

**PRICE CONTROL  
FOR  
NORTHERN  
IRELAND'S GAS  
TRANSMISSION  
NETWORKS GT27**

**Approach Decision  
26 February 2026**

[www.uregni.gov.uk](http://www.uregni.gov.uk)

**Utility  
Regulator** 

## 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.

**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 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

<b>1.</b>	<b>Introduction.....</b>	<b>6</b>
	Purpose of the document.....	6
<b>2.</b>	<b>Key Features of the Gas Transmission Price Controls....</b>	<b>7</b>
	Operating expenditure.....	7
	Capital expenditure .....	7
	Remuneration and risk.....	8
	Setting costs and treating uncertain costs.....	9
	Single system operation - GMO NI.....	9
	Regulatory Instructions and Guidance .....	10
	Summary of price control allowances.....	10
<b>3.</b>	<b>Strategic Context for GT27 .....</b>	<b>12</b>
	Call for Information .....	12
<b>4.</b>	<b>Our Approach.....</b>	<b>16</b>
	Duration of the price control .....	17
	Business plan reporting .....	17
	Business plan assessments.....	19
	Implications of GT22 delivery for the GT27 price control.....	21
	Single system operator – GMO NI.....	21
	Treatment of capital expenditure.....	24
	Controllable operating expenditure.....	26
	Uncontrollable operating expenditure.....	28
	Innovation and supporting the energy transition.....	28
	Incentives.....	31
	Whole system approach.....	32
	Security.....	33
	Efficiency Targets .....	35
	Real price effects (RPEs) .....	36
	RPI to CPIH change .....	36
	Profit margins and contingencies.....	38
	Cost of capital and balance of risk and return.....	39
<b>5.</b>	<b>Stakeholder Engagement, Social and Environmental Impact.....</b>	<b>46</b>
	Approach to stakeholder engagement .....	46
	Consumer impact.....	46

Environmental impact and decarbonisation .....	47
<b>6. GT27 timetable.....</b>	<b>49</b>

## Supporting documents

Annex	Description
Annex A	GT27 Business Plan Reporting Requirements
Annex B	GT27 Business Plan Assessment Guidance
Annex C	GT27 Business Plan Reporting Template
-	GT27 Business Plan Overarching Guidance
-	CCNI Response to GT27 Approach Consultation
-	GMO Response to GT27 Approach Consultation
-	GNI (UK) Response to GT27 Approach Consultation
-	MEL Response to GT27 Approach Consultation

# 1. Introduction

## Purpose of the document

1.1 The purpose of this document is to set out 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:

Chapter 1 Introduces the approach document.

Chapter 2 Provides information on key features relevant to this price control.

Chapter 3 Sets out the strategic context for the GT27 price control.

Chapter 4 Sets out the approach we intend to adopt in assessing the constituent parts of TSOs business plans.

Chapter 5 Details our approach to stakeholder engagement.

1.3 Responses to the GT27 Approach Consultation are in the accompanying annexes.

## 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 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 that enhances network capacity. 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.

- 2.7 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 at the end of the asset's useful life or functionality. Allowances for replacement expenditure (repex) are recovered via annual revenue and not through the established depreciation (including rate of return) schedule used in normal price control practice.

## Remuneration and risk

- 2.8 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 (CfI) on the Future of Gas Transmission and Distribution Price Controls is the paydown of the North West and South North pipelines (in 2029 and 2031, respectively) which will transpire throughout GT27.
- 2.9 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).
- 2.10 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 considering whether the issue requires resolution at the outset set of GT27 and the possibility of identifying alternative approaches to providing remuneration for risks that are used by neighbouring regulators, and within current UR price controls.
- 2.11 GNI (UK)'s current licence makes provisions under Condition 2.2.8<sup>1</sup> 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.
- 2.12 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 the principal and interest will be made in accordance

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<sup>1</sup> LICENCE FOR THE CONVEYANCE OF GAS IN NORTHERN IRELAND

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.

- 2.13 Our approach to establishing a rate of return is set out in Chapter 4.

### **Setting costs and treating uncertain costs**

- 2.14 Where we can make reasonable estimates of the efficient levels of costs over the price control period, we can set an ex-ante allowance. The ex-ante cost assessment forms part of the price control frameworks and determines how much the TSOs can charge for their services.
- 2.15 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.
- 2.16 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 gas network infrastructure companies in 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.
- 2.17 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.
- 2.18 Our approach to setting costs and the treatment of uncertain costs is set out in Chapter 4.

### **Single system operation - GMO NI**

- 2.19 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.
- 2.20 Our approach to establishing an allowance for activities related to single system operation is set out in Chapter 4.

## Regulatory Instructions and Guidance

- 2.21 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) have been 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.
- 2.22 We still consider that it is appropriate at GT27, to ask that MEL licence holders provide separately completed returns of the business plan template.
- 2.23 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.
- 2.24 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.
- 2.25 Our approach is set out in Chapter 4.

## Summary of price control allowances

- 2.26 As highlighted above, there is some variation across the TSOs in terms of the basis on which price control allowances are to be determined and the scope of allowances that need to be determined for each TSO. The table below summarises the set of price control allowances that will and will not be determined at this price control review as set out in the individual licences.

**Table 2.1: Price control allowances 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		
Replacement expenditure (repex)	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 the GT27 Approach Consultation, we issued a Cfl on Future Gas Distribution and Transmission Price Controls in Northern Ireland.
- 3.2 The intent of this Cfl 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 Cfl 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 Cfl in the GT27 Approach Consultation where relevant to GT27.
- 3.6 The outworkings have helped to 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 Cfl we explained that it is unlikely that UR's 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 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.

