Annex 7

Price Control for Northern Ireland's Gas Transmission Networks

GT17

Final Determination

Draft Determination Consultation Report

1 August 2017



About the Utility Regulator

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

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

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

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

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

Our Values

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

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

We are publishing the final determination for GT17 for the four high pressure gas conveyance licence holders in Northern Ireland; GNI (UK) Ltd, Premier Transmission Ltd (PTL), Belfast Gas Transmission Ltd (BGTL), and West Transmission Ltd (WTL) for the years from October 2017 to September 2022.

The price control sets out the amount the gas transmission companies will have to run their businesses and invest in the gas network. The key decisions for the companies are on operating expenditure, replacement expenditure and rate of return.

This annex provides summarised the key issues raised in response to our draft determination and our response.

Audience

Industry, consumers, network companies & statutory bodies.

Consumer Impact

The price control sets out the allowed transmission revenue for the holders of high pressure gas conveyance licences. The final determination in this document sets out the basis on which we have determined the allowed revenue with consideration of the business plans submitted by the licence holders and the responses received to the consultation on our draft determination.

The impact of implementing the business plans submitted by the companies would be an approximate £5 real terms uplift in the annual bill for domestic consumers. This compares to an approximate £2 increase in the final determination. The final determination therefore results in an approximate £3 saving per annum for domestic customers compared to the company submissions. For industrial and commercial customers, the savings arising from the final determination compared to the business plans will be higher.

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ACRONYMS AND GLOSSARY

Acer	Agency for the Cooperation of Energy Regulators
BGTL	Belfast Gas Transmission Limited
bps	Basis Points (100 base points = 1%)
CC	Competition Commission
CCNI	Consumer Council for Northern Ireland
CJV	Contractual Joint Venture – Single market system operation for TSOs now known as the Gas Market Operator for Northern Ireland
CMA	Competition and Markets Authority. The Competition and Markets Authority (CMA) is a non-ministerial government department in the United Kingdom, responsible for strengthening business competition and preventing and reducing anti-competitive activities. The CMA began operating fully on 1 April 2014, when it assumed many of the functions of the previously existing Competition Commission and Office of Fair Trading, which were abolished.
DD	Draft determination
ESB GWM	Electricity Supply Board Generation and Wholesale Markets
EUR	Euro
FD	Final determination
FE	firmus energy
FTE	Full Time Equivalent
GB	Great Britain
GBP	British Pound
GD17	This is the name given to the next price control for the NI GDNs. It covers the period 2017 – 2022 (calendar years).
GMO NI	Gas Market Operator Northern Ireland

GNI	Gas Networks Ireland (parent company of GNI (UK))
GNI (UK)	Gas TSO operating in Northern Ireland
GT12	This is the name given to the price control period 2012/13 to 2016/17
GTMS	Gas Transportation Management System
GttW	Gas to the West. This is the name of the project aiming to extend the natural gas network to other areas of the province, namely Dungannon, Cookstown, Magherafelt, Enniskillen, Omagh and Strabane
i.e.	Id est (that is)
I-SEM	Integrated Single Electricity Market
k	thousand
m	million
MEL	Mutual Energy Limited
MEUC	Major Energy Users' Council
MFNI	Manufacturing Northern Ireland
NED	Non-Executive Directors
NI	Northern Ireland
NIAUR	Northern Ireland Authority for Utility Regulation
NIE	Northern Ireland Electricity – now known as NIEN
NINEC	NI Network Emergency Co-ordinator
Ofgem	Office of Gas and Electricity Markets. Regulates the electricity and gas markets in Great Britain
Opex	Operating Expenditure
p.a.	Per annum
para	paragraph

PNGL	Phoenix Natural Gas Limited
PRISMA	Joint capacity booking platform of major European Transmission System Operators
PTL	Premier Transmission Limited
REMIT	Regulation on Energy Market Integrity and Transparency
Repex	Replacement Expenditure
RIGs	Regulatory Instructions and Guidance
RIIO-T1	This is the first gas transmission price control by Ofgem under the new RIIO (Revenue = Incentives + Innovation + Outputs) model. The price control is set for an eight-year period from 1 April 2013 to 31 March 2021.
RP6	This is the name given to the price control for NIE, covering the period 2017-2024
RPO	Reasonable and prudent operator
RRM	Registered Reporting Mechanism
SCADA	Supervisory Control and Data Acquisition
TSO	GNI (UK), PTL, BGTL and WTL. WTL is not a TSO (Transmission System Operator) as defined by the European Commission but it is referred to as a TSO in this document for simplicity
TTF	Time to fail model
UK	United Kingdom
UR	Utility Regulator
WTL	West Transmission Limited

1 Executive Summary

1.1 As part of the GT17 price control process, we undertook a consultation on the GT17 draft determination which was published on 16 December 2016. The consultation period closed on 17 February 2017.

1.2 The purpose of the consultation was to seek feedback on the proposals set out in our draft determination to inform and shape the final determination.

1.3 This annex to the GT17 final determination provides a summary of the feedback given in response to the consultation.

1.4 The remainder of this report is structured in two chapters:

- Chapter 2 provides an introduction to the responses received; and
- Chapter 3 summarises the key issues raised and our response.

1.5 We have grouped the key issues raised by respondent and topic.

1.6 Where appropriate, we have addressed specific technical issues in detail directly in the GT17 final determination document and/or in technical annexes to same. In this case, rather than repeating the information detailed there, this report only includes a high level summary with a reference to the relevant section of the final determination. Where this is not the case, we have responded to the issue raised directly in this draft determination consultation report.

2 Introduction

2.1 Detailed responses to the assessments and proposals which were set out in the GT17 draft determination were received from the TSOs (Transmission System Operators):

- Mutual Energy Limited (MEL) with an additional separate response relating to West Transmission Limited (WTL); and
- GNI (UK) Limited (GNI (UK)).

The response by GNI (UK) was partially confidential.

2.2 Furthermore we received responses from three other parties as follows:

- Consumer Council for Northern Ireland (CCNI);
- Manufacturing Northern Ireland (Manufacturing NI);
- Major Energy Users' Council (MEUC); and
- Electricity Supply Board Generation and Wholesale Markets (ESB GWM).

2.3 In our draft determination we noted that we would publish all consultation responses unless respondents requested otherwise. We have followed-up on this statement and published the responses received. In the case of GNI (UK) we have considered the full response and published a redacted version in which the requested confidentiality has been maintained. Appendix 1 provides a listing of the links to the relevant documents.

3 Responses

Overview

3.1 In this chapter we summarise the key issues raised in response to the GT17 draft determination consultation and indicate how we have addressed the issues in the final determination.

3.2 We have not responded to feedback which broadly supported our approach and determination or that touches on the roles and responsibilities of the respondents themselves. Nor have we provided commentary on wider policy issues which are not directly influenced by the outcome of the final determination.

MEL Response

3.3 The MEL responses and our high level views are summarised in Table 1. More detailed information to address specific issues is included in the GT17 final determination document and/or in technical annexes to same where appropriate.

Table 1: Responses on comments from MEL

No	Reference	Section & Topic	Comment	Our Response
1	MEL Response (short version) page 1	Approach to engineering costs	MEL is of the opinion that the approach fails to take proper account of the engineering risks faced. The wind waterline issue was raised as an example. MEL stated: *"Having went through the draft determination we believe your approach gives insufficient weight to the resolution of risks and hazards which are identified through the comprehensive inspection regimes, instead seeking to rely on theoretical processes and evidence such as failure rate analysis which may simply not be available."* MEL considered that the identification of hazards	In the final determination we have reconsidered allowances for both maintenance and repex (replacement expenditure) to account for relevant risk. However, as a point of principle, relevant evidence should be provided to support both need and cost before funding can be provided. This evidence was lacking in the business plan in some instances.

No	Reference	Section & Topic	Comment	Our Response
			through the inspection and health and safety processes should be sufficient to trigger remedial actions and is sufficient evidence to any reasonable regulatory process.	
2	MEL Response (short version) page 2, (detailed version) page 3/4	Opex – IT Infrastructure	MEL queried the impact of disallowing the SCADA (Supervisory Control and Data Acquisition) refresh. MEL stated: *"The effect of disallowing any replacement or investment in the SCADA systems and servers that support them means that we will be running a system with multiple pieces of equipment outside of warranty and on versions no longer supported by the original vendors. This poses significant risk both in respect of failure of key equipment and susceptibility of cyber-attack"* MEL noted furthermore that the replacement of the SCADA infrastructure after five years is in line with industry best practice and that, seeing the mission-critical nature of the application, it should be refreshed at least every five years.	An allowance has been made for a SCADA upgrade as part of the repex allowance.
3	MEL response (detailed version) page 1	Repex – General	MEL raised some issues with the price control approach to repex. MEL stated: *"The evidence presented was consistent with a price control which i) was out of sequence for the group; ii) covered a period which is two years longer than that normally submitted; iii) we were only made aware of the requirement to submit at relatively short notice and iv) coincided with the major engineering projects in the summer period where engineering resources were already fully committed."*	We accept that the GT17 approach was more onerous than previous 'shadow' price controls, particularly with two years extra data being required. Establishment of the reporting requirements and experience from this price control should aid future submissions and TSO expectations.
4	MEL response	Repex – Ballylumford	MEL restated the need for the Ballylumford water bath heater project to be undertaken if the Local Reserves	We have reconsidered this project and allowed the control system funding.

