts for the RP6 extension year necessary to allow Maximum Regulated Revenue to be calculated for the RP6 extension year.
- 4.11 Proposed modifications required to introduce necessary allowances, rates and amounts for the RP6 extension are summarised in Table 4.2 below.
- 4.12 In assessing the quantum of allowances, rates and amounts for the RP6 extension year, we:
- a) Noted NIE Networks financial performance against allowances in RP6 to the 31 March 2022, the last full year available to us, as reported in our final RP7 approach document<sup>10</sup>. Capital expenditure was broadly in line with the RP6 determination. The company had out-performed its cumulative OPEX allowance by 8.3% to 2021/22.
  - b) Took account of proposals by the company to vary, and generally increase, direct network investment delivery in the RP6 extension year. The company anticipates that further increases in investment will be required in the RP7 period to facilitate the uptake of low carbon technologies (LCT). This trend in investment has already been reflected in our decisions on additional investment in the current RP6 period up to 31 March 2024 under the Green Recovery programme.

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<sup>10</sup> [2022-07-06 RP7 final Approach Document final.pdf \(uregni.gov.uk\)](#)



We have also taken account of reductions in strands of direct investment where work was expected to be completed in the original RP6 period. Annex P of the RP6 final determination (Planned Network Investment Volumes and Allowances) <sup>11</sup> provided detailed levels of networks investment and planned outputs. As part of this decision, we have updated the Planned Network Investment Volumes and Allowances for the extended RP6 period to include the volume of work and allowances for the RP6 extension year.

- c) Considered and made allowance for the cost pressures in excess of inflation identified by NIEN for direct network investment.

4.13 Our assessment of allowance rates and amounts does not capture decisions already made on additional capital or opex allowances under the licences. For example: additional investment in the transmission network under the 'D5' programme; investment already determined under the Green Recovery programme; or determinations of additional Opex in respect for the Apprenticeship Levy, Injurious Affection. These decisions continue to stand in their own right.

4.14 Nor does our assessment anticipate future decisions on additional capital and opex allowances which may be made under the licence for the extended RP6 period. For example:

- a) Further decisions on additional investment under the D5 programme.
- b) Further decisions on additional allowances in respect of the Apprenticeship Levy or Injurious Affection as appropriate.
- c) Additional work which the company envisages in the RP6 extension year such as further investment in network monitoring, investment to facilitate reverse power flow and additional investment in IT systems required to support long term network monitoring and management and DNO to DSO transition.

Further decisions on additional allowed capital and additional allowed opex will continue to be made under the relevant terms of the licence as appropriate to the extent that they have not been allowed for in this decision or previous decisions.

4.15 When assessing allowances for the RP6 period we first assessed costs on the basis of efficient cost at the time. We then applied a frontier shift to the allowances to reflect both the difference between our notional inflation index (RPI) and inflation of network opex and investment (real price effects) and

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<sup>11</sup> [Annex P - Planned Network Investment Volumes and Allowances.pdf \(uregni.gov.uk\)](#)



on-going productivity improvements. When extending allowances for the RP6 extension year, we have applied a continuing on-going efficiency as set out in Table 2.6 above.

- 4.16 We will continue to review issues such as the need for future investment, unit costs, productivity and cost pressures as we make our decisions for the RP7 Price Control period. These future decisions will not be constrained by our decisions on the need for future investment, unit costs, productivity and cost pressures undertaken for the RP6 extension year and will reflect the best information available to us at the time they are made.



Type of Licence Modification	Licence	
	Distribution	Transmission
<b>Proposed modifications to allowances, rates and amounts for the extension year</b>		
Modify the Distribution Business allowed capex per RAB_D5Y to include a determined amount for the year t = 2025.	Annex 2 paragraph 4.32 Table 3	na
Modify the Distribution Business allowed capex per RAB_DN to include a determined amount for the year t = 2025.	Annex 2 paragraph 4.34 Table 4	na
Modify the Distribution Business allowed capex per RAB_TN to include a determined amount for the year t = 2025.	na	Annex 2 paragraph 4.32 Table 3
Modify the Distribution Business allowed capex per RAB_T5Y to include a determined amount for the year t = 2025.	na	Annex 2 paragraph 4.32 Table 3
Modify the Distribution undereaves allowance unit cost (UAU_2016) to include a determined amount for the year t = 2025.	Annex 2 paragraph 4.35 Table 5	na
Increase the constraint on the determination of additional allowed capex for trials to assess and demonstrate innovative future investment.	Annex 2 paragraph 4.38(c)	Annex 2 paragraph 4.35(e)
Modify the Distribution Business first metering fixed allowance (FMFA <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 4.42 Table 6	na
Modify the Distribution Business second metering fixed allowance (SMFA <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 4.44 Table 7	na
Make provision for the determination of additional metering allowance unit cost for additional Metering category C.	Annex 2 paragraph 4.46 Annex 2, add paragraphs 4.46A, 4.46B and 4.46C	na
Modify the aggregate amount metering category C 'Meter Replacement for theft' to take account of decisions to date under Annex 2 paragraph 4.50 of the distribution licence and the additional year of RP6.	Annex 2 paragraph 4.48(a)	na
Modify the real price effects & productivity factors (RPEPF <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 4.52 Table 9	na
Modify the Distribution Business allowed opex amount (AO <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 6.13 Table 10	Annex 2 paragraph 6.13 Table 4
Modify the pension deficit amount (P_2016 <sub>t</sub> ) to include a determined rate for the year t = 2025.	Annex 2 paragraph 7.1 Table 11	Annex 2 paragraph 7.1 Table 5

