

PRICE CONTROL FOR NORTHERN IRELAND'S GAS TRANSMISSION NETWORKS GT27

**Consultation on our approach
5 November 2025**

About the Utility Regulator

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

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

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

We are based at Millenium House in the centre of Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls; Networks and Energy Futures; and Markets and Consumer Protection. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

The graphic features a dark blue background with a large green '7' shape in the top right corner. The Utility Regulator logo is in the top left. The content is organized into two columns. The left column contains 'OUR MISSION' and 'OUR VISION'. The right column contains 'OUR VALUES' followed by five specific values: ACCOUNTABLE, TRANSPARENT, COLLABORATIVE, DILIGENT, and RESPECTFUL.

Utility Regulator

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

ACCOUNTABLE:
We take ownership of our actions.

TRANSPARENT:
Ensuring trust through openness and honesty.

COLLABORATIVE:
Connecting and working with others for a shared purpose.

DILIGENT:
Working with care and rigour.

RESPECTFUL:
Treating everyone with dignity and fairness.

ABSTRACT

This paper sets out a consultation on our approach to GT27, the price control review for the four gas conveyance licence holders in Northern Ireland who operate high pressure pipeline networks. This price control period will commence on 1 October 2027. This approach document consults on a package of measures that will facilitate the continued operation of an efficient gas industry in Northern Ireland.

AUDIENCE

Industry, consumers, statutory bodies and Government departments.

CONSUMER IMPACT

Transmission System Operators (TSOs) play a pivotal role in conveying gas from Great Britain and the Republic of Ireland to Northern Ireland. Through the GT27 price control we will determine the level of revenue and allowances for the gas TSOs that will enable them to continue operating the network safely and efficiently, as well as supporting the Governments decarbonisation goals. The impact of GT27 allowances will be reflected in transmission charges, which typically account for around 10% of a customer's final gas bill.

Contents Page

1.	Introduction.....	5
	Purpose of the document.....	5
2.	Key Features of the Gas Transmission Price Controls....	6
	Operating expenditure.....	6
	Capital expenditure	6
	Remuneration and risk.....	7
	Setting costs and treating uncertain costs.....	7
	Single system operation - GMO NI.....	8
	Regulatory Instructions and Guidance	8
	Summary.....	9
3.	Strategic Context for GT27	10
	Call for Information	10
4.	Our Approach.....	17
	General approach.....	17
	Duration of the price control	19
	Single system operator – GMO NI.....	19
	Controllable operating expenditure.....	22
	Uncontrollable Operating Expenditure	24
	Efficiency Targets	24
	Innovation and incentives	26
	Security	29
	Whole System Approach.....	30
	Price control outputs	31
	RPI to CPIH change	33
	Remuneration and risk.....	33
	Business Plan Assessments.....	36
5.	Stakeholder Engagement and Social Impact.....	38
	Approach to stakeholder engagement	38
	Consumer impact	38
	Environmental impact and decarbonisation	39
6.	Consultation Feedback.....	40

1. Introduction

Purpose of the document

1.1 The purpose of this document is to consult on our high-level approach to the next price control review for the four high pressure gas networks in Northern Ireland, GT27. The four gas conveyance licence holders covered by this price control are:

- Gas Networks Ireland (GNI (UK)), a utility infrastructure company owned by the Government of Ireland. GNI (UK) is subject to a traditional revenue cap incentive framework.
- Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and West Transmission Limited (WTL) are all part of Mutual Energy Limited (MEL). These companies are all subject to a mutualised model in which Northern Ireland gas consumers absorb deviations between forecast and actual operating costs in return for an absence of equity funding or returns from the business.

1.2 Our proposed approach is detailed in the following chapters:

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| Chapter 1 | Introduces the approach document. |
| Chapter 2 | Provides background, strategic context and information on key features relevant to this price control. |
| Chapter 3 | Sets out the approach we intend to adopt in assessing the constituent parts of TSOs business plans. |
| Chapter 4 | Discusses how we plan to engage with stakeholders throughout the determination process. |
| Chapter 5 | Details how stakeholders can respond to this consultation. |

2. Key Features of the Gas Transmission Price Controls

Operating expenditure

- 2.1 This price control review will determine an efficient level of operating cost for the review period commencing on 1 October 2027. However, the potential impact of these allowances on the licence holder will vary depending on whether they operate a 'revenue cap' or a 'mutualised' model.
- 2.2 In the case of the MEL licence holders, the allowance only represents a forecast of future outcomes. Actual allowances that the licence holder will recover from consumers will vary with actual expenditure. The licence holders, in this case PTL, BGTL and WTL, are exposed to no operating expenditure risk; instead, this risk is borne entirely by the Northern Ireland gas consumer.
- 2.3 However, we continue to determine an efficient level of operating costs as if a revenue cap was in place during what has been described as a shadow price control. The licence holder then has a reputational incentive to manage costs effectively in line with the determined shadow allowance.
- 2.4 In addition, we expect management incentives may be set to align with these allowances again as a means of effective operating cost control. Performance against the shadow allowances also provides Utility Regulator (UR) with a metric to judge whether existing licence conditions continue to facilitate our statutory duties.
- 2.5 Our proposed approach to establishing an allowance for activities related to operating expenditure is set out in Chapter 4.

Capital expenditure

- 2.6 The price control process does not set allowances for capital expenditure. Two of the licence holders (PTL and BGTL), purchased existing assets, the Scotland Northern Ireland Pipeline (SNIP) and Belfast Gas Transmission Pipeline (BGTP) respectively, and are therefore not required to fund capital formation. In the case of the other two licence holders; GNI (UK) which built both the North West and South North Pipelines (SNP) along with their associated spurs, and WTL has now completed the Gas to the West (GttW) network; capital allowances are set in accordance with a separate methodology outside the price control process.

Remuneration and risk

- 2.7 As with operating and capital expenditure, the cost of capital has a different treatment depending on the licence holder. In the case of GNI (UK) we are required to consider the rate of return on capital at each price control. A key issue raised by GNI (UK) in response to our Call for Information on the Future of Gas Transmission and Distribution Price Controls (Cfl) is the paydown of the North West and South North pipelines (in 2029 and 2031, respectively) which will transpire throughout GT27.
- 2.8 This may have an impact on the viability of the GNI (UK) business model and as a result they have requested a review is undertaken of the financial framework model currently in place through GT22, with a view to developing a more enduring model which is appropriate for utilities with a limited regulatory asset base (RAB).
- 2.9 We have identified this as a priority workstream for GT27, and we plan to engage extensively with GNI (UK) to find the most appropriate solution. This includes exploring whether this issue needs to be resolved in GT27, and identifying alternative approaches to providing remuneration for risk that are used by neighbouring regulators, and within current UR price controls.
- 2.10 GNI (UK)s current licence makes provisions under Condition 2.2.8¹ as to the process of allowed revenues after the revenue recovery period is over (25 years after pipeline commissioning). Their current licence also makes provisions on how they should continue to maintain the network post revenue recovery period under Condition 2.2.17.
- 2.11 For the MEL licence holders, the rate of return on capital is excluded from the price control review process. These licence holders are entirely funded by debt finance in the form of long-term bonds. The repayments on these bonds including principal and interest will be made in accordance with a predetermined schedule that has been previously agreed by UR. There is therefore no provision in either of these licences to review the rate of return.
- 2.12 Our proposed approach to establishing a rate of return is set out in Chapter 4.

Setting costs and treating uncertain costs

- 2.13 Where we can be certain about costs submitted to us in company business plans, we can set an ex-ante allowance. The ex-ante cost

¹ LICENCE FOR THE CONVEYANCE OF GAS IN NORTHERN IRELAND

assessment forms part of the price control frameworks and determines how much the TSOs can charge for their services.

