# GD23 - Gas Distribution Price Control 2023-2028

Draft Determination Annex B
Overview of Performance 2017-2020
March 2022

# About the Utility Regulator

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

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

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

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

## Our mission

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

## Our vision

To ensure value and sustainability in energy and water.

## Our values

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

# Abstract

This report reviews the performance of the GDN's, against the previous price control targets that are set, subject to updating for the Uncertainty Mechanism and any additions/extensions that have been agreed during the price control for the year 2017 -2020 (4 years). It provides a summary of costs and performance for the first 4 years of GD23.

# Audience

Likely to be of interest to regulated companies, consumers, other regulatory bodies, government and other statutory bodies.

# Consumer impact

This analysis provides information on cost and performance to date which establishes a base line and context of reviewing the Business Plan submissions as presented by the GDN's

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# Executive Summary

This Annex provides an overview of the performance of each GDN in GD17 up to and including the year 2020. GD17 allowances, targets and projections for a number of key areas are compared with out-turns values. Performance to date in GD17 provides information on how the GDNs have performed recently which informs our decisions for GD23.

For both FE and PNGL the analysis covers 4 years from 2017 to 2020. The SGN price control began in 2018 and the report on performance for SGN covers 3 years from 2018 to 2020.

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

GD17 ends in 2022 and the costs and performance report, along with the Uncertainty Mechanism, will be updated when actual results are available for 2021 and 2022.

**FE**

Table 1.1 provides a comparison of FE's actual costs and outputs (Actual Totals) against the adjusted costs allowances and targets (GD17 FD Totals) for the first four years of GD17. FE has out-performed the GD17 determination to date. The company laid more mains and passed more properties than planned, bringing forward work originally scheduled for GD23 into the GD17 period. This helped FE deliver more connections than anticipated. The company out-performed its capital allowances by 11% and opex allowances by 3% showing improved efficiency in delivery. The volume of gas consumed in the FE area was marginally less than forecast due to large Industrial and Commercial (I&C) customers closing down in the early stages of GD17.

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

**Table 1.1: FE - summary totals for each key area for 2017 to 2020**

## PNGL

Table 1.2 provides a comparison of PNGL's actual costs and outputs (Actual Totals) against the adjusted cost allowances and targets (GD17 FD Totals) for the first four years of GD17. PNGL has out-performed the GD17 determination to date. The company has laid more mains and passed more properties in GD17 than planned and this has contributed to an out performance on connections. The company out-performed its capital allowances by 4% and opex allowances by 7% showing improved efficiency in delivery. The volumes of gas consumed in the PNGL area was slightly greater than expected as a result of additional connections and higher than expected average consumption.

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

**Table 1.2: PNGL - summary totals for each key area for 2017 to 2020**

## SGN

Table 1.3 provides a comparison of SGN's actual costs and outputs (Actual Totals) against the costs allowances and targets (GD17 FE Totals) for the first three years of its GD17 price control (2018 to 2020). This was SGN's first price control since the award of a licence in February 2015. The price control allowances, including rate of return were set largely by the competitive competition for the award of the licence. The company has not performed as expected in the first three years of GD17. Capital expenditure was in line with expectations with the company spending 1% more than the adjusted capital allowances. However, SGN underperformed in respect of operational expenditure in these 3 years, spending £2.1 million (68%) more than the Final Determination allowances. Connections, properties passed and volumes were all below the targets and projections of the GD17 determination. Delays to the completion of the Gas to the West High Pressure (HP) and Intermediate Pressure (IP) feeder mains under the High Pressure licence and lower than expected rates of connections of industrial and commercial properties contributed to this under performance. SGN was successful in connecting the larger energy consumers in its area and gas consumption at the end of 2020 was 84% of GD17 projections.

