PROPOSED MODIFICATIONS TO NIE NETWORKS' TRANSMISSION AND DISTRIBUTION LICENCES

Additional allowances for network resilience
April 2026

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 and Enforcement. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

ABSTRACT

We are consulting on proposed modifications to the NIE Networks' licence covering a range of issues. These modifications would allow the Utility Regulator (UR) to determine additional allowances for NIE Networks to undertake projects to enhance network resilience to reduce the impact on consumers of severe weather events. These proposals are in response to NIE Networks' on-going assessment of network performance during Storm Éowyn. The proposed modifications will also reduce NIE Networks' short term financial exposure to the unprecedented level of network repair costs in the aftermath of Storm Éowyn. At the same time, we are taking the opportunity to consult on licence modifications in respect of locational charges, IT investment and to correct inconsistencies in current licence drafting.

AUDIENCE

This document is likely to be of interest to the licence holder affected, consumers and consumer groups, other regulated companies in the energy industry, government and other statutory bodies.

CONSUMER IMPACT

The proposed modifications will enable UR to make future decisions on funding for network resilience projects. As an example of the type of project which might be funded, this consultation describes the costs and benefits of a proposal to accelerate resilience tree cutting along the 11kV main line network. It is estimated that this would have reduced the number of consumers off supply during Storm Éowyn by 35% and would cost the typical domestic consumers an additional £1.50 per annum (0.15%) by 2031. As a result of introducing a cap to limit NIE Network's short term financial exposure to severe weather recovery costs, consumers will pay more in the immediate aftermath of severe weather events but pay less through ex-ante allowances determined in our price controls.

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Annexes

Annex	Description
Annex A	Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 – Modifications proposed to the Electricity Distribution Licence held by NIE Networks.
Annex B	Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 – Modifications proposed to the Participate in Transmission Licence held by NIE Networks.
Annex C	Proposed modifications to NIE Networks' electricity distribution licence (marked up version).
Annex D	Proposed modifications to NIE Networks' electricity transmission licence (marked up version).

1. Introduction

Purpose of this document

1.1 Our principal objective in carrying out the duties associated with our electricity functions is to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity, as set out more fully in the Energy (Northern Ireland) Order 2003 (**the Energy Order**)[1].

1.2 Utility Regulator (UR) must carry out its functions in the manner which it considers is best calculated to further the principal objective, having regard in particular to:

a) the need to secure that all reasonable demands for electricity in Northern Ireland or Ireland are met; and,

b) the need to secure that licence holders can finance the activities which are the subject of obligations imposed by or under Part II of the Electricity (Northern Ireland) Order 1992[2] (**the Electricity Order**) or the Energy Order.

1.3 UR must also carry out its functions consistently with a number of other duties set out in full at Article 12 of the Energy Order.

1.4 In line with these duties, we are consulting on modifications we propose to make under Article 14 of the Electricity Order to the Electricity Distribution Licence (the **distribution licence**) and the Participate in Transmission Licence (**the transmission licence**) held by Northern Ireland Electricity Networks Limited (**NIE Networks**).

1.5 The licence modifications set out in this consultation make provision for UR to determine additional expenditure allowances for projects which will reduce the impact on consumers of severe weather events (network resilience). They will reduce the financial exposure of NIE Networks to severe weather recovery costs in the short term. They also propose minor amendments to Condition 32(17) of the licences regarding non-locational charging, flexibility on the timing for the determination of future IT allowances, and corrections to remove drafting errors and inconsistencies from the current licences.

[1] https://www.legislation.gov.uk/nisi/2003/419/contents

[2] https://www.legislation.gov.uk/nisi/1992/231/contents

Background to the proposed licence modifications

1.6 NIE Networks is the sole provider of electricity distribution and transmission for Northern Ireland. It operates under separate distribution and transmission licences first granted by the Department of Economic Development (now the Department for the Economy) in March 1992.

1.7 In addition to licence conditions which set out NIE Networks' rights and obligations in respect of the distribution and transmission of electricity, both licences set out the method for calculating the Maximum Regulated Revenue which NIE Networks can recover from electricity suppliers under its distribution licence and from SONI (the Transmission System Operation for Northern Ireland) under its transmission licence. (Annex 2 of each licence - Charge Restriction Conditions).

1.8 The NIE Networks' licences are modified from time to time through a price control process. The most recent price control determination by UR (RP7)[3] covers the period from 01 April 2025 to 31 March 2031. Annex 2 of the current licences include determined expenditure allowances or unit rates which secure the ability of the company to finance its activities. It also makes provision for the subsequent determination of additional allowances by UR to fund specific and prescribed activities should the need arise.

1.9 Since the RP7 Final Determination, and in the aftermath of Storm Éowyn in January 2025, NIE Networks has undertaken a review of network resilience to identify measures it could take to reduce the impact of severe weather events on consumers. The company has made a submission to UR setting out its initial findings and has asked for additional allowances for investment to improve network resilience. It is possible that, following further investigation, the company will make additional requests for funding for further network resilience activities. However, work to enhance network resilience does not fall within the scope of any of the categories in the current licences which cover the determination of further expenditure allowances by UR to allow the company to finance these additional activities.