No	Reference	Section & Topic	Comment	Our Response
	(detailed version) page 1	water bath heaters	Services Agreement is extended. MEL further noted that it was not clear if the control system upgrade had been allowed and requested a related allowance to be given.	No allowance has been provided for the water baths at this stage. The status of the 'B' station is unclear as is the remedial work proposed by MEL. We propose to treat this as a 'relevant item' and will consider future cost provision during the GT17 period.
5	MEL response (detailed version) page 1/2	Repex – Fire detection system	The issue of non-allowance of the fire detection systems was questioned. MEL believes that by not installing the fire detection systems the group will be exposed to undue fire risk to its assets and potentially higher insurance costs.	We have reviewed this project and provided an allowance. See the repex annexes for further details.
6	MEL response (detailed version) page 2	Repex – Transformer rectifier and lagging	MEL argued that projects associated with corrosion protection (i.e. (id est =that is) lagging and transformer rectifier replacements) are priorities and should be maintained as they provide essential protection for the assets.	We have reviewed these projects and provided an allowance. See the repex annexes for further details.
7	MEL response (detailed version) page 2	Repex – valves actuators	The company argued for an appropriate allowance for the replacement/overhaul of valves and actuators.	We have reviewed these projects and provided an allowance. See the repex annexes for further details.
8	MEL response (detailed version) page 1	Repex – other projects	MEL questioned the allowance for the other smaller repex projects. MEL requested transparency as to the allowance and outputs and noted that the current allowance is insufficient to safely operate the ageing equipment.	We have reviewed these projects and provided an allowance with associated outputs. However for a number of the lines it is our view that these projects appear to relate to ongoing activity rather than ad hoc atypical spend, which repex is designed to capture. Adequate provision has been made within the relevant opex (operating expenditure) maintenance lines. As such, no further provision is made for these lines in the final determination on repex.

No	Reference	Section & Topic	Comment	Our Response
				See the repex annexes for further details.
9	MEL response (detailed version) page 2/3	Opex – Grid control	MEL questioned the grid control allowance raising a number of points. These include: • The practicalities of joint procurement would likely involve a new SCADA system and introduce significant cost to the project; • Existing equipment could be reused but would require reconfiguration; • A new SCADA system would have to cater for the functionality of both TSOs; • Hardware updates would involve additional cost; and • Potential termination payments to at least one TSO.	We agree that joint procurement of control room services in this price control could incur significant costs as contracts would have to be terminated and recognise that further scoping may be required. In the FD, we have allowed MEL the requested amount for grid control. However we expect the TSOs to collaboratively conduct a feasibility study and produce an implementation plan, by no later than 1 October 2019, for the establishment of a single control room for Northern Ireland.
10	MEL response (detailed version) page 4	Opex – Staff costs	MEL questioned the disallowance of the forecast real price increases in GT17 for MEL staff costs. MEL stated: *"The in house commercial team needs to be headed up by a senior staff member therefore results in a change to the mix of staff levels and although this causes an increase in average cost per FTE we expect the reduction in the procurement costs, by an average of approximately £150k p.a. for GT17, to at least offset this."*	We benchmarked MEL staff costs against other utilities and the UR as well as ASHE NI data and consider the cost per FTE (Full Time Equivalent) increases to be unjustified. However, we have allowed for additional staff in the FD. Furthermore, above inflation allowances for labour costs are provided for in the real price effects and frontier shift analysis.
11	MEL response (detailed version) page 4	Opex – Planned maintenance	MEL queried the asset management and compliance allowance and requested an allowance for statutory inspections and overhauls to be provided. The response stated: *"The determination noted that the expenditure has been reduced to be more in line with the period 2012-13 to 2014-15, a period in which no material overhauls*	We have reviewed this request with consideration of the related engagement with MEL, and advice from external consultants. We have included in our final determination a pre-efficiency allowance equal to the amount requested.

No	Reference	Section & Topic	Comment	Our Response
			were required (as these are undertaken on a periodic basis at 4-7 yearly intervals, dependent on the requirements). ***By doing this the determination effectively disallowed the costs of all statutory major inspections and overhauls."***	
12	MEL response (detailed version) page 4	Opex – NEDs (non-executive directors)	MEL believes that the treatment of costs for NEDs is inappropriate. MEL stated: *"We note the NIAUR position on costs for NEDs, deducting £0.4m in allowances in paragraph 4.17. This equates to an allowed NED cost of £5k per NED, which we do not believe is sufficient. Companies with listed debt have average NED costs higher than the overall average for NEDs throughout the UK."*	In the draft determination, we reduced intra-company recharge on the basis that the salary paid to non-executive directors was high. Since the publication of the draft determination it became clear this cost line includes executive directors, and not non-executive directors. For this reason we have provided a pre-efficiency allowance of the requested amount less a 10% reduction. This is to ensure that the cost of executive directors is reduced in line with the other MEL staff. We have also reconsidered the non-executive director fees, now included in mutualisation costs. With consideration of the benchmarking and further analysis undertaken, we consider the proposed reduction by 50% of the amount requested to be appropriate and reflective of MEL's business structure.
13	MEL response (detailed version) page 4/5	Opex WTL insurance	MEL has requested revision of the insurance cost provision for WTL assets with consideration of the indicative quotes received since the draft determination.	We have revised WTL insurance costs based on the quotations provided to us as part of the consultation process.
14	MEL response (detailed version) page 5[1]	Opex – GMO NI	Both TSOs advised that they had stated consistently 8 FTE to be the minimum staffing level that the GMO NI requires in order to perform its functions effectively. The TSOs believed that attempting to run the GMO NI with 6 staff as suggested in the draft determination would result in a significant reduction of the envisaged scope of operations. The TSOs noted that it would	We remain of the view that 8 staff for the GMO NI is more than required. However, we did find the information provided during the consultation process regarding the additional tasks of the GMO NI useful. Taking into consideration this information, efficiencies we

[1] The comments raised by MEL with respect to GMO NI were equally made by GNI (UK) on pages 15 to 17 of their response.

No	Reference	Section & Topic	Comment	Our Response
			also reduce resilience which brings with it operational and financial risk. The TSOs noted furthermore that they consider the additional activities arising from single system operation to largely offset any expected efficiencies. The TSOs further questioned the amalgamation of the market operation and development roles.	expect the GMO NI to achieve and information received from the licence holders regarding the amount of staff currently doing GMO NI-type activities, we consider 7 FTE to be an appropriate amount. This is an increase from the 6 FTE allowed in the draft determination.
15	MEL response (detailed version) page 6	Opex – GMO NI IT application enhancements	The TSOs questioned the reduction of the IT application enhancement allowance from £200k per annum to £50k per annum. The TSOs noted that this amount will be largely absorbed by GTMS (Gas Transportation Management System) upgrade work to ensure compatibility with PRISMA[2]. The TSOs are of the view that this will mean that the GMO NI will need to seek additional money within the price control period for general enhancements to meet business requirements or to implement modifications to the Code of Operations. The TSOs have further requested that PRISMA costs be treated as an uncontrollable item.	With consideration of advice from our external consultants, we have increased the allowance for IT enhancements in the initial two years of the price control. However, we feel that £50k p.a. is an appropriate amount in the last three years of the price control and our consultants are also of this view. For further details see the opex chapter of the final determination as well as Annex 3. We have not moved PRISMA to uncontrollable costs as TSOs have some limited control over this line item.
16	MEL response (detailed version) page 6	Opex – Time to fail model	The TSOs questioned the lack of allowance for the TTF (Time to fail) model. The company stated: *"We would point out that in recent years the emergency regime has undergone a number of fundamental changes (Gormanston entry, fuel switching arrangements, changes to the NINEC steps to reflect GB changes). Also, as peak day capacity has increased and as a result the likelihood of a 'flip-flop' event taking place has increased."*	The time to fail model is considered a 'relevant item'. We will reconsider it during the price control period alongside other emergency management requirements.
17	MEL	Opex –	The TSOs disagreed with the allowance for European	We are still of the view that travel to 55 meetings

[22] Joint capacity booking platform of major European Transmission System Operators.

No	Reference	Section & Topic	Comment	Our Response
	response (detailed version) page 7	European compliance meeting attendance	compliance and did not consider the amount of meeting attendance to be excessive.	a year is unnecessary – it is equivalent to more than one a week. The GMO NI could make use of tele or web conferencing more frequently and only travel when it is considered absolutely necessary.
18	MEL response (detailed version) page 7	Opex – REMIT (Regulation on Energy Market Integrity and Transparency) Reporting	The TSOs noted that the draft determination states that REMIT reporting is currently “carried out by in house staff”. The TSOs advised that this statement is incorrect. A third party Registered Reporting Mechanism (“RRM”) is used to send the data to ACER (Agency for the Cooperation of Energy Regulators) on a daily basis for which a monthly fee is charged.	Having been provided with evidence of this since the publication of the draft determination, we are making an allowance for REMIT reporting in the final determination.
19	MEL response (detailed version) page 7	Opex – Transfer Mechanism	The TSOs welcomed the ability to transfer GMO NI allowances where the resource for activity shifts. They requested a commitment on the timeframe for response to any such transfers and suggested a 14 day period.	We will endeavour to respond to requests within 14 days. However, this may be dependent upon the complexity of any transfer request and resource availability.
20	MEL response (detailed version) page 7/8	Efficiencies	MEL questioned the imposition of efficiency challenge on top of efficiencies built into their business plan.	Our approach to the final determination remains unchanged from that in the draft determination. The existence of catch-up efficiencies in the business plan does not preclude the imposition of frontier shift challenge.
21	MEL response (detailed version) page 8	Uncontrollable opex	MEL queried the disallowance in respect of uncontrollable compressor fuel gas cost in the draft determination due to a ‘formula error’.	We recognise this issue and have amended the figures in the final determination to be in line with the TSO business plan.