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

**Table 1.3: SGN - summary totals for each key area for 2018 to 2020**

**Overview**

FE and PNGL delivered capital investment for less than the adjusted GD17 allowances, SGN spent slightly more than its adjusted capital allowance. Each GDN had laid more mains than expected by 2020, accelerating work in GD17 and bringing forward work originally planned for GD23. FE and PNGL outperformed in respect of opex. However, SGN spent more than its adjusted opex allowance, partly because lower numbers of connections reduced the revenue generated by the connection incentive. Volumes of gas consumed in the PNGL and FE areas were in line with expectations. At the end of 2020, consumption in the SGN area had reached 84% of GD17 projections with delays to delivery of Gas to the West High Pressure pipelines and lower than expected industrial and commercial connections contributing to this shortfall.

# 1. Introduction

1.1 In the GD17 Final Determination each GDN was set expenditure allowances to ensure they operated effectively and efficiently. Some of these allowances are linked to output targets such as properties passed or number of connections delivered.

1.2 These allowances are subject to change via an Uncertainty Mechanism. The Uncertainty Mechanism adjusts determined allowances for differences between actual and allowed costs or outputs (for example, connection activity). It also accounts for other activity and expenditure approved by the Utility Regulator after the GD17 Final Determination.

1.3 Adjustments under the uncertainty mechanism fall into one of six categories as set out in our GD17 determination, namely:

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

b) Pass through – A forecast of this amount has been included in the draft determination but any difference between the allowance in the determination and the actual costs incurred will result in an adjustment at the time of GD29.

c) Ring fenced – This item has been included in the draft determination but will be removed through an adjustment in GD29 unless the Utility Regulator determines that the costs (or adjusted costs) are necessary and efficient.

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

e) Materiality Threshold – This covers additional projects which are not included within the draft determination but are subsequently approved by the Utility Regulator and cost above £100k.

f) Capex Risk Sharing (SGN only) – To be applied at the last stage of the Uncertainty Mechanism for SGN once all other adjustments have been calculated. Whilst we have retained the capex roller sharing mechanism within the licence condition turned off for SGN, we have decided to introduce a 75:25 capex sharing mechanism for the company and consumer respectively. This means SGN will take 75% of the risk of under/over recoveries and customers will take 25%.

1.4 The Uncertainty Mechanism also takes account of other adjustments to the GD17 price control such as additional network extensions which were approved after the final determination or other areas that arise from time to time.

1.5 There is also a capex roller incentive mechanism for FE and PNGL. This is not part of the Uncertainty Mechanism but it is a separate adjustment in made through the tariff model.

1.6 In the subsequent sections of this Annex we have provided a comparison of expenditure and performance against the GD17 Final Determination allowances, targets and projections as adjusted through the uncertainty mechanism. This comparison covers:

- Mains laid;
- Properties passed;
- Connections;
- Capital expenditure (capex);
- Operational expenditure (opex); and
- Volume of gas consumed (therms).

# 2. Firmus Energy (FE)

## Overview

2.1 FE has a network over 1,800km long, extending to more than 30 villages, towns and cities across Northern Ireland, with circa 55,000 customers consuming around 65 million therms of natural gas per annum and properties passed by the end of 2020 totalling 158,000.

2.2 In this section FE's performance is reviewed in a number of key areas, comparing their actual results against the adjusted allowances, targets and projections of the GD17 Final Determination. This Annex only considers the first 4 years of the GD17 price control and the remaining years of 2021 and 2022 will be completed when actual figures are available.