- 3.9 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.

### **Factors shaping gas demand**

- 3.10 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.
- 3.11 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 natural gas in homes and businesses.
- 3.12 We will work with the TSOs and Government to develop evidence and long-term forecasts of future gas demand, considering a whole systems approach that incorporates green gases, scenario planning and an increased role in power generation.
- 3.13 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**

- 3.14 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.
- 3.15 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 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.

- 3.16 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

- 3.17 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. Throughout the GT27 price control period we will require the TSOs to deliver on the Strategic Network Planning project, including key gas demand outlooks.

- 3.18 Based on our stakeholder feedback, we see it as important to retain the flexibility within the gas transmission price control to respond to any changes to our vires or policy developments within the energy landscape.

- 3.19 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

4.1 Our approach to GT27 has been set out in detail in chapter 4. This chapter is made up of the following sub-sections:

- (i) Duration of price control
- (ii) Business plan reporting
- (iii) Business plan assessment
- (iv) Implications of GT22 delivery for the GT27 price control
- (v) Single system operator - GMO NI
- (vi) Treatment of capital expenditure
- (vii) Controllable operational expenditure
- (viii) Uncontrollable operating expenditure
- (ix) Innovation and supporting the energy transition
- (x) Incentives
- (xi) Whole system approach
- (xii) Security
- (xiii) Efficiency targets
- (xiv) Real price effects
- (xv) RPI to CPIH change
- (xvi) Price control key variables
- (xvii) Profit margins and contingencies
- (xviii) Cost of capital and balance of risk and return

## Duration of the price control

- 4.2 Stakeholders did not provide any comment on the duration of the GT27 price control in response to our Approach Consultation. We consider that the appropriate duration of GT27 is five years. 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.

## Business plan reporting

- 4.3 We will issue the TSOs with a Business Plan Reporting Template (BPRT) to submit historic and forecast data. The relevant reporting year for the provision of information runs from 1 October to 30 September of the following calendar year. For example, a reporting year for the gas year 2026-27 means the year ended on 30 September 2027. This convention applies throughout the BPRTs. We have developed a series of guidance documents and supporting material to enable the TSOs to complete the BPRTs accurately.
- 4.4 The BPRTs have remained consistent with those developed for GT22. We have taken this approach at the request of the TSOs to ease completion and alignment with TSO internal processes established during GT22. Some new cost items have been included to reflect network planning and energy transition work.
- 4.5 In their response to the GT27 Approach Consultation, MEL highlights resourcing constraints caused by tight timelines and year end audit pressures, emphasising the critical importance of timely publication of templates and guidance said.
- 'The group has adopted a lean staffing structure.'
  - 'It therefore is essential that there are no delays on the publication of the templates and guidance.'
- 4.6 Being cognisant of this, we will adopt and apply several principles to ensure that our approach is proportionate. These principles are:
- The BPRT will be available from the end of February 2026 and licence holders will have until early June to populate the template, dates are confirmed in Table 6.1: GT27 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 RPI-X approach in GT22, and we intend to work with the companies to ensure this is a seamless transition including any licence modifications that maybe necessary.

4.7 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.

4.8 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.

4.9 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 will 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.

4.10 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.

4.11 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 stakeholders.
- 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.
- Provide reliable driver-based cost information with appropriate explanations of any changes in numbers or circumstances.

4.12 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 the 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.

4.13 CCNI said in their response to the GT27 Approach Consultation.

- 'We welcome the requirement for a Board Assurance Statement, which brings the price control in line with the process in GB.'

## **Business plan assessments**

4.14 One of our aims for GT27 is that the TSOs should produce high quality, and well evidenced business plans which can be accepted following limited scrutiny.

- 4.15 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
- 4.16 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.
- 4.17 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.
- 4.18 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.
- 4.19 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.

4.20 A high-level view of our findings as part of this process will be provided within the draft determination.

### **Implications of GT22 delivery for the GT27 price control**

4.21 CCNI noted that clarity was needed on treatment of projects carried over from GT22.

- 'The Consumer Council would expect to see clarity on how the costs of projects being carried over from GT22 to GT27 are to be treated. It is important that consumers are not expected to pay for expenditure when an allowance has previously been made. Where there are changes in scope, these should be justified, and any cost implications shown to be efficient.'

4.22 We agree with CCNI's response and do not intend to grant further allowances for project cost which were granted in GT22. Our intention is to scrutinise any projects which were not delivered from the GT22 package and evaluate the reasons for failure to do so.

4.23 TSOs are required to:

- Provide assurance that customers are not being asked to pay twice for activities, efficiencies and outputs that have been funded during past price control periods.
- 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.

### **Single system operator – GMO NI**

4.24 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).

- 4.25 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.
- 4.26 We will 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.
- 4.27 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.
- 4.28 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.
- 4.29 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.
↓
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.
↓
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.

- 4.30 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.
- 4.31 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.

4.32 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 will incur close UR scrutiny. GMO NI have reiterated their response from the Cfl in their response to the GT27 Approach Consultation.

- 'As outlined in the GMO NI previous consultation response in 2025, change related work for GMO NI is mainly associated with functional change of the network code, and the IT system Delphi. This can be driven by external legislation, improvements required to the market/processes or the need to accommodate general market change. Such changes can be energy transition related or otherwise, and not necessarily unforeseen but rather the scope is unclear'

4.33 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 view 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.

## **Treatment of capital expenditure**

4.34 There are two broad types of capital expenditure for the TSOs:

- (i) capital expenditure that results in an increase on the overall capacity of the network to convey gas.
- (ii) capital expenditure that involves replacement, refurbishment or maintenance of existing assets which we refer to as replacement expenditure (repex).