WTL Response

3.4 The WTL response and our high level views are summarised in Table 2. More detailed information to address specific issues is included in the GT17 final determination document and/or in technical annexes to same where appropriate.

Table 2: Responses on Comments from WTL

No	Reference	Section & Topic	Comment	Our Response
22	WTL Response page 1	WACC	WTL noted that as part of the bid for Gas to the West (GttW)[3] they had proposed that they would receive the actual cost of capital achieved in the market as a pass through, and had stated "*the actual pass through financing cost will reflect the actual (whether higher or lower) financing costs incurred"*. At the time, WTL had forecasted this as 1.98%. When the initial licence was agreed in February 2015, in practice there was likely to be a gap between the initial commissioning of the network and the long-term financing. This was addressed by setting the rate of return at 1.98% (with the caveat "*or other such value as may be determined by the authority in the light of material changes in the financial market conditions from April 2014"),* and introducing a clause to allow the implementation of WTL's proposal for a long term 100% debt financing that would be fixed for more than one return period. WTL noted that the draft determination does not make it clear that the 0.3% is simply an up to date forecast of the cost post the intended mutualisation date. WTL considered that it could be construed from the drafting that it is proposed to change the cost of capital to 0.3% before that date. WTL considered that this would be incorrect as such a decision would: • Be inconsistent with WTL's bid for the licence,	We do not accept that our proposal did not accurately reflect the licence drafting, which permits us to review the WACC at each Review Date. In any event the Authority may modify the licence at any time in order to better facilitate the achievement of its statutory duties. We understand from further discussion with WTL that they have entered into a financing agreement with a third party, as part of which they have agreed to pay interest charges of 1.98% in the period between First Operational Commencement Date and refinancing. Altering these interest charges would trigger an appeal mechanism. We are content that such arrangements are equivalents to embedded debt which where appropriate we would include in the cost of debt component of WACC. We also note that neither party has a commercial incentive in extending the period of this arrangement and that indeed there may be strong incentives for bond issuance before the First Operational Commencement Date. For these reasons we have decided not to proceed with the proposed licence modification

[3] This is the name of the project aiming to extend the natural gas network to other areas of the province, namely Dungannon, Cookstown, Magherafelt, Enniskillen, Omagh and Strabane.

No	Reference	Section & Topic	Comment	Our Response
			which was clearly and explicitly based upon 100% debt financing on a PTL type licence; • Contradict NIAUR (Northern Ireland Authority for Utility Regulation)'s own analysis, used as part of the Gas to the West bid process, which explicitly decided the difference between the licence type held by GNI and WTL's current licence was 22bps (basis points); • Be inconsistent with treatment of other items calculated in a formulaic way in the Gas to the West submission which NIAUR has determined are fixed at the number submitted; • Effectively amount to a decision that the current licence efficient gearing rate is 100%; • Be based upon a single point in time interpretation of market conditions to a random date in September 2016. WTL asked that the final decision paper makes the point clear that no change in the licence is intended until the long-term financing, consistent with the position in their bid. WTL noted that a number of parties, including the short-term financiers, are proceeding on the basis that there is an intention to replace the current licence with a PTL type licence as soon as is practical and that the bid terms apply until that date, and making this clear would be most helpful.	as part of this price control review.

GNI (UK) Response

3.5 The GNI (UK) response and our high level views are summarised in Table 3. More detailed information to address specific issues is included in the GT17 final determination document and/or in technical annexes to same where appropriate.

Table 3: Responses on Comments from GNI (UK)

No	Reference	Section & Topic	Comment	Our Response
23	GNI (UK) Response page 3	General	GNI (UK) noted that the proposals in the draft determination in relation to GNI (UK) are not appropriate and, if implemented, would result in UR failing to comply with its statutory objectives and duties.	In making the final determination, we have revised our allowances with consideration of our statutory objectives and duties, the consultation responses received, further engagement with the licence holders and advice from external consultants. We do not agree that our determination fails to comply with our statutory objectives and duties.
24	GNI (UK) Response page 3	General	GNI (UK) noted its concern with respect to the unprecedented low cost of capital being proposed, the setting of operating expenditure allowances at unrealistically low levels and the failure in the draft determination to acknowledge drivers of refurbishment and upgrade expenditure. GNI (UK) considered that these factors combine in their effect to undermine the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland. GNI (UK) noted furthermore that the draft determination has given, among other things, insufficient, or indeed no, regard to the need to ensure a high level of protection of the interests of consumers of gas, both existing and future, or the need to secure that licensees are able to finance their relevant activities.	We note the comments made. We wish to clarify, however, that the determination needs to be considered in the specific context within which GNI (UK) operates. • The cost of capital is reflective of the relatively low risk profile of GNI (UK) compared to other regulated companies, and the latest market data on the prevailing cost of debt and equity. • The total allowance provided in the FD (final determination) for controllable GNI (UK) opex post efficiencies excluding GMO NI is £18.9m. A further £2m has been allowed for controllable GMO NI opex post efficiencies; a total of 20.9m. This compares to expected real terms spend of £19.5m in GT12[4] (from business plan figures). Since apart from the overall aging of the network and the associated increased maintenance requirements (which have been accounted for in the planned maintenance and staff allowances) there have been no major changes to the network, it is difficult to see how GNI (UK) consider that this is insufficient to serve

[4] This is the name given to the price control period 2012/13 to 2016/17.

No	Reference	Section & Topic	Comment	Our Response
				the interest of consumers. • Our initial repex allowance reflected the lack of detail in the business plan. Since the publication of the draft determination, significant engagement has taken place with the TSOs and external consultants on the repex allowances. The additional information provided has enhanced our understanding on the drivers of refurbishment and upgrade which is reflected in increased FD allowances compared to the DD. It should be stated that when setting the draft and final determinations, we took full account of our duties. With respect to the need to secure that licensees are able to finance their relevant activities we note in particular the financeability analysis we have conducted and which is set out in further detail in chapter 8 of the main FD document.
25	GNI (UK) Response page 3	General	GNI (UK) noted its concern that the proposals in the draft determination are misconceived and based on errors, and represent a departure from the incentive-based regulation for shareholder owned network utilities required by the correct application of the function and duties of UR (Utility Regulator). GNI (UK) considered that the proposals point instead towards a system of regulation characterised by micro-management, which sets allowances below economic levels, resulting in asymmetric incentives with no opportunity for GNI (UK) to earn a fair return.	We disagree that our draft determination proposals represent a departure from incentive based regulation and point towards a system of regulation characterised by micro-management, which sets allowances below economic levels. In the draft determination, we set allowances equal to economic levels, based on the information available. In the final determination, the allowances have been revised given the more compelling evidence has been provided.
26	GNI (UK) Response	WACC	GNI (UK) raised the point of errors and flaws in the analysis of WACC. GNI (UK) noted in particular that	See our detailed responses to numbers 59 to 68 below.

No	Reference	Section & Topic	Comment	Our Response
	page 3-5		the UR appears to have chosen selectively from the available evidence and that the approach is not methodologically consistent. GNI (UK) stated that the UR proposal not to take into account the circumstances of GNI (UK)'s original investment and to seek to impose a return approaching or equivalent to that of a mutualised entity is not in accordance with GNI (UK)'s licence and contrary to UR's principal objective of promoting the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland. GNI (UK) considered that such a decision would cause detrimental effect on investor confidence and regulatory certainty, and lead to higher rates of return being required by investors in Northern Ireland infrastructure. In GNI (UK)'s view this further suggests that insufficient weight has been given by UR to its duty to protect the interests of customers. GNI (UK) also noted that with the rate of return proposed in the draft determination, there was a lack of headroom to deal with the potential challenges that may arise.	
27	GNI (UK) Response page 3	Controllable opex, repex	GNI (UK) queried the lack of reasoned evidence and transparency around the draft determination controllable opex and repex decisions. GNI (UK) noted in particular that the proposed level of allowances comprises elements which appear to have been applied inconsistently to minimise return to GNI (UK) and ultimately to result in an uneconomic level of allowances. GNI (UK) noted furthermore that on several cost lines, where the proposed allowance has been reduced, the reduction is justified based on unpublished advice from external consultants or a rejection of GNI (UK)'s justification with no counter argument. GNI (UK) considered that as the consultant advice was not made available in the draft	As part of the engagement with the TSOs following the publication of the draft determination, we have provided GNI (UK) with the updated report by our engineering consultants. We have furthermore published the final reports from all our external consultants with respect to GT17 alongside the final determination reflecting our revised allowances. We have also provided a full discussion of our determination in the main determination document and the annexes on real price effects and efficiencies (Annex 1) as well as repex (Annex 2). We consider that this provides adequate justification of our decisions, transparency and evidence that