## Mains Laid (KM)

2.3 Table 2.1 shows that the length of mains laid in the first 4 years of GD17 has exceeded the targets set for GD17.

2.4 For GD17, FE identified extensions of the network and the natural boundaries of the conurbations currently served, and set out its plans to complete this work in the GD17 and GD23 price control periods. FE has accelerated the work it planned for GD23 into the GD17 period. It now expects to complete almost 95% of the planned infill by the end of 2022, leaving approximately 35km to be built in the first year of GD23.

| | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| KM mains laid - GD17 FD Estimate | 120.7 | 119.3 | 117.9 | 116.3 | 474.2 |
| KM mains laid - Actual | 130.4 | 150.0 | 158.5 | 165.5 | 604.4 |

**Table 2.1: FE determined allowances compared with actual for mains laid**

## Properties Passed

2.5 As the infill project has progressed ahead of schedule, properties passed has also exceeded the targets set at GD17 in each of the first 4 years of the price control as shown in Table 2.2.

| | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| Properties Passed - GD17 FD | 12,166 | 11,871 | 12,328 | 11,214 | 47,579 |
| Properties Passed - Actual[1] | 13,109 | 14,031 | 15,243 | 15,568 | 57,951 |

**Table 2.2: FE determined allowances compared with actuals for properties passed**

## Connections

2.6 FE have outperformed the total connection projections in the GD17 Final Determination in the first 4 years of the price control.

2.7 However, Owner Occupied connections are slightly below the targets set in each of the first four years of the GD17 price control. COVID19 restrictions will have impacted on this sector in 2020 with FE Energy Advisors unable to visit prospective customers for a period of 2.5 months.

2.8 New Build, Northern Ireland Housing Executive (NIHE) and Housing Association connections are all in excess of the projections of the GD17 Final Determination. Connections in these sectors are driven by external factors such as the timing of NIHE boiler replacement cycle and the desire for new build developments and social housing landlords to offer gas heating systems.

2.9 The non-domestic connections are slightly below the estimates made for GD17, remaining fairly constant over the first 4 years of GD17.

[1] Includes new build

| Connections - GD17 FD | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| Total Connections | 4,350 | 4,700 | 5,050 | 5,350 | 19,450 |
| Domestic - Owner Occupied | 2,600 | 2,950 | 3,300 | 3,600 | 12,450 |
| Domestic - New Build | 800 | 800 | 800 | 800 | 3,200 |
| Domestic - NIHE | 800 | 800 | 800 | 800 | 3,200 |
| Non Domestic | 150 | 150 | 150 | 150 | 600 |
| **Connections- GD17 FD After Uncertainty Mechanism Adjustments** | **2017** | **2018** | **2019** | **2020** | **Total** |
| Total Connections | 4,218 | 4,558 | 4,884 | 5,151 | 18,811 |
| Domestic - Owner Occupied | 2,468 | 2,808 | 3,134 | 3,401 | 11,811 |
| Domestic - New Build | 800 | 800 | 800 | 800 | 3,200 |
| Domestic - NIHE | 800 | 800 | 800 | 800 | 3,200 |
| Non Domestic | 150 | 150 | 150 | 150 | 600 |
| **Connections- Actual** | **2017** | **2018** | **2019** | **2020** | **Total** |
| Total Connections | 5,070 | 5,360 | 6,460 | 5,553 | 22,443 |
| Domestic - Owner Occupied | 2,224 | 2,395 | 3,115 | 2,604 | 10,338 |
| Domestic - New Build | 1,469 | 1,594 | 1,519 | 1,175 | 5,757 |
| Domestic - NIHE | 1,249 | 1,219 | 1,695 | 1,632 | 5,795 |
| Non Domestic | 128 | 152 | 131 | 142 | 553 |

**Table 2.3: FE determined allowances compared with actuals for connections**

## Capex

2.10 FE's total Capex in the first 4 years of GD17 was lower than the adjusted allowances for GD17. There was consistent outperformance across the 4 year period with FE spending less than the adjusted allowances for GD17 in each year. Expenditure over 4 years was 11% less than the amended allowances for GD17.

| Capex (price base Avg 2020 £m) | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| GD17 Final Determination | 19.3 | 16.1 | 16.3 | 16.6 | 68.3 |
| GD17 FD After Uncertainty Mechanism Adjustments | 17.4 | 18.7 | 19.3 | 20.6 | 75.9 |
| Actual | 14.4 | 17.4 | 17.3 | 18.2 | 67.3 |

