



Licence Modifications Pursuant to the GD23 Final Determination and other Regulatory Decisions

Consultation Paper
28 October 2022



About the Utility Regulator

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

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

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

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



Our mission

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



Our vision

To ensure value and sustainability in energy and water.



Our values

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



Abstract

We are publishing a consultation on licence modifications pursuant to the GD23 Final Determination and to other regulatory decisions. GD23 is the price control for the gas distribution companies Phoenix Natural Gas Ltd (PNGL), Firmus Energy (FE) and SGN Natural Gas Limited (SGN) for the six years from 2023 onwards.

The GD23 Final Determination sets the amount the gas distribution companies will have to run their businesses and invest in the gas network. Licence modifications are required to bring the price control into effect.

Furthermore, we propose to make additional licence modifications that are consequential to other decision papers published by the Authority or required to address some inconsistencies between the licences held by the GDNs.

We are consulting on all proposed licence modifications in order to preserve the right of licence holders and stakeholders to challenge our price control decisions to allow consideration of responses before making a final decision on licence modifications to bring them into effect.

Audience

The licensees affected, other regulated companies in the energy industry, government, other statutory bodies and consumer groups with an interest in the energy industry.

Consumer impact

The GD23 Final Determination sets out the allowed distribution charges for the gas distribution companies as well as a range of measures designed to increase the number of consumers that can connect to the natural gas network and improve customer service for natural gas customers. The proposed licence modifications will serve to bring this package into effect. In addition, we propose further licence modifications which will serve to apply best regulatory practice and ensure ongoing focus of the GDNs on the development of their networks as well as, where relevant and appropriate, equality in the treatment of licence holders.



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Annex	Annex Title
Annex 1	FE Licence – Proposed Modifications
Annex 2	PNGL Licence – Proposed Modifications
Annex 3	SGN Licence – Proposed Modifications
Annex 4	Notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 – modifications Proposed to the Gas Conveyance Licence Held by firmus energy (Distribution) Limited
Annex 5	Notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 – modifications Proposed to the Gas Conveyance Licence Held by Phoenix Natural Gas Limited
Annex 6	Notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 – modifications Proposed to the Gas Conveyance Licence Held by Scotia Gas Networks Northern Ireland Ltd

1. Introduction

Purpose of this Document

- 1.1 GD23 is the name given to the price control for the six-year-period from 1 January 2023 for the three GDNs in Northern Ireland. This consultation on licence modifications pursuant to the GD23 Final Determination and other regulatory decisions is published together with our Final Determination on the GD23 price control. As part of this price control package, we made a number of decisions which are detailed in the GD23 Final Determination and need to be implemented through licence modifications to bring them into effect and preserve the right of the licence holders and other key stakeholders as set out in Paragraph 1.21 to challenge our price control determination.
- 1.2 With this document we are consulting on a number of licence modifications we propose to make to the conveyance licences for the three gas distribution network operators (GDNs) in Northern Ireland:
- Firmus Energy (Distribution) Limited (FE).
 - Phoenix Natural Gas Limited (PNGL).
 - Scotia Gas Networks Northern Ireland Ltd (SGN).
- 1.3 We (the Utility Regulator, the Authority) consider that the licence modifications proposed in this document are required to comply with our legal and regulatory obligations (summarised in the section Legal and Regulatory Framework below), to follow-up on a number of decisions published by the Authority. The main proposed changes include the following:
- Updating of Designated Parameters and Determination values within the licences to bring into effect the Final Determination allowances for FE, PNGL and SGN.
 - Proposed modifications to change the definitions of "domestic new build" and "NIHE" (Northern Ireland Housing Executive) in the PNGL and SGN licences. These definitions are provided by the Utility Regulator in their guidelines for annual cost reporting.
 - Proposed change of indexation to stipulate that Retail Price Index (RPI) is to be used to 31st December 2022 with Consumer Price Index including Owner Occupied Housing (CPIH) taking effect from 1st January 2023.

- Proposed change from London Interbank Rate (LIBOR) or equivalent to be used up and including 31 December 2022 and the Bank of England base rate to be used on and from 1 January 2023.
- Additional development areas for FE to be stipulated within the FE licence. We propose to extend the FE Licensed Area to regularise network development already carried out by the company in areas outside its current Licensed Area.
- Other proposed minor licence modifications and inconsistencies.

1.4 The purpose of this document is to follow-up on these proposals and consult on the licence modifications we consider required to bring them into effect.

1.5 We also propose to make some additional modifications to the FE, PNGL and SGN conveyance licences to address known drafting errors and some licence inconsistencies.

1.6 We note that not all licence modifications proposed are applicable to all GDNs. Table 1.1 provides an overview over the different types of licence modifications we propose to make and to which GDNs we consider they should apply.

Type of Licence Modification	Relevance			Background
	FE	PNGL	SGN	
Update of designated parameters and determination values	X	X	X	GD23
Changing from RPI to CPIH	X	X	X	GD23
Granting of Additional Areas	X			GD23
Change from LIBOR or equivalent to BOE Base Rate	X	X	X	GD23
Correction of licence inconsistencies	X	X	X	Various

Table 1.1: Overview of Proposed Licence Modifications

Document Structure

1.7 This consultation document is structured in a number of chapters as follows:

- Chapter 1, Introduction, provides an overview of the purpose and structure of this consultation document and summarises our approach to making the proposed licence modifications as well as the legal and regulatory background to the proposed licence modifications.

- Chapter 2, Update of Designated Parameters and Determination Values, details our proposed licence modifications in this area as well as the associated reasons and effects.
 - Chapter 3, Licence Modifications pursuant to the Granting of Additional Areas to Firmus Energy details our proposed licence modifications in this area as well as the associated reasons and effects.
 - Chapter 4, Change from RPI to CPIH, details our proposed licence modifications in this area as well as the associated reasons and effects.
 - Chapter 5, Change from LIBOR (or equivalent) to BOE Base Rate, details our proposed licence modifications in this area as well as the associated reasons and effects
 - Chapter 6, Correction of Licence Inconsistencies, details our proposed licence modifications in the area as well as the associated reasons and effects.
 - Chapter 7, Next Steps, provides details on how to submit responses to this consultation document and sets out our proposed timelines for the remainder of the licence modification process.
- 1.8 The present document is complemented by six annexes. For each GDN, there is one annex setting out the proposed licence modifications as tracked changes to the current licence conditions and one annex containing the legislative notices of the proposed modifications.
- 1.9 Each of the Chapters 2 to 6 detail the proposed licence modifications and follows the same structure. At the start of the document we set out the background for our proposals and to which GDNs we consider they should relate. We then present the proposed licence modifications, grouped by GDN as appropriate, and subsequently detail the associated reasons and effects.
- 1.10 We note that in the interest of avoiding duplication, for licence modifications proposed pursuant to consultation outcomes and regulatory decisions which are published and substantiated in other supplementary documents, we have, where appropriate, cross-referenced the reasons and effects detailed in those documents in the present consultation on licence modifications. This is in particular the case for those licence modifications proposed pursuant to decisions detailed in the GD23 Final Determination.

Approach

- 1.11 In the interest of transparency and in line with best practice regulation, we consider it important to give the GDNs appropriate notice of any licence modifications we intend to make and to offer adequate opportunities for engagement on such proposals.
- 1.12 We have provided the GDNs with details on the proposed licence modifications, including advance sight of the proposed tracked changes to their licence, at as early a stage as possible. For some licence modifications, these detailed proposals were included in our GD23 Draft Determination, for others parts, we shared them in the process of preparing this consultation on licence modifications.
- 1.13 In preparing the present document, we have considered the comments we have received from the GDNs and other stakeholders on the proposed licence modifications to date.
- 1.14 We note that this consultation document presents a further opportunity not only for the GDNs but also for any other interested stakeholders to provide comments on the proposed modifications. Please see Section 7, Next Steps, Submission of Consultation Responses for details on how to respond to this consultation.
- 1.15 Section 7, Next Steps, Timelines, sets out the key next steps and associated timelines for the remainder of the licence modification process.
- 1.16 The proposed date for all licence modifications proposed in this document to come into effect will be in April 2023. However, the modified price controls are such that the modifications will be treated as being applicable on and from 1 January 2023.
- 1.17 We note that subject to the responses we receive to this consultation, changes to our proposed licence modifications are possible.

Legal and Regulatory Framework

- 1.18 Our principal objective in carrying out our gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland, and to do so consistently with our fulfilment of the objectives set out in the European Gas Directive¹, and by having

¹ Directive 2009/73/EC of the European Parliament and the Council of 13 July concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC.

regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003².

- 1.19 Each of the three GDNs in Northern Ireland, have been granted a conveyance licence. This sets out rights the GDNs have and obligations they need to comply with when developing and operating a gas distribution network in their licensed areas.
- 1.20 In fulfilment of our duties, we may propose to make modifications to these licences under Article 14 of the Gas (Northern Ireland) Order 1996³ (the Gas Order). Article 14 sets out, in particular, the process we need to follow when making licence modifications. We need to give notice of at least 28 days of the proposed modification. We must give due consideration to any representations made during this period and publish our decision and the licence modification, stating the reasons for it and its effects. The effective date for the licence modification must be at least 56 days after the publication of the licence modification decision.
- 1.21 Since the coming into effect of the Gas and Electricity Licence Modifications and Appeals Regulations (Northern Ireland) 2015⁴ on 6 February 2015, we no longer need the consent of the licence holder to make a modification to their licence. In consequence of that, we no longer require a power to refer a licence to the Competition and Markets Authority (CMA) if consent is withheld. Licence modification decisions are automatically effective. However, any licence modification decision made under Article 14 of the Gas Order may be appealed to the CMA by:
- the licence holder concerned;
 - any other licence holder materially affected by the decision;
 - a qualifying body or association representing a licence holder concerned or a licence holder materially affected by the decision; or
 - the Consumer Council for Northern Ireland.
- 1.22 If an appeal is brought to the CMA, the CMA will in a first step decide whether to give permission for the appeal to proceed or not. If permission is granted, the CMA has a period of 4 months, or in the case of licence modifications relating to price controls 6 months, in which to determine the appeal. These timelines can be extended to 5 months, respectively 7 months for licence modifications relating to price controls, if required.