No	Reference	Section & Topic	Comment	Our Response
			determination it could not be assessed or argued, nor could it be determined that this advice has been duly weighed and considered by UR.	we have not been inconsistent to minimise return to GNI (UK) and ultimately provide an uneconomic level of allowances.
28	GNI (UK) Response page 3/4	Opex	GNI (UK) questioned whether the UR had predetermined outcomes before considering analysis. GNI (UK) stated: *"However, in certain cases UR has not given regard to the actual costs observed and has simply "rolled over" the current level of allowances. UR appears not to have considered any information provided by GNI (UK) in relation to these costs. This amounts to a failure by UR to assess efficient Opex for GT17, resulting in errors in the calculation of allowances."*	We did give due regard to actual costs and related information provided by GNI (UK). Only some costs elements were "rolled over" in the DD due to lack of sufficient explanation as to why this cost allocation was increasing. However, we have subsequently reconsidered these lines and amended allowances accordingly.
29	GNI (UK) Response page 4	Controllable opex	GNI (UK) considered that the DD allowance for controllable opex falls substantially short of the amount necessary for GNI (UK) to operate its regulated business over GT17 and, as such, is inadequate. GNI (UK) noted in particular that the DD provides insufficient allowances to enable GNI (UK) to operate and maintain the transmission network during GT17 to the standard required by its statutory and licence obligations, and to satisfy the reasonable demands of customers in terms of safety, security and quality of service. GNI (UK) noted furthermore that the opex efficiency incentive is asymmetric in that overspend relative to allowances is almost certain and there is no opportunity to outperform.	We note the comments made. We consider that the allowances provided are in line with our statutory duties and sufficient to provide the financial and other resources required for GNI (UK) to carry out its licenced activities in line with its statutory and licence obligations. For further details on the substantiation of our allowances see the main final determination document.
30	GNI (UK) Response page 4/5	Repex	GNI (UK) considered that the draft determination did not provide either sufficient allowances to undertake necessary works or a credible mechanism to progress the necessary initiatives. GNI (UK) noted that in most cases the UR provided no allowances and appeared not to have considered, or to have misinterpreted, the justification and rationale for the investments. GNI	We have reconsidered the repex allowance and provided a significant uplift. Full details are included in the repex annexes. We have also provided for some 'relevant items' which will be considered in the GT17 period under the uncertainty mechanism. This is not a

No	Reference	Section & Topic	Comment	Our Response
			(UK) noted furthermore the difficulty in reconciling the rejection of required allowances with the duties imposed by the conveyance licence. GNI (UK) further stated that they have *"no confidence in the uncertainty mechanism in the licence under which UR states it may be willing to fund additional projects."*	guarantee of funding as supporting evidence requirements are as great as at a price control.
31	GNI (UK) Response page 5	General	GNI (UK) considered that the proposed determination would conflict with UR's principal objective and regulatory duties for a number of reasons: • The proposed WACC undermines regulatory credibility for any future potential investors in the energy sector in Northern Ireland, which is likely to increase the required returns for those investors who continue to finance such projects; • Where UR accepts the necessity of investment, it will not provide allowances to fund the detailed design necessary to develop accurate costs estimates but requires that the cost of such additional design works should be absorbed by GNI (UK). This will be to the detriment of long-term planning, eliminates any potential continuity of investment planning and increases the overall risk on the network; • UR appears to prioritise short term cost reduction over the longer term efficiency of the sector as demonstrated by UR's unwillingness to allow for (even planning of) necessary and efficient investment and its failure to recognise the threat to investor confidence in failing to recognise the investment risks GNI (UK) took in 2002; • UR has failed to provide sufficient allowances to cover costs that GNI (UK) must incur in order to comply with obligations imposed	We note the comments made. We do not agree that our determination conflicts with our principal objective and statutory duties. Our detailed reasons for reaching this final determination are set out in this final determination document including annexes.

No	Reference	Section & Topic	Comment	Our Response
			under Part II of the Gas Order, namely its licence conditions; • The departure from the principles of incentive-based regulation in failing to provide allowances and an inappropriate reliance on uncertainty mechanisms is beyond established regulatory practice and fails to promote efficiency and outperformance. In conclusion, GNI (UK) considered that the draft determination does not balance the competing duties under which UR operates. GNI (UK) expressed the view that UR appears to give undue weight to short term cost considerations at the expense of its duties in relation to public safety and securing a sustainable long term energy supply.	
32	GNI (UK) Response page 11 section 3.1.1	Opex – Business Plan	GNI (UK) stated that: *"The Business Plan, together with responses to subsequent requests, provided a comprehensive rationale for the costs. UR has not demonstrated due regard and assessment of the information provided by GNI (UK). The result of this departure from best practice is that UR's decisions are based on incomplete information and errors of facts and not in accordance with UR's regulatory duties."*	The GNI (UK) business plan was fully considered. Our view in the DD was that there was not sufficient justification for the full amount requested. We have subsequently revised allowances based upon further engagement and detail provided.
33	GNI (UK) Response page 11/12 section 3.1.2	Opex – Approach	GNI (UK) questioned proposals on controllable opex. GNI (UK) raised various points including: • UR fails to give sufficient detail or reasoning for its proposed reductions; • Decisions are neither transparent nor accountable in accordance with regulatory best practice; • UR does not appear to have given regard to benchmark analysis on the Ervia pay model; • In certain cases, UR "rolls over" the current	We disagree that we have given insufficient detail or reasoning for the proposed reductions. With consideration of the responses received as part of the draft determination we proactively engaged with GNI (UK) and reflected the findings in our final determination. In particular, we did not simply "roll over" costs. Rather we considered all the evidence available. In particular, we did give regard to the benchmark analysis on the Ervia pay model. This is why we allowed £60k per FTE,

No	Reference	Section & Topic	Comment	Our Response
			level of allowances which were set almost 10 years ago in a previous price control review, without regard to actual costs or any additional information about likely future costs. GNI (UK) requested an appropriate opportunity to review and comment on any analysis which UR relies upon in a final determination.	slightly higher than the actuals in GT12, in addition to above inflation increases of pay in line with our analysis of real price effects and frontier shift of pay.
34	GNI (UK) Response page 12 section 3.2.1.1	Opex – Staff numbers	GNI (UK) raised the issue of staff allowances stating: *"UR has not provided any detail as to how it established that two FTEs are no longer necessary to support the GNI (UK) business post establishment of the CJV. This is contrary to regulatory best practice principles of transparency and accountability."*	We have reconsidered the staffing issue in light of additional engagement and information provided since the publication of the draft determination, including with respect to the GMO NI resource allocations. Full detail on decisions is provided in the opex chapter of the final determination.
35	GNI (UK) Response page 12 section 3.2.1.2	Opex – Staff cost per FTE	GNI (UK) raised a number of points on staff cost allowances: • No rationale is provided for the proposed reduction of staff allowances, other than to disallow cost increases driven by changes in exchange rates; • The average staff pay levels within the MEL group are above those proposed for GNI (UK). Using 2019/20 by way of example, average staff costs allowed for MEL are £84k per annum compared to an allowance of £60k per annum for GNI (UK) – a 40% gap in pay levels, which clearly is evidence that GNI (UK) levels of staff costs are appropriate and efficient. • UR appears to have disregarded that fact that GNI (UK) costs include an allocation of executive pay levels from the Ervia Group and GNI executive teams; • The EY support services benchmarking report evidences that the organisation support	No rationale was provided other than to disallow cost increases for exchange rates because we only disallowed the exchange rate element. We considered the support services benchmarking report. This is why we allowed £60k per FTE, slightly higher than the actuals in GT12, in addition to above inflation increases of pay in line with our analysis of real price effects and frontier shift of pay. We disagree that we allowed £84k per FTE for MEL in the DD. Our average allowance for MEL was £78k per FTE. We accept that MEL costs per FTE do appear high. We also accept that GNI (UK) include an allocation of executive pay but this is on a much smaller scale than that of MEL which is what our benchmarking showed.