**Table 2.4: FE determined allowances compared with actual capex**

## Opex

2.11 Table 2.5 shows that operational expenditure (opex) was equal to or less than the adjusted allowances for each of the first 4 years of GD17. The updated opex for GD17 for the years 2017-20 totalled £29.6m. The actual costs that FE incurred totalled £28.3m, approximately 4.4% less than the adjusted GD17 allowances set.

| Opex (price base Avg 2020 £m) | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| GD17 Final Determination | 7.3 | 7.2 | 7.4 | 7.7 | 29.6 |
| GD17 FD After Uncertainty Mechanism Adjustments | 7.1 | 7.2 | 7.7 | 7.2 | 29.2 |
| Actual | 6.9 | 7.1 | 7.0 | 7.2 | 28.3 |

**Table 2.5: FE determined allowances compared with actual opex**

## Gas consumption

2.12 The volume of gas consumed from 2017 to 2020 was slightly less than the projections in the GD17 final determination. Early under performance can be attributed to the closure of major I&C business consumers. This under performance was offset by the increase in domestic consumption due to a higher than expected rate of connections.

| Therms of Gas (M)- GD17 FD | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| Domestic | 11.2 | 12.7 | 14.3 | 16.1 | 54.3 |
| Non Domestic | 50.8 | 47.7 | 48.2 | 48.6 | 195.2 |
| Total | 62.0 | 60.4 | 62.5 | 64.7 | 249.5 |
| **Therms of Gas (M) - Actual** | **2017** | **2018** | **2019** | **2020** | **Total** |
| Domestic | 10.3 | 12.5 | 14.5 | 16.8 | 54.1 |
| Non Domestic | 47.9 | 48.8 | 47.1 | 47.1 | 190.9 |
| Total | 58.2 | 61.3 | 61.6 | 63.9 | 245.0 |

**Table 2.6: FE volumes of gas consumers**

# 3. Phoenix Natural Gas (PNGL)

## Overview

3.1 PNGL has over 235,000 customers. It has laid approximately 4000km of mains and properties passed by the end of 2020 totalled 350,000.

3.2 In this section PNGL's performance is reviewed in a number of key areas, comparing their actual results to the adjusted allowances, targets and projections of the GD17 Final Determination. This Annex only considers the first 4 years of the GD17 price control and the remaining years of 2021 and 2022 will be completed when actual figures are available.

## Mains Laid (KM)

3.3 Table 3.1 shows that the length of mains laid in the first 3 years of GD17 exceeded the revised targets for GD17. Mains laying in the East Down project progressed ahead of schedule and work began on additional infill approved for the Greater Belfast. The length of mains laid in 2020 was lower than expected reflecting the accelerated delivery of work in the first three years of GD17.

| | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| KM mains laid - GD17 FD Estimate | 31.5 | 45.0 | 87.7 | 86.4 | 250.6 |
| KM mains laid - Actual | 80.9 | 81.5 | 92.7 | 75.1 | 330.2 |

**Table 3.1: PNGL determined allowances compared with actual for mains laid**

## Properties Passed

3.4 Performance in respect of properties passed is shown on Table 3.2. For the same reasons as mains laid, delivery was well ahead of the adjusted GD17 targets for the first 3 years of GD17. The majority of the infill development programme is expected to be completed by 2023.

| | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| Properties Passed - GD17 FD | 3,073 | 4,020 | 8,103 | 7,994 | 23,190 |
| Properties Passed - Actual | 7,262 | 7,364 | 9,109 | 7,821[2] | 31,556 |

**Table 3.2: PNGL performance in respect of properties passed**

## Connections

3.5 In the first 3 years of GD17, PNGL exceed the connection targets and projections. However, connections delivered in 2020 were less than expected. A summary of performance against connection targets (by different categories of connection) in shown in Table 3.3.