- 2.14 This assessment helps ensure the TSOs recover what they need to run their businesses and replace and maintain their gas network, while also incentivising efficiency and safety.
- 2.15 For both MEL and GNI (UK), we largely undertake bottom-up cost assessments to determine efficiency gaps but do not undertake top-down comparative econometric benchmarking (e.g. with Great Britain) due to lack of sufficiently like for like comparators. We then adjust for input inflation (Real Price Effects (RPEs)) and efficiency adjustments for future frontier shifts at the price control determination.
- 2.16 Uncontrollable costs are considered as being outside the control of the licence holder and so are not subject to any incentive mechanism. That is, no allowance is determined for them at the time of the price control, and consumers, rather than the licence holder, bear all cost risk. These are often described as cost pass-through items.
- 2.17 Our proposed approach to setting costs and the treatment of uncertain costs is set out in Chapter 4.

Single system operation - GMO NI

- 2.18 The single system operator was established during GT17 and has facilitated efficiencies in operational expenditure over the course of subsequent price controls, GT22. Gas Market Operator Northern Ireland (GMO NI) is not a separate legal entity from the TSOs, and its operations are financed through the existing MEL and GNI (UK) licences'. GT27, as with GT22, will require licence holders to provide a joint submission for the allowances necessary to fund this activity.
- 2.19 Our proposed approach to establishing an allowance for activities related to single system operation is set out in Chapter 4.

Regulatory Instructions and Guidance

- 2.20 Use of Regulatory Instructions and Guidance (RIGs) as a means of standardising information submissions through the business planning process has been successfully implemented across the GT17 and GT22 price controls. As part of previous price controls, TSO licences modifications were made to formalise the RIGs approach and establish licensees' obligations with respect to maintaining adequate systems for reporting of information specified within the RIGs. To facilitate the GT27 determination process, the Business Plan Reporting Templates (BPRTs)

will be developed based on the format and content of the most recent RIGs, with several additional information requirements as necessary based on Cfl output, TSO and other stakeholder engagement.

- 2.21 We still consider that it is appropriate at GT27, to ask that MEL licence holders provide separately completed returns of the business plan template.
- 2.22 As with GT22, we still consider that it is appropriate that business plan narrative accompanying completed reporting templates for MEL group companies can be provided at group level.
- 2.23 We continue to provide additional clarity commentary on the GMO NI business plan which is not required in the submissions of GNI (UK) or MEL group companies, and that the GMO NI business plan will undergo a business plan assessment as detailed separately.
- 2.24 Our proposed approach is set out in Chapter 4.

Summary

- 2.25 The table below summarises how the existing price control works and sets out for each licence holder the price control items that will and will not be determined at this price control review as set out in the individual licenses.

Table 2.1: Price control output by licence holder

Price Control Item	GNI (UK)	PTL	BGTL	WTL
Controllable operating expenditure (non-GMO)	Allowance fixed at review	Allowance forecast at review, but actual allowance matches actual costs		
Controllable operating expenditure (GMO)	Allowance fixed at review	Allowance forecast at review, but actual allowance matches actual costs		
Uncontrollable operating expenditure	Allowance forecast at price control review, but actual allowance matches actual costs			
Remuneration for risk	WACC allowance currently fixed at review	Not applicable	Not applicable	Not applicable

3. Strategic Context for GT27

Call for Information

- 3.1 As a precursor to this GT27 Approach Consultation, we issued a Call for Information on Future Gas Distribution and Transmission Price Controls in Northern Ireland.
- 3.2 The intent of this Cfi was not to make decisions, or pre-empt decisions made by others which are outside of our control (e.g. Government policy). Its purpose was to develop a picture of how energy transition issues may affect our price controls (in this case gas transmission); and to ensure that our price controls can further meet the consumer interest whilst working coherently alongside wider developments which may take place.
- 3.3 It is our intention that GT27 will run until 30 September 2032 and the development of the frameworks for gas transmission network price controls takes time. We are conscious that GT27 may cover an important period of change as decarbonisation unfolds.
- 3.4 Given the potential issues affecting the future development of our gas networks, we issued the Cfi to take proper account of the relevant strategic challenges and opportunities that lie ahead at a relatively early point in the price control process.
- 3.5 We have accounted for the responses to this Cfi in this GT27 Approach Consultation where relevant to GT27. However, we plan to hold a stakeholder event in early 2026 to discuss how we plan to take account of all stakeholder feedback to the Cfi.
- 3.6 It is anticipated that several of these outworkings will inform the development of the BPRTs. In addition, the feedback is helping to shape emerging workstreams, which will be progressed collaboratively across UR, TSOs and other relevant stakeholders to ensure alignment with strategic priorities and shared outcomes.

Government policy, preparing for net zero and the timing of the next price control

- 3.7 As part of the Cfi we explained that it is unlikely that UR vires will have changed sufficiently to fully support the decarbonisation in time for GT27, but may change during the period, and therefore our decisions will be based on our current vires until such a time.
- 3.8 The constraint of our current vires is recognised in stakeholder responses to our Cfi:

3.9 GNI (UK) said in their response:

- 'Whilst we recognise that UR's current legislative remit is challenging with respect to supporting the energy transition, it is imperative that a pragmatic approach to supporting energy transition activities during the price control determinations continues.'
- ' Whilst there is still uncertainty as to what a future hydrogen network may look like, and as noted in the Call for Information paper, UR does not currently have a remit to regulate hydrogen networks ...'

3.10 GMO NI said in their response:

- 'GMO NI supports the work in progress to update UR's vires – it is essential that the regulator is fit for purpose and has the power to regulate the energy sector through the energy transition in a flexible and innovative way, in line with governments ambitions'

3.11 MEL said in their response:

- 'UR's vires will not have changed to allow it to fully support the decarbonisation agenda across the energy sector in time for GT27. The time it has taken to make a relatively straightforward update to UR's vires is symptomatic of the slow progress on decarbonisation in NI and a key theme of this response is the importance of the approach to price controls being grounded in reality, whilst also being cognisant of longer-term ambition.'

3.12 Flogas said in their response:

- 'Where there may be questions regarding the scope of the UR's vires particularly in relation to decarbonisation and social outcomes, it is essential that the UR continues to work in close alignment with relevant government departments, such as the Department for the Economy (DfE) and the Department for Communities (DfC). This collaborative approach will ensure that regulatory decisions are informed by wider policy objectives and that any limitations in vires do not hinder progress on strategic priorities.'

3.13 Our Cfl also explained that Government policy development is underway on a range of areas which will impact the gas transmission networks directly, such as biomethane, hydrogen blending and heat decarbonisation.

3.14 Gas networks in Northern Ireland are preparing for the possibility of biomethane and hydrogen blends to support decarbonisation, but the pace of this work will be dictated by government policy. They are also considering the potential for further investment in the gas network to support this need. We have already funded a range of preparatory works through GT22 to support gas transmission networks in the areas of biomethane and hydrogen blends.

3.15 Recognition of uncertainty around government policy development is echoed in response to our Cfl by the TSOs. GNI (UK) said in their response:

- 'GNI (UK) recognise that UR's current legislative remit is to "promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland", and that this, coupled with an uncertain policy landscape, can lead to uncertainty and challenges in terms of how best to support energy transition activities.'
- 'Innovation will play a key role for GNI (UK) during the next price control. It can help to drive operational efficiencies, enhance competitiveness, foster adaptability and minimise risk in what may be a rapidly changing environment driven by external factors such as energy decarbonisation policy changes.'

3.16 GMO NI said in their response:

- 'The pathway is uncertain and with policy in NI moving at a pace that isn't pointing to a clear direction nor at any pace, there is a requirement for price controls to be flexible, innovative and for regulators to have the ability to regulate accordingly.'
- 'Accepting new low carbon gases is seen as the first step for the gas TSOs, with some aspects having been completed to accept biomethane into the NI gas grid. However, without associated policy and direction in this area it's unclear as to the extent and pace of the ramp up of biomethane in the gas grid will play, however the gas network operators see biomethane as a key renewable source of energy to be transported and utilised via their gas grids in NI.'