² <http://www.legislation.gov.uk/nisi/2003/419/contents>.

³ <http://www.legislation.gov.uk/nisi/1996/275/contents>.

⁴ <http://www.legislation.gov.uk/nisr/2015/1/contents/made>.

1.23 As indicated in Paragraph 1.22, licence modifications made under Article 14 of the Gas Order may relate to price control decisions or other decisions. It should be noted, however, that one consequence of the coming into effect of the Gas and Electricity Licence Modifications and Appeals Regulations (Northern Ireland) 2015 is that in order to preserve the right of licence holders to challenge price control decisions through their referral to the CMA, those decisions now need to be brought into effect through licence modifications. More specifically, for each GDN the relevant designated parameters and determined values need to be updated in the respective licence conditions, in line with the price control Final Determinations.

2. Update of Designated Parameters and Determination Values

Overview

- 2.1 As noted in Chapter 1, licence modifications are required to update the relevant designated parameters and determination values in the GDNs' licences and bring into effect the GD23 price control decisions.
- 2.2 Whilst the designated parameters and determination values are to be updated, the values proposed for them and the licence conditions containing them may differ between the GDNs. However, the need to implement related licence modifications and the reasons for them are the same for all three GDNs: FE, PNGL and SGN.
- 2.3 We set out our initial views on the proposed designated parameters and determination values in Chapter 11 of the GD23 Draft Determination. We have since revised these proposals, based on stakeholder feedback and further internal analysis, as detailed in our GD23 Final Determination.
- 2.4 We note that for all three GDNs, the list of designated parameters and determination values to be determined as part of GD23 has changed as a result of other licence modifications proposed in this licence modification consultation document. The reasons and effects for these changes are detailed in the respective chapters; the related values proposed based on our GD23 Final Determination are discussed in this chapter.
- 2.5 This chapter details:
- The proposed licence modifications for each GDN (FE, PNGL and SGN); and
 - The associated reasons and effects.

Proposed Licence Modifications

FE

- 2.6 We propose to update Condition 4.7: Current Designated Parameters and Determination Values with the values determined as part of the GD23 price control process. As set out in Section 11 Outputs, Outcomes and Allowances, Designated Parameters and Determination Values of the GD23 Final Determination, this is shown in Table 2.1: FE - Proposed Designated Parameters and Table 2.2: FE Proposed Determination Values below. We note that for reasons of readability, the GD23 Final Determination document

and Table 2.2 below only show the determination values up to the end of the GD23 price control period. A list of all the determination values up to the end of the forecasting horizon can be found in Annex 1: FE Licence – Proposed Modifications to this licence consultation document as well as in Annex J: PI Models – FE to the GD23 Final Determination.

Designated Parameter	Value					
	t=2023	t=2024	t=2025	t=2026	t=2027	t=2028
r_t	0.0157	0.0329	0.0497	0.0544	0.0544	0.0544
n	2028					
m	2022					
q	2045					
CPIH (Shall be RPI up to and including Formula Year 2022 and CPIH commencing Formula Year 2023).	108.9					
f_t	0.5					
W	5					
g	0					
h	0					
d	1					
l	33					

Table 2.1: FE - Proposed Designated Parameters

All values in £(000's)	£av. 2020						
Description (For Conveyance Categories i and Formula Years t)	Determination Values	t=2023	t=2024	t=2025	t=2026	t=2027	t=2028
Volume (therms)	$V_{E,i,t} (I)$	22128	24237	27067	29595	31718	33782
Volume (therms)	$V_{E,i,t} (II)$	7004	7276	7466	7911	7911	7911
Volume (therms)	$V_{E,i,t} (III)$	5743	6039	6162	6236	6236	6236
Volume (therms)	$V_{E,i,t} (IV)$	1865	1865	1865	1865	1865	1865
Volume (therms)	$V_{E,i,t} (V)$	12456	12872	13045	13148	13148	13148
Volume (therms)	$V_{E,i,t} (Vi)$	14787	16155	17038	17759	17835	17835
Capital Expenditure	$C_{E,t}$	12736	9807	9667	9932	9491	9486
Operating Expenditure	$O_{E,t}$	8535	8954	9455	9851	9910	10029
Annual Depreciation	$D_{E,t}$	8382	8631	8873	9084	9279	9423
Cash Flow (calculated in accordance with Condition 4.6.6)	$F_{E,t}$	4046	8427	10019	11158	12709	13710
Revenue Per Unit	$P_{E,i,t} (I)$	0.5401	0.5401	0.5401	0.5401	0.5401	0.5401
Revenue Per Unit	$P_{E,i,t} (II)$	0.3794	0.3794	0.3794	0.3794	0.3794	0.3794
Revenue Per Unit	$P_{E,i,t} (III)$	0.3401	0.3401	0.3401	0.3401	0.3401	0.3401
Revenue Per Unit	$P_{E,i,t} (IV)$	0.2701	0.2701	0.2701	0.2701	0.2701	0.2701
Revenue Per Unit	$P_{E,i,t} (V)$	0.3187	0.3187	0.3187	0.3187	0.3187	0.3187
Revenue Per Unit	$P_{E,i,t} (Vi)$	0.2895	0.2895	0.2895	0.2895	0.2895	0.2895
Total Revenue	$R_{E,t}$	25317	27188	29141	30942	32111	33225

Depreciated Asset Value (calculated in accordance with Condition 4.6.7)	$DAV_{E,t}$	217426	218602	219397	220245	220457	220520
Total Regulatory Value (calculated in accordance with Condition 4.6.8)	$TRV_{E,m}$						257626
Profile Adjustment	$PA_{E,m}$						37106

Table 2.2: FE Proposed Determination Values

2.7 Annex 1: FE Licence – Proposed Modifications shows the proposed licence modifications as tracked changes to the FE conveyance licence.

PNGL

2.8 We propose to update Condition 2.3.22: Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services, Current Designated Parameters with the values determined as part of the GD23 price control process. This is set out in Section 11 Outputs, Outcomes and Allowances, Designated Parameters and Determination Values, PNGL, of the GD23 Final Determination and is shown in Table 2.3 below for designated parameters. We note that for reasons of readability, the GD23 Final Determination document and Table 2.4 below only show the determination values up to the end of the GD23 price control period. A list of all the determination values up to the end of the forecasting horizon can be found in Annex 2: PNGL Licence – Proposed Modifications to this licence consultation document as well as in Annex K: PI Models – PNGL to the GD23 Final Determination.

Designated Parameter	Value					
	t=2023	t=2024	t=2025	t=2026	t=2027	t=2028
r_t	0.0106	0.0402	0.0596	0.0539	0.0539	0.0539
n	2028					
m	2022					
q	2046					
CPIH (Shall be RPI up to and including Formula Year 2022 and CPIH commencing Formula Year 2023).	109.2					

Table 2.3: PNGL – Proposed Designated Parameters

2.9 We furthermore propose to update Condition 2.3.24: Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services, Current Determination Values with the values determined as part of the GD23 price control process. This is set out in Section 11 Outputs, Outcomes and Allowances, Designated Parameters and Determination Values, PNGL of the GD23 Final Determination and shown in Table 2.4 below for determination values.

All values in £(000's)	£Sept. 2020						
Description (For Conveyance Categories i and Formula Years t)	Determination Values	t=2023	t=2024	t=2025	t=2026	t=2027	t=2028
Volume (therms)	$V_{E,i,t} \text{ (I)}$	91524	95535	101070	104823	107235	109600
Volume (therms)	$V_{E,i,t} \text{ (II)}$	17757	19241	20150	20415	20540	20664
Volume (therms)	$V_{E,i,t} \text{ (III)}$	30088	30770	31058	31117	31180	31243
Volume (therms)	$V_{E,i,t} \text{ (IV)}$	12256	13121	13611	13697	13697	13697
Capital Expenditure	$C_{E,t}$	18842	17816	17986	17014	13466	13293
Capital Creditors	$CC_{E,t}$	-5661	-5490	-5519	-5356	-4765	-4736
Operating Expenditure	$O_{E,t}$	18254	18234	18322	18497	18274	18378
Annual Depreciation	$D_{E,t}$	21795	22468	23155	23813	24184	24495
Cash Flow (calculated in accordance with Condition 4.6.6)	$F_{E,t}$	30263	33416	36633	38604	42455	45982
Working Capital	$Q_{E,t}$	-5701	-5241	-4756	-4480	-4266	-4094
Revenue Per Unit	$P_{E,i,t} \text{ (I)}$	0.4850	0.4850	0.4850	0.4850	0.4850	0.4850
Revenue Per Unit	$P_{E,i,t} \text{ (II)}$	0.4365	0.4365	0.4365	0.4365	0.4365	0.4365
Revenue Per Unit	$P_{E,i,t} \text{ (III)}$	0.4112	0.4112	0.4112	0.4112	0.4112	0.4112
Revenue Per Unit	$P_{E,i,t} \text{ (IV)}$	0.2068	0.2068	0.2068	0.2068	0.2068	0.2068
Total Revenue	$R_{E,t}$	67045	70097	73398	75376	76626	77853
Depreciated Asset Value (calculated in accordance with Condition 4.6.7)	$DAV_{E,t}$	470416	465764	460595	454619	445527	434325

Total Regulatory Value (calculated in accordance with Condition 4.6.8)	$TRV_{E,m}$						606263
Profile Adjustment	$PA_{E,m}$						180769

Table 2.4: PNGL Proposed Determination Values

2.10 Annex 2: PNGL Licence – Proposed Modifications shows the proposed licence modifications as tracked changes to the PNGL conveyance licence.