3.6 PNGL outperformed the target for Owner Occupied connection in each year of GD17 to date. While there was a reduction in delivery in 2020 with the onset of COVID19, delivery remained above target.

3.7 New Build connections were slowly increasing during the period 2017 to 2019 although activity reduced in 2020 with the onset of COVID19.

3.8 NIHE connections (which includes Housing Association (HA) connections) were broadly in line with projections but under performed in 2020 during the early stages of COVID19.

3.9 The industry and commercial (I&C) connections have been lower than the GD17 Final Determination projections in every year of GD17 to date. We have taken account of this when projecting I&C connections for GD23.

3.10 Overall the total actual connections for the years 2017-2020 are slightly higher than the projections made for the GD17 determination.

[2] Includes 784 properties from Greater Belfast Infill

| Connections - GD17 FD[3] | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| Total Connections | 8,343 | 8,299 | 8,310 | 8,340 | 33,292 |
| Domestic - Owner Occupied | 5,000 | 4,900 | 4,800 | 4,700 | 19,400 |
| Domestic - New Build | 2,021 | 2,046 | 2,086 | 2,112 | 8,265 |
| Domestic - NIHE | 1,006 | 1,022 | 1,046 | 1,095 | 4,169 |
| Non Domestic | 316 | 330 | 377 | 434 | 1,457 |
| **Connections- Actual** | **2017** | **2018** | **2019** | **2020** | **Total** |
| Total Connections | 8,594 | 8,776 | 9,398 | 7,979 | 34,747 |
| Domestic - Owner Occupied | 4,993 | 5,493 | 5,719 | 5,080 | 21,285 |
| Domestic - New Build | 2,136 | 2,035 | 2,323 | 1,983 | 8,477 |
| Domestic - NIHE | 1,245 | 1,005 | 1,118 | 722 | 4,090 |
| Non Domestic | 220 | 243 | 238 | 194 | 895 |

**Table 3.3: PNGL determined allowances compared with actuals for connections**

## Capex

3.11 Table 3.4 shows that PNGL's capital expenditure was less than the adjusted GD17 final determination allowances in each of the first 4 years of GD17. In total, actual Capex spend was £68.8m compared to adjusted allowances of £70.8m, an outperformance of 3% over 4 years.

| Capex[4] (Price base Sept 2020 £m) | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| GD17 Final Determination | 13.3 | 15.1 | 18.9 | 20.8 | 68.1 |
| GD17 FD After Uncertainty Mechanism Adjustments | 15.5 | 18.7 | 19.2 | 17.4 | 70.8 |
| Actual | 15.0 | 17.8 | 18.7 | 17.3 | 68.8 |

**Table 3.4: PNGL determined allowances compared with actuals for capex**

## Opex

3.12 Table 3.5 shows that PNGL's capital expenditure was less than the adjusted GD17 final determination allowances in each of the first 4 years of GD17. In total, actual Opex was £62.2m compared to adjusted allowances of £66.6m, an outperformance of 6.6% over 4 years.

[3] Figures do not include any adjustments post the final determination
[4] These figures exclude costs associated to the East Down bulk mains

| Opex (Price base Sept 2020 £m) | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| GD17 Final Determination | 16.8 | 16.5 | 16.4 | 16.3 | 66.0 |
| GD17 FD After Uncertainty Mechanism Adjustments | 16.4 | 16.7 | 17.0 | 16.5 | 66.6 |
| Actual | 15.4 | 15.2 | 15.7 | 15.9 | 62.2 |

**Table 3.5: PNGL determined allowances compared with actuals for opex**

## Gas consumption

3.13 The volume of gas consumed in the PNGL area from 2017 to 2020 was slightly greater than the projections in the GD17 Final Determination. There was some fluctuation between years in domestic and non-domestic consumption. In part, this might relate to the variation in temperature between years which have an impact on demand for heat. The impact of COVID19 will have contributed to increased domestic consumption in 2020 and reduction in non-domestic consumption.

