



# Enabling 21st century networks

We want our utility network companies to compare with the best. Promoting customer focused service standards, and managing valuable assets to make sure they are resilient, are the hallmarks of high performing network companies. Our price control reviews ensure that network company costs are efficient and we want to support innovation and the companies' development.

## Ensuring that investment in network utilities is efficient







**We concluded a price control review for Northern Ireland Water with over £2 billion of investment approved. Our SONI price control review introduced a new evaluative framework for assessing the company's performance. Gas distribution, transmission and network reviews were all progressed.**

### Water

The determination for our Northern Ireland Water price control review (called PC21) was published in May 2021, and set out the price limits Northern Ireland Water can charge its non-domestic customers, and the outputs to be delivered, during the six-year price control period 2021-2027.

Our price control allows Northern Ireland Water to continue to deliver the essential service it provides for consumers, at improved levels of efficiency and quality. Additionally, our price control supports a sustainable approach to water services (including sustainable catchment management), an integrated approach to drainage and a reduction in carbon footprint. The PC21 price control is our biggest price control, with the key decisions including:

- Increased investment in water and wastewater services.**  
 An increase in capital investment to £2.1 billion, which 84% greater than the previous price control (PC15). This will begin to address the lack of capacity in wastewater systems and address development constraints in 49 areas by the end of PC21.
- Lower costs of financing investment.**  
 A reduction in the cost of financing investment will save consumers £135 million
- Greater stability in tariffs.**  
 Typical bills for unmeasured non-domestic consumers will fall in real terms by the end of the six-year period.
- Improved efficiency.**  
 By the end of PC21 Northern Ireland Water will operate at an equivalent level of efficiency to the upper quartile of similar companies in England and Wales today. These improvements in operational efficiency will save consumers £62 million during the price control period.
- Improved service.**  
 Existing performance measures for pressure, interruptions to supply and flooding pollution incidents will improve. New consumer service measures and targets will drive incremental and continuous improvement, with an increased focus on vulnerable consumers.
- Introduction of a new consumer protection programme.**  
 Our determination recognises that Northern Ireland Water needs to provide vulnerable domestic consumers with additional support, bespoke regulatory, and company interventions.

NI Water price control key decisions	
 <b>£2.1 billion of capital investment</b>	 <b>£135 savings to consumers from lower financing costs</b>
 <b>£62 million of operational efficiency savings</b>	 <b>Real terms fall in typical bills for unmeasured non-domestic customers</b>
 <b>New customer service measures and an increased focus on vulnerable consumers</b>	 <b>Introduction of new consumer protection programme</b>

Our PC21 final determination also included an allowance for a number of projects where further development work was necessary to confirm an efficient scope and cost. The company provided a programme of development work, comprising of four submissions, which would allow the cost of these schemes to be determined by the PC21 Mid-Term Review. Around two-thirds of this investment is associated with the Department for Infrastructure's (DfI) Living with Water Programme. The first two submissions, totalling £18 million and £114 million respectively, were received from Northern Ireland Water on 30 September 2021 and 31 March 2022.

## Electricity

We moved forward the electricity network price control (called RP7) for NIE Networks, and published our proposed price control approach in March 2022. NIE Networks develops, maintains and operates the transmission and distribution networks that bring electricity to our homes and businesses. The RP7 price control will cover the period April 2024 to March 2030.

The proposed approach promotes engagement on the price control process, the consumer focus of the price control, delivering on the energy strategy, and network resilience and financial issues. Given the critical strategic juncture, particularly in the context of the energy transition and DfE's energy strategy, the RP7 price control will set the direction for investment in the electricity network to 2030 and beyond.

Our ambition is that RP7 price control will enable NIE Networks to deliver quality outputs that customers need, and set a medium-to-longer term direction for investment in the electricity network in a period of transition, at the lowest cost to consumers.

Following the conclusion of the consultation on our approach, we are planning to move forward with the aim of concluding the RP7 price control review during 2023.

During 2021/2022, we also continued to approve additional investment by NIE Networks under the RP6 price control to deliver improvements to the capacity and capability of the transmission network identified by SONI. Total investment of £17.6 million was approved including major works on the Ballylumford to Eden overhead line.

We also concluded our price control review for the electricity system operator, System Operator for Northern Ireland (SONI), in November 2021 when we published our licence conditions. The price control allowed a new outcomes focused Evaluative Performance Framework (EPF) which promotes higher levels of performance by SONI for customers, consumers and electricity system partners. We provided a cost allowance of £88 million for SONI to run its business, compared to £118 million sought by the company, with a flexible framework to manage and consider future, uncertain costs, in a timely way. We also allowed a rate of return of 4.03% which, while lower than that requested by SONI, reflects the risks faced by the company.



We have set up the EPF independent expert panel in March 2022, and received SONI's first performance plan. As part of the EPF the panel will challenge SONI performance on an annual basis and provide recommendations for us to take account of as part of our decision on whether to financially reward or penalise SONI.

## Gas

An important aspect of our regulation of gas network companies is our review of their cost and performance. A cost and performance report was published for Firmus Energy Distribution (FE), Phoenix Natural Gas Limited (PNGL) and SGN Natural Gas Limited (SGN), which reviewed actual performance against the current price control (GD17) for the years 2017- 2020.