4.35 Capital expenditure allowances are addressed through existing licence conditions for both GNI (UK)<sup>2</sup> and WTL<sup>3</sup>. The current licences for PTL and BGTL do not contain provisions for setting capital expenditure allowances.

4.36 In our approach to GT27 we have not identified a need to amend this process. Based on current information, and consideration of future

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<sup>2</sup> GNII (UK) Gas Conveyance Licence Condition 2.2.2 and 2.2.3

<sup>3</sup> WTL Gas Conveyance Licence Condition 4.2

scenarios we do not see a need to set ex-ante allowances for capacity increases at the GT27 price control review.

- 4.37 For repex activities we have made specific provision in the business plan and cost reporting templates.
- 4.38 Licence holders will be required to identify individual projects under this heading, providing a justification for the project, alternatives considered and, amongst other things:
- (i) quantify the benefits to consumers relative to the expenditure proposed.
  - (ii) Propose commitments to ensure consumers are protected from any risks relating to deferral of repex activities or failure to manage asset health risks effectively.
  - (iii) Consider options for asset replacement and maintenance that take account of uncertainty over the future role of gas.
- 4.39 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.
- 4.40 MEL have noted that future developments such as meeting peak demand, hydrogen blending, biomethane integration, and security of supply may require capital expenditure, even though the current GT27 framework does not provide for this.
- 'While the need for capital expenditure will be informed by network planning and developments on the power system, we anticipate that meeting peak gas demands in future may well require investment that increases the capacity of the network (e.g. compression) and so this may need to be addressed in the future. Developments in the gas networks, such as reverse compression to facilitate biomethane, could also result in an increase in overall capacity of the network to convey gas and the requirement for capital expenditure. Capital expenditure could also be required to address security of supply concerns.
- 4.41 Any future requirement for capital expenditure associated with biomethane integration, including reverse compression or other technical measures, will depend on the direction of Government policy. Under GT27, we currently do not envisage the need for capital investment to expand transmission network capacity. If policy developments indicate otherwise, we will engage with DfE and the TSOs to consider suitable options for addressing any emerging investment requirements.

## Controllable operating expenditure

- 4.42 The price control seeks to determine an efficient level of costs for controllable operating expenditure for GNI (UK), MEL and GMO (NI). 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.
- 4.43 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.
- 4.44 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.
- 4.45 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 possible opportunities.
- 4.46 The TSOs have voiced in response to the GT27 Approach Consultation their views that the uncertain policy context and on the future role of gas necessitates a more considered approach for treating costs and flexibility within GT27.
- 4.47 MEL said in their response.
- 'There will inevitably be a number of workstreams, studies, projects and mitigation works arising throughout the price control period which will be unforeseen, or for which we will not have sufficient certainty on the need, scope or expected costs at the time of submission to be able to accurately forecast these. A mechanism to deal with such costs, which is not limited to unforeseen costs, during GT27 is therefore considered essential.'
- 4.48 GMO NI said in their response.

- 'Change related work for GMO NI is mainly associated with functional change of the network code, and the IT system Delphi. This can be driven by external legislation, improvements required to the market/processes or the need to accommodate general market change. Such changes can be energy transition related or otherwise, and not necessarily unforeseen but rather the scope is unclear.'
- 4.49 We see activities relating to the energy transition as a key area of uncertainty for GT27 and therefore there is particular value in establishing a mechanism that provides flexibility to respond to emerging policy decisions. However, we are limited to acting within Government policy and our statutory duties.
- 4.50 We have set out in our approach to innovation and supporting the energy transition our plans to develop a new uncertainty mechanism for energy transition. We propose granting an ex-ante allowance for prioritised known projects to facilitate the energy transition. We will also develop an uncertainty mechanism to retain flexibility during the price control period to respond to emerging policy direction.
- 4.51 Outside issues relating to the energy transition we retain the 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.
- 4.52 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.
- 4.53 CCNI supports ex ante allowances for predictable costs and limited reopeners for exceptional circumstances.
- 'The Consumer Council supports the proposed approach of setting ex ante allowances where costs are certain and basing the allowances on a bottom-up review and assessment of efficiency gaps. We support the limited reopener opportunities relating to controllable opex/replex to exceptional circumstances, as that provides more certainty on pricing to consumers.'

## Uncontrollable operating expenditure

- 4.54 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.
- 4.55 All four transmission licence holders are required to submit estimates of uncontrollable operating expenditure<sup>4</sup> 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.
- 4.56 In response to our Approach Consultation CCNI commented:
- 'We encourage the UR to review the transmission companies' uncontrollable costs to check that their procurement is efficient and that their aim is to minimise the impact on consumers. '
- 4.57 We agree with CCNI on this and will require the TSOs to submit well evidenced costs and provide assurances to UR that appropriate mitigating action has been taken to ensure costs to consumers are efficient.

## Innovation and supporting the energy transition

### What we do now

- 4.58 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.
- 4.59 At GT22 there was a clear anticipation for the need for investment to develop projects to meet targets set out in the Northern Ireland Energy Strategy, as published by the Department for the Economy (DfE). 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

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<sup>4</sup> 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)

additional costs consideration in the event of unforeseen expenditure for Energy Strategy related activities.