| Therms of Gas (M) - GD17 FD | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| Domestic | 78.9 | 82.1 | 85.4 | 88.7 | 335.1 |
| Non Domestic | 70.0 | 70.4 | 70.8 | 71.2 | 282.4 |
| Total | 148.9 | 152.5 | 156.2 | 159.9 | 617.5 |
| **Therms of Gas (M) - Actual** | **2017** | **2018** | **2019** | **2020** | **Total** |
| Domestic | 74.1 | 82.0 | 83.3 | 87.1 | 326.5 |
| Non Domestic | 70.8 | 75.8 | 74.4 | 71.5 | 292.5 |
| Total | 144.9 | 157.8 | 157.7 | 158.6 | 619.0 |

**Table 3.6: PNGL determined allowances compared with actuals for volumes**

# 4. SGN Natural Gas (SGN)

## Overview

4.1 SGN is the smallest of the three GDNs in Northern Ireland with 1,327 customers and 15,500 properties passed by the end of 2020.

4.2 SGN serves the west of Northern Ireland having been awarded a licence for the Gas to the West area in February 2015. The company commenced laying gas mains and connecting properties in the Strabane area in 2016/17. However, delays to the construction of the Gas to the West HP network meant that company was unable to serve consumers in other areas until July 2019.

4.3 SGN's GD17 price control began on the 1st January 2018. This Annex only considers the first 3 years of the GD17 price control and the final years, 2021 and 2022, will be assessed when actual figures are available.

## Mains Laid (KM)

4.4 Table 4.1 shows that the length of mains laid in 2018 to 2020 was greater the length expected to be laid in the GD17 Final Determination. While progress was initially delayed by the late completion of the High Pressure (HP) and Intermediate Pressure (IP) pipelines under the High Pressure licence, the company managed to make good process on distribution mains infill, delivering 18.7km (11%) more than expected by the end of 2020.

| | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|
| KM mains laid - GD17 FD Estimate | 27.3 | 72.0 | 67.4 | 166.7 |
| KM mains laid – Actual | 21.2 | 99.1 | 65.1 | 185.4 |

**Table 4.1: SGN determined allowances compared with actual for mains laid**

## Properties Passed

4.5 Despite having outperformed by 11% on mains laid by the end of 2020, the number of properties passed was 3% less than GD17 Final Determination target by the end of 2020. This shows that the length of mains per property passed has been greater than expected in the initial stages of development.

| | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|
| Properties Passed - GD17 FD[5] | 2,487 | 6,383 | 6,820 | 15,690 |
| Properties Passed - Actual | 2,624 | 6,389 | 6,205 | 15,218 |

**Table 4.2: SGN determined allowances compared with actuals for properties passed**

## Connections

4.6 At the end of 2020 actual connections delivered were 73.3% less than the GD17 target. The delay in the commissioning of key elements of the HP and IP mains under the Gas to the West High Pressure licence until July 2019 delayed the opportunity to connect properties. This was further exacerbated by the impact of COVID19 in 2020. However, there also an indication that consumers (in particular, small and medium industrial and commercial consumers) have not been willing to connect at the rate envisaged for GD17. Connection projections for GD23 have been reduced to take account of this.

4.7 For owner occupied connections the delay in the HP and IP pipelines and the restrictions of Covid-19 have both contributed to the connections being well below the GD17 target.

4.8 New build has posed significant challenges with the reduction in new home registration and the Covid-19 restrictions contributing to actual connections being much lower than the allowances set at GD17. NIHE are also well below the connection projections for GD17.

4.9 Non-domestic connections are well below the GD17 target set. In particular, connection rates for small and medium Industrial & Commercial (I&C) customers were lower than expected. However, larger I&C customers with major energy demands have connected. As a result, gas consumption in 2020 in the SGN area was 84% of projected consumption despite only achieving 27% of projected connections.