SGN

2.11 We propose to update Condition 4.11: Current Designated Parameters and Determination Values with the values determined as part of the GD23 price control process. This is set out in Section 11 Outputs, Outcomes and Allowances, Designated Parameters and Determination Values, SGN, of the GD23 Final Determination and shown in Table 2.5: SGN – Proposed Designated Parameters and Table 2.6: SGN – Proposed Determination Values below. We note that for reasons of readability, the GD23 Final Determination document and Table 2.6 below only show the determination values up to the end of the GD23 price control period. A list of all the determination values up to the end of the forecasting horizon can be found in Annex 3: SGN Licence – Proposed Modifications to this licence consultation document as well as in Annex L: PI Models – SGN to the GD23 Final Determination.

Designated Parameter	Value					
	t=2023	t=2024	t=2025	t=2026	t=2027	t=2028
r_t	0.0146	0.0337	0.0422	0.0385	0.0404	0.0423
n	2028					
m	2022					
q	2057					
CPIH (Shall be RPI up to and including Formula Year 2022 and CPIH commencing Formula Year 2023).	108.9					
f_t	0.5					
W	5					
g	0					
h	0					
d	0					
l	33					
δ_t	0					
$X_{O,t}$	0					
$X_{U,t}$	0					
α_t	0.4					

Table 2.5: SGN – Proposed Designated Parameters

All values in £(000's)	£Av. 2020						
Description (For Conveyance Categories i and Formula Years t)	Determination Values	t=2023	t=2024	t=2025	t=2026	t=2027	t=2028
Volume (therms)	$V_{E,i,t}$	1071	1274	1576	1924	2248	2567
Volume (therms)	$V_{E,i,t}$ (II)	138	234	389	642	942	1228
Volume (therms)	$V_{E,i,t}$ (III)	439	558	626	730	855	879
Volume (therms)	$V_{E,i,t}$ (IV)	286	286	286	286	286	286
Volume (therms)	$V_{E,i,t}$ (V)	12038	12196	12994	13504	13504	13541
Volume (therms)	$V_{E,i,t}$ (VI)	0	0	0	0	0	0
Volume (therms)	$V_{E,i,t}$ (VII)	11242	11242	11242	11242	11242	11242
Capital Expenditure	$C_{E,t}$	4218	3758	4677	5626	3572	4169
Operating Expenditure	$O_{E,t}$	3069	3367	3577	3855	4023	4203
Annual Depreciation	$D_{E,t}$	1616	1639	1687	1764	1789	1908
Tax	$T_{E,t}$	0	0	0	0	0	0
Cash Flow (calculated in accordance with Condition 4.6.6)	$F_{E,t}$	-1132	-736	-1412	-2178	59	-414
Revenue Per Unit	$P_{E,i,t}$ (I)	0.4701	0.4701	0.4701	0.4701	0.4701	0.4701
Revenue Per Unit	$P_{E,i,t}$ (II)	0.4701	0.4701	0.4701	0.4701	0.4701	0.4701
Revenue Per Unit	$P_{E,i,t}$ (III)	0.4541	0.4541	0.4541	0.4541	0.4541	0.4541
Revenue Per Unit	$P_{E,i,t}$ (IV)	0.2586	0.2586	0.2586	0.2586	0.2586	0.2586
Revenue Per Unit	$P_{E,i,t}$ (V)	0.2586	0.2586	0.2586	0.2586	0.2586	0.2586

Revenue Per Unit	$P_{E,i,t}$ (VI)	0.2586	0.2586	0.2586	0.2586	0.2586	0.2586
Revenue Per Unit	$P_{E,i,t}$ (VII)	0.1957	0.1957	0.1957	0.1957	0.1957	0.1957
Total Revenue	$R_{E,t}$	6154	6390	6842	7303	7654	7958
Depreciated Asset Value (calculated in accordance with Condition 4.6.7)	$DAV_{E,t}$	40327	42447	45437	49299	51082	53343
Total Regulatory Value (calculated in accordance with Condition 4.6.8)	$TRV_{E,m}$						46334
Profile Adjustment	$PA_{E,m}$						-7009

Table 2.6: SGN – Proposed Determination Values

2.12 Annex 3: SGN Licence – Proposed Modifications shows the proposed licence modifications as tracked changes to the SGN conveyance licence.

Reasons

2.13 Designated parameters and determination values are established as part of a price control process. The licence modifications to update the conveyance licences with the determined values for the designated parameters and determination values are hence consequential to the final price control determination.

2.14 The proposed licence modifications are required to bring the GD23 Final Determination into effect and ensure consistency between the GD23 Final Determination and the GDN conveyance licences. Furthermore, by us making these modifications to the GDN licences, in line with the Gas (Northern Ireland) Order 2003, the GDNs have a mechanism to bring forward an appeal to the CMA against the licence modification and the underlying GD23 Final Determination.

2.15 The overarching reason for modifying the Designated Parameters and Determination Values is that they are required by the GDN licence formulae in order to produce a set of revenues and prices which will drive the tariffs set by the GDNs to operate their businesses. In addition, there is a specific reason for setting each value and parameter. Table 2.7 to Table 2.12 address each of these areas. We note that detailed substantiation for the proposed licence updates to the designated parameters and determination values is largely contained in the GD23 Final Determination even though

some reasons are also given in the licence consultation paper and this is referred to in the Tables below, as appropriate.

Designated Parameter	Description	Document Reference re: Reasons for Proposed Licence Modification
r_t	Rate of Return	See Chapter 10, Financial Aspects, of the GD23 Final Determination for detail on the figure.
n	Trigger for Reviews (as defined in Condition 4.2.3(a))	It sets the last year of the GD23 price control period in line with duration of GD23 explained in Chapter 2 of the GD23 Final Determination.
m	The Formula Year that was n for the preceding review	It sets the last year of the price control period directly preceding GD23.
q	The forecasting horizon for review calculations (as defined in Condition 4.2.4)	See Chapter 11, Outputs, Outcomes and Allowances of the GD23 Final Determination for detail.
$CPIH$	The indexation base	Inflation rate established in line with FE licence to ensure inflation is accounted for in revenues.
f_t	Average factor to reflect in year accruals (as defined in Condition 4.4.5)	Unchanged from GD17 Final Determination.
w	Incentive period (as defined in Condition 4.4.10)	Unchanged from GD17 Final Determination.
g	A switch for the Operating Rolling Incentive	Unchanged from GD17 Final Determination.
h	A switch for the Capital Rolling Incentive	See Chapter 11, Outputs, Outcomes & Allowances, of the GD23 Final Determination.
d	A switch for the deception component	Unchanged from GD17 Final Determination.
l	Deemed asset life	Unchanged from GD17 Final Determination.

Table 2.7: FE – References for Substantiation of Proposed Designated Parameters

Determination Values	Description (for Conveyance Categories <i>i</i> and Formula Years <i>t</i>)	Document Reference re: Reasons for Proposed Licence Modification
$V_{E,i,t}$	Volume	See Chapter 4, Volumes & Connections, of GD23 Final Determination.
$C_{E,t}$	Capital Expenditure	See Chapter 6, Capital Expenditure, of GD23 Final Determination.
$O_{E,t}$	Operating Expenditure	See Chapter 5, Operational Expenditure, of the GD23 Final Determination.
$D_{E,t}$	Annual Depreciation	Changed to reflect updated capex allowances calculated as per the principles outlined in Chapter 10, Financial Aspects, of the GD23 Final Determination.
$F_{E,t}$	Cash Flow (calculated in accordance with Condition 4.4.6)	Changed to reflect changes in opex, capex, volumes and allowed revenue, and calculated as a function of those.
$P_{E,i,t}$	Revenue Per Unit	Output of FE Pi model (published as Annex J to the GD23 Final Determination), in line with licence formulae.
$R_{E,t}$	Total Conveyance Revenue	Output of FE Pi model (published as Annex J to the GD23 Final Determination), in line with licence formulae.
$DAV_{E,t}$	Depreciated Asset Value (calculated in accordance with Condition 4.4.7)	Changed to reflect updated capex allowances and annual depreciation, and calculated as a function of those.
$TRV_{E,m}$	Total Regulatory Value (calculated in accordance with Condition 4.4.8)	The TRV has changed due to the updated values of the GD23 price control, in terms of costs, allowed revenue and rate of return, which must be returned to the licence holder via conveyance charges paid for by consumers. In Annex 1: FE Licence – Proposed Modifications, a value is shown for every sixth year following the end of the GD23 price control period to reflect assumptions about the length of future price control periods. These are subject to change in the future.

Table 2.8: FE – References for Substantiation of Proposed Determination Values

Designated Parameter	Description	Document Reference re: Reasons for Proposed Licence Modification
r_t	Rate of Return	See Chapter 10, Financial Aspects, of the GD23 Final Determination.
n	Trigger for Reviews (as defined in Condition 4.2.3(a))	It sets the last year of the GD23 price control period in line with duration of GD23 explained in Chapter 10 of the GD23 Final Determination.
m	The Formula Year that was n for the preceding review	It sets the last year of the price control period directly preceding GD23.
q	The forecasting horizon for review calculations (as defined in Condition 4.2.4)	Unchanged from GD17 Final Determination.
$CPIH$	The indexation base *	Inflation rate established in line with PNGL licence to ensure inflation is accounted for in revenues.