### Stakeholder views on innovation and the energy transition

- 4.60 The need for specific innovation funding has been expressed by the TSOs in response to our CfI and in their response to the GT27 Approach Consultation mainly to support delivery of the energy transition.
- 4.61 GNI (UK) stated the need for a flexible and pragmatic regulatory framework that incentivises innovation to support the energy transition while maintaining network viability and consumer affordability.
- 'Despite the challenges posed by legislative constraints and uncertainty around future decarbonisation policy, GNI (UK) welcomes UR's call for a pragmatic and flexible approach to supporting the energy transition while ensuring the safe and efficient operation of the gas networks.'
- 4.62 MEL have highlighted challenges with the current use of unforeseen expenditure process used to date to fund Energy Strategy projects.
- 'The Energy Strategy Unforeseen Expenditure process used to date, while suitable as a workaround for smaller studies under GT22, requires significant resourcing and time on both the part of MEL and the UR to secure necessary approvals, and would be too unwieldy for potential multiple submissions under a large-scale project, while being disproportionate to the incurred spend for smaller pieces of work.'
- 4.63 MEL requests a more flexible and pragmatic funding mechanism for energy transition projects, noting that many costs will be uncertain or emergent during the price control period and they find existing mechanisms overly burdensome:
- 'We would welcome a proactive and pragmatic approach to energy transition projects and framework delivery funding... A mechanism to deal with such costs, which is not limited to unforeseen costs, during GT27 is therefore considered essential.'
  - ' There will inevitably be a number of workstreams... which will be unforeseen, or for which we will not have sufficient certainty on the need, scope or expected costs.'
  - 'We recommend a lighter touch approach ... and a more pragmatic approach is adopted for larger pieces of work.'

- 4.64 MEL highlights the importance of hydrogen readiness and stresses that Northern Ireland's pace of change will likely be driven by Great Britain's hydrogen policies rather than local decisions. It warns that preparations for hydrogen blending will require significant funding during GT27.
- 'The required pace of work on hydrogen blends is likely to be driven instead by GB's hydrogen policy, which is significantly ahead of NI.'
  - 'There will be a need for UR to allow funding to prepare the Northern Irish gas network to accept blends within GT27.'
  - 'The extent of the work required ... is significant and should not be underestimated.'
- 4.65 GNI (UK) expects that major investments like hydrogen repurposing are unlikely during GT27 but advocates for supporting early low-risk activities to advance the transition without significantly impacting consumers.
- 4.66 GMO NI suggests refining the process for applying and approving additional funds outside the normal price control to make it proportional and timely.
- 'We would suggest that the process for application and approval of additional monies outside of the normal price control process should be refined to ensure the work on both sides... is proportional to the magnitude of the request.'
- 4.67 From these responses and previous engagement with the TSOs, we recognise the importance of innovation in delivering energy transition objectives.
- 4.68 While we must operate within Government policy and our statutory duties, we are open to considering funding mechanisms to provide allowances for projects that align with the DfE's Energy Strategy and UR's vires.

### **What we propose - supporting the energy transition**

- 4.69 We propose granting an ex-ante allowance for prioritised known projects to facilitate the energy transition. We will also develop an uncertainty mechanism to retain flexibility during the price control period to respond to emerging policy direction.
- 4.70 However, we recognise more work will be required to explore how this and an ex-ante allowance could be designed and tailored and we recognise the need for the TSOs to demonstrate justification (e.g. eligibility criteria, alignment with DfE's energy policy, quantum of funding within an ex-ante baseline, and wider design concerns etc.). We will also

assess the benefit of implementing any uncertainty mechanism for energy transition projects against continued use of the licence conditions currently in place.

- 4.71 Approval from UR will be required to avail of any mechanism 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.
- 4.72 While funding should primarily be aligned with delivering energy transition outcomes, we recognise that, given the timing of the GT27 price control and the continued development of policy in this area, there may still be a case for targeted funding that supports necessary strategic or policy developments.

## Incentives

- 4.73 Responses to our GT27 Approach Consultation did not stress the importance of incentive mechanisms for GT27, with the key focus of responses being based on innovation and energy transition.
- 4.74 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.
- 4.75 We plan to consider changes to the incentive framework for GNI (UK), including considering the option of introducing a cost-sharing mechanism in relation to over- and under-spends. We are considering this option in response to concerns raised by GNI (UK) over their future financial framework as they approach the paydown of two of their pipelines by 2031.

- 4.76 We will engage directly with GNI (UK) on this issue and will seek proposals from GNI (UK) through the BPRT on the cost sharing incentive rates for different categories of expenditure and the rationale for each.
- 4.77 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<sup>5</sup>. 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.

### **Whole system approach**

- 4.78 From the responses to our Cfl, GT27 Approach Consultation 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. 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.
- 4.79 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.
- 4.80 MEL welcomes whole-system planning but argues it is now business as usual (BAU) and should be included in baseline allowances rather than treated as exceptional spending.
- 'Now this function has been established it has become part of our business as usual.'
  - 'We believe it should be included within our price control allowance.'

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<sup>5</sup> Our position remains the same as in GT22 that no further monies should be allocated to the Social Enhancement Fund (SEF) throughout GT27 until options for use of this fund are fully considered.

- 4.81 GMO NI supports UR's whole-system approach and highlights the importance of embedding network planning as a BAU function.
- 'GMO NI agrees that this new function is the beginning of a new chapter which will inform Government, price controls and planning of the gas network in the future and looks forward to working with gas network operators and UR to develop this further.'
  - 'Rather than being projects, the network planning function should be embedded as part of BAU.'
- 4.82 GNI (UK) commits to deeper engagement with UR and other system operators during GT27.
- 'UR's approach to integrated energy system planning focuses on collaboration, alignment, and long-term planning to support the energy transition and ensure regulatory decisions are well-informed and effective. GNI(UK) welcomes the continued work here and is committed to expanding on this with UR and other System Operators in GT27.'
- 4.83 We consider network planning as an integral function undertaken by the TSOs and we will set ex-ante allowances for clearly defined costs set out in the BPRTs.
- 4.84 To ensure flexibility throughout GT27 any emerging costs to support network planning will be captured through the proposed energy transition funding mechanism or uncertainty mechanism.