3.17 MEL said in their response:

- '... it is uncertain what the current demand for natural gas will be replaced by and indeed the timing of such demand reduction. To a large extent this uncertainty is driven by a lack of clear policy which would assist with forming a view of the future role of the gas networks.'

- 'As stated above, supply and demand for biomethane will be driven by policy. Significant markets for biomethane exist already in Europe (e.g. Germany, France, Denmark) where there is appropriate policy support. It is therefore reasonable to expect that there will be demand for biomethane if the end cost to users (as determined by policy) can be made broadly equivalent to that of natural gas. We would therefore anticipate that much of the uncertainty around biomethane could be removed by GD29 and that transmission level costs can be dealt with via existing mechanisms.'

Factors shaping gas demand

- 3.18 Our Cfl Explained that as we transition to net zero, we recognise the role the transmission networks will play in supplying the distribution networks and in the power generation sector. Power sector gas demand is expected to peak and fluctuate in the future, as the gas system is required to act as a back-up for renewable generation on the electricity system. This will have implications for the gas transmission networks and their ability to deliver demand for gas during peak periods. We are aware that demand for natural gas is likely to decline as we decarbonise over time potentially through alternatives to gas such as biomethane and hydrogen blends.
- 3.19 Recognition of these factors shaping gas demand is supported by the TSOs in response to our Cfl:
- 3.20 GNI (UK) said in their response:
- 'With gas playing a more flexible role in the power sector, and a greater variety of gas supplies from distributed sources such as biomethane into the future, operating the network safely and efficiently will become more challenging in future years. Ensuring continued investment in REPEX and OPEX to maintain and improve the networks is key to protecting consumers and driving efficiencies in the short to medium term.'
- 3.21 GMO NI said in their response:
- 'The role of gas infrastructure will change and will be more closely linked to the electricity system, with the nature of gases it carries changing to becoming low carbon gases but also it will play a supporting storage and transportation role for the step up in electrification required to achieve net zero, with the energy vectors within our society becoming more closely linked and interchangeable.'

3.22 MEL said in their response:

- 'At a very high level, this call for information is contemplating if and how gas network price controls should change to reflect decarbonisation and anticipated reduction in demand for natural gas. However, as the paper recognises, it is uncertain what the current demand for natural gas will be replaced by and indeed the timing of such demand reduction. ... there isn't a clear pathway towards NI substantially reducing its use of natural gas, certainly within the GT27 price control period.'
- 'The focus of the Cfl is obviously on the impact of reduced gas demand due to decarbonisation but it is important to note that change is likely to be slow, recent gas demand in NI is higher than ever and there are also factors that could continue driving gas demand up.'

3.23 By way of summary, some factors MEL outlined within their response which could impact future gas demand include, new Open Cycle Gas Turbines (OCGT), data centres, the availability of biomethane as a decarbonisation choice for large energy users, renewable electricity storage and potential electrification of heat and heat networks.

3.24 Our view is that without clear policy direction there is little evidence to point towards a significant decline in transmission gas demand throughout GT27. We do, however, agree that demand for natural gas is likely to decline as we decarbonise over time potentially through alternatives to gas in homes and businesses.

3.25 We will work with the TSOs and government to develop evidence and long-term forecasts on future gas demand, considering a whole systems approach that incorporates green gases, scenario planning and an increased role in power generation.

3.26 This is a workstream that we have already begun to fund during the GT22 price control period through the TSO Strategic Network Planning project. However, we recognise that this is just the beginning of the work needed and more interaction between all gas network operators, gas TSOs and the electricity TSOs will be needed on forecasting and planning.

Data and evidence to underpin business plans

3.27 Our price controls rely on robust data. We need to trust the evidence that is provided to us to have confidence that we are making the right regulatory decisions and consumers benefit from good outcomes.

3.28 Good data supports smart future gas network investment decisions to ensure value for money and reduce the risk of stranded assets. From an energy transition perspective, assumptions on forecast data e.g. for heat pump uptake, affect gas as well as electricity future demand assumptions. Data to consider impacts on the gas network from heat decarbonisation, or from linkages to other sectors such as industrial processes and transport, will be important. We also recognise the importance of bottom-up information at a local level e.g. Council Local Area Energy Plans. More coordinated, in depth and robust data will, therefore, be an important enabler.

3.29 MEL points to the importance of good data in informing price control planning and decisions in response to our Cfl:

- '... coordination of planning between gas and electricity TSOs and gas DNOs will deliver outputs that will be valuable to informing future price control decisions. ... The planned approach to developing the Gas Adequacy Statement is for the gas TSOs to align with SONI's All Island Resource Adequacy Statement on electricity assumptions and request a range of forecasts of distribution network demand from DNOs. We would suggest that the outputs of this work should be more appropriate to informing price control deliberations over the ten-year timeframe it covers.'

3.30 Our view is that this work being undertaken by the gas TSOs to develop more integrated and longer-term data sets will provide significant long-term benefits and improved price controls. We welcome that gas TSOs are joining up with our electricity TSO, the System Operator for Northern Ireland (SONI) to develop more common gas data / forecasts and assumptions over a longer time horizon (greater than the current 10-year forecast).

Price control implications

3.31 As we set out above, our Cfl outlined a range of factors that may affect the size and shape of the future gas network and demand for gas, and these are uncertain. Within this context, we need to consider a range of interrelated factors in the GT27 price control, such as:

- Frameworks for future investors. For example, future investment at transmission level may be significant in order to facilitate biomethane or hydrogen blends. This investment will be paid back via transmission charges which make up around 10% of a customer's bill.

- Our vires will affect the extent to which our regulation can deal with issues. We also recognise that supporting innovation relating to the future of the gas network will be important.
- Gathering better data and capturing a greater range of relevant and informed views may support developing a clearer line-of-sight to help set the price controls, as government policies evolve.

3.32 Recognition of these factors is echoed by Consumer Council for Northern Ireland (CCNI) in its response to the Cfl:

- 'Regulatory proposals should provide affordability for today's consumers without creating undue burden on future consumers. That includes assessing how different consumer groups may be affected and what forms of support may be needed to mitigate uneven impacts. ... We expect the UR to require gas network companies to target and clearly justify new investments and to demonstrate value for money.'
- 'The Consumer Council would expect that, as the energy system evolves, any changes to investment models would be aligned with wider policy developments to minimise the risk of future affordability issues or stranded costs. We note that this is an area where ongoing UR scrutiny will be required to protect consumers over the long term.'

3.33 It is in this context that, based on our stakeholder feedback, we see it as important to retain the flexibility within the gas transmission price control to respond to any change to our vires or policy developments within the energy landscape.

3.34 Our view is that much of this flexibility is enabled by existing licence mechanisms for treating uncertain and uncontrollable costs. In the case of MEL, the mutualised model means Northern Ireland gas consumers absorb deviations between forecast and actual operating costs which could result in price volatility. We will work with MEL to manage this risk to consumers through GT27.

4. Our Approach

General approach

- 4.1 In addressing the key areas of this price control, we are mindful of the need to keep the regulatory burden to a minimum while addressing the information asymmetry that exists between UR and the companies. We will adopt and apply several principles to ensure that our approach is proportionate. These principles are:
- A business plan reporting template along with the accompanying instructions will be developed with the assistance of the licence holders. The agreed template will be available from the end of February 2026 and licence holders will have until early June to populate the template (precise dates will to be confirmed at a later date). Any atypical costs and special factors should be identified separately in individual submissions.
 - Areas of high expenditure will receive substantially more scrutiny and analysis than low value items, along with new additional operating expenditure where we shall expect to have presented the net impacts from such increases and any decrements.
 - Benchmarking will be used where appropriate, and a triangulated approach may be adopted to ensure that allowances are efficient and that efficiency targets are reasonable but challenging.
 - Where possible, any allowances set shall be closely aligned to clearly defined outputs and relevant drivers.
 - The price control will be based on a CPIH-X framework, which will incentivise the licence holders to control their costs through the setting of efficiency targets and adjustment of allowances at subsequent price controls. This is a change from previous price controls, and we intend to work with the companies to ensure this is a seamless transition including any licence modifications that maybe necessary.
 - Allowances will not be given for profit margins to any affiliated business to which contracts have been awarded or will be awarded during the GT27 period.
 - Allowances will not be given for contingency elements within budgets.
- 4.2 We will adopt a light touch approach if:

- There is evidence to show that the licence holder is comparatively efficient.
- Past costs are a strong indicator of future costs.