Table 2.9: PNGL – References for Substantiation of Proposed Designated Parameters

Determination Values	Description	Document Reference re: Reasons for Proposed Licence Modification
$V_{E,i,t}$	Volume (for Conveyance Categories i)	See Chapter 4, Volumes & Connections, of GD23 Final Determination.
$C_{E,t}$	Capital Expenditure	See Chapter 6 Capital Expenditure of GD23 Final Determination.
$CC_{E,t}$	Capital Creditors	Changed to reflect changes in capex, and calculated as a function of those.
$O_{E,t}$	Operating Expenditure	See Chapter 5 Operating Expenditure of GD23 Final Determination.
$D_{E,t}$	Annual Depreciation	Changed to reflect updated capex allowances calculated as per the principles outlined in Chapter 10, Financial Aspects, of the GD23 Final Determination.
$F_{E,t}$	Cash (calculated in accordance with Condition 4.4.6)	Changed to reflect changes in opex, capex, working capital, capital creditors, volumes and allowed revenue, and calculated as a function of those.
$Q_{E,t}$	Working Capital	Changed to reflect changes in opex, and allowed revenue, and calculated as a function those.
$P_{E,i,t}$	Revenue Per Therm (for Conveyance Categories i)	Output of PNGL Pi model (published as Annex K to the GD23 Final Determination), in line with licence formulae.
$R_{E,t}$	Total Conveyance Revenue	Output of PNGL Pi model (published as Annex K to the GD23 Final Determination), in line with licence formulae.
$DAV_{E,t}$	Depreciated Asset Value (calculated in accordance with Condition 2.3.17)	Changed to reflect updated capex allowances and annual depreciation, and calculated as a function of those.

Determination Values	Description	Document Reference re: Reasons for Proposed Licence Modification
$TRV_{E,m}$	Total Regulatory Value (calculated in accordance with Condition 2.3.18)	The TRV has changed due to the updated values of the GD23 price control, in terms of costs, allowed revenue, capital creditors, working capital and rate of return, which must be returned to the licence holder via conveyance charges paid for by consumers. In Annex 2: PNGL Licence – Proposed Modifications, a value is shown for every sixth year following the end of the GD23 price control period to reflect assumptions about the length of future price control periods. These are subject to change in the future.
$PA_{E,m}$	Profile Adjustment (calculated in accordance with Condition 2.3.19)	Changed to reflect changes in opex, capex, working capital, capital creditors, volumes, allowed revenue and rate of return, and calculated as a function of those.

Table 2.10: PNGL – References for Substantiation of Proposed Determination Values

Designated Parameter	Description	Document Reference re: Reasons for Proposed Licence Modification
r_t	Rate of Return	See Chapter 10, Financial Aspects, of the GD23 Final Determination.
n	Trigger for Reviews (as defined in Condition 4.4.4)	It sets the last year of the GD23 price control period in line with duration of GD23 explained in Chapter 2 of the GD23 Final Determination.
m	The Formula Year that was n for the preceding review	As defined in Condition 4.4.5(a) in combination with Condition 4.4.4. of the SGN licence.
f_t	Average factor to reflect in year accruals (as defined in Condition 4.6.5)	Mid-year cashflow to keep investors neutral with regards to the timing of the investment (e.g. no incentive to defer investments to end of price control period or to do them at start).
q	The forecasting horizon for review calculations (as defined in Condition 4.4.4)	As defined in Condition 4.12.4 of the SGN licence.
CPIH	The indexation base *	Inflation rate established in line with SGN licence to ensure inflation is accounted for in revenues.
w	Incentive period (as defined in Condition 4.6.10)	Unchanged from GD17 Final Determination.
g	A switch for the Operating Rolling Incentive	Unchanged from GD17 Final Determination.
h	A switch for the Capital Rolling Incentive	Unchanged from GD17 Final Determination.
d	A switch for the deception component	Unchanged from GD17 Final Determination.
l	Deemed asset life	Unchanged from GD17 Final Determination.
δ_t	A weighting factor to be used in the Primary Constraint	Unchanged from GD17 Final Determination.
$x_{0,t}$	A rate of return adjustment which may be used to encourage or discourage accumulated over-recoveries (as defined in Condition 4.2.6)	Unchanged from GD17 Final Determination.
$x_{U,t}$	A rate of return adjustment which may be used to encourage or discourage accumulated under-recoveries (as defined in Condition 4.2.6)	Unchanged from GD17 Final Determination.

Designated Parameter	Description	Document Reference re: Reasons for Proposed Licence Modification
α_t	A weighting factor used in the Supplemental Constraint	Unchanged from GD17 Final Determination.

Table 2.11: SGN – References for Substantiation of Proposed Designated Parameters

Determination Values	Description (for Conveyance Categories <i>i</i> and Formula Years <i>t</i>)	Document Reference re: Reasons for Proposed Licence Modification
$V_{E,i,t}$	Volume	See Chapter 4, Volumes & Connections, of GD23 Final Determination.
$C_{E,t}$	Capital Expenditure	See Chapter 6, Capital Expenditure, of GD23 Final Determination.
$O_{E,t}$	Operating Expenditure	See Chapter 5, Operating Expenditure, of GD23 Final Determination.
$D_{E,t}$	Annual Depreciation	Set to reflect updated capex allowances calculated as per the principles outlined in Chapter 10, Financial Aspects, of the GD23 Final Determination.
$T_{E,t}$	Tax Allowance	See Chapter 10, Financial Aspects, of GD23 Final Determination.
$F_{E,t}$	Cash (calculated in accordance with Condition 4.6.6)	Set to reflect changes in opex, capex, volumes and allowed revenue, and calculated as a function of those.
$P_{E,i,t}$	Revenue Per Unit	Output of SGN Pi model (published as Annex L to the GD23 Final Determination), in line with licence formulae.
$DAV_{E,t}$	Depreciated Asset Value (calculated in accordance with Condition 2.3.17)	Set to reflect updated capex allowances and annual depreciation, and calculated as a function of those.
$TRV_{E,m}$	Total Regulatory Value (calculated in accordance with Condition 2.3.18)	The TRV is set to reflect the values of the GD23 price control, in terms of costs, allowed revenue and rate of return, which must be returned to the licence holder via conveyance charges paid for by consumers. In Annex 3: SGN Licence – Proposed Modifications, a value is shown for every sixth year following the end of the GD23 price control period to reflect assumptions about the length of future price control periods. These are subject to change in the future.

Table 2.12: SGN – References for Substantiation of Proposed Determination Values

Effects

- 2.16 The changes detailed above will bring the GD23 Final Determination into effect and ensure consistency between the GD23 Final Determination and the GDN conveyance licences. The overall effect of the Determined Values and Designated Parameters will be to allow the GDNs to charge tariffs consistent with the maintenance and operation of a growing gas network, whilst financing its activities. The proposed modifications will also incentivise the GDNs to further grow the industry in an economic and co-ordinated manner. GDNs are also incentivised to continue to push for efficiencies in how they maintain and operate the network.

3. Licence Modifications pursuant to the Granting of Additional Areas to Firmus Energy

Overview

- 3.1 We propose to extend the FE Licensed Area to regularise network development already carried out by the company in areas outside its current Licensed Area.

Proposed Licence Modifications

- 3.2 We propose to modify the schedule of Electoral Wards which follows paragraph 1.1(a) of Schedule 1 (Licensed Area) of the FE licence, by adding the following electoral wards:
- a) 95SS01 Ballinderry; and
 - b) 95WW06 Ballynure.

Reasons

- 3.3 The FE licence defines a Licensed Area by reference to a set of Electoral Ward Boundaries and one further specific area. The Licensed Area is further sub-divided into the Towns (again by reference to a set of electoral wards) and the Remaining Licensed Area.
- 3.4 To develop the gas distribution network in the Remaining Licensed Area requires the approval of an Additional Development Plan by the Utility Regulator. The area covered by an approved Additional Development Plan becomes an Additional Development Area under the licence.
- 3.5 FE does not have permission to develop the network outside its Licensed Area. The Licensed Area can only be changed by modifying the Licence.
- 3.6 In May 2019, and in subsequent correspondence, FE notified the Utility Regulator that it had laid pipelines in areas which required further approvals under its licence. This related to the following areas:
- a) Development of the network in 15 electoral wards in the Remaining Licensed Area which had not been approved as Additional Development Plans.

- b) Development of the network in two electoral wards which were outside the Licensed Area.
- 3.7 This extended pipeline was identified when FE updated its network maps on GIS backgrounds and through subsequent verification work by the company. The scope of pipelines laid outside the then current Development Area and Licensed Area ranged from:
- a) Minor lengths of pipe (say at road junctions) which crossed the boundary of an electoral ward by a few metres.
 - b) Pipelines from the High Pressure network connections (AGIs) to the approved Development Area which were necessary to bring gas to the towns to be served.
 - c) Distribution pipes laid to serve properties on the edge of towns which fell just outside the ward boundaries which initially defined those towns in the Licence.
 - d) Connections of large commercial premises which lay in rural areas outside the Approved Development Areas or Licensed Area.
- 3.8 In the circumstances we consider it appropriate, going forward, to regularise the development which has taken place by either granting approval of Additional Development Plans within the existing Licensed Area or by extending the existing Licensed Area to include additional electoral wards as necessary.
- 3.9 We consider that it is reasonable, in certain areas outside FE's licenced areas, to regularise the treatment of FE's operations. We have undertaken a review of relevant processes and procedures associated with the relevant network extension and are of the view that, such activity would be allowable by the Utility Regulator. In addition, we are engaging with FE to ensure regulatory processes and licence requirements are adhered to going forward.
- 3.10 In November 2021, following a request from FE, the Utility Regulator approved an Additional Development Plans covering 15 electoral wards in the Remaining Licensed Area.
- 3.11 Taking account of the effort and impact of modifying the Licence to cover minor developments outside the Licensed Area, we concluded that the modifications necessary to extend the Licensed Area should be made as part of the GD23 Licence modifications. The modifications proposed here give effect to that by adding the electoral wards of 95SS01 Ballinderry and 95WW06 Ballynure to the Licensed Area.