Note: na – not applicable to the relevant licence

**Table 4.2: Proposed modifications to allowances, rates and amounts for the RP6 extension year**



## Reasons

- 4.17 The overarching reason for modifying the Determined Values is that they are required by both the Transmission and Distribution licence formulae in order to set the Maximum Regulated Transmission Revenue, the Regulatory Asset Base, the Return Amount, the Opex Amount, the pension deficit amount and the Tax Amount for the RP6 extension year which will drive the tariffs set by NIE Networks to operate their businesses.
- 4.18 The detailed substantiation for the various allowances rates and amounts for the current RP6 period are contained in the RP6 final determination. The determined values for the RP6 extension year are first based on a roll forward of the determined amounts for RP6 subject to reasoned adjustments. In this section we provide an explanation of the reasoned adjustments made to arrive at the proposed values for the RP6 extension year.
- 4.19 The **Distribution and Transmission allowed capex per RAB\_D5Y and RAB\_T5Y** has been assessed on the basis of the average of the determined values for the six full years of RP6 subject to a frontier shift for 2024/25 set out in Table 2.6.
- 4.20 The **Distribution and Transmission allowed capex per RAB\_DN and RAB\_TN** include direct network investment, closely associated indirect (CAI) costs, and capitalised work on inspection, maintenance and faults (IMF). The allowance for CAI and IMF have been assessed on the rate for the RP6 period, subject to a frontier shift for 2024/25 set out in Table 2.6. The assessment of direct network investment is first based on the specific assessment in Annex P of £55.34m for distribution investment and £4.7m for transmission investment based on RP6 rates, subject to a further uplift of £5.64m to allow for additional cost pressures over inflation.
- 4.21 The **Distribution undereaves allowance unit cost (UAU\_2016)** has been extended at the RP6 determined rates. These unit rates are subject to the cost frontier shift for 2024/25 set out in Table 2.6.
- 4.22 The constraint on the determination of additional allowed capex in the Distribution Licence and the Transmission Licence for **trials to assess and demonstrate innovative future** investment has been increased to allow NIE Networks to propose additional work of this type for the RP6 extension year. This will allow the company to continue to undertake trials which will inform future investment decisions.
- 4.23 The **Distribution Business first and second metering fixed allowances (FMFA<sub>t</sub> and SMFA<sub>t</sub>)** have been extended at the RP6 determined rates. These unit rates are subject to the cost frontier shift for 2024/25 set out in





Table 2.6. Provision has been made to determine **additional allowance unit cost for one or more additional Metering Categories C** to allow rates for new categories of meters necessary to facilitate LCT connections to be introduced in the year  $t=2025$  where these are demonstrably different from meter categories already covered by the licences. An additional factor for **real price effects & productivity factors (RPEPF<sub>t</sub>)** has been introduced for year  $t=2025$  to apply to the various metering rates in the RP6 extension year. This additional factor continues to reflect on-going productivity improvements.