## Security

- 4.85 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.
- 4.86 The TSOs stressed the importance of improved cyber security and their enhanced requirements under the Government's 2018 Network and Information System Regulations (NISR)<sup>6</sup> in response to the GT27 Approach Consultation.
- 4.87 GNI (UK) said as an "Operator of Essential Services", it has already made substantial cybersecurity investments. Ongoing compliance requires continuous investment in people, processes, and technology. There is anticipation of a new UK Cyber Security and Resilience Bill, potentially extending to physical security. URN (Unique Reference Number)

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<sup>6</sup> The Network and Information Systems Regulations 2018

acquisition for Northern Ireland sites is seen as essential for rapid response and resilience.

- 'Achieving this compliance demands ongoing investment in personnel, processes and technology.'
- 'Support for obtaining the Unique Reference Numbers (URN's) for GNI (UK)'s Northern Ireland sites remains crucial for enhancing rapid response capabilities.'

4.88 MEL emphasises that capital expenditure may be required to address security of supply concerns, even though the current GT27 framework does not provide for such allowances.

- 'Capital expenditure could also be required to address security of supply concerns'

4.89 They note that cybersecurity costs have become significant and recommend creating additional cost categories for areas like energy transition and cyber security within the business plan reporting templates.

4.90 MEL supports flexibility in funding mechanisms to accommodate unforeseen works, including those related to security, through existing or revised processes.

4.91 While not mentioned in their response to the GT27 Approach Consultation, GMO NI highlights in their Cfl response that cybersecurity and IT system resilience is critical, noting that functional updates to the network code and Delphi system often driven by legislation or market changes require timely approval of allowances. They recommend refining the funding approval process to make it proportional and efficient, ensuring essential security work is not delayed.

- 'Change related work for GMO NI is mainly associated with functional change of the network code, and the IT system Delphi. This can be driven by external legislation, improvements required to the market/processes or the need to accommodate general market change.'

4.92 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.

4.93 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.

- 4.94 We will set an ex-ante allowance for cybersecurity costs which are clearly defined in the TSOs BPRT. However, to allow for more flexibility if there are unforeseen or cost increases, 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.

## Efficiency Targets

- 4.95 When setting efficiency targets as part of price control reviews, two effects are often 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 efficiency frontier.
- 4.96 Several broad approaches are available to any economic regulator to take account of both or either of these effects. Whenever possible regulators 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. Any atypical circumstances that might impact on cost need to be considered.
- 4.97 The bottom-up approach is our principal tool in assessing business plans and setting allowances at GT27. A top-down approach is 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.

- 4.98 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.
- 4.99 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.

### **Real price effects (RPEs)**

- 4.100 In response to the GT27 Approach Consultation, GNI (UK) reiterated the importance of considering the impact of RPEs in GT27.
- 'GNI (UK) welcomes UR plans to assess the impact of Real Price Effects (RPEs) and, where analysis indicates any material risk to licence holders, they will consider this as a factor in making adjustments to allowances to account for RPEs.'
- 4.101 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 in two ways:
- (i) make an assessment of what adjustments for RPEs are appropriate (if any) to make when setting ex ante expenditure allowances for the price control period (i.e. based on forecast/assumed RPEs); and
  - (ii) consider the case for an uncertainty mechanism for RPEs that would adjust for differences between outturn RPEs and forecast/assumed RPEs.
- 4.102 We will need to assess if the inclusion of an uncertainty mechanism is proportionate for the GT27 price control given the current licence conditions in place for unforeseen expenditure and considering any changes we may implement to GNI (UK) financial framework (e.g. cost sharing incentive rates).

### **RPI to CPIH change**

- 4.103 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.

- 4.104 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.
- 4.105 GT22 and previous gas transmission price controls use 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. This aligns with our gas distribution price control and recent RP7 Final Determination.
- 4.106 With this taken into consideration, we will 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.
- 4.107 MEL stated in response to the approach consultation.
- 'As RPI will align with CPIH from 2030 it seems reasonable to move to CPIH, which will be calculated consistently throughout the price control period. It should be noted that the differences in methodology and coverage create a "wedge" or gap, between RPI and CPIH, with RPI generally being higher. This should therefore be taken into consideration when determining the value of X under the CPI-X framework, to ensure that the target remains appropriate.'
- 4.108 We recognise that CPIH may not capture the specific price pressures of all input costs. As set out in the subsection above on RPEs, we will assess the case for RPE adjustments to be applied when setting ex ante allowances. Our assessment of RPEs will be made in terms of projected input price increases relative to CPIH inflation. By using CPIH rather than RPI in our RPE assessment we will ensure that TSOs are not over-or-under compensated due to the move away from RPI.
- 4.109 More generally, we recognise that, insofar as price control expenditure allowances are viewed as evolving during the price control period on a CPIH-X basis, the value of X should take into account consideration the potential for productivity improvements over time (see the section above on efficiency targets) and the potential for input prices to rise more quickly (or more slowly) than CPIH (see section on RPEs).