- 3.12 In accordance with Schedule 3 (Exclusivity) of the Licence, FE does not have an exclusive right to convey gas to premises in the electoral wards covered by the proposed extension of the Licensed Area.
- 3.13 Parts of the southern section of Electoral Ward 95WW06 Ballynure are included in the PNGL Licensed Area as defined by the map included in Schedule 1 of the PNGL Licence. Electoral Ward 95SS01 Ballinderry is also included in the PNGL Licensed Area as part of Licence modifications in respect of East Down network extension effective date of 4 January 2016. The exclusive right which PNGL had to convey gas to premises in sections of its Licensed Area expired on the 31 December 2016.
- 3.14 There is already one example of an electoral ward where both FE and PNGL have non-exclusive rights to convey gas. In extending the FE licenced area we do not consider it appropriate to limit the area of the relevant wards included in the extension. In practice, there are significant rural areas between the developments each company currently serve and could serve economically from their existing networks.

Effects

- 3.15 These modifications would, going forward, regularise existing network development already undertaken by FE by bringing them within the scope of the Licensed Area as part of the Remaining Licensed Area. At that point it would be necessary for FE to apply for an Additional Development Plan for these developments to finalise the approvals necessary under the licence.
- 3.16 The extensions will add to the areas where both FE and PNGL have non-exclusive rights to convey gas under their licences.

4. Change from RPI to CPIH

Overview

- 4.1 We propose to amend the general measure of inflation used in the Licenses for FE, PNGL and SGN from the Retail Prices Index (RPI) to the Consumer Prices Index including owner occupiers' housing costs (CPIH).

Proposed Licence Modifications - FE

- 4.2 The proposed licence modifications include modifications to the definition of terms and equations which are itemised in Table 4.1.

Clause	Location	Modification
1.12.3	1 st paragraph after the 'to be adjusted annually by reference to..'	Drafting to be amended to: '...Retail Prices index (as defined in Condition 4.8) until 31 December 2022 and then the Consumer Prices Index including owner occupiers' housing costs from 1 January 2023)..'
1.12.3(b)	1 st paragraph after the 'to be adjusted annually by reference to..'	Drafting to be amended to: '..Retail Prices Index up until 31 December 2022 and then the Consumer Prices Index including owner occupiers' housing costs from 1 January 2023.'
2.3.10	Sub-paragraph (b)	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs".
2.7.3	After '...costing more than £5.00.....'	Proposed drafting will be '...adjusted annually in line with the Retail Prices Index from the month of the date of the Grant and moving to the Consumer Prices Index including owner occupiers' housing costs from January 2023.'
4.1.2	Equation	Replace $RPI_{iy,t} / RPI_E$ with $CPI_{H_{iy,t}} / CPI_{H_E}$
4.1.2	After equation	Include the following drafting: 'Save that this formula, and all references in this Part 4 to CPIH and to the BOE Base Rate, shall apply only on and from 1 January 2023, in substitution for the formula and prior references to (respectively) RPI and LIBOR which shall be treated as having been applicable up to and including 31 December 2022 in accordance with previous versions of this Part 4.'
4.1.3	3 rd paragraph	Replace $RPI_{iy,t}$ with $CPI_{H_{iy,t}}$
4.1.3	3 rd paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs".
4.1.3	3 rd paragraph	Replace RPI with CPIH
4.1.3	4 th paragraph	Replace RPI_E with CPI_{H_E}
4.1.3	4 th paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs."
4.1.8	Equation below the first paragraph	Replace $RPI_{iy,t} / RPI_E$ with $CPI_{H_{iy,t}} / CPI_{H_E}$
4.1.11	First line	Replace $RPI_{iy,t}$ with $CPI_{H_{iy,t}}$
4.3.2	8 th paragraph	Replace $RPI_{iy_{B,t}}$ with $CPI_{H_{iy_{B,t}}}$
4.3.2	8 th paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs."
4.3.3	Equation following 1 st paragraph	Replace RPI_B and $RPI_{iy_{B,t}}$ with CPI_{H_B} and $CPI_{H_{iy_{B,t}}}$
4.3.3	2 nd paragraph	Replace RPI_B with CPI_{H_B}

Clause	Location	Modification
4.3.3	2 nd paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs."
4.4.7	Equation before section commencing 'Where a denotes...'	Replace RPI_B and RPI_E with $CPIH_B$ and $CPIH_E$ respectively
4.4.7	Equation following 2 nd paragraph	Equation reformatted
4.4.8	Equation following 6 th paragraph defining DA_B	Replace RPI_B and RPI_E with $CPIH_B$ and $CPIH_E$ respectively
4.4.8	Equation following 6 th paragraph defining DA_B	Equation reformatted
4.4.9	Equation following 6 th paragraph defining PA_B	Replace RPI_B and RPI_E with $CPIH_B$ and $CPIH_E$ respectively
4.4.9	Equation following 6 th paragraph defining PA_B	Equation reformatted
4.4.10	Equation following 11 th paragraph defining $O_{S,t}$	Replace RPI_B and RPI_E with $CPIH_B$ and $CPIH_E$ respectively
4.4.10	Equation following 11 th paragraph defining $O_{S,t}$	Equation reformatted
4.4.11	Equation following 5 th paragraph defining $C_{S,t}$	Replace RPI_B and RPI_E with $CPIH_B$ and $CPIH_E$ respectively
4.4.11	Equation following 5 th paragraph defining $C_{S,t}$	Equation reformatted
4.7	Table following the 1 st paragraph	Replace RPI with CPIH (Shall be RPI up to and including Formula Year 2022 and CPIH commencing Formula Year 2023).
4.8.1	After the definition of "Capital Expenditure"	<p>Add additional definition for "Consumer Prices Index including owner occupiers' housing costs" or "CPIH."</p> <p>means the Index of that name published by the Office of National Statistics each month in respect of all items, or:</p> <p>(i) if that Index for the specified month in any year shall not have been published on or before the last day of the sixth month after the specified month, such alternative index for such month as the Authority may after consultation with the Licensee determine as appropriate in the circumstances; or</p> <p>(ii) if there is a material change in the basis of the Index, such alternative index as the Authority may after consultation with the Licensee determine as appropriate in the circumstances;</p>
4.8.4	Table	Replace RPI with CPIH
4.8.4	Paragraph following the table	Replace $RPI_{i,t}$ with $CPIH_{i,t}$

Clause	Location	Modification
4.8.4	Paragraph following the table	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs".
4.8.5	14 th paragraph	Replace RPI_E and RPI_B with $CPIH_E$ and $CPIH_B$ respectively
4.8.5	14 th paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs".
4.8.5	15 th paragraph	Replace RPI_{iy_t} with $CPIH_{iy_t}$
4.8.5	15 th paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs."

Table 4.1: Proposed modifications to the FE licence to change the general measure of inflation from RPI to CPIH

Proposed Licence Modifications - PNGL

- 4.3 The proposed licence modifications include modifications to the definition of terms and equations which are itemised in Table 4.2.

Clause	Location	Modification
1.13.3	1 st paragraph after the 'to be adjusted annually by reference to..'	Paragraph amended to the following:to the Retail Prices Index (as defined in Condition 2.3.23 until 31 December 2022 and then the Consumer Prices Index including owner occupiers' housing costs from 1 January 2023."
1.13.3(b)	1 st paragraph after the 'to be adjusted annually by reference to..'	Paragraph amended to the following:... 'the Retail Prices Index up until 31 December 2022 and then the Consumer Prices Index including owner occupiers' housing costs from 1 January 2023."
2.3.8	1 st paragraph	Delete 'Formula Year 2007.'
2.3.8	Equation following 1 st paragraph	Replace $RPI_{F,t} / RP_E$ with $CPIH_{F,t} / CPIH_E$
2.3.5	After equation	Include the following drafting: 'Save that this formula, and all references in this Condition 2.3 to CPIH shall apply only on and from 1 January 2023, in substitution for the formula and prior references to RPI which shall be treated as having been applicable up to and including 31 December 2022 in accordance with previous versions of this Condition 2.3. And for the purposes of this formula...'
2.3.8	4 th paragraph	Replace $RPI_{F,t}$ with $CIH_{F,t}$
2.3.8	4 th paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs" in two places.
2.3.8	5 th paragraph	Replace RPI_E with $CPIH_E$
2.3.8	5 th paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs."
2.3.8	Final paragraph	Replace $RPI_{F,t}$ with $CPIH_{F,t}$
2.3.9	Equation for $Z_{F,t}$ following 1 st paragraph	Replace $RPI_{F,t} / RPI_E$ with $CPIH_{F,t} / CPIH_E$
2.3.9	Equation for $Z_{F,t}$ following 1 st paragraph	Equation reformatted
2.3.14	9 th paragraph defining $RPI_{B,t}$	Replace $RPI_{B,t}$ with $CPIH_{B,t}$
2.3.14	9 th paragraph defining $RPI_{B,t}$	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs"
2.3.14	Equation following 3 rd paragraph before the end of the clause	Replace RPI_B and $RPI_{B,t}$ with $CPIH_B$ and $CPIH_{B,t}$ respectively
2.3.14	Penultimate paragraph	Replace RPI_B with $CPIH_B$