4.3 We will adopt a more detailed approach if:

- The licence holder is comparatively inefficient.
- Past costs are a weak indicator of future costs.
- Cost lines are increasing and are of a material nature.
- Data is available for more detailed statistical analysis i.e. benchmarking.

4.4 We expect licence holders to provide the data necessary to support a robust assessment of expenditure and outputs. Where there is insufficient data, we will adopt an approach to funding which is prudent but conservative until the company can develop a robust approach based on sound data. We also propose to consider as part of our price control, where relevant and appropriate, best practice relating to other price controls and the adoption of cross-utility approaches, principles and standards of regulation.

4.5 We will continue to ensure that the information we require from the licence holders is proportionate but sufficient to:

- Allow licence holders to communicate their business plans to us in a clear and effective manner.
- Ensure that we can submit the plans to effective and focused scrutiny.

4.6 For GT27 we will:

- Require the licence holders to submit their business plans in the format requested, with sufficient historic information included. We will ask that submissions also include an explanation of the impact of these business plans presented in a way that can be understood by network users.
- Promote the collaborative working already present within the gas industry and seek further alignment between price control submissions and other processes such as the potential evolution of the energy landscape.

- Consider whether further amendments to the format of our price control determination or other regulatory submissions are necessary to ensure clarity and reconciliation between them.
- Use appropriate methods to check and verify key information.

4.7 In support of the drive towards the provision of high-quality robust submissions, we expect the licence holders to:

- Demonstrate that responsibility for the assurance of the data and plans submitted resides at Board level. We are seeking a Board Assurance Statement to the effect that TSO business plan aligns with UR's regulatory principles and approach as set out within this approach document and that the Board Assurance Statement should accompany submission of the business plan.
- Provide reliable driver-based cost information with appropriate explanations of any changes in numbers or circumstances.
- Clearly detail any projects that are being carried over from GT22 into GT27 so that consistency of project scope can be evaluated.
- Provide any information requested within the timelines specified.
- Be able to demonstrate that all costs are necessary to run an efficient, well-managed business.
- Demonstrate the basis of apportionment of costs shared between group and related parties.

Duration of the price control

4.8 We consider that the appropriate duration of GT27 is five years. It is our intent that this will apply from 1 October 2027 until 30 September 2032 and provides a reasonable balance between the risk to consumers and TSOs of material changes in circumstances over the price control and while providing a framework which promotes network stability.

Single system operator – GMO NI

4.9 GMO NI is not a legal entity, and it does not have a separate licence granted by UR. Consequently, the funding for the activities of system operation must be provided by those licence holders which are a party to the Contractual Joint Venture (CJV).

- 4.10 In setting allowances for GT27, we will review the operation of GMO NI during the GT22 price control period to ensure it has met its objectives and assess the extent of benefits provided to market participants.
- 4.11 We propose to continue with the approach utilised at GT22, provided a review of historic cost information specific to the CJV operation does not uncover significant deviations from allowances granted. That is, to treat the GMO NI as a single entity and to split the associated costs between licence holders.
- 4.12 Parties to the CJV will submit a jointly agreed business plan for the activity of single system operation. However, it is recognised that as the CJV is not a legal entity it is unable to enter into a contract with the supplier of any of the resources necessary to deliver single system operation. Only a licence holder, being a legal entity, can enter into such contracts. The business plan will therefore need to identify which of these contracts / costs each licence holder is responsible for. We would expect that the licence holders would allocate contracts in the most efficient and cost-effective manner.
- 4.13 Our determinations will be made on the basis of this jointly agreed business plan. Each licence holder being allocated a price control allowance in accordance with the pattern of resource contracts set out in the business plan. Each licence holder would then be exposed to the same cost risk mechanism that applies to other categories of controllable operating cost. For GNI (UK) this would be a revenue cap mechanism while for the MEL licence holders an operating cost pass-through mechanism would apply.
- 4.14 Figure 4.1 sets out the steps in the price control process as they relate to the activities of the GMO NI.

Figure 4.1: GMO NI price control process

Price Control Process
Step 1 – UR will issue a business plan cost template. This will cover all TSOs activities with a separate return for CJV costs.
↓
Step 2 – TSOs will discuss what CJV activities are required and the estimated cost of each e.g. rent, staff, IT cost, General Manager (GM) cost etc.
↓
Step 3 – TSOs to decide the split of activities and cost between themselves.
↓

Price Control Process
Step 4 – Companies will submit a joint CJV cost submission at the same time as the main submission. This will include a five-year forecast of total CJV costs split by TSO.
↓
Step 5 – UR will consider the joint cost submission and the efficiency factor (if any) to be applied to the CJV. This may differ from efficiency targets for the rest of the business.
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Step 6 – UR will decide the global allowance for the term of the price control. Revenue for the CJV will be allocated to licensees based on the determined method.
↓
Step 7 – The GM and TSO governing committee will manage the annual CJV budget
↓
Step 8 – The TSOs will be required to submit a report of actual expenditure incurred during the previous gas year in annual RIGS returns.

- 4.15 Only the direct costs of delivering the activity of system operation, such as staff and IT systems, will be treated in this way. General overheads / allocated costs, such as corporate functions, will be included within the licence holders non system operation cost category. This approach has historically been adopted to facilitate the creation of a clear and transparent distinction between GMO NI system operation and other cost categories.
- 4.16 In the normal course of events there are unlikely to be many unforeseen developments that would impose significant costs on the parties to the CJV. However, as outlined in Chapter 3, GT27 will need to be flexible to the significant policy uncertainty and future role of the gas network. In this context we envisage circumstances which could facilitate special consideration. For example, GMO outlined in their Cfl response:
- 'GMO NI has two main areas of work which drive costs – day to day operation (business as usual or “BAU” activities), and change. Uncertainty in the change element has increased with the energy transition, however there are aspects of change which are uncertain for GMO NI outside the energy transition, such as how developments at Interconnection Points or in general related to EU change especially following Brexit. The main costs associated with change activities are around changing the network code and the associated cost of changing functionality of the Delphi IT system. The other driver for additional costs is the change in scope of the BAU activities.'

- 4.17 We are of the view that existing licence conditions are sufficient to accommodate these situations. Any such factors must be unforeseen, outside management control, and will be subject to a materiality threshold where applicable and close UR scrutiny.
- 4.18 We recognise that during the price control period, changing circumstances may require that the allocation of activities and costs between licence holders is realigned. We do not propose to revisit our determination as a consequence of any realignment. It is our initial view would be that any realignment should result in increased cost efficiency, however we recognise that in exceptional cases there may be other valid justifications. We intend to monitor this flexibility closely for inappropriate behaviour and if necessary, take remedial action.