- 4.24 The amount of metering category C '**Meter Replacement for theft**' has been increased from 7700 to 17700. This reflects the fact that the opportunity identified has been higher than originally envisaged and that it remains in the interest of all consumers to ensure that meters are replaced in these circumstances.
- 4.25 The **Distribution and Transmission allowed opex amounts (AO<sub>t</sub>)** have first been extended on the basis of the RP6 allowance subject to the cost frontier shift for 2024/25 set out in Table 2.6. We have not rolled forward the distribution opex allowance in full as we note that NIE Networks has out-performed its cumulative OPEX allowance by 8.3% to 2021/22 and will retain half of this out-performance. A small element of the operating allowances in the RP6 price control is subject to a pass through mechanism which allows NIE Networks to recover the costs incurred. But for the remainder (and majority) of OPEX, expenditure is subject to a cost risk sharing mechanism whereby the company retains 50% of any outperformance, and bears 50% of any cost overrun. This cost risk sharing mechanism incentivises the company to out-perform its OPEX allowance. In view of the out-performance to date, we have reduced the opex distribution allowance for the extension year by £4.339m to £51.109m versus a rolled forward amount of £55.447m. We consider that this approach incentivises NIE Networks to continue to push for efficiencies in how it maintains and operates the network.
- 4.26 NIE Networks has confirmed that, based on its most recent pension revaluation, further contributions must be made against the historic pension deficit and that these are expected to continue into RP7. **The pension deficit amounts (P\_2016<sub>t</sub>)** for the Distribution Business and Transmission Business are required to bring the RP6 Final Determination allowances into the RP6 extension year to support these on-going payments. The respective amounts relate to our determination on amounts to be paid to reduce the current NIE Networks pension scheme deficit balance. The principles we applied and allowances set are consistent with section 8 of our Final Determination for RP6. This includes an adjustment in relation to the ERDC disallowance.





4.27 In the RP6 final determination we noted that, in respect of pension deficit repair allowances: *The RP6 allowances for 2022-2024 will be reviewed for RP7 upon consideration of the outcome of the triennial reviews at 2017 and 2020 (also 2023, if available). At RP7 we will make a more informed decision as to whether these deficit recovery payments are required or should be adjusted. We note that, should the pension scheme be in surplus at RP7, we will make a negative adjustment to allowances granted for 2022-24. Any adjustment will be in NPV neutral terms.* This review and any adjustments will now take account of allowances for 2022-2025.

**Effects**

4.28 The effect of the changes detailed above is to introduce the allowances, unit rates and amounts for the RP6 extension year which allow the calculation of the Maximum Regulated Revenue for the purpose of calculating tariffs in the RP6 extension year and thus secure that the licence holder is able to finance its activities during the RP6 extension year.

**Proposed modification of dates to apply to the RP6 extension year**

4.29 Proposed modifications of dates to apply to the RP6 extension year are summarised in Table 4.3 below.

Type of Licence Modification	Licence	
	Distribution	Transmission
Modify the definition of additional allowed capex (ACDR <sub>X<sub>t</sub></sub> ) to include amounts determined for the year t = 2025.	Annex 2 paragraph 4.38(d)	na
Modify the definition of allowed opex other amount to include amounts determined for the term NES <sub>t</sub> for the year t = 2025.	Annex 2 paragraph 6.15	Annex 2 paragraph 6.15
Modify the definition of the correction factor amount (K <sub>t</sub> ) to include amounts calculated for the year t = 2025	Annex 2 paragraph 11.1(b)	Annex 2 paragraph 11.1(b)
Modify the time when the charge restriction conditions cease to apply to the 1 October 2025.	Annex 2 paragraph 15.2	Annex 2 paragraph 15.2

Note: na – not applicable to the relevant licence

**Table 4.3: Proposed modification of dates to apply to the RP6 extension year**

**Reasons for modifying dates to apply to the RP6 extension year**

4.30 The relevant sections of the licence itemised above are only effective up to and including year t=2024 (year ending the 31 March 2024). Unless these sections of the licence are amended to include year t=2025, they will not have effect in the RP6 extension year. This would prevent the determination



of additional allowed capex amounts and the proper determination of the Maximum Regulated Distribution Revenue and the Maximum Regulated Transmission Revenue for the purpose of calculating tariffs.

***Effect of modifying dates to apply to the RP6 extension year s***

- 4.31 The effect of the proposed modifications is to allow the relevant clauses of the licence to have effect in the RP6 extension year (t=2025). This allows the licence holder to calculate the Maximum Regulated Distribution Revenue and the Maximum Regulated Transmission Revenue for the purpose of calculating tariffs in the RP6 extension year and thus secure that the licence holder is able to finance its activities during the RP6 extension year.

**Return amount and associated financial parameters for the RP6 extension year**

- 4.32 In the current licence, the calculation of Maximum Regulated Revenue, used to calculate tariffs, makes provision for a return on capital (the Return Amount) and tax (the Tax Amount).
- 4.33 The Return Amount and the Tax Amount secure the ability of the licensee to finance their activities, in particular to provide a return on investment as measured by the Regulatory Asset Base. The Return Amount is calculated on a vanilla (post tax) basis while the Tax Amount makes provision for the tax costs incurred by the Licensee.
- 4.34 The rate of return for RP6 is adjusted through a Rate of Return Adjustment Mechanism to reflect a benchmark cost of debt at the time the licensee raises finance. We do not propose to change these mechanisms or any associated financial parameters for the RP6 extension year.