No	Reference	Section & Topic	Comment	Our Response
			functions are efficient.	
36	GNI (UK) Response page 12 section 3.2.1.3	Opex – Impact of exchange rates	GNI (UK) raised the issue of staff costs which are incurred in euro. GNI (UK) considered that average staff pay costs will be impacted by projected adverse movements in the GBP/EUR rate. GNI (UK) also noted that it was not clear on what basis UR has reached the conclusion that, because the cost/benefit of exchange rate fluctuations has been largely negligible over the last ten years, that will continue to be the case even when market forecasts suggest otherwise and many fundamentals of the economy have changed. GNI (UK) considered that the UR appears not to have analysed this and to have based its determination on an error of fact. GNI (UK) argued that forward looking allowances should be set based on the best available information of forecast costs, and hence include adjustments for market based forecast of exchange rates.	We accept that the pound has weakened against the euro since late 2015. By showing historic exchange rate fluctuations, it was not our intention to use this to predict future movements, as such predictions are notoriously difficult to make and subject to many variables. Our intention was to show that over time, sometimes exchange rates are to the company advantage and sometimes they are not. By not making adjustments this evens out over time. It would be inconsistent to only make one way adjustments. Furthermore, as a UK company collecting revenues in pounds, we consider that exchange rate fluctuations are an operational risk for GNI (UK) which is covered by the rate of return.
37	GNI (UK) Response page 13 section 3.2.2	Opex – Administration (overheads)	GNI (UK) noted that in considering GNI (UK)'s submission for overheads, UR appears to give undue weight to the current allowance of £200K p.a., which was rolled over from the previous price control period and in effect has not been assessed in 10 years. GNI (UK) considered that in rolling this forward for another 5 year period, there is no detailed consideration of GNI (UK)'s submission or any evidence that UR has given consideration to benchmarking evidence submitted by GNI (UK), including the Pay and Benchmarking reports.	We sought further information on shared services and support staff from GNI (UK) since the publication of the draft determination. In light of the additional information provided on how costs have been reported and apportioned, we have revised our allowance in these areas. We have considered all evidence provided by GNI (UK), including the analysis on the Ervia pay and benchmarking report. This is why we allowed £60k per FTE, slightly higher than the actuals in GT12, in addition to above inflation increases of pay in line with our analysis of real price effects and frontier shift of pay.
38	GNI (UK) Response page 13/14	Opex – Administration (insurance	GNI (UK) raised an issue around inconsistent benchmarking for setting insurance costs. GNI (UK) considered that we had not given due regard to the	We disagree that we did not consider the information provided by GNI (UK) as we did allow a 4% increase to take account of the increase in

No	Reference	Section & Topic	Comment	Our Response
	section 3.2.2	costs)	information provided and that it was not appropriate for us simply to adopt the evidence that results in the lowest possible allowance without analysis. GNI (UK) stated: *"It is worth highlighting in relation to GNI (UK) forecast increases in insurance costs that UR is content to rely on MEL as a comparator where the impact of this is to not allow the forecast increase. However, this does not apply equally, for example in relation to staff costs, where the MEL costs are higher. Such an approach does not meet the consistency principle of regulatory best practice."* GNI (UK) also noted that allowances provided to MEL for insurance are more than three times of that provided to GNI (UK) notwithstanding it doesn't forecast a further increase. GNI (UK) also commented that the cost for insurance was market driven and outside of the control of GNI (UK), that it was not tenable for GNI (UK)'s pipelines to be uninsured or underinsured and that an insufficient allowance for insurance premia would adversely impact the risk profile of the business and the network.	insurance premium tax. We also considered the e-mails from insurance brokers but found this unconvincing based on other information provided to us from another source as as well as previous experience. We would refer GNI (UK) to their submission in GT12 where they stated "*Unfortunately there are a number of factors currently at play in the insurance market which have led to an increased level of uncertainty and a strong indication that insurers will not offer multiyear agreements going forward as they push for premium increases in an uncertain market."* Actual costs for the GT12 period show that not only were insurance premiums substantially lower than predicted, they actually fell during the period. We acknowledge the different levels of insurance allowances for GNI (UK) and MEL, but note that these are impacted by a number of factors and therefore not directly comparable. We acknowledge the importance of the provision of adequate insurance cover and consider that the allowance provided is sufficient to fund this.
39	GNI (UK) Response page 14 section 3.2.3	Opex – Routine maintenance	GNI (UK) questioned the maintenance allowances stating: *"the Draft Determination proposes a c.10% reduction on the basis of unpublished external consultant's advice and without providing any justification or evidence. This is not consistent with good regulatory practice, in particular the requirements of transparency and accountability, and the result is that UR is proposing to set the allowance at an inappropriately low level."*	Since the draft determination we have further engaged with GNI (UK) on this area and have shared the consultants' reports with the TSOs, giving an adequate response time prior to the final determination.

No	Reference	Section & Topic	Comment	Our Response
40	GNI (UK) Response page 14/15 section 3.2.4.1	Opex – Unplanned maintenance costs (drainage)	GNI (UK) queried the drainage cost allowance. GNI (UK) noted in particular that they do not accept that the lowest cost year in GT12 represents a “normal year” and that on the contrary, climate research indicates that extreme weather events are occurring more frequently than in the past, increasing the risk of flooding and related drainage costs.	We have considered the additional evidence provided by GNI (UK) in the area of drainage and adjusted allowances accordingly.
41	GNI (UK) Response page 15 section 3.2.4.2	Opex– Unplanned maintenance costs (other unplanned costs)	GNI (UK) queried reductions to other unplanned maintenance stating: “*The Draft Determination proposes a 12% reduction based on unpublished external consultant’s advice and without providing any justification or evidence. This is not consistent with good regulatory practice, in particular the principles of transparency and accountability*.”	Since the draft determination we have further engaged with GNI (UK) on this area and have shared the consultants’ reports with the TSOs, giving an adequate response time prior to the final determination.
42	GNI (UK) Response page 15 section 3.2.5	Opex – System operation	The issue of joint grid control tenders was raised. GNI (UK) noted that it was not clear on what basis UR would seek to require licence holders to conduct a joint tender process to procure grid control services. GNI (UK) noted furthermore that undertaking a procurement for such an essential service is a complex and costly exercise. GNI (UK) stated: *“Any joint tender process for grid control services is likely to create a high risk of procurement challenge arising from the awarding authority having an affiliated company participating in the tender competition. A joint tender process cannot guarantee securing a more favourable outcome for gas customers and will incur incremental implementation costs.”* GNI (UK) suggested that if we placed a requirement on GNI (UK) to procure Grid Control services through an open tender process, any resulting costs should be	We have considered this response, and the response from MEL. After engaging with both TSOs, we have based our allowance on the existing control room arrangements. However, we expect the TSOs to collaboratively conduct a feasibility study and produce an implementation plan, by no later than 1 October 2019, for the establishment of a single control room for Northern Ireland.

No	Reference	Section & Topic	Comment	Our Response
			treated as uncontrollable and hence pass-through.	
43	GNI (UK) Response pages 15-17 section 3.2.6	GMO NI	GNI (UK) raised a number of points regarding the allowances for GMO NI. These points were also made by MEL in their response (see number 14 to 19 above).	See number 14 to 19 above.
44	GNI (UK) Response page 17 section 3.3	Opex - General	GNI (UK) considered the draft determination with respect to opex to be flawed for a number of reasons: • In respect of each element, UR appears to have taken the approach of picking the evidence that supports the lowest possible allowance, in many cases failing to provide the evidence purportedly relied on. It has accordingly failed to take a consistent, transparent or accountable approach in line with the requirements of regulatory best practice; • Moreover, UR has failed to have proper regard to or give appropriate weight to its principal objective to promote the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland. In particular, it has disregarded the importance of providing proper allowances to allow the GNI (UK) gas network to be maintained efficiently and economically in the short term, and to underpin long term investor confidence; • UR further appears to be disregarding the importance of incentive-based regulation in driving efficiencies by allowing the opportunity for outperformance. The increasing reliance on uncertainty mechanisms will not drive efficiencies or inspire investor confidence. • UR has also failed to have proper regard or give appropriate weight to its statutory duties. In particular, UR appears to have disregarded the fact that consumers include future	We note the comments made. We do not agree that our determination is flawed or conflicts with our principal objective and statutory duties. Our detailed reasons for reaching this final determination are set out in this final determination document including annexes.

No	Reference	Section & Topic	Comment	Our Response
			consumers and that their interests are not served simply by trying to reduce costs in the short term, without regard for the consequences to the network, efficiency and investor confidence; • Failing to provide appropriate allowances for opex and increasing reliance on uncertainty mechanisms undermines incentive based regulation and will ultimately disincentivise efficiency.	
45	GNI (UK) Response page 19 section 4.1	Repex – Approach	GNI (UK) has queried the repex allowance and noted that the draft determination provides neither sufficient allowances to undertake other necessary works nor a credible mechanism to progress these initiatives: GNI (UK) stated furthermore: *"[…] it appears that UR has simply applied zero allowances to necessary works without due consideration of its duties."*	We have reconsidered the repex allowance and provided a significant uplift. Full details are included in the repex annexes. However, it should be stated that we took full account of our duties when setting the draft determination. Our initial repex allowance reflected the lack of detail in the business plan. This issue has largely been addressed through the query log process.
46	GNI (UK) Response page 19 section 4.1.1	Repex – Engagement	GNI (UK) rejects the assertion that little specific evidence has been presented to support the proposed projects.	This issue has been resolved as part of ongoing engagement and query process. The revised repex allowance reflects this.
47	GNI (UK) Response page 19 section 4.1.2	Repex – Duties	GNI (UK) stated that the repex budget did not allow the company to act as a Reasonable and Prudent Operator (RPO). The issue of AGI security was cited by way of example. GNI (UK) further indicated that this is in conflict with UR's objective to promote the development and maintenance of an efficient, economic and co-ordinated gas industry. GNI (UK) furthermore considered that it was indicative of UR having failed to have regard to the need to secure that licence holders	Whilst repex figures have been revised, we do not consider the draft determination to be in conflict with our primary objective and statutory duties. This is due to the fact that it was initially unclear that repex projects and their cost were in the best interest of the gas industry.