Controllable operating expenditure

- 4.19 The price control seeks to determine an efficient level of costs for controllable operating expenditure. No allowances for capital expenditure will be granted as part of this price control as these are determined by a separate process as set out in the licences of both GNI (UK)² and WTL³. There is no provision for setting capital expenditure allowances in either the PTL or the BGTL licences. For the purposes of this price control capital expenditure is any expenditure that results in an increase in the overall capacity of the network to convey gas.
- 4.20 Much of what in accounting terms might be classified as capital expenditure we consider as being asset replacement, in that it does not increase the capacity of the network but simply replaces obsolete or worn-out assets. We have made specific provision in the business plan and cost reporting templates for such expenditure. Licence holders will be required to identify individual projects under this heading, providing a justification for the project, alternatives considered and, amongst other things, quantify the benefits to consumers relative to the expenditure proposed. As these tend to be periodic bespoke projects, we may seek specialist advice on the validity and cost effectiveness of the projects proposed. We will also be guided by our determinations on such projects from previous price controls.
- 4.21 In determining allowances for the GMO NI, we will be guided by the principle that we are determining allowances for a single CJV and not four separate licence holders.

² GNII (UK) Gas Conveyance Licence Condition 2.2.2 and 2.2.3

³ WTL Gas Conveyance Licence Condition 4.2

- 4.22 For GT27, we will continue to use methodology used in GT22 for determining non-GMO NI allowances for the MEL gas companies. We will determine allowances for each licence holder separately, rather than as a single company as had previously been the case.
- 4.23 For other categories of controllable operating expenditure, one of the objectives of the RIGS is to identify robust cost drivers for broad categories of expenditure. This will allow us to make comparisons between licence holders, against industry standards and over the course of time. We will take the efficient level of costs determined in the previous price control periods together with actual costs from earlier periods as the starting point for future allowances. We will also seek specialist advice where necessary.
- 4.24 As with previous price controls, we believe that engagement between licence holders (specifically between MEL licence holders and GNI (UK)) can deliver additional cost savings, for example, in joint procurement exercises. We will use evidence presented in business plan submissions to investigate whether TSOs have fully exploited these opportunities possible. However, we remain of the view that allowances will not be given for profit margins to any affiliated business to which contracts have been awarded.
- 4.25 The TSOs have voiced in response to our Cfl their views that the uncertain policy context, price volatility due to geopolitical events and uncertainty around the future role of gas necessitates a more considered approach for treating costs and flexibility within GT27.
- 4.26 GNI (UK) said in their response to the Cfl:
- 'Unprecedented levels of price volatility driven by geopolitical conflicts and a global pandemic. This has resulted in significant price inflation, with particularly strong impacts for energy consumers. Whilst affordability and the need to protect consumers is paramount, the regulatory frameworks put forward for GT27 must also allow sufficient flexibility for the network operators to reflect the inflation it experiences when undertaking its required REPEX and OPEX activities.'
- 4.27 GMO NI said in their response:
- 'Given recent pace at which the NI energy transition has been going, there may be more certainty than not for the coming price control period that within its timeframe there may be little change for GMO NI, however if the pace did pick up, there could be a need to potentially request additional allowances in this area.'

- 4.28 Having considered this uncertainty we view that re-opening our determination during the price control period should only be undertaken in exceptional circumstances which can be demonstrated to be unforeseen, outside management control, and of a material financial impact (if actual costs differ from forecast by more than 15%). We are of the view that existing GNI (UK) licence conditions are sufficient to accommodate these situations.
- 4.29 As with GT22, we are of the view that existing MEL licence holder conditions are sufficient to accommodate any cost uncertainty. In the case of MEL, the mutualised model means Northern Ireland gas consumers absorb deviations between forecast and actual operating costs.

Uncontrollable Operating Expenditure

- 4.30 These costs are considered as being outside the control of the licence holder and so are not subject to any incentive mechanism. That is, no allowance is determined for them at the time of the price control, and consumers, rather than the licence holder, bear all cost risk. These are often described as cost pass-through items.
- 4.31 All four transmission licence holders are required to submit estimates of uncontrollable operating expenditure⁴ through existing licence conditions. We are of the view that these existing licence conditions remain effective and the appropriate mechanism for reconciling uncontrollable operating expenditure.

Efficiency Targets

- 4.32 When setting an efficiency target, two effects need to be considered; catch-up to frontier performance and continued movement of the frontier over time.
- Frontier shift describes the efficiency gains resulting from companies in the economy becoming more efficient over time.
 - The move towards the frontier describes the efficiency gains an individual company can achieve through catching-up with the economic frontier.
- 4.33 Several broad approaches are available to any economic regulator to take account of both or either of these effects. Whenever possible regulators

⁴ GNII (UK) Gas Conveyance Licence Condition 2.2.4 (f), WTL Gas Conveyance Licence Condition 4.2 (a)(ii), WTL Gas Conveyance Licence Condition 3.1.6 (b)(i), BGTL Gas Conveyance Licence Condition 3.1.6 (b)(i)

have tended to use both approaches in combination when setting allowances.

- A bottom-up approach to analyse each of the main cost categories to determine what might be considered as an efficient level of costs. In doing so, any atypical circumstances that might impact on costs need to be considered as appropriate.
- A top-down approach to analyse the efficiency gap with a comparator operating at a chosen performance. A variety of statistical approaches are available foremost amongst these is econometric analysis. Again, any atypical circumstances that might impact on costs need to be considered as appropriate.

- 4.34 The bottom-up approach is likely to be our principal tool in assessing business plans and setting allowances at GT27. A top-down approach is likely to be problematic due to a lack of effective comparators. The ownership of three of the four licence holders by MEL raises issues over their independence and their use as independent comparators. In Great Britain there is only one gas transmission company, National Grid, but the size and scope of its operations may render comparisons difficult. In the Republic of Ireland, GNI is an integrated transmission and distribution business with a single licence, which again creates benchmarking problems.
- 4.35 Consistent with GT22, we will not apply a catch-up efficiency challenge to business plan allowances due to the lack of comparable entities for benchmarking purposes. We will, however, use comparisons between the four licence holders to assess cost trends and the reasonableness of business plan forecasts.
- 4.36 We will make a global adjustment to allowances to take account of our assumptions about future frontier shifts. Frontier shift will be assessed at an aggregate level across the four licence holders and the GMO NI, providing consistency in our performance expectations.
- 4.37 In response to our Cfl, GNI (UK) raised the importance of considering the impact of RPEs in GT27.
- 'GNI (UK) believe that the use of Real Price Effects (RPE) as was applied to the Ofgem RIIO3 price controls in GB, and the recent PR6 determination for electricity in ROI represents examples of how risk can be appropriately managed through GT27.'
- 4.38 We will consider the impact of RPEs, the deviation between the Consumer Price Index including Housing (CPIH) measure of inflation and the rate by which licence holders' input prices increase. If our analysis

indicates any material risk to licence holders then we will consider this as a factor in making adjustments to allowances to account for RPEs.

Innovation and incentives

What we do now

- 4.39 At present there is no specific mechanism to encourage innovation as there is within other price controls. However, in GT22 the TSOs were encouraged to include innovations in their business plans that would lead to improved efficiency and/or customer service.
- 4.40 At GT22 there was a clear anticipation for the need for investment to develop projects to meet targets set out in the DfE Energy Strategy. However, due to the infancy of the energy strategy and lack of specific projects put forward by the TSOs the GT22 Final Determination did not grant allowances for costs specifically for energy strategy related activities. In lieu of a price control re-opener, for the duration of GT22 the licence mechanisms currently in place enable the TSOs to request additional costs consideration in the event of unforeseen expenditure for energy strategy related activities.

What we propose

- 4.41 The need for specific innovation funding has been expressed by the TSOs in response to our CfI:
- 4.42 GNI (UK) said in their response:
- '... there are currently no bespoke mechanisms in place to support innovation in the current regulatory regimes for GNI (UK). Whilst the role that innovation and research is expected to play in supporting the energy transition during the next price control period has already been discussed in detail under the section above, GNI (UK) believe that innovation can also play an important role in driving efficiencies in current business as usual activities including through greater digitalisation, assessing the potential to utilise artificial intelligence capabilities, and testing and trialing new technologies which could potentially deliver operational efficiencies, enhance competitiveness, and reduce risk.'
- 4.43 GMO NI said in their response:

- 'There would be merit in ensuring that whatever mechanism is in place for requesting additional allowances (whether existing or something new that UR decides to put in place for the TSOs e.g. similar to the DNOs energy strategy funding) that the process is well defined with definite timelines to ensure that it is as streamlined as possible and does not hold up any key activities in the future.'