Clause	Location	Modification
2.3.14	Penultimate paragraph	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs".
2.3.18	Penultimate paragraph	No change - Note that the $TRV_{E,t}$ started for Formula Year $t=2006$ is indexed to $RPI_{F,2006}$. The definition of RPI is retained in 4.3.34 for this purpose.
2.3.18	Final paragraph.	No change -Note that for Formula Years after $t=2011$ the $TRV_{F,2011}$ is reduced by £13.6m, a reduction which is indexed to $RPI_{F,2010}$. The definition of RPI is retained in 4.3.34 for this purpose.
2.3.19	Equation following the 2 nd paragraph	Replace RPI_B and RPI_E with $CPIH_B$ and $CPIH_E$ respectively
2.3.19	Equation following the 2 nd paragraph	Equation reformatted
2.3.22	Table following the 1 st paragraph	Replace RPI with CPIH
2.3.23	After the definition of "Capital Expenditure"	Add additional definition for "Consumer Prices Index including owner occupiers' housing costs" or "CPIH." means the Index of that name published by the Office of National Statistics each month in respect of all items, or: (a) if that Index for the specified month in any year shall not have been published on or before the last day of the sixth month after the specified month, such alternative index for such month as the Authority may after consultation with the Licensee determine as appropriate in the circumstances; or (b) if there is a material change in the basis of the Index, such alternative index as the Authority may after consultation with the Licensee determine as appropriate in the circumstances;
2.3.26	Table of designated parameters	For "The indexation base" replace RPI with CPIH
2.3.26	Table of designated parameters	The following clarification to be added: 'Shall be RPI up to and including Formula Year 2022 and CPIH commencing Formula Year 2023.'
2.3.26	Paragraph following the table of designated parameters	Replace $RPI_{F,t}$ with $CPIH_{F,t}$
2.3.26	Paragraph following the table of designated parameters	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs".
2.3.26	In the section "Key to other formula parameters:"	In respect of RPI_E , RPI_B , replace RPI_E , RPI_B with $CPIH_B$ and $CPIH_E$ respectively

Clause	Location	Modification
2.3.26	In the section "Key to other formula parameters:"	In respect of RPI_E , RPI_B , replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs".
2.3.26	In the section "Key to other formula parameters:"	In respect of $RPI_{F,t}$, replace $RPI_{F,t}$ with $CPI_{H,t}$
2.3.26	In the section "Key to other formula parameters:"	In respect of $RPI_{F,t}$, RPI_B , replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs."
2.4.10	Sub paragraph (b)	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs."
2.8.3	After the text '..costing more than £4.00...'	Paragraph will be amended to it appears as '...adjusted annually in line with the Retail Prices Index from September 1996 and moving to the Consumer Prices Index including owner occupiers' housing costs from January 2023.'

Table 4.2: Proposed modifications to the PNGL licence to change the general measure of inflation from RPI to CPIH

Proposed Licence Modifications - SGN

- 4.4 The proposed licence modifications include modifications to the definition of terms and equations which are itemised in the table below:

Clause	Location	Modification
1.12.3	1 st paragraph after the term 'such sum to be adjusted annually by reference..'	The paragraph will now state: '...to the Retail Prices Index (as defined in Condition 4.12) until 31 December 2022 and then the Consumer Prices Index including owner occupiers' housing costs from 1 January 2023
1.12.3 (b)	1 st paragraph after the term 'such sum to be adjusted annually by reference.'	The paragraph will now state: '...to the Retail Prices Index up until 31 December 2022 and then the Consumer Prices Index including owner occupiers' housing costs from 1 January 2023...'."
2.3.10	Paragraph (b)	Replace retail price index with Consumer Prices Index including owner occupiers' housing costs.
2.7.3	After the text '....costing more than £4.00.....'	The paragraph will now state '.....adjusted annually in line with the Retail Prices Index from September 1996 and moving to the Consumer Prices Index including owner occupiers' housing costs from January 2023.'
2.8.3	After the term retail price index.	Add the following drafting..."and the Consumer Prices Index including owner occupiers' housing costs from January 2023."
2.3.10(b)	1 st paragraph	Replace retail price index with Consumer Prices Index including owner occupiers' housing costs.
4.2.10	Equation following 1 st paragraph	Replace RPI_{iy_t} / RPI_E with CPI_{Hiy_t} / CPI_{HE}
4.2.10	After equation	Insert the following drafting: 'Save that this formula, and all references in this Part 4 to CPIH and to the BOE base rate, shall apply only on and from 1 January 2023, in substitution for the formula and prior references to (respectively) RPI and LIBOR which shall be treated as having been applicable up to and including 31 December 2022 in accordance with previous versions of this Part 4.'
4.2.11	3 rd paragraph	Replace RPI_{iy_t} with CPI_{Hiy_t}
4.2.11	3 rd paragraph	Replace Retail Price Index with Consumer Prices Index including owner occupiers' housing costs
4.2.11	3 rd paragraph	Replace RPI with CPIH
4.2.11	4 th paragraph	Replace RPI_E with CPI_{HE} .
4.2.11	4 th paragraph	Replace RPI_{iy_t} with CPI_{Hiy_t}
4.2.14 (b)	1 st paragraph	Replace RPI_{iy_t} with CPI_{Hiy_t}
4.2.14(b)	1 st paragraph	Replace RPI_E with CPI_{HE}
4.2.14(b)	Equation	Replace RPI_{iy_t} with CPI_{Hiy_t}
4.2.14(b)	Equation	Replace RPI_E with CPI_{HE}
4.2.18(a)	2 nd equation	Replace RPI_{iy_t} with CPI_{Hiy_t}

Clause	Location	Modification
4.2.18(a)	2 nd equation	Replace $RPI_{y,t-1}$ with $CPIHy_{t-1}$
4.2.27	Equation	Replace $RPI_{y,t}$ with $CPIHy_t$
4.2.27	Equation	Replace $RPI_{y,t-1}$ with $CPIHy_{t-1}$
4.3.4	Equation	Replace $RPI_{y,t}$ with $CPIHy_t$
4.3.4	Equation	Replace RPI_E with $CPIH_E$
4.3.5	6 th paragraph	Replace $RPI_{y,t}$ with $CPIHy_t$
4.3.5	6 th paragraph	Replace retail price index with Consumer Prices Index including owner occupiers' housing costs
4.3.5	6 th paragraph before 'during that formula year'.	Replace RPI with CPIH
4.3.5	7 th paragraph	Replace RPI_E with $CPIH_E$
4.3.5	7 th paragraph	Replace Retail Price Index with Consumer Prices Index including owner occupiers' housing costs
4.5.2	List of definitions	Replace $RPI_{y_{B,t}}$ with $CPIHy_{B,t}$
4.5.2	List of definitions	Replace Retail Price Index with Consumer Prices Index including owner occupiers' housing costs
4.5.2	List of definitions	Replace $RPI_{B,t}$ with $CPIH_{B,t}$
4.5.2	List of definitions	Replace Retail Price Index with Consumer Prices Index including owner occupiers' housing costs
4.5.3	Equation	Replace RPI_B with $CPIH_B$
4.5.3	Equation	Replace $RPI_{y_{B,t}}$ with $CPIHy_{B,t}$
4.5.3	2 nd paragraph	Replace RPI_B with $CPIH_B$
4.5.3	2 nd paragraph	Replace Retail Price Index with Consumer Prices Index including owner occupiers' housing costs.
4.6.7(b)	2 nd equation	Replace RPI_B with $CPIH_B$
4.6.7(b)	2 nd equation	Replace RPI_E with $CPIH_E$
4.6.8	Equation above "Calculating the profile adjustment."	Replace RPI_B with $CPIH_B$
4.6.8	Equation above "Calculating the profile adjustment."	Replace RPI_E with $CPIH_E$
4.6.9	Equation	Replace RPI_B with $CPIH_B$
4.6.9	Equation	Replace RPI_E with $CPIH_E$
4.6.10	2 nd equation	Replace RPI_F with $CPIH_F$
4.6.10	2 nd equation	Replace RPI_E with $CPIH_E$
4.6.11	2 nd equation	Replace RPI_F with $CPIH_F$

Clause	Location	Modification
4.6.11	2 nd equation	Replace RPI _E with CPIH _E
4.11.1	Designated parameters values	Replace RPI with CPIH
4.11.2	Table headings	Amend RPI to CPIH in table headings
4.12.1	After the definition of "Capital Expenditure"	Add additional definition for "Consumer Prices Index including owner occupiers' housing costs" or "CPIH." means the Index of that name published by the Office of National Statistics each month in respect of all items, or: (a) if that Index for the specified month in any year shall not have been published on or before the last day of the sixth month after the specified month, such alternative index for such month as the Authority may after consultation with the Licensee determine as appropriate in the circumstances; or (b) if there is a material change in the basis of the Index, such alternative index as the Authority may after consultation with the Licensee determine as appropriate in the circumstances;
4.12.4	Designated parameters	Replace RPI with CPIH
4.12.4	Paragraph under table	Replace RPI _{iy_t} with CPIH _{iy_t}
4.12.4	Paragraph under table	Replace phrase "Retail Prices Index" with "Consumer Prices Index including owner occupiers' housing costs," in two places.
4.12.5	Key of parameters	Replace RPI _E with CPIH _E
4.12.5	Key of parameters	Replace RPI _B with CPIH _B
4.12.5	Key of parameters	Replace Retail Prices Index with Consumer Prices Index including owner occupiers' housing costs.
4.12.5	Key of parameters	Replace RPI _{iy_t} with CPIH _{iy_t}
4.12.5	Key of parameters	Replace RPI _{ye_t} with CPIH _{ye_t}
4.12.5	Key of parameters	Replace Retail Prices Index with Consumer Prices Index including owner occupiers' housing costs

Table 4.3: Proposed modifications to the SGN licence to change the general measure of inflation from RPI to CPIH

Reasons

- 4.5 Our price control determinations, and the subsequent annual assessments of tariffs take account of a general measure of inflation. In the past RPI, has been used, but for GD23, we propose to adopt CPIH as the general measure of inflation. This change reflects concerns expressed by the UK Statistics Authority (UKSA) over the robustness of RPI. As a result, the UKSA urges

Government and others to cease using RPI. The move to CPIH reflects changes the UKSA plan to make in 2030. Moving to CPIH provides a more equitable distribution of cost between today's and future consumers, and it helps maintain financeability of the GDNs.

4.6 Key decisions in the final determinations for GD23 reflect this proposal, including:

- The determination of a real weighted average cost of capital on a CPIH stripped basis.
- The determination of a frontier shift on a CPIH stripped basis.
- The calculation of the opening TRV for GD23 to ensure that the way in which CPIH is applied to future revenues and tariffs determined in 2020 prices reflects the inflation of the TRV to the end of the GD17 period using RPI.