No	Reference	Section & Topic	Comment	Our Response
			are able to finance the activities and the need to protect the public from dangers arising from the conveyance, storage, supply or use of gas.	
48	GNI (UK) Response page 20 sections 4.1.3, 4.1.4	Repex – Design work	GNI (UK) raised the issue of design costs. GNI (UK) stated: *"UR requires that the cost of such additional design works should be absorbed by GNI (UK) [...]. However these activities and hence allowances do not include scope for design activity."*	We have reconsidered the repex allowance and provided a significant uplift. Full details are included in the annexes. The repex allowance includes costs for project management and design. We consider it important to ensure that the company is not funded twice for these activities which are listed (to at least some extent) as asset management functions in the business plan. We therefore have considered reducing the opex lines accordingly.
49	GNI (UK) Response page 20 section 4.1.5	Repex – Initiatives	GNI (UK) disagrees with the UR view that the justification for projects tends to be based on manufacturer's guidance on average design life and that analysis of asset health and fault data has been limited.	The company has provided additional fault and condition data. However, some projects are still based on a design life need basis. We expect GNI (UK) to be improving their asset information database for use in the next price control.
50	GNI (UK) Response page 21 section 4.2.1	Repex – Boiler refurbishment	GNI (UK) queried the lack of allowance for the boiler replacement programme. They further cited the fact that the UR provided allowance for MEL boiler house replacements.	We have reconsidered the boiler allowance and provided a significant uplift. The example of MEL does however suggest that investment should be delayed since they are not proposing investment in these assets until they are around 20 years old.
51	GNI (UK) Response page 22 section 4.2.2	Repex – Control system refurbishment	GNI (UK) queried the lack of allowance for the control system replacement.	This project has been reconsidered and an allowance provided as part of the final determination.
52	GNI (UK) Response page 22 section 4.2.3	Repex – Instrumentation refurbishment	GNI (UK) questioned the lack of allowance for instrumentation replacements and refurbishment.	This project has been reconsidered and an allowance provided as part of the final determination.

No	Reference	Section & Topic	Comment	Our Response
53	GNI (UK) Response page 23 section 4.2.4	Repex – AGI metering	GNI (UK) questioned the lack of allowance for metering recalibration.	This project has been reconsidered and an allowance provided as part of the final determination.
54	GNI (UK) Response page 23 section 4.2.5	Repex – Gormanston Metering	GNI (UK) questioned the lack of allowance for Gormanston upgrades and metering recalibration.	Given the lack of gas flow, we do not think it in consumers best interests to fund this work at present.
55	GNI (UK) Response page 24 section 4.2.6	Repex – AGI security upgrade	GNI (UK) queried the lack of allowance associated with the AGI security project.	We are unclear as to the need for this and the associated costs. We intend to treat this project as a relevant item.
56	GNI (UK) Response page 24 section 4.2.7	Repex – Emergency escapes	GNI (UK) queried the lack of allowance associated with the emergency escape project.	This project has been reconsidered and an allowance provided as part of the final determination.
57	GNI (UK) Response page 24 section 4.3	Repex – General	GNI (UK) has stated that they: *"developed a repex programme to refurbish / replace assets where appropriate at the end of their life but prior to them failing. This programme is consistent with GNI (UK)'s licence obligation to act as an RPO and to maintain compliance with relevant legislation, regulatory requirements and standards."*	We do not dispute that replacing assets prior to failure is an appropriate action to take. However, we do require evidence that the risk of failure is significant in the price control. Otherwise we run the risk of gas consumers funding inefficient cost by replacing assets too early.
58	GNI (UK) Response page 25, 26 section 4.4	Repex – General	GNI (UK) noted that the UR appears to be pursuing the objective of short term cost reduction and disregarding the importance of incentive-based regulation in driving efficiencies by allowing the opportunity for outperformance in favour of increasing reliance on uncertainty mechanisms. GNI (UK) considered that this has the unfortunate result of failing to drive efficiencies, failing to inspire investor confidence and failing to ensure funding for projects that are important in promoting the long term development of an efficient, economic and coordinated gas industry in Northern Ireland and securing a viable long-term energy supply. As such, GNI (UK)	We note the comments made. We do not agree that our determination conflicts with our principal objective and statutory duties. Our detailed reasons for reaching this final determination are set out in this final determination document including annexes. We note in particular that based on the additional evidence gathered since the draft determination we have significantly revised our repex allowances.

No	Reference	Section & Topic	Comment	Our Response
			considered that UR's approach appears to conflict with its principal objective to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland, its duty to ensure a high level of protection of the interests of consumers of gas and its duty to facilitate competition between persons whose activities consist of participating in the conveyance of gas	
59	GNI (UK) Response page 4, 10&26 sections 2.4 and 5.2	WACC – overall	GNI (UK) considered that the UR is obliged to take into account the risks that investors took on when they made their investment in the Northern Ireland gas industry. Its view is that the UR's proposal to align the return it earns in the GT17 period to the risks that the business currently faces amounts to an expropriation of revenues.	GNI (UK) made similar comments during the statutory consultation that resulted in the modification of the rate of return licence condition, June 2016. We do not agree that the proposals represent an ex-post expropriation of returns. The proposal will not result in GNI (UK) being deprived of or required to return any of the benefits that it has previously gained from being the licence holder. Although GNI (UK) makes reference to the risk investors faced in previous periods they have failed to quantify this additional risk. Neither have they provided evidence to indicate that any additional risk that may have existed was not fully remunerated at the time. We also note that to mitigate the cost risk associated with the construction of the pipeline network GNI (UK) benefited from a specific mechanism which substantially reduced their risk exposure. Under this mechanism capital allowances were set after materials purchase and the letting of the construction contract. In addition a pain gain mechanism was put in place so that residual cost risk was shared between GNI (UK) and Northern Ireland gas consumers.

No	Reference	Section & Topic	Comment	Our Response
60	GNI (UK) Response page 26 section 5.3	WACC – overall	GNI (UK) suggested that the UR has placed undue weight on the allowed rate of return for the mutualised gas transmission company.	We have decided to allow GNI (UK) a rate of return well above the cost of capital that Mutual Energy currently expects to achieve for the GT17 period. It is not the case that we seek to align GNI (UK)'s return to the returns that customers pay in a mutualised model. For the avoidance of doubt, the GNI (UK) WACC calculation is based solely on a piece-by-piece build up of the component parts of GNI (UK)'s cost of equity and cost of debt.
61	GNI (UK) Response page 27 section 5.3.1	WACC – overall	GNI (UK) argued that the proposed WACC is far outside the range of returns allowed by the UR and other regulators in recent years.	GNI (UK) is correct to identify that the return it will earn in the GT17 period sits below the returns that other regulated companies have been allowed by their regulators. This is partly attributable to the calculation of the cost of debt. GNI (UK)'s licence requires us to set the allowed cost of debt for GNI (UK) in line with market interest rates. Other regulated companies typically have a stock of existing embedded debt, which was taken out in years when interest rates were higher than they are now. This difference in circumstances means that GNI (UK)'s rate of return naturally sits lower than that of other companies. We are also providing for a comparatively low cost of equity. This is a function of GNI (UK)'s risk profile, especially the very low amount of expenditure that GNI (UK) is managing relative to the size of its investor capital base. We note that neither GNI (UK) nor its consultant sought to refute the suggestion that GNI (UK) is

No	Reference	Section & Topic	Comment	Our Response
				intrinsically less risky than other regulated companies and, hence, we consider it is incorrect to compare rates of return across different decisions without allowing for the differences in risk.
62	GNI (UK) Response page 27 section 5.3.2	WACC – cost of debt	GNI (UK) stated that the UR has placed undue weight on the cost of debt for GNI (UK)'s parent company.	This is not the case. The allowed cost of debt is benchmarked to expected market interest rates during the GT17 period.
63	GNI (UK) Response page 27 section 5.3.2	WACC – cost of debt	GNI (UK) noted that the UR's approach to the cost of debt differs from the approach adopted during the GT12 review.	In order to estimate the cost of debt in GT12 we adopted a similar methodology to that deployed by Ofgem in RIIO- T1[5]. That is the prevailing cost of debt was estimated using a trailing average of historic data. In effect this methodology assumed that the prevailing cost of debt for the licence holder was made up of a many individual chunks of debt each issued at various points over previous years at different interest rates. The concept of embedded debt, where relevant, continues to play a role when estimating WACC values in for instance the case of NIE (Northern Ireland Electricity). For NIE, the overall cost of debt is also based on a forward looking estimate of debt costs, to take account of that proportion of the total stock of debt that will be issued/re-issued during the price control period. For the purpose of GT17 we have adopted the forward looking rather than the backward looking approach. Either would be in line with the licence drafting applicable today or at the time of GT12.

[5] This is the first gas transmission price control by Ofgem under the new RIIO (Revenue = Incentives + Innovation + Outputs) model. The price control is set for an eight-year period from 1 April 2013 to 31 March 2021.