4.44 MEL said in their response:

- 'Whilst UR's decision at that time was to set a high bar in terms of evidence required for projects to be considered within the GT22 period, whilst it takes time, we acknowledge that this approach has not been a blocker to projects within the period. ... we can see a need for further innovation as we prepare for renewable gases and there will be a need to move at pace alongside neighbouring jurisdictions ... We would therefore welcome reconsideration of the option of establishing an innovation fund.'

4.45 We agree with MEL's response that the approach to providing funding for projects, through existing licence conditions, does not present a blocker to projects and has worked well throughout GT22.

4.46 From the responses we received to our Cfl and previous engagement with the TSOs, we recognise the importance of innovation in delivering energy transition objectives. As such, we are open to considering the most appropriate mechanisms to achieve this goal comparing these with those used by neighbouring regulators and those used within current UR price controls.

4.47 We will consider introducing an Energy Transition Fund to support innovation which contributes to delivering the DfE Energy Strategy. We are open, in principle, to granting an ex-ante baseline allowance to the TSOs for projects considered to be innovative. The allowances would be based on a bottom up (deliverable by deliverable basis) for energy transition.

4.48 We are also open, in principle, to using an uncertainty type mechanism. For this we consider that the existing approach to licence mechanisms currently in place which enable the TSOs to request additional costs consideration in the event of unforeseen expenditure could be a starting point for energy transition related activities and deliverables, which include innovation.

4.49 However, we recognise more work would be required to explore how this and an ex-ante baseline could be designed and tailored and we recognise the need for the TSOs to demonstrate justification (e.g. eligibility criteria,

quantum of funding within an ex-ante baseline versus uncertainty mechanism, and wider design concerns etc.).

- 4.50 Alternatively, we encourage the TSOs to propose alternative funding mechanisms to best deliver energy transition goals. We also encourage views as to why the current licence conditions mechanisms do not allow for sufficient funding for innovation.
- 4.51 Approval from UR will be required to avail of any fund with evidence and justification for any project submitted by an agreed template, similar to that which is currently in use. The TSOs will be encouraged to work collaboratively and will also be required to submit evidence that they have considered alternative funding methods. We will consider the impact of any projects on consumers, wider stakeholders and any future investment risk in our decision making.
- 4.52 This approval approach is supported in response to our Cfl by the CCNI:
- 'We expect the UR to require gas network companies to target and clearly justify new investments and to demonstrate value for money.'
- 4.53 We are of the view that funding for innovation should be aligned with delivering energy transition goals with measurable outcomes, rather than informing strategy.

Incentives

- 4.54 Responses to our Cfl did not stress the importance of incentive mechanisms for GT27, with the key focus of responses being based on innovation. Therefore, we do not propose any divergence from the incentive mechanisms currently in place from GT22.
- 4.55 One licence holder, GNI (UK), is subject to a standard and straightforward incentive mechanism in the form of a revenue cap. Under this mechanism the licence holder is given an allowed revenue to carry out its duties under the licence. The licence holder is exposed to the cash flow risk associated with deviations between allowed revenue and actual costs. In the case of GNI (UK) this risk is mitigated, to some extent, by two mechanisms:
- The ability to seek allowances for unforeseen operating expenditure.
 - The ability to seek a forecast expenditure review should actual expenditure be greater than 15% above the allowance in any gas year.

- 4.56 In contrast, the other three licence holders (PTL, BGTL and WTL) operate under an operating cost pass-through mechanism whereby gas consumers bear all cost risk in return for an absence of shareholder equity and returns. There are several specific governance arrangements in place to prevent inappropriate behaviour by management against the interests of gas consumers. For example, the gas transmission price control is currently based on a standard RPI-X framework to incentivise the licence holders to control their costs through setting efficiency targets.

Security

- 4.57 Ensuring security of the gas networks, including enhancing physical, cyber resilience and Security of Supply (SoS), will be key priority during the next price control period.
- 4.58 The TSOs stressed the importance of improved cyber security and their enhanced requirements under the Governments 2018 Network and Information System Regulations (NISR)⁵ in response to our Cfl.
- 4.59 GNI (UK) said in their response:
- 'The increased threats of cyber criminals, the risk landscape is changing and new threats which before seemed impossible are now becoming real. We believe ensuring security of the gas networks, including enhancing physical and cyber resilience, should be a priority during the next price control period. A number of energy utilities have suffered cyber security attacks in recent years across Europe, and GNI (UK) will need to ensure that any communications equipment, systems and other devices that it operates which are critical to systems resilience, can withstand any potential cyber threats as they emerge. It will also be important to ensure physical security at sites of critical infrastructure in Northern Ireland such as key Above Ground Installations (AGI) is sufficient in light of any potential increased risks.'
- 4.60 GMO said in their response:
- 'Another area of increased costs falling within the day-to-day BAU operation of GMO NI is associated with the hosting and support of the IT system Delphi. As this is a critical business application and due to TSOs falling under the role of an operator of essential services under the NIS Regulations, the costs and activities associated with mitigating cyber risk has only increased.'

5 The Network and Information Systems Regulations 2018

4.61 MEL said in their response:

- 'With reference to IT security, we would anticipate requests for funding to be made in the traditional manner but, given the speed of change and security challenges in this area, can also see a need for innovation funding to enable timely reaction to developments.'

4.62 Ensuring the TSOs are adequately equipped to meet requirements to detect and mitigate any risk to network infrastructure and to allow for its safe operation, foreseen costs for security should continue to be included within their business plan submissions as per previous price controls.

4.63 We consider plans for cybersecurity should be an integral part of the company's plans for monitoring, control and data acquisition. The company should set out its plans for further cybersecurity monitoring, control and data acquisition and identify any particular costs which are not inherent in the technology, software and systems the company plans to acquire and implement.

4.64 To allow for more flexibility alongside allowing for the wider range of security needs to be met if there are unforeseen or costs increase, we propose to use existing licence conditions that allow for the recovery of unforeseen operating expenditure or an uplift in the companies controllable opex on an annual basis.

Whole System Approach

4.65 From the responses to our Cfl and the engagement we have had with all gas network companies, we note the importance of a whole system approach to aligned scenario planning and system pathways to better inform future price controls.

4.66 MEL outlined in their response:

- '... coordination of planning between gas and electricity TSOs and gas DNOs will deliver outputs that will be valuable to informing future price control decisions. ... The planned approach to developing the GAS is for the gas TSOs to align with SONI's AIRAA on electricity assumptions and request a range of forecasts of distribution network demand from DNOs. We would suggest that the outputs of this work should be more appropriate to informing price control deliberations over the ten-year timeframe it covers.'

4.67 Regulators are taking a more active role in considering how best to integrate planning scenarios across TSOs (both gas and electricity) to help encourage better business plans and manage uncertainty. We see the importance in the planning scenarios being developed by network TSOs.

This whole system approach will help inform future regulatory decisions, price controls and encourage long-term, flexible, whole system planning and alignment with DfE's decarbonisation goals.

- 4.68 This is a workstream that we have already begun to fund during the GT22 price control period through the TSO Strategic Network Planning project. However, we recognise that this is just the beginning of the work needed and more interaction between all gas TSOs and the electricity TSOs will be needed on forecasting and planning.
- 4.69 Existing conditions within each TSO licence have been used to facilitate energy strategy funding applications. As part of the process of setting the next price control (GT27), it is our intention that projects relating to this work will be captured through any proposed Energy Transition Fund and be subject to same review/approval process. We believe this has worked well during GT22 and encouraged collaboration with all stakeholders.