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

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

4.9 However, following the UKSA's consultation, which closed in November 2020, we note the following:

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

- In light of the clarification provided by the Bank of England, and given the UKSA's position to address the shortcomings in the RPI in full at the earliest practical time, the UKSA's Chair replied to the Chancellor informing him that the UKSA would be able to legally and practically implement its proposal to the RPI in February 2030.
- 4.10 It is now clear that RPI will continue to be calculated, and published in its current form until 2030. It is likely that the UKSA will bring the methods and data sources of the Consumer Prices Index, including owner-occupiers' housing costs (CPIH) into RPI shortly thereafter. However, the pace at which this will happen is not yet clear. The decision made to delay any changes to RPI until 2030, means that it is no longer possible to begin a transition to CPIH in GD23 through process which aligns RPI with CPIH. As a result, we have concluded that we should now move to CPIH, as our general measure of inflation for GD23.
- 4.11 A key consideration in our proposal to adopt CPIH as a general measure of inflation in GD23, has been its impact on key measures of financeability as the weighted average cost of capital reduces. One GDN raised concerns about its ability to finance its Business Plan at the rates of return proposed in its Business Plan and this issue would become more pronounced at the lower returns on capital proposed in this draft determination. This GDN suggested either:
- An enhancement to revenue in GD23 through an enhanced rate of return with the additional revenue returned to consumers at the end of GD23 through the debt adjustment mechanism; or,
 - A change from RPI to CPIH as the general measure of inflation which would increase revenues in GD23, but reduce the level of inflation applied to the TRV.
- 4.12 Of these options, we prefer a change to CPIH as this does not require more complex mechanisms to maintain financeability by enhancing revenues in for the GD23 period, only to deduct these additional revenues from the opening TRV at the start of GD29.
- 4.13 A move to CPIH has additional advantages:
- Consumer Price Index (CPI) has become the commonly reported measure of consumer inflation used widely in society for both inflation targets and adjusting various payments by government.

- Consumer Price Index including Housing (CPIH) is becoming increasingly common in regulation, for example: Ofwat and Ofgem have moved, shortly will move, or are in the process of transitioning from RPI to CPIH.
- The application of a robust measure of inflation in our price controls improves the alignment of payments with the way network services are consumed, improving intergenerational equity.

Effects

- 4.14 A change to CPIH ensures that the GD23 price control is based on a method of assessing general inflation which is considered robust by the relevant competent statistical authorities. This improves the alignment of payments with the way network services are consumed, improving intergenerational equity.
- 4.15 Inflation as measured by CPIH is generally lower than inflation measured by RPI. As a result, revenues and tariffs will increase in the short term as the real weighted average cost of capital increases to reflect lower level of general inflation. Over the longer term, the level of inflation applied to revenues and tariffs will be lower and the TRV will be subject to a lower level of general inflation. As a result revenues, and tariffs in the future will be lower than they would be if RPI was retained as the general measure of inflation.
- 4.16 A change to CPIH improves financeability in GD23 and avoids using more complex mechanisms to maintain financeability by enhancing revenues in the GD23 period, only to deduct these additional revenues from the opening TRV at the start of GD29.

5. Change from LIBOR (or equivalent) to BOE Base Rate

Overview

- 5.1 On 5 March 2021, the Financial Conduct Authority announced that most LIBOR (London Inter-Bank Offered Rate) panels would cease after 31 December 2021. This meant a replacement rate needed to be selected.
- 5.2 As the LIBOR rate appears in the FE and SGN conveyance licences, we selected the Bank of England (BOE) base rate as this was the most appropriate, accessible and straightforward replacement for LIBOR. Additionally, we are confident in the longevity of the Bank of England base rate and as local bank base rates already appear in the PNGL licences, this will provide a more consistent approach across the organisation and in particular the GDN licences.
- 5.3 The proposed modifications will therefore replace LIBOR where it appears in the licences with BOE Base rate (or other comparable rate as the Authority may specify).
- 5.4 A Common Utility Regulator letter informing both FE and SGN of the decision to switch from LIBOR to BOE base rate was sent to GDNs on 27 January 2022.

Proposed Licence Modifications

FE

- 5.5 In order to implement the change to the BOE base rate, we propose to make modifications to Part 4: The Price Control Conditions of the FE conveyance licence. These modifications will impact in particular on Condition 4.1: Charging methodology for the conveyance of gas.
- 5.6 We are also proposing to insert BOE base rate into Condition 4.8 Definitions and Interpretation.
- 5.7 The proposed licence modifications will not involve any renumbering of conditions as LIBOR where it appears in each condition, will be replaced with BOE Base Rate, along with the addition to Condition 4.8 Definitions and Interpretation, as mentioned at 5.6.
- 5.8 The sections below indicate the new proposals and how these will appear in the licence:

5.9 Condition 4.1.9: The Value of $I_{F,t}$ shall be calculated in accordance with the following formulae:

a) where $Z_{F,t} \geq 0$, then $I_{F,t} = r_t$,

b) where $Z_{F,t} < 0$, then:

$$I_{F,t} = \text{BOE base rate}_{t-1} + 0.02 \quad \text{if } t=2017$$

$$I_{F,t} = \text{BOE base rate}_{t-1} + 0.02 \quad \text{if } t=2018$$

$$I_{F,t} = \text{BOE base rate}_{t-1} + 0.02 \quad \text{if } t \geq 2019$$

5.10 Condition 4.1.10: For the purposes of Condition 4.1.9:

BOE base rate $_{t-1}$ = is the daily average of the Bank of England base rate during the Formula year $t-1$ where data is available.

5.11 Condition 4.8.1 (Definitions and Interpretation):

BOE base rate: means, in respect of any relevant year t , the average of the daily base rates of the Bank of England during that year, expressed as a percentage (or if such a rate ceases to be published, such other comparable rate as the Authority may specify).

PNGL

5.12 In order to implement the change to the BOE base rate, we propose to make modifications to Condition 2.3.23 Definitions and Interpretation specifically in relation to the definition of 'Average Specified Rate.'

5.13 We propose to amend the definition by replacing the term 'Northern Bank plc with Bank of England so that the definition will now be as follows: 'means, in respect of a Formula Year, the average of the daily base rates of the Bank of England expressed as a percentage (or if such a rate ceases to be published, such other comparable rate as the Authority may specify).'

5.14 In addition, the following explanation was included to clarify that the Bank of England base rate applies from 1 January 2023: 'All references to the Bank of England Base Rate shall apply only on and from 1 January 2023.'

SGN

5.15 In order to implement the change to the BOE base rate, we propose to make modifications to Part 4: The Price Control Conditions of the SGN conveyance licence. These modifications will impact in particular on Condition 4.2: The Primary Constraint and Condition 4.12: Definitions and Interpretation.

- 5.16 The proposed licence modification will not involve any renumbering of conditions as LIBOR where it appears in each condition will be replaced with BOE Base Rate.
- 5.17 We indicate the new proposals below and illustrate how these will appear in the licence:
- 5.18 Condition 4.2.18 (b):

(b) where
$$\sum_{\text{all } j} Z_{F,j,t-1} + Z_{U,t-1} < 0$$

Then
$$r_{t-1} = \text{BOE base rate}_{t-1} + 0.02 - x_{U,t-1}$$

- 5.19 Condition 4.2.19:

BOE base rate_{t-1} = is the daily average of the Bank of England base rate during the Formula year t-1 where data is available.

- 5.20 Condition 4.12.1 (Definitions and Interpretation):

BOE base rate: means, in respect of any relevant year t, the average of the daily base rates of the Bank of England expressed as a percentage (or if such a rate ceases to be published, such other comparable rate as the Authority may specify).

Reasons

- 5.21 As LIBOR was being phased out, an appropriate alternative rate had to be selected for relevant utility licences and this LIBOR issue is not unique to Gas Distribution companies and the Utility Regulator has been considering the implications for other utility companies also and communicating effectively on any proposed approaches.
- 5.22 The Utility Regulator gave due consideration to an alternative to LIBOR and undertook a comprehensive review of appropriate alternatives. Following our review, it was decided that the most appropriate approach was to use the Bank of England base rate as a replacement for LIBOR. We currently use an appropriate bank base rate in both the Northern Ireland Electricity Distribution Licence (NIEN) and PNGL Licence and apply a consistent approach across these utility licences.

- 5.23 While we have confidence in the longevity of the BOE base rate, it is important to state “or if such a rate ceases to be published, such other comparable rate as the Authority may specify” in these licence modifications to allow other rates to be used, where necessary. This is indicated by the definitions and interpretation section of the licence modifications.
- 5.24 In addition, we have included a proposed modification to the PNGL licence to bring it in line with the other licences and use the Bank of England base rate as opposed to the Northern Bank plc (now Danske Bank).

Effects

- 5.25 LIBOR will be used in the calculation of tariffs up and until 31 December 2022 and the Bank of England base rate will be used on and from 1 January 2023.
- 5.26 Replacing LIBOR with the Bank of England base rate should further incentivise the companies to get their forecasts correct because the interest rate applied will generally fix lower than would have been the case previously. The objective of the price control and tariff process is to make sound forecasts and avoid interest charges. We furthermore note that introducing the Bank of England base rate promotes consistency across the FE, PNGL and SGN licences.

6. Correction of Licence Inconsistencies

Overview

- 6.1 As part of the preparation of this licence modification consultation, we identified licence consistency issues as follows:
- The definitions of “domestic new build” and “NIHE” properties in the PNGL licence are not consistent with the definitions in our Cost Reporting Guidelines.
 - The definitions of “domestic new build” and “NIHE” properties in the SGN licence are not consistent with the definitions in our Cost Reporting Guidelines.
 - Amendment of the date of the Final Determination and the date when it applies from to all GDNs licences.
- 6.2 We propose to address drafting issues identified and to implement the licence modifications required to do so.
- 6.3 This chapter therefore details:
- The proposed licence modifications for FE, PNGL, and SGN; and
 - The associated reasons and effects.