## Profit margins and contingencies

- 4.110 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. We note that MEL stated in their response to the GT27 Approach Consultation that while they are not profit driven, they explain that small uplifts are required for arms'-length compliance.
- 'The Mutual Energy group is not profit-driven and as such its gas business licences are designed so that they cover their costs, without any additional profits built in. Our businesses do, however, have requirements under their finance documents, and through tax legislation, to operate on an arms' length basis and therefore, where shared services are provided to the gas businesses, small uplifts are applied to comply with these requirements.'
- 4.111 We accept that these requirements are unavoidable and agree that efficiencies gained in providing shared services, minimisation of uplifts charged and non-recharged costs for shared services can outweigh the impact of any uplift and offer benefit. However, we expect MEL to provide the quantum of any uplifts in their business plan for transparency and outline all mitigating actions taken to minimise these costs.
- 4.112 We note that MEL raise concerns about the absence of contingencies for unforeseen works.
- 'It is inevitable that some unforeseen works will be required during the 5-year price control period, particularly due to issues which are likely to be identified through scheduled inspections. Whilst we can forecast costs for inspections, in the absence of any contingencies being allowed for defects identified we will need to request allowances for any such costs through the additional BCO mechanism as these arise.'
- 4.113 We would typically expect all budgets to be closely adhered to and for any particular reason unforeseen expenditure does occur then there is flexibility within each licence to accommodate this. However, we will consider contingencies for work on a case-by-case basis but expect the need for and level of contingency to be appropriately justified.

## Cost of capital and balance of risk and return

- 4.114 The gas transmission price control arrangements provide allowances for the cost of capital of the licensees. However, the treatment of this component of the price controls differs across the licence holders, reflecting fundamental differences in the nature of the licensees and the established regulatory approach.
- 4.115 In this section we first take the case of the MEL licence holders and then turn to consider the cost of capital for GNI (UK).

### Remuneration of debt finance for MEL licensees

- 4.116 In the case of MEL licence holders (PTL, BGTL and WTL) there is no provision in the licenses for a periodic review of the allowed rate of return and an assessment of the cost of capital is excluded from the price control review process for these licensees.
- 4.117 Given the mutual corporate model of the MEL licensees, there is no equity investment that requires remuneration under the price control for these licensees, so remuneration for the cost of capital is limited to remuneration for the cost of debt finance.
- 4.118 These entities financed the purchase and construction of their regulated assets through issuance of long maturity bonds. The schedule of bond payments to bondholders (including interest and repayment of principal) has been previously accepted by UR and these payments, known as the Fixed Amounts<sup>7</sup>, are included in the calculation of annual allowed revenues without adjustment. The regulated allowances for these payments are essentially remuneration for the licensees' cost of debt finance (and for repayment of that debt over time) and the established approach is for regulatory allowances under the price control framework to match the actual costs to the licensee of its debt finance.

### Cost of capital for GNI (UK): background and issues

- 4.119 GNI (UK) does not operate under the mutual model of the MEL licensees and our established regulatory approach is more conventional. We determine a weighted average cost of capital (WACC) which provides remuneration for the cost of debt and cost of equity in proportion to the assumed levels of debt and equity finance for a notional efficient company carrying out GNI (UK)'s functions.

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<sup>7</sup> PTL and BGTL Gas Conveyance Licence Condition 3.1.4, WTL Gas Conveyance Licence Condition 6.5.1

- 4.120 At GT22, our approach to setting the weighted average cost of capital for GNI (UK) involved:
- a regulatory assumption on the proportion of debt finance within the overall capital requirements for a notional efficient company performing GNI (UK)'s functions;
  - use of a standard CAPM (Capital Asset Pricing Model) methodology to estimate the cost of equity for the notional company, drawing on market data and relevant regulatory precedent; and
  - Use of cost of debt benchmarks, other market data and relevant regulatory precedent to estimate the cost of debt for the notional company.
- 4.121 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.
- 4.122 For the GT22 price control review, our assessment of the cost of capital for GNI (UK) involved consideration of the relative riskiness of GNI (UK) compared to comparator companies that may provide evidence on GNI (UK)'s cost of equity.<sup>8</sup> For the GT22 period, we concluded that GNI (UK) was squarely “in the pack” compared to comparators in terms of its riskiness (particularly insofar as riskiness relates to the cost of equity under the CAPM approach); this informed our cost of equity assessment.
- 4.123 However, there are features of the GNI (UK)'s business and regulatory framework which mean that the approach used at GT22 for assessing the cost of capital might not be suitable for GT27, at least without some adaptation or wider regulatory changes to the balance of risk and return.
- 4.124 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 take place during the GT27 price control:

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<sup>8</sup> <https://www.uregni.gov.uk/files/uregni/documents/2021-12/annex-2-gt22-report-on-cost-of-capital.pdf>