No	Reference	Section & Topic	Comment	Our Response
				The former was adopted as it better reflects the nature of the stock of debt GNI (UK) uses to finance the network. As we noted in our draft determination GNI (UK) is entirely funded by a loan from the parent. Of the total stock of debt of the parent, as at December 2015, one third is floating, and of the two thirds that is fixed, two thirds of that is in the form of a five year bond with a maturity of December 2017. Consequently 75% of the total stock of debt will have interest costs related to future rather than past market conditions. We also noted that in December 2016 the parent had issued €625m worth of fixed rate debt, a €500m euro bond with 10 year maturity and a €125m euro bond with 20 year maturity.
64	GNI (UK) Response page 5, 27 section 5.3.2	WACC – cost of debt	GNI (UK) argued that the UR's approach to the calculation of the cost of debt departs from the methodology that the UR has adopted in other price reviews and exposes GNI (UK) to unnecessary volatility.	Our approach follows from the wording of GNI (UK)'s licence. The licence requires the UR to set the allowed cost of debt for GNI (UK) in line with market interest rates. Other regulated companies typically have a stock of existing embedded debt, which was taken out in years when interest rates were higher than they are now. This difference in circumstances means that GNI (UK)'s rate of return naturally sits lower than that of other regulated companies. As regards the consistency of our approach in GD17[6] and GT17, especially in relation to projections of future market interest rates, there is a clear difference in the timing of the decisions. The GD17 FD was published in September 2016, less than three months after the Brexit

[6] This is the name given to the next price control for the NI GDNs. It is proposed to cover the period 2017 – 2022 (calendar years).

No	Reference	Section & Topic	Comment	Our Response
				referendum. We assessed that it was too early to judge where financial markets would settle and chose to make use of data from early 2016. This GT17 decision is being published in August 2017. In the extra time that has elapsed, it has become clear that the referendum is going to have a long-lasting impact on certain economic fundamentals, including interest rates. We consider that there is now sufficient evidence to justify setting a cost of debt with reference to current market interest rates. A similar approach has been adopted in the NIE RP6[7] review. We have also been able to take account of any impact of the General Election of June 2017 on the debt markets. GNI (UK)'s consultant noted that we inserted a cost of debt adjustment mechanism into the GD17 price control framework. For the reasons outlined above however we do not consider that a similar mechanism is justified in this price control.
65	Frontier Economics report	WACC – cost of debt	GNI (UK)'s consultant considered that it is unrealistic to think that GNI (UK) could achieve an A rating and suggested that the UR should focus exclusively on the cost of BBB rated debt, as was the case in the GD17 review.	Ofgem's practice in its RIIO reviews and our own approach to the cost of debt in GT12 involved averaging the cost of A and BBB rated debt. Our approach is therefore consistent with our own previous practice and that of other economic regulators. We recognise that when setting a cost of debt in RP6[8] we considered only BBB rated bonds. However this was in recognition of the greater level of financial risk inherent in the licenced activity of NIE. Insofar as GNI (UK) is a less risky business, there is no basis for focusing only on BBB debt.

[7] This is the name given to the price control for NIE, covering the period 2017-2024.
[8] RP6 Final Determination.

No	Reference	Section & Topic	Comment	Our Response
				Our work in the GD17 review gave recognition to the way in which the Profiling Adjustment would restrict PNGL (Phoenix Natural Gas Limited)'s and FE (firmus energy)'s cash flows in the short term and put pressure on ratings. There is no comparable factor for GNI (UK).
66	GNI (UK) Response page 27 section 5.3.2	WACC – cost of debt	GNI (UK) argued that the UR should have made allowance in its cost of debt calculation for transaction costs and an 'illiquidity premium'.	We do not accept that we should make allowance for costs that GNI (UK) does not, in practice, pay. Transaction costs and an illiquidity premium would potentially be relevant if GNI (UK) were borrowing directly from private lenders and/or issuing bonds. In such circumstances, if there was evidence that GNI (UK) was incurring certain expenses and/or that lenders were demanding premium rates of interest to compensate for illiquidity in the secondary markets, the UR would consider whether it should factor such frictional costs into its allowed cost of debt. Because there is no evidence of GNI (UK) encountering such cost, it is not necessary to ask customers to pay higher prices in this price review.
67	GNI (UK) Response page 28 section 5.3.3	WACC – asset beta	GNI (UK) and its consultant noted that equity betas for the UK's listed regulated companies have been increasing in recent months. GNI (UK) argued that the UR should have factored these increases into its analysis.	We acknowledge that empirical estimates of equity betas have been increasing recently. In line with the position taken by the CC/CMA (Competition Commission/Competition and Markets Authority) in recent reports, we think that it should not be overly swayed by short-term movements in share price data, but should instead seek to look at empirical estimates of beta over a longer time horizon.

No	Reference	Section & Topic	Comment	Our Response
				We note that equity betas of listed network companies averaged over five years lie within the 0.3-0.40 asset beta range for a 'standard' network utility (especially after SSE is removed from the comparator set). GNI (UK)'s beta, as a less risky company, should naturally sit lower than these empirical estimates.
68	GNI (UK) Response page 28 section 5.3.3	WACC – asset beta and debt beta	GNI (UK) considered that, when making use of comparator evidence, the UR failed to control for differences in regulators' debt beta assumptions.	We accept that there is no single right way of reading across from the values of beta that are identified in other regulators' published price control documents. The approach that we took in the DD, which built on the approach that First Economics took in its report, involved taking quoted asset betas at face value – i.e. as the regulators' estimates of the beta that a firm would have if it were financed entirely by equity. In this way of looking at things, it falls to us to assess, independently as a separate and stand-alone task, how firms' betas then change in response to higher gearing. We can nevertheless acknowledge that there is an alternative way of utilising other regulators' analysis, in which quoted asset betas have to be looked at in the context of the detailed computation methodology that each regulator used to derive the asset beta estimate. Under this approach, an asset value of x is only x *because* the regulator used a debt beta of y; using a different value for debt beta would mean that the asset beta value takes on a value of z. It follows that if we do not use a debt beta of y in calculations, we might need to adjust the asset betas quoted in regulators' published documents

No	Reference	Section & Topic	Comment	Our Response
				before reading across to another price control. In practice, however, we do not consider that this matter had any effect on the draft determination. The estimates of asset beta that the UR placed most weight on were: - Ofgem, RIIO-GD1 = 0.38 - UR, GD17 = 0.40 - CC, NIE = 0.40 There is no issue with the first two points of reference in this list because Ofgem and we both used a debt beta of 0.1 in the decisions made. In both cases, we consider that GNI (UK), as a mature business that is managing very small amounts of expenditure relative to the size of its investor capital, is clearly less risky than the comparator companies. The read-across from the CC's estimate of NIE's asset beta is less straight-forward, but we note that the CC's final NIE inquiry report contains a calculation of the equity beta that NIE would have if its gearing were 65%, in which the CC gears up a 0.4 asset beta using a debt beta of 0.1[9]. We also note that we have identified NIE as a more risky business. We are content, therefore, to use the regulators' beta estimates in the three above-mentioned reviews appropriately and that the draft determination positions GNI (UK)'s beta logically relative to other, comparable regulatory determinations, having regard to the intrinsic

[9] See table 13.13 of the CC's final NIE inquiry report.

No	Reference	Section & Topic	Comment	Our Response
				riskiness of the businesses.

CCNI Response

3.6 The CCNI response and our high level views are summarised in Table 4. More detailed information to address specific issues is included in the GT17 final determination document and/or in technical annexes to same where appropriate.

Table 4: Responses on Comments from CCNI

No	Reference	Section & Topic	Comment	Our Response
69	CCNI Response page 3, para 3.4	CJV	CCNI raised the issue of GMO NI cost transfers. They stated: *"In order to ensure that CJV is successful we understand the importance of ensuring the companies receive their respective revenue entitlements. It is absolutely essential however that the Regulator is completely satisfied that the mechanisms in place for companies to detail the transfer of necessary costs are adequate. There must be absolute confidence in the accuracy of these proposed uncontrollable costs."*	We have worked closely with the TSOs to derive an allowance for ongoing opex that will allow the GMO NI to carry out its functions effectively and efficiently at the lowest cost to the gas consumer. Since the publication of the draft determination, we have received evidence to support a higher staffing level than assumed in the draft determination with a different cost allocation between the TSOs, and the allowances have been adjusted to reflect this. We do, however, agree with the CCNI point about cost transfers and uncontrollable costs. We will scrutinise any cost transfer proposals closely in this regard. Furthermore the RIGs (Regulatory Instructions and Guidance) will help continuous monitoring of spend by TSOs within the single system.
70	CCNI Response page 3/4,	Incentives and Innovation	The CCNI agreed that the social enhancement fund should cease to collect further funds with immediate effect and that future operating costs should be	We have decided that no further monies should be allocated to the fund and that all future operating cost savings are returned directly to

No	Reference	Section & Topic	Comment	Our Response
	para 5.1-5.2		returned to consumers at the end of the gas year. The CCNI noted furthermore that the social enhancement fund must be used to benefit consumers and that they would expect any governance review to protect this arrangement.	consumers at the end of the gas year. This will be achieved by setting the ‘z’ factor to zero each year. This will have immediate effect, commencing with the 2016-17 gas year reconciliation process. We consider that the future of the social enhancements fund and the use of the funds already retained by it should form part of our proposed governance review which we intend to carry out during the price control period.
71	CCNI Response page 4, para 6.2	WACC	The CCNI queried the WACC decision and in particular the basis for proposing a rate of return at the upper end of the 1.0% to 2.0% range.	We have reconsidered the WACC for the final determination. Details can be found in chapter 8 and Annex 6.