## 5. Reliability Incentive

- 5.1 The Maximum Regulated Distribution Revenue, as defined at paragraph 3.4 of Annex 2 of the Distribution Licence, includes revenue from a reliability incentive (term  $RI_t$ ). This is defined as *'the allowed amount (if any) in Regulatory Reporting Year t, being the amount the Authority determines in a published decision to be appropriate for the Licensee to recover in respect of the reliability incentive in that Regulatory Reporting Year t, as calculated by the Authority under and in accordance with the Reliability Incentive Model'*.
- 5.2 Detailed information on the current Reliability Incentive Model was published as Annex M of the RP6 final determination.<sup>12</sup> The model sets targets for unplanned and planned customer minutes lost (CML) and provides a symmetrical incentive for performance against target, subject to a cap and collar where an estimated 1.5% of annual distribution revenue is exposed to the incentive.
- 5.3 The company has made significant improvements in performance in RP6 as measured by both planned and unplanned CML. It has consistently out-performed the 'collar' for each measure.
- 5.4 We intend to continue the Reliability Incentive for the RP6 extension year. As the existing model only includes targets and a cap and collar up to 2023/24, we will extend the Reliability Incentive Model to allow a value to be calculated for the year 2024/25.
- 5.5 We do not propose to make any changes to the structure or the key parameters of the model other than to amend the central target for Unplanned CML.
- 5.6 We intend to revise the Unplanned CML target for the RP6 extension year to 48 CML which represent a reduction of circa 6 CML from the 2023/24 target to recognise the out-performance achieved by the company to date.
- 5.7 We do not intend to change the existing RP6 Planned CML target as we recognise the increasing profile of planned work on the network over the period to March 2024, which will further ramp up in the RP6 extension year taking account of Green Recovery and LCT related investments which could result in an increase in planned CML compared with performance in RP6 to date.

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<sup>12</sup> [Annex M - Reliability Incentive.pdf \(uregni.gov.uk\)](#)



## Reasons

- 5.8 A Reliability Incentive focusing on CML was introduced in RP6 with the objective of improving network reliability and service to customers. Furthermore, focusing on reliability can help balance other regulatory objectives, most notably low prices for consumers. While we expect NIE Networks to be efficient and ensure prices are no higher than necessary, regulatory mechanisms such as benchmarking may perversely encourage NIE Networks to reduce reliability, which would be at the detriment of customers. Therefore, by maintaining a reliability incentive for the RP6 extension year, we can ensure that NIE Networks continue to appropriately manage the trade-off between costs and reliability.

## Effects

- 5.9 The effect of the proposed licence modification is to maintain a partially recalibrated incentive for NIE Networks taking account of performance to date in RP6 to improve the reliability of its distribution system for electricity consumers in a cost effective way. It will also enable the UR to assess the impact of the incentive on NIE Networks performance and inform its suitability for subsequent price controls.
- 5.10 For avoidance of doubt, neither penalties nor rewards incurred through the reliability incentive during the RP6 extension year will be subject to the 50:50 incentive mechanism.



## 6. Next Steps

### Conclusions and next steps

- 6.1 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 24 February 2023 and should be addressed to:

Sean Lyons  
Finance and Network Assets  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED  
Tel: 028 9031 6341

Email: **Electricity\_Networks\_Responses@uregni.gov.uk** with cc to **sean.lyons@uregni.gov.uk**

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

- 6.2 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'.
- 6.3 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.
- 6.4 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)).
- 6.5 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.
- 6.6 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 Sean Lyons on either 028 9031 6341 or email: Electricity\_Networks\_Responses@uregni.gov.uk with cc to sean.lyons@uregni.gov.uk

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

## Timelines

- 6.8 The next steps and associated timelines for the licence modification process are summarised in Table 6.1.

Next steps	Proposed date
Closure of consultation on proposed licence modifications pursuant to the RP6 final determination and other regulatory decisions	24 February 2023
Decision on licence modifications pursuant to the RP6 final determination and other regulatory decisions	27 March 2023
Effective date of licence modification decision	22 May 2023
Start of RP6 price control extension period	1 April 2024

**Table 6.1: Next steps**

We note that this timetable assumes the effective date of the licence modifications to be 56 days after the publication of the licence modification decision, in line with the requirements of Article 14 of the Electricity Order. This period provides an opportunity for the licence holder concerned, any other licence holder materially affected by the decision, a qualifying body or association representing one of those licence holders, and/or the Consumer Council for Northern Ireland to appeal the decision on the licence modifications to the Competition and Markets Authority (CMA).