Proposed Licence Modifications

FE

Overview

- 6.1 We propose making minor amendments to condition 4.8 of the FE licence, in order to replace the GD17 Final Determination publication date with the GD23 Final Determination publication date and also update the GD23 Price control commencement period. We propose drafting Condition 4.8 as follows:
- ““Final Determination” means the document of that title published by the Authority on 28 October 2022 for the purposes of the Review relating to the period commencing with t=2023.”

PNGL

Overview

6.2 We propose to amend the classification of properties in Schedule 4 Annex 3, amending the definitions of 'domestic new build' and 'NIHE' properties, to make them consistent with the definitions used in the Cost Reporting Guidelines we provide to the GDNs.

- This amendment changes the definition of 'domestic new build,'
 - ◆ from “means domestic premises which have never previously been owned or occupied by any person (that is they are, or are to be, newly built premises) and in respect of which the connection to the Network shall be made prior to the premises first being occupied, but excluding any such premises which fall within the definition of NIHE.”
 - ◆ to “means domestic premises which have never previously been owned or occupied by any person (that is they are, or are to be, newly built premises) and in respect of which the connection to the Network shall be made prior to the premises first being occupied, including any such premises being constructed for the Northern Ireland Housing Executive or a housing association in Northern Ireland.”
- This amendment changes the definition of NIHE,
 - ◆ from “means domestic premises which are (or will be when built) owned by:
 - (a) the Northern Ireland Housing Executive; or
 - (b) a housing association in Northern Ireland.”
 - ◆ to “means domestic premises (excluding any domestic new build) which are owned by:
 - (a) the Northern Ireland Housing Executive; or
 - (b) a housing association in Northern Ireland.”

6.3 We propose making minor amendments to condition 2.3.23 of the PNGL licence, in order to replace the GD17 Final Determination publication date with the GD23 Final Determination publication date and also update the

GD23 Price control commencement period. We propose drafting Condition 2.3.23 as follows:

- ““Final Determination” means the document of that title published by the Authority on 28 October 2022 for the purposes of the Review relating to the period commencing with t=2023.”

6.4 Annex 2: PNGL Licence – Proposed Modifications shows the proposed licence modifications as tracked changes to the PNGL conveyance licence.

SGN

Overview

6.5 We propose to amend the classification of properties in Condition 3.1, amending the definitions of “Domestic New Build” and “NIHE” properties to make them consistent with the definitions used in the Cost Reporting Guidelines we provide to the GDNs.

- This amendment changes the definition of ‘domestic new build,’
 - ◆ from “means domestic premises which have never previously been owned or occupied by any person (that is they are, or are to be, newly built premises) and in respect of which the connection to the Network shall be made prior to the premises first being occupied, but excluding any such premises which fall within the definition of NIHE.”
 - ◆ to “means domestic premises which have never previously been owned or occupied by any person (that is they are, or are to be, newly built premises) and in respect of which the connection to the Network shall be made prior to the premises first being occupied, including premises being built for the NIHE or a housing association.”
- This amendment changes the definition of NIHE,

- ◆ from “means domestic premises which are (or will be when built) owned by:
 - (a) the Northern Ireland Housing Executive; or
 - (b) a housing association in Northern Ireland.”
- ◆ to “means domestic premises which are (excluding any Domestic New Build) owned by:
 - (a) the Northern Ireland Housing Executive; or
 - (b) a housing association in Northern Ireland.”

6.6 We propose making minor amendments to condition 4.12 of the SGN licence, in order to replace the GD17 Final Determination publication date with the GD23 Final Determination publication date and also update the GD23 Price control commencement period. We propose drafting Condition 4.12 as follows:

- ““Final Determination” means the document of that title published by the Authority on 28 October 2022 for the purposes of the Review relating to the period commencing with t=2023.”

6.7 Annex 3: SGN Licence – Proposed Modifications shows the proposed licence modifications as tracked changes to the SGN conveyance licence.

Reasons

6.8 The purpose of the proposed licence modifications listed above in section Correction of Licence Inconsistencies is to achieve licence consistency across GDNs.

- The purpose of the proposed change in Schedule 4 Annex 3 of the PNGL licence, amending the definitions of ‘domestic new build’ and ‘NIHE’ properties, is to ensure consistency with other regulatory materials and will achieve consistency with the FE and SGN conveyance licences which both contain similar definitions.
- The purpose of the proposed change in Condition 3.1 of the SGN licence, amending the definitions of ‘domestic new build’ and ‘NIHE’ properties, is to ensure consistency with other regulatory materials and to also achieve consistency with the PNGL and FE conveyance licences.

- The reason for including the date of the GD23 Final Determination publication date for all GDNs and its commencement period is to update the previous dates included for the GD17 price control. This drafting in all three GDN licences supersedes the previous price control narrative for GD17 and refers to aspects of the most recent Price Control, GD23.

Effects

6.9 We consider that the proposed licence modifications discussed in this chapter 6 Correction of Licence Inconsistencies with respect to the FE, PNGL, and SGN conveyance licences have no immediate impact on GDNs; they merely add clarity to the licence wording and improve licence consistency, both with respect to:

- Consistency within a given conveyance licence (proposed changes to the PNGL conveyance licence as well as proposed changes to the SGN conveyance licence listed above in Sections 6 Correction of Licence Inconsistencies, Proposed Licence Modifications, PNGL, and 6 Correction of Licence Inconsistencies, Proposed Licence Modifications, SGN); and
- Consistency across the distribution conveyance licences (proposed changes to the PNGL conveyance licence as well as proposed changes to the SGN conveyance licence listed above in Sections 6 Correction of Licence Inconsistencies, Proposed Licence Modifications, PNGL, and 6 Correction of Licence Inconsistencies, Proposed Licence Modifications, SGN).
- The effect of updating the respective conditions in GDN licences for FD publication and commencement date is minimal. However, in making these changes to GDN licences we are ensuring that licences are up to date and the GDN licences refer to the publication date for the most recent Final Determination relating to the most recent Price Control, i.e. GD23. The effect of updating the Final Determination date for GD23 and its respective commencement provides consistency across GDNs and clarifies GD23's commencement.

7. Next Steps

Submission of Consultation Responses

- 7.1 This is an open consultation paper. We invite stakeholders to express a view on any particular aspect of the paper or any related matter. Responses should be received on or before 12 noon on 25 November 2022 and should be addressed to:

Paul Harland
Finance and Network Assets
Queens House
14 Queen Street
Belfast
BT1 6ED
Tel: 028 9031 1575

Email: Gas_networks_responses@uregni.gov.uk with cc to paul.harland@uregni.gov.uk

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

- 7.2 Your response may be made public by us. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'.
- 7.3 If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.
- 7.4 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 2018 (DPA)).
- 7.5 As stated in the GDPR Privacy Statement for consumers and stakeholders, any personal data contained within your response will be deleted once the matter being consulted on has been concluded though the substance of the response may be retained.
- 7.6 This document is available in other accessible formats, such as large print, Braille, audio cassette and a variety of relevant minority languages if

required. Please contact Paul Harland on either 028 9031 1575 or email: Gas_networks_responses@uregni.gov.uk with cc to paul.harland@uregni.gov.uk to request this.

- 7.7 It is also envisaged that work will continue with key stakeholders, during the consultation phase to ensure that all areas are made clear, on how decisions have been reached.
- 7.8 If appropriate, we can have individual discussions with interested parties. Please contact us if you consider this to be more suitable.

Timelines

- 7.9 Table 7.1 provides an overview over the next steps and associated timelines for the licence modification process.

GD23 Key Milestones	Revised timeline
GD23 Approach Document Consultation	1 June 2020
GD23 Approach Document Consultation Ends	7 August 2020
GD23 Approach Document published	6 November 2020
Business Plan information requirements published	31 January 2021
GDNs submit BPs for GD23	30 June 2021
UR publishes DD consultation for GD23	9 March 2022
DD consultation period ends	26 May 2022
GD23 FD and licence consultation published	28th October 2022
GD23 GDN licence modifications decision published	22 February 2023
GD23 Price control takes effect	19th April 2023

Table 7.1: Price Control Process Key Milestones up to Publication of GD23 Draft Determination.

- 7.10 We note that this timetable allows for the effective date of the licence modifications to be at least 56 days after the publication of the licence modification decision, in line with the requirements of Article 14(10) of the Gas (Northern Ireland) Order 1996. This period provides an opportunity for the licence holder subject to the price control, any other licence holder materially affected by the decision, a qualifying body or association representing one of those licence holders, and/or the Consumer Council for Northern Ireland to appeal the decision on the proposed licence modifications to the CMA (Competition and Markets Authority).
- 7.11 A decision was made to follow the normal governance processes in terms of timelines for board approval, which has resulted in a delay until mid-

December. The result will be that the Licence Modifications decision will not be published until around 22 February 2023. This means there will be a short delay between the date when the decision is made and the new price control taking effect, in accordance with the statutory rule that licence modifications may come into force no earlier than 56 days after the date of the decision to make them. The anticipated date for the modifications to come into effect is therefore 19 April 2023 (56 days after the licence modification decision notice is expected to be published). However, once the licence modifications come into effect, they will apply in respect of the whole of the first year of the new control period (i.e. on and from 1 January 2023). In practical terms, therefore, the timing of the licence modifications coming into legal effect is designed to ensure that all of the licence formalities are fully satisfied, but the application of the new price control once the modifications are in effect will be such as to ensure that the GD23 allowances and outputs will apply from the 1 January 2023.

Other information to consider within Our Final Decision

- 7.12 We are aware that some of the figures from government and other independent sources used within our FD will change prior to the final decision on the proposed licence modifications. These figures and sources could include any new OBR forecast, future Corporation Tax Rate, the Risk Free Rate of Return and the Cost of Debt. It is our intention to consider any new relevant information of this nature along with the consultation responses.