Manufacturing NI Response

3.7 The Manufacturing NI (MFNI) response and our high level views are summarised in Table 5. More detailed information to address specific issues is included in the GT17 final determination document and/or in technical annexes to same where appropriate.

Table 5: Responses on Comments from Manufacturing NI

No	Reference	Section & Topic	Comment	Our Response
72	MFNI Response page 5	MEL Review	MFNI raised the issue of greater transparency. They also asked for the UR to ensure that the FD secures a greater emphasis on representing consumer interests	Alongside the FD, which explains all of our decisions in detail, we have published additional annexes including the reports from external

No	Reference	Section & Topic	Comment	Our Response
			from the MEL Board.	consultants referred to in the main FD document as well as all responses received.[10] We also plan to carry out a review of MEL governance during the price control period.
73	MFNI Response page 5	MEL Review	MFNI noted that there is a potential for increased operating costs to be simply waved through and then passed through to consumers. MFNI considered that there is a requirement to put in place checks, from the UR, to ensure that best value is being achieved.	The price control itself is a reputational incentive for MEL to operate efficiently. In addition to this, we will be monitoring costs on an annual basis. Elements of expenditure will also be considered as part of our proposed governance review which we intend to carry out during the price control period.
74	MFNI Response page 5	MEL Review	MFNI noted that any incentives should be aligned to interests of consumers and that they considered it to be critically important for a MEL governance review to be undertaken.	We agree that a MEL governance review should be carried out in the interest of consumers and intend to do so during the price control period.
75	MFNI Response page 5	Transparency	MFNI noted their understanding that whilst there are 'expected' costs, that these do not have a cap applied (unlike other Price Controls). On that basis MFNI considered the introduction of RIGs to be critical. MFNI noted furthermore that collecting, analysing and benchmarking cost and output data will provide more transparency for consumers.	We note that different price control arrangements apply for the different licence holders: GNI (UK) is subject to a traditional "revenue cap" incentive framework. In this case, allowances for controllable costs represent a fixed amount the licence holder will recover from consumers. Any variation between this allowance and actual cost is absorbed by the licence holder. In this instance the consumer is exposed to no operating cost risk. Instead this risk is borne entirely by the shareholders of the licence holder and is reflected in the rate of return. This provides the licence holder with a very clear incentive to effectively manage costs.

[10] Redactions have been made where required to maintain the confidentiality requested by GNI (UK) with respect to specific aspects of their response.

No	Reference	Section & Topic	Comment	Our Response
				PTL, BGTL and WTL are all part of the Mutual Energy Group (MEL). These companies are all subject to a 'mutualised' model. In this model NI gas consumers absorb deviations between forecast and actual operating costs in return for an absence of equity funding/returns from the business. In either case, having a robust monitoring and cost reporting framework will help to: • Monitor performance against price control targets; • Develop historic trends; • Benchmark network operators; and • Provide transparency to network users and consumers. We have therefore introduced a standardised RIGs licence condition into the high pressure conveyance licences and expressed in the FD document our intention to develop the annual cost reporting process further.
76	MFNI Response page 5	Scottish Connection	MFNI noted their concern about the application of future costs from any works on the connection through and with Scotland. MFNI firmly believes that consumers here need advanced warning of any prospect of additional charges in order to provide an opportunity to get consumer interests here represented. MFNI therefore is of the view that much more transparency is required.	We note the point. We agree that transparency on charges relating to the Scottish Connection is desirable, but consider that this is a matter outside the price control review process.
77	MFNI Response page 6	Adjustment Mechanism	MFNI noted that they do not believe there is any need for an adjustment mechanism.	We do not intend to introduce new adjustment mechanisms as part of this price control over and above those already contained in the licences. We note in particular that the GNI (UK) licence

No	Reference	Section & Topic	Comment	Our Response
				accounts for two adjustment mechanisms: • The ability to seek allowances for *unforeseen operating expenditure*. • The ability to seek a forecast expenditure review should actual controllable expenditure be greater than 15% above the allowance in any gas year. We consider that these mechanisms strike an appropriate balance between predictability and protecting consumer interests in the long run and ensuring financeability of the business in case of unforeseen circumstances with material impact.
78	MFNI Response page 6	Consumer Impact	MFNI asked UR to do all it can to avoid unnecessary additional costs being applied.	We have reviewed all of the evidence presented and engaged with the TSOs and external consultants to provide a final determination that complies with our statutory duties.

Major Energy Users Council Response

3.8 The Major Energy Users response and our high level views are summarised in Table 6 below. More detailed information to address specific issues is included in the GT17 final determination document and/or in technical annexes to same where appropriate.

Table 6: Responses on Comments from Major Energy Users Council

No	Reference	Section & Topic	Comment	Our Response
79	MEUC Response page 2	Joint System Operator	MEUC noted with respect to GMO NI that there may be some further apportionment of cost discussions needed with each of the operators but that this could be an ongoing action as the concept develops.	In our final determination we have reflected the latest information of allocation of GMO NI cost between the TSOs. Chapter 7 of the final determination also sets out the cost transfer mechanism that will be applied should further adjustments to the allocation become necessary during the price control period.
80	MEUC Response page 2	Asset Replacement	MEUC noted the references in the DD to assets being 25 years old at the end of the price control period and that MEUC does not consider this to be particularly old for assets of this sort. MEUC agreed that asset management systems detailing those assets which require replacement within the price control period should be required and suggested that data from the GB National Grid asset replacement programme may be helpful in assisting with the strategy in NI.	We note the comments made by MEUC. We are conscious that overhaul and replacement periods can differ for different types of assets and can also be impacted by the specific conditions on site. When making our final determination on repex allowances, we have considered these aspects as well as advice from external experts. We have also considered comparative analysis with other network operators but found that comparability of data and hence potential for such an analysis was limited at this stage.
81	MEUC Response page 2	Weighted average cost of capital	MEUC noted that they support the level of WACC applied by the UR to each of the four operators.	We welcome the support expressed by MEUC but wish to clarify that whilst we are required to review the rate of return for both GNI (UK) and WTL at each price control review, the rate of return on capital is excluded from the price control process for PTL and BGTL.
82	MEUC Response page 2	General – Pass through	MEUC noted that several costs in the draft determination appear to be subject to a “pass through” criteria and that it is of critical importance that these be reviewed in detail, as and when they are brought forward.	All costs in the final determination have been reviewed in detail.
83	MEUC Response page 2	General – Social Enhancement Fund	MEUC supported the proposal to set the ‘z’ factor to zero in the next period. MEUC also supported a review of the social enhancement fund mechanism during the course of the price control. MEUC noted	We note the points made by MEUC. We consider that the future of the social enhancements fund and the use of the funds already retained by it should form part of our proposed governance

No	Reference	Section & Topic	Comment	Our Response
			that if no acceptable project can be proposed and agreed by all stakeholders, it would be MEUC's preference to see the funds redistributed to the customer base.	review which we intend to carry out during the price control period.
84	MEUC Response page 3	General – Customer Impact	MEUC noted that the TSO proposals are calculated to result in an increase of approximately 10% for domestic consumers and that this is likely to be more in the region of 15% for business users.	We note that the consumer impact on business users is dependent on the type of business, but is in general greater than for domestic users.

ESB Generation and Wholesale Markets

3.9 The ESB Generation and Wholesale Markets response and our high level views are summarised in Table 7 below. More detailed information to address specific issues is included in the GT17 final determination document and/or in technical annexes to same where appropriate.

Table 7: Responses on Comments from ESB Generation and Wholesale Markets

No	Reference	Section & Topic	Comment	Our Response
85	ESB GWM	GMO NI Resources	ESB GWM sought assurance that the price control and business planning for the GMO NI is mindful of I-SEM (Integrated Single Electricity Market) and ensures that adequate monetary and human resources are available to ensure that the NI gas transmission operators can align IT systems, codes and any other affected areas in a cost-efficient and timely manner without budgetary or resource constraints.	In setting the allowances for the GMO NI both as part of the mobilisation budget and the GT17 price control review we have determined the efficient level of costs on the basis of the TSOs efficiently managing the transition to the GMO NI and the GMO NI efficiently operating as a single entity over the price control period during which I-SEM will be introduced.

Appendices

Appendix 1: Links to Consultation Responses

A1.1 Table 8 provides an overview over the responses received to consultation on the GT17 draft determination, including the links through which the response documents can be accessed.

Table 8: Links to Consultation Responses

Document	Document Link
Mutual Energy	https://www.uregni.gov.uk/publications/gt17-dd-response-mel
West Transmission Ltd	https://www.uregni.gov.uk/publications/gt17-dd-response-wtl
GNI (UK)[11]	https://www.uregni.gov.uk/publications/gt17-dd-response-gni
Consumer Council NI	https://www.uregni.gov.uk/publications/gt17-dd-response-ccni
Manufacturing NI	https://www.uregni.gov.uk/publications/gt17-dd-response-manufacturing-ni
Major Energy Users' Council	https://www.uregni.gov.uk/publications/gt17-dd-response-meuc
ESB Generation and Wholesale Markets	https://www.uregni.gov.uk/publications/gt17-dd-response-esb

[11] Note that this response has been redacted to maintain the confidentiality requested by GNI (UK).