Price control outputs

- 4.70 The principal objective of GT27 will be to determine, for each licence holder, a robust controllable operating expenditure allowance and, where applicable, a robust weighted average cost of capital. In addition, our objective is to produce reliable estimates of uncontrollable operating expenditure such that a forecast of Postalised Required Revenues for each year of the price control period can be calculated.
- 4.71 Table 3.1 sets out how we might present the output from the price control process for each licence holder:

Table 4.1: Price control output presentation

Price Control Item	Status	Real Value***
Controllable Operating Expenditure (non-GMO NI)	Determined / Fixed	£X m
Controllable Operating Expenditure (GMO NI)	Determined / Fixed	£X m
Controllable Operating Expenditure (Total)	Determined / Fixed	£X m
Efficiency Target	Determined / Fixed	X %
Efficient Controllable Operating Expenditure	Determined / Fixed	£X m
Uncontrollable Operating Expenditure	Forecast / Variable	£X m
Weighted Average Cost of Capital*	Determined / Fixed	X %
Capital Allowance	Determined / Fixed**	£X m
Total Allowed Revenue	Forecast / Variable	£X m

*GNI (UK) only

**GNI (UK) only – this value will vary from year to year due to the financial model adjusting for a number of factors including tax rates and under / over recoveries.

N.B. Anticipated price base of March 2026 for all allowances.

RPI to CPIH change

- 4.72 The values, revenues, prices or costs agreed as part of a price control determination must remain relevant for the whole of that price control. To achieve this, inflation indices are applied, and future costs and revenues are adjusted to reflect actual inflation.
- 4.73 The Retail Price Index (RPI) is scheduled to be phased out by 2030. The UK Statistics Authority and the Treasury have decided that the RPI will be calculated using the methods and data of the CPIH from February 2030. This date falls in the middle of GT27.
- 4.74 GT22 and previous gas transmission price controls use the RPI to address inflation in the determination of tariffs and regulated asset value. However, as above, RPI is no longer recognised as a national statistic and the use of CPIH will replace this.
- 4.75 With this taken into consideration, and assuming that the transition to CPIH causes the companies no adverse financial consequences, we intend to move the treatment of inflation for GT27 from RPI to CPIH and we will work with the TSOs to ensure this is the correct application to the price control, any necessary licence modifications and a smooth transition.

Remuneration and risk

- 4.76 The treatment of this component of the price control determination is not consistent across the licence holders. In the case of MEL licence holders, it will be entirely absent from the determination. These entities financed the purchase and construction of their regulated assets through issuance of long maturity bonds. The schedule of bond payments has been previously accepted by UR and these payments, known as the Fixed Amounts⁶, are included in the calculation of annual allowed revenue without adjustment.
- 4.77 Our current approach to setting the weighted average cost of capital for GNI (UK) is through:
- Use of a standard CAPM (Capital Asset Pricing Model) methodology for assessing a suitable rate of return for the Gas Transmission Networks.

⁶ PTL and BGTL Gas Conveyance Licence Condition 3.1.4, WTL Gas Conveyance Licence Condition 6.5.1

- Use of all available similar regulatory settlements to benchmark appropriate rates.
- 4.78 The objective of an economic regulator is to set a rate of return that reflects the cost of capital, both debt and equity, that the markets will bear given the level of risk associated with the business. It is important that we properly assess the level of risk associated with the licensed activity.
- 4.79 A key issue raised by GNI (UK) in response to our Cfl is the paydown of the Northwest and South-North pipelines (in 2029 and 2031, respectively) which will transpire throughout GT27:
- 'The next Gas Transmission price control period (GT27) marks a key milestone for the GNI (UK) business, with the revenue recovery period for the Northwest pipeline set to end on 30 September 2029. Under the current regulatory framework approach, this would impact on the viability of the GNI (UK) business model and it is imperative that a review takes place of the overarching approach to the regulatory framework model, and a decision is made on an enduring model which is more appropriate for utilities with a limited regulatory asset base.'

Current licence conditions

- 4.80 GNI (UK)s current licence makes provisions under Condition 2.2.8⁷ as to the process of allowed revenues after the revenue recovery period is over (25 years after pipeline commissioning).
- 4.81 2.2.8 Allowed revenue after expiry of Revenue Recovery Period:
- a) a) Not less than twelve (12) months prior to the expiry of the Revenue Recovery Period the Licensee shall submit to the Authority:
 - (i) a proposal as to the formula to be used for calculation of conveyance charges following the end of the Revenue Recovery Period; and
 - (ii) a forecast of the amount of such charges for the five years following expiry of the Revenue Recovery Period;

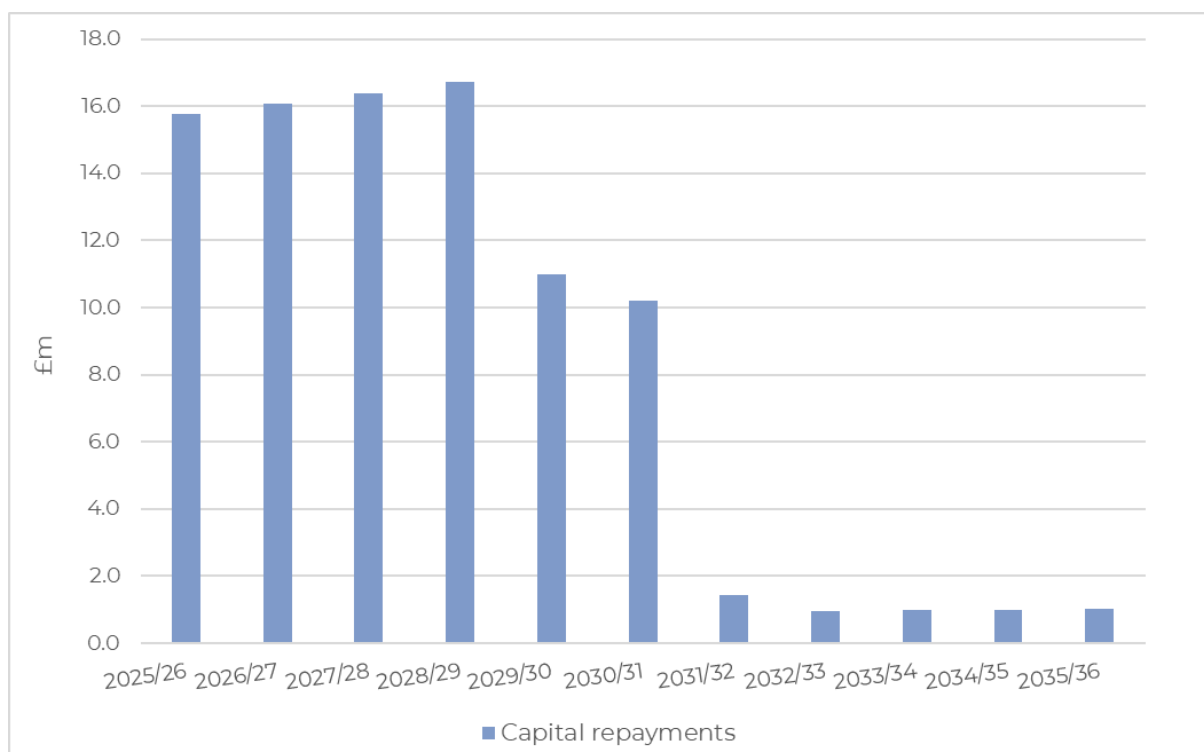
⁷ GNI (UK) Licence for the conveyance of gas in Northern Ireland (link)

- b) (b) The Licensee shall provide such further information or explanation and documents and records as the Authority reasonably requires for the purpose of verifying that the formula and forecasts submitted to it by the Licensee in accordance with Condition 2.2.8 (a) comply with the principles set out in Condition 2.2.8 (d).
- 4.82 2.2.17 Maintenance of the Economic Network:
 - (i) The Licensee shall maintain in good order the Economic Network throughout the Revenue Recovery Period.
 - (ii) The Licensee will continue to maintain the Economic Network post the Revenue Recovery Period throughout its operational life, being not less than 60 Gas Years from the respective First Operational Commencement Date subject to Conditions 2.2.8(d) (i) and (ii).
- 4.83 GNI (UK)s licence sets out clearly the framework for revenue recovery and maintaining the network post revenue recovery period. We view these licence conditions as a starting point for our engagement with GNI (UK) on any approach to future financial frameworks.