[5] Includes new build properties both for the Final Determination Figures and actual figures

| Connections - GD17 FD | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|
| Total Connections | 211 | 2,957 | 1,772 | 4,940 |
| Domestic - Owner Occupied | 140 | 1,174 | 951 | 2,265 |
| Domestic - New Build | 0 | 282 | 264 | 546 |
| Domestic - NIHE | 39 | 945 | 266 | 1,250 |
| Non Domestic | 32 | 556 | 291 | 879 |
| **Connections- Actual** | **2018** | **2019** | **2020** | **Total** |
| Total Connections | 324 | 237 | 759 | 1,320 |
| Domestic - Owner Occupied | 127 | 82 | 593 | 802 |
| Domestic - New Build | 14 | 3 | 50 | 67 |
| Domestic - NIHE | 170 | 137 | 101 | 408 |
| Non Domestic | 13 | 15 | 15 | 43 |

**Table 4.3: SGN determined allowances compared with actuals for connections**

## Capex

4.10 The adjusted capex allowance to the end of 2020 is 27% lower than the capex allowance included in the GD17 Final Determination. This reflects the fact that the number of connections made is significantly lower than expected.

4.11 SGN's cumulative actual capex to the end of 2020 is 1.4% higher than the adjusted allowances for GD17 with the company slightly under performing against its capital allowances.

| Capex (Price base Avg 2020 £m) | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|
| GD17 Final Determination | 5.1 | 14.4 | 10.9 | 30.4 |
| GD17 FD After Uncertainty Mechanism Adjustments | 2.5 | 13.2 | 6.4 | 22.1 |
| Actual | 2.2 | 14.2 | 6.0 | 22.4 |

**Table 4.4: SGN determined allowances compared with actuals for capex**

## Opex

4.12 Table 4.5 shows that SGN has underperformed against its adjusted opex allowances in each of the first 3 years of GD17. In total actual opex is estimated to be 67.7% higher than the allowances set at GD17. The significant reduction in the adjusted opex allowances relative to the GD17 determination reflects the loss of connection incentive allowances due to underperformance on Owner Occupied connections for the reasons outlined above.

| Opex (price base Avg 2020 £m) | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|
| GD17 Final Determination | 1.0 | 2.5 | 2.3 | 5.8 |
| GD17 FD After Uncertainty Mechanism Adjustments | 0.8 | 0.8 | 1.5 | 3.1 |
| Actual | 1.1 | 1.5 | 2.6 | 5.2 |

**Table 4.5: SGN determined allowances compared with actuals for opex**

## Gas Consumption

4.13 The volume of gas consumed over the first three years of GD17 was 31.2% below the estimates included in the GD17 final determination. The shortfall in project consumption reflects the delayed completion of the High Pressure and Intermediate Pressure gas mains under the Gas to the West High Pressure licence and lower than expected connection rates for small and medium industrial and commercial consumers.

4.14 The shortfall in projected volumes is of particular significance for SGN as it is the only GDN subject to a price cap. Price cap regulation sets a limit on the price per therm SGN may charge and provides an incentive for the company to promote and encourage connections during the early development of the network. However, lower than expected volumes means that the company's revenues have been lower than expected at the same time its costs were higher than the adjusted allowances for GD17.

| Therms of Gas (M)- GD17 FD | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|
| Domestic | 0.2 | 0.7 | 1.4 | 2.2 |
| Non Domestic | 4.9 | 21.2 | 26.9 | 53.0 |
| Total | 5.1 | 21.8 | 28.3 | 55.2 |
| **Therms of Gas (M) - Actual** | **2018** | **2019** | **2020** | **Total** |
| Domestic | 0.0 | 0.1 | 0.4 | 0.5 |
| Non Domestic | 3.2 | 10.9 | 23.4 | 37.5 |
| Total | 3.2 | 11.0 | 23.8 | 38.0 |

**Table 4.6: SGN determined allowances compared with actuals for volumes**