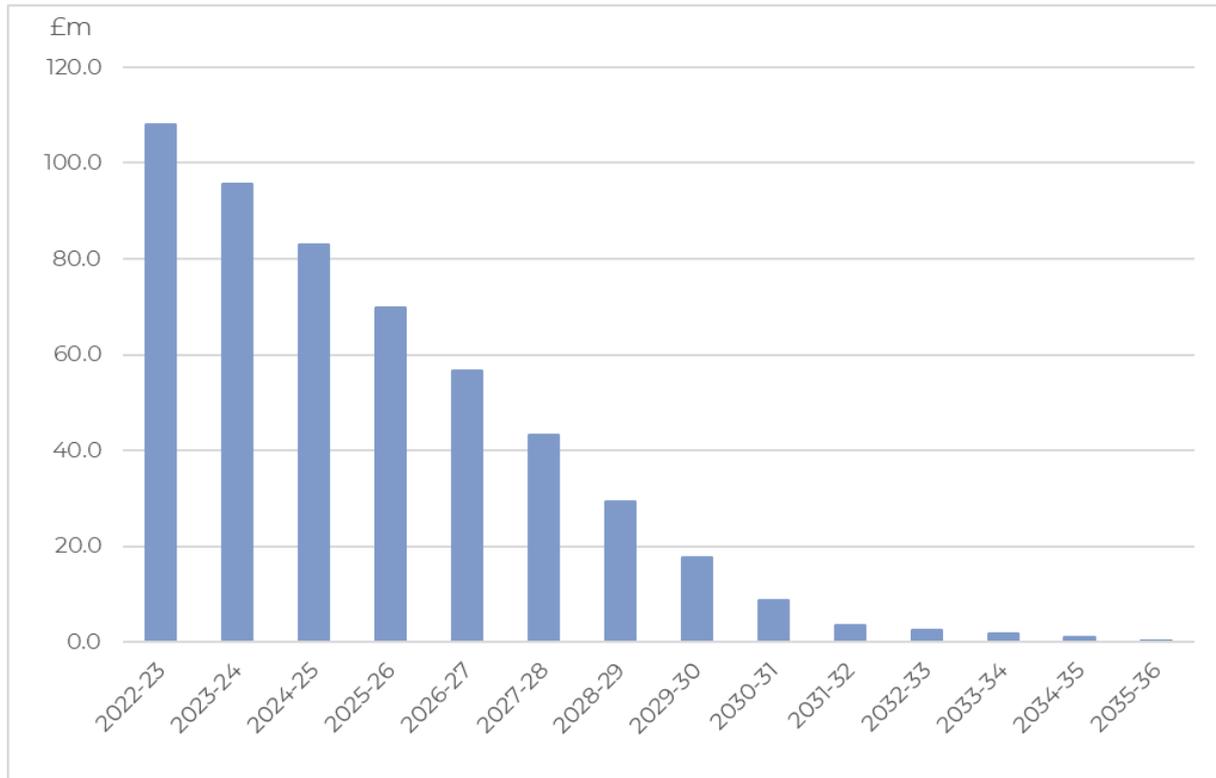
- 'The next Gas Transmission price control period (GT27) marks a key milestone for the GNI (UK) business, with the revenue recovery period for the Northwest pipeline set to end on 30 September 2029. Under the current regulatory framework approach, this would impact on the viability of the GNI (UK) business 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.'

4.125 This issue was reiterated by GNI (UK) in response to our Approach Consultation:

- 'As highlighted in the Call for Information, both GNI (UK) transmission pipelines located in Northern Ireland are approaching the end of their revenue recovery period of 25 years within the next 10 years, with the North West Pipeline ending in 2029 and the South North pipeline in 2031, both of which will be during the GT27 price control period. GNI (UK) highlighted that a review of the overarching approach to the regulatory framework model is necessary as part of the GT27 process to find the most appropriate regulatory framework to apply to a network operator with a limited regulatory asset base to ensure its continued viability into the future.'

4.126 We set out in Figure 4.2 projections of the value of GNI (UK)'s regulatory asset base in the period to 2035/36. The reductions over time reflect the forecast capital repayments remaining for GNI (UK), including the impact of the full paydown of the North West and South North pipelines in 2029 and 2031 respectively.

4.127 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. This analysis also assumes continuation of the current regulatory approach under which price control allowances for asset replacement expenditure are not added to GNI (UK)'s RAB but are instead funded via revenue allowances during the price control period.

**Figure 4.2: GNI (UK) projected regulatory asset base (RAB\*)**

\*Real (October 2025) prices

4.128 Our current view is that the reductions in the projected RAB for GNI (UK) *might* create a situation where a conventional approach to determining the cost of equity (including using asset beta figures for listed comparator utility companies) does not provide a reasonable balance of return for equity investors relative to the risks borne by those investors, at least in the absence of changes to the price control framework.

4.129 For instance, based on the figures above, assuming for simplicity the same expenditure allowances (in real terms) and notional gearing assumption in the GT27 period as for GT22, we estimate that the financial downside to equity holders under a scenario of a 10% overspend would be more than three times greater during the GT27 period as during the GT22 period. While over-spend risk is only one aspect of the overall risk that is borne by companies subject to RAB-based price controls, such as GNI (UK) and listed water companies, our initial assessment is that the risk exposure for GNI (UK) during the GT27 period warrants particular attention for the purpose of setting the cost of capital for GNI (UK).

### **Cost of capital for GNI (UK): implications for the GT27 approach**

4.130 In light of the discussion above, including the consultation responses from GNI (UK), we have decided that the development of a suitable framework and approach for the remuneration of GNI (UK)'s cost of capital, in a way that ensures an appropriate balance of risk and return, is

a priority workstream for GT27. The approach will need to be manageable and proportionate in the context of the GT27 price review process.

- 4.131 We intend to engage further with GNI (UK) to find the most appropriate regulatory framework and approach to accommodate a gas transmission business which may have a relatively small asset base relative to its activities and risk exposure.
- 4.132 We agree with the point from GNI (UK)'s response to our Cfl on future gas price controls that there is potential guidance that can be drawn from our work on the remuneration of the cost of capital for SONI's electricity transmission system operator price control.
- 4.133 At this stage, we have identified that there are a range of ways in which our approach to the cost of capital and wider price control framework for GNI (UK) could be adapted to address the issues arising for GT27, for example:
- a) making changes to price control design that would reduce financial risk to GNI (UK) under the price control framework (e.g. introducing a cost risk sharing rate for operating expenditure so that equity investors are exposed to less than 100% of any over-spends against ex ante regulatory allowances);
  - b) revisiting the notional gearing assumption for GNI (UK), in recognition that, all else being equal, the appropriate level of gearing for a notional TSO with a RAB of say £80m may differ to that for a notional TSO with a RAB closer to £20m;
  - c) allowing a higher cost of equity to reflect higher risk (e.g. allowing a higher asset beta under the CAPM approach to estimation of GNI (UK)'s cost of equity, if supported by evidence); and/or
  - d) potential changes to the regulatory treatment of ongoing investment by GNI (UK) in gas transmission infrastructure (e.g. asset replacement expenditure) such that regulatory allowances for such investment are treated as RAB additions, feeding through to allowed revenues via depreciation and return on capital. This would reduce the scope for GNI (UK)'s RAB to fall towards zero and limit the extent to which it becomes very asset light in the future.
- 4.134 We have made no decision at this stage on whether to adopt any of the approaches identified above, but we will consider these options, as well as any further options put to us by GNI (UK) or other stakeholders.
- 4.135 To support evidence-based analysis of the issues above, we see a role for analysis of the potential return on regulatory equity (RoRE) over the GT27 period (and historically). Analysis of RoRE considers the potential financial