Approach to future financial frameworks

- 4.84 We identify this as a priority workstream for GT27, and we intend to engage extensively with GNI (UK) to find the most appropriate regulatory framework to accommodate a business with a limited regulatory asset base.
- 4.85 We will collaborate on future financial frameworks with GNI (UK), including exploring alternative approaches to providing remuneration for risk that are used by neighbouring regulators, and within current UR price controls.
- 4.86 We set out in Figure 4.1 (overleaf) the forecast capital repayments remaining for GNI (UK). From this analysis the impact of the paydown of the North West and South North pipelines in 2029 and 2031 respectively can be seen.
- 4.87 The analysis does not take into account any future capital investment which may materialise as a result of government policy, for example to support the introduction of biomethane and hydrogen blends.

Figure 4.1: GNI (UK) forecast capital repayments (£m)



Nominal capital repayments taken from GNI (UK) capital repayments model 2024-2025

- 4.88 For the MEL licence holders (PTL, BGTL and WTL), rate of return on capital is excluded from the price control review process. These licence holders are entirely funded by debt finance in the form of long-term bonds. The repayments on these bonds including principal and interest will be made in accordance with a predetermined schedule that has been previously agreed by UR. There is therefore no provision in either of these licences to review the rate of return.

Business Plan Assessments

- 4.89 One of our aims for GT27 is that the TSOs should continue to produce high quality, and well evidenced business plans which can be accepted following limited scrutiny.
- 4.90 As with GT22, we intend that these should be structured around key themes which are set out below:
- Service contribution to good outcomes
 - Services and costs
 - Trust in delivery
 - Transition to net zero

- 4.91 The themes will be discussed further with TSOs and then we will provide transparent guidance on our expectations for the Business Plan submissions including a list of test questions aligned to these test areas. This will reflect the business context. We will engage with the TSOs on our information requirements, including guidance on the potential features of an exceptional plan, before finalising in line with the Business Plan Templates.
- 4.92 We will ask that TSOs complete a self-assessment of their Business Plan submissions. This should include:
- A statement setting out how the TSOs have approached delivering an exceptional Business Plan in line with the four key theme areas.
 - A reference to the key documentation in the Business Plan which provides the supporting evidence to these statements.
- 4.93 When we receive the TSOs' business plans we will assess how each has performed against each theme and provide feedback to the company of our assessment of its business plan. This categorisation will be built up from an assessment of each of the responses to the questions. It is not our intention to publish this detailed assessment but engage with each individual company on the areas where improvement can be made for future submissions.
- 4.94 TSOs' business role, services and activities should be well aligned with the interests of customers, consumers, other stakeholders and the wider energy system. We feel that this assessment when coupled with our framework and other expectations/guidance on business plans:
- allows TSOs to take ownership of its plan. It should also be answerable to stakeholders for what follows from it.
 - clarifies that lesser regulatory intervention can be expected in the TSO's business plan if it is of higher quality.
 - gives TSOs greater opportunity to shape their role over the price control period, the activities and level of service that are funded through the price control, and aspects of the regulatory framework.
 - clarifies that there will be a higher degree of trust in TSOs if its business plan is of higher quality.
- 4.95 A high-level view of our findings as part of this process will be provided within the draft determination.

5. Stakeholder Engagement and Social Impact

Approach to stakeholder engagement

- 5.1 During the GT27 price control process, we will respectively engage with all key stakeholders. This will allow us to take full account of stakeholders' views in making a final determination.
- 5.2 Unlike previous price controls, we have already begun this process through working groups with the TSOs and the Cfl on the future of gas transmission price controls in Northern Ireland.
- 5.3 It is our intention to assist stakeholders in achieving a better understanding of our determination and the rationale behind our decisions. We will do this primarily through public consultations and workshops.
- 5.4 In recognition of their statutory role, we will engage with CCNI. While this will be the principal means of engagement with gas consumers, we also intend to engage with representatives of major energy users through their representative bodies.

Consumer impact

- 5.5 Transmission network costs account for a relatively small component of the final consumer's gas bill. For larger consumers the importance of transmission network costs increases. The biggest component of any consumers bill, the wholesale gas price, is rightly set by market conditions rather than by regulation. Despite this however, we feel it is important that we analyse the impact of our decisions on a range of indicative customer groups including domestic consumers and power generators.
- 5.6 In response to our Cfl, CCNI said:
 - '... consumer engagement is essential, not only to gather views on what matters to them, but also to ensure regulation delivers efficient, value-for-money services that reflect consumers' evolving needs.'
- 5.7 To ensure we can successfully facilitate a Just transition and adequately protect consumers on the path to net zero we will diligently consider any decisions we make from our approach through the lens of what impact these decisions may have on customers, consumers and wider stakeholders.

Environmental impact and decarbonisation

- 5.8 GT27 will be developed in parallel with current Energy Strategy for Northern Ireland as published by the DfE. This strategy is designed to enable new and challenging decarbonisation targets, such as carbon budgets, which move towards a net zero target by 2050.
- 5.9 Options to decarbonise gas such as biomethane and hydrogen may become viable at scale. In the meantime, the supply of natural gas will be necessary until alternatives available.
- 5.10 We recognise the interest of TSOs in gaining greater certainty over the implications of the Energy Strategy on their operations, and in particular the availability of financing to implement changes to their networks that will be necessary to meet the Strategy's targets.
- 5.11 We will liaise with the transmission operators on developments in areas relevant to the Energy Strategy as we progress towards a Final Determination. This stems from the UK Government's Net Zero target and we will refine emissions reporting and environmental impact as part of the accountable RIGs process.
- 5.12 UR warmly welcomes the views of the TSOs and other stakeholders. We look forward to working collaboratively with them. Their insights and expertise are vital as we progress towards the shared ambition of delivering the DfE Energy Strategy. Together, we can maintain a secure, safe, sustainable, and affordable energy future.

6. Consultation Feedback

- 6.1 This is an open consultation. We have not posed any specific questions in this paper. Instead, we invite stakeholders to express a view on any aspect of this paper. Responses should be received by Monday TBC and should be addressed to:

Table 6.1: Response details

Details
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Utility Regulator
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- 6.2 Our preference would be for responses to be submitted by e-mail.
- 6.3 Individual respondents may ask for their responses in whole or in part, not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, we will ask respondents to also supply us with the redacted version of the response that can be published.
- 6.4 As a public body and non-ministerial government department, the UR is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this and in particular, if asking the UR to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.

Next steps

- 6.5 We have set out the key milestones in delivering the GT27 price control below.

Table 6.2: GT27 indicative timelines

GT27 Milestone	Timeline
GT27 Approach Document consultation opens	w/c 3 November 2025
GT27 Approach Document consultation ends	w/c 5 January 2026
GT27 Approach Document published	w/c 23 February 2026
Business Plan Reporting Template published	w/c 23 February 2026
TSO Business Plan submission deadline	w/c 8 June 2026
GT27 Draft Determination consultation opens	w/c 23 November 2026
GT27 Draft Determination consultation ends	w/c 25 January 2027
GT27 Final Determination published	w/c 29 March 2027
Postalised tariff setting for 2027/28 gas year	31 May 2027
Licence modifications (if required)	June/July 2027
GT27 Price Control takes effect	1 October 2027