This is an important part of the scrutiny process that is used in accessing the business plan submissions made by the Gas Distribution Networks (GDNs) for the next price control, GD23. All GDNs have broadly kept to the current price control determination allowances.

In terms of the two gas network price control reviews, we made significant progress during 2021/2022.


The GD23 price control review covers Northern Ireland's (GDN) operators - FE, PNGL and SGN. This network has 300,000 existing gas customers, with the potential for a further 250,000 that could be connected.

We set out our GD23 price control proposals for consultation in March 2022.

Our key price control proposals include:

- Overall investment of £149.2 million compared to £226.5 million proposed by the GDNs.
- Overall operational expenditure of £162.9 million compared to £213.2 million proposed by the GDNs.
- In overall numbers the GDNs requested £2.7 billion in the Business Plan submissions and the draft determination has approved around £2.3 billion. The area developed by SGN, commonly referred to as "Gas to the West", which has only been in operation since 2017, has focused on connecting large industrial customers at first. It is continuing to steadily grow, with over 1,000 customers connected and 185km of pipe laid, which will offer the choice of consumers to connect to natural gas for the first time.





Progress was also made on our GT22 price control for the high pressure gas network in Northern Ireland. This covers the five gas transmission pipelines operated by four conveyance licence holders, known as Transmission System Operators (TSOs). The TSOs are: GNI (UK), Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL), and, West Transmission Limited (WTL). The gas transmission pipelines transport gas from Scotland to the gas distribution networks (PNGL, FE Distribution and SGN Natural Gas) and to the gas-fired power stations, Ballylumford Power Station and Coolkeeragh Power Station.

Following on from our other recent network price controls, we introduced a business plan assessment process in GT22. This looked at service contribution to good outcomes; services and costs; and, trust in delivery. We were pleased that all the business plans were assessed as good, reducing the level of regulatory intervention.

Our GT22 price control proposals, for the five-year period from 1 October 2022 to 30 September 2027, were published for consultation in December 2021. Key proposals disallowed included some insufficiently justified costs. Overall 89% of MEL's submitted amount, 86% of GNI (UK)'s and 80% of GMO NI's were allowed. Promoting liaison with TSOs on development in areas relevant to DfE's Energy Strategy was endorsed. We decided on a rate of return for GNI (UK) of 2.66%, which is lower than their current rate of 3.17%.

We expect to conclude the GT22 price control review in May 2022.



## Protecting the consumer interests through electricity network regulation

### **The review of SONI's governance arrangements reached a significant milestone with licence modification proposals reflecting actions to support greater independence.**

During the year we progressed two further stages of the review into SONI's TSO governance arrangements. This followed a call for evidence in 2019, which sought views on a range of issues related to SONI TSO's governance.

Following the analysis of the information received through the call for evidence, we concluded that the current governance structure of SONI TSO is inadequate to protect the interests of Northern Ireland consumers over the long-term. In order to mitigate these risks, and protect the interests of Northern Ireland consumers, we launched a consultation on four options for the governance of SONI TSO in April 2021. Our preferred options would each require (among other things) the establishment of an independent SONI Board.

We reviewed the responses received to our April 2021 consultation, and concluded that changes to SONI TSO's governance are needed to ensure the company's independence, transparency and accountability. The licence modifications needed to implement the changes needed to SONI TSO governance, following our review, were published for consultation in January 2022.

The licence modifications would establish an independent SONI Board, a general requirement for independence from EirGrid (where a derogation from the independence requirement is not in place), a derogation process and the establishment of a compliance officer and compliance plan.

We will take final decisions on governance once we have considered the responses to the consultation on the proposed licence modifications.



## Promoting engagement on future electricity network regulation

**Our network regulation never stands still. We continue to explore ways of engaging with customers to drive better service standards. We reviewed electricity tariff reform and started to assess networks digitalisation.**

We recognise that, by engaging with customers, they can help shape higher standards of service. A range of consumer engagement groups continued to meet, most notably around identifying consumer focused metrics for Northern Ireland Water as part of the PC21 price control review.

Our work with the retail team on the Best Practice Framework will help inform the development of vulnerability metrics as part of PC21. Working with Northern Ireland Water and the Consumer Council we are progressing new codes of practice

Along with NIE Networks and the Consumer Council we comprise the Consumer Engagement Advisory Panel (CEAP). A key focus of the panel has been to assess consumer research reports to identify opportunities to improve service to electricity network customers.

We also commenced a dialogue with consumers and the industry on electricity tariff reform. In June 2021, we published the electricity distribution tariff call for evidence.

Given the range of experience and expertise demonstrated by respondents, we gained a valuable insight on the key issues across the electricity market - from suppliers through to consumers. This gives us confidence that the overall views expressed reflects the range of stakeholders in the electricity market.

A responses report was then published in December 2021, and this will help us make more informed decisions on how tariff reform can best help facilitate the energy transition.

Finally, we have undertaken a scoping exercise for digitalisation regulatory policy to support DfE's energy strategy, which builds on work undertaken as part of the electricity networks price control. We will be engaging with SONI and NIE Networks and DfE in due course.