impact on notional equity investors (under assumed notional gearing levels) for hypothetical scenarios of upside and downside risk under the price control framework. RoRE risk analysis is an established tool used by Ofgem and Ofwat in their work to balance risk and allowed returns when setting price controls for monopoly infrastructure companies. In addition, we have made use of RoRE risk analysis in past work, such as that for SONI's 2020-25 price control,<sup>9</sup> where detailed consideration was given to the impact of SONI's relatively small RAB on the determination of its WACC.

- 4.136 We will be looking for business plan proposals from GNI (UK) on the appropriate approach to determining the cost of capital and on ensuring an appropriate balance of risk and return. We will engage directly with GNI (UK) on the issues above in the coming months to help inform its business plan preparations.
- 4.137 For its business plan submission, we require GNI (UK) to highlight any debt financeability issues that a notional efficient company in its position may experience throughout GT27. GNI (UK) should consider whether for GT27 undertaking detailed debt financeability analysis would be proportionate and, if so, provide such analysis as part of its business plan. GNI (UK) should also recognise the role of choices about gearing on aspects of debt financeability.
- 4.138 In addition to the approach to assessing the cost of capital for GNI (UK), we also plan to consider whether any regulatory action might be needed to ensure the financial resilience of the licensee. There may be concerns about financial resilience if the RAB for GNI (UK) were to become very low. It is unclear at this stage whether any such action will be needed, and any proposals that we develop in this area will be subject to consultation.

### Current licence conditions

- 4.139 GNI (UK)'s current licence makes provisions under Condition 2.2.8<sup>10</sup> as to the process of allowed revenues after the revenue recovery period is over (25 years after pipeline commissioning).
- 4.140 2.2.8 Allowed revenue after expiry of Revenue Recovery Period:
- a) Not less than twelve (12) months prior to the expiry of the Revenue Recovery Period the Licensee shall submit to the Authority:

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<sup>9</sup> <https://www.uregni.gov.uk/files/uregni/media-files/Annex%205%20Risk%20and%20return.pdf>, pages 34-40.

<sup>10</sup> GNI (UK) Licence for the conveyance of gas in Northern Ireland

- (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;
  - 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).
- 4.141 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).
- 4.142 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.
- 4.143 The revenue recovery periods for two of GNI (UK)'s pipelines are scheduled to end during the five years covered by the GT27 price control determination. In setting the GT27 price control we will seek to establish an appropriate enduring regulatory framework for these assets, that can apply during the remainder of the GT27 period and beyond. As part of the GT27 process, we will be engaging with GNI (UK to pre-emptively define our approach to their future financial framework to provide stability and avoid complex re-openers in period once the North West and South North pipelines are fully depreciated).

## 5. Stakeholder Engagement, Social and Environmental Impact

### Approach to stakeholder engagement

- 5.1 During the GT27 price control process, we will 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 CCNI places a strong emphasis on managing price volatility and requiring robust data for cost justification.
- 'Regulatory proposals should provide affordability for today's consumers without creating undue burden on future consumers.'
  - 'We expect the UR to require gas network companies to target and clearly justify new investments and to demonstrate value for money.'
- 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 consumers and wider stakeholders.

- 5.8 GNI (UK) expressed support for this view in response to our approach consultation.
- 'GNI (UK) are supportive of UR's approach to stakeholder engagement in the energy transition which is designed to be inclusive, transparent, and focused on achieving the best outcomes for consumers and the environment. Although key decisions on the net-zero transition are pending, GNI (UK) expects little effect on GT27 price controls, as major investments like hydrogen repurposing are unlikely during this period. Supporting early low-risk activities should not significantly impact consumers and will help advance the transition.'

## **Environmental impact and decarbonisation**

- 5.9 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.
- 5.10 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 become available.
- 5.11 MEL notes in their response to the GT27 Approach Consultation that renewable gases (biomethane and green hydrogen) are essential to meeting emissions targets and ensuring energy security following on to mention the historically reactive policy stance in Northern Ireland and calls for a more proactive GT27 framework.
- 'Renewable gases however will be required to successfully deliver upon NI's emission reduction targets.'
  - 'Biomethane can complement electrification as a decarbonisation pathway for heat.'
  - 'It is important that a more proactive stance is adopted to help support their development and implementation in GT27.'
- 5.12 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.

- 5.13 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.

## 6. GT27 timetable

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

**Table 6.1: GT27 key dates and milestones**

GDT27 Milestone	Timeline
GT27 Approach Document consultation opens	5 November 2025
GT27 Approach Document consultation ends	9 January 2026
GT27 Approach Document published	26 February 2026
Business Plan Reporting Template published	26 February 2026
TSO business plan submission deadline	11 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