1.10 NIE Networks has also highlighted the unprecedent level of severe weather recovery costs in the aftermath of Storm Éowyn. There is a low probability of this level of cost being repeated during RP7 and this risk might impact NIE Networks' ability to finance its activities. To mitigate this risk, we propose to modify the licence to cap the amount of severe weather recovery costs which are subject to the standard cost sharing mechanisms and allow costs above that cap to be recovered from

[3] https://www.uregni.gov.uk/rp7-final-determination

consumers. This will increase the amount of severe weather recovery costs which NIE Networks might recover in the aftermath of events such as Storm Éowyn, while reducing the amount it will recover through ex-ante allowances determined in price controls.

1.11 The proposed licence modifications set out in this consultation, would, if adopted:

a) Introduce an additional category into the licence conditions which would allow UR to determined additional expenditure allowances over and above those already embedded in the licences to cover projects to enhance network resilience.

b) Place a cap on the amount of severe weather recovery costs which will be allocated to qualifying expenditure (and subject to the existing 50/50 cost sharing mechanism). NIE Networks would then recover costs in excess of that cap as pass-through expenditure.

c) Modify Condition 32(17) regarding Non-locational Charging to ensure that large energy users who decide to reduce their maximum import capacity below 1MW are not disincentivised from doing so because NIE Networks is obliged to increase their charges under the requirements of the current licence.

d) Modify Annex 2 of the Distribution and Transmission Licences to give UR more flexibility over when we determine additional IT allowances.

e) Make other minor licence modifications for the purpose of removing drafting errors and inconsistencies.

1.12 Before making any modifications to licence conditions using its powers under Article 14 of the Electricity Order, UR must give notice[4]:

a) Stating that it proposes to make modifications.

b) Setting out the proposed modifications and their effect.

c) Stating the reasons why it proposes to make the modifications.

d) Specifying the time within which representations with respect to the proposed modifications may be made.

1.13 Notices under Article 14(2) of the Electricity Order have been issued in respect of the modifications to the distribution and transmission licences

[4] The Electricity Order Article 14(2)

proposed in this consultation. These are included in this document as Annex A and Annex B.

Approach

1.14 In the interest of transparency and in line with best practice regulation, we have engaged with NIE Networks to discuss the detail of these proposed licence modifications in advance of publication. This includes providing the company with advance sight of many of the proposed tracked changes to its licences as early as possible.

1.15 We note that this consultation document presents a further opportunity not only for NIE Networks but also for any other interested stakeholders to provide comments on the modifications. Any decision will take account of the responses to this consultation.

1.16 Chapter 5 (Next Steps) provides details on how to respond to this consultation and sets out the key next steps and associated timelines for the remainder of the licence modification process.

Document structure

1.17 This consultation paper is structured in a number of chapters as follows:

Chapter 1 **Introduction** provides an overview of the purpose and structure of this consultation document and provides an overview of the proposed licence modifications.

Chapter 2 **Proposed Modification of Annex 2 to Make Provision for Additional Allowances for Network Resilience** sets out the proposed modifications to the licences necessary to make provision for the determination of additional allowances for projects to enhance network resilience, including the reasons and effects of the proposed modifications.

Chapter 3 **Proposed Modification of Annex 2 to Limit NIE Networks' Financial Exposure to Severe Weather Recovery Costs** sets out proposed modifications to the licences to cap the amount of severe weather recovery costs categorised as qualifying expenditure and subject to the existing 50/50 cost sharing mechanism. Expenditure above the cap would be recovered from consumers as pass-through expenditure.

Chapter 4 **Proposed Modification of Condition 32(17) Regarding Non-locational Charging** sets out the proposed modifications to Condition 32(17) of the distribution licence, including the reasons and effects of the proposed modifications.

Chapter 5 **Proposed Modification to Make Provision for deferral of further IT investment** sets out the proposed modifications to licences to give UR flexibility over when it determines additional IT allowances during RP7, including the reasons and effects of the proposed modifications.

Chapter 6 **Correction of Licence Inconsistencies** sets out the proposed modifications for the purpose of removing drafting errors and inconsistencies, including the reasons and effects of the proposed modifications.

Chapter 7 **Next Steps** provides details on how to submit responses to this consultation document and sets out our proposed timelines for the remainder of the licence modification process.

1.18 This consultation document is complemented by annexes:

a) Giving formal statutory notice under Article 14(2) of the Electricity Order that UR proposes modifying the NIE Networks' licences (Annexes A and B for the distribution and transmission licences respectively).

b) A marked up copy of each NIE Networks' licences, showing the proposed modifications as tracked changes to the current drafting (Annexes C for the distribution licence and Annex D for the transmission licence).

2. Proposed Modifications of Annex 2 to Make Provision for Additional Allowances for Network Resilience

Overview

2.1 We propose to modify NIE Networks' distribution and transmission licences to allow the determination of additional allowances against capital expenditure (capex) and operational expenditure (opex) for projects to enhance network resilience. In this regard, a project to enhance network resilience is one which NIE Networks has demonstrated is likely to result in a significant reduction in the impact on consumers of severe weather events.

2.2 We are making these proposals in parallel with NIE Networks' assessment of options to improve network resilience in the aftermath of Storm Éowyn in January 2025.

2.3 In our recent consultation regarding a Review of Electricity Guaranteed Standards of Service and Overall Standards of Performance[5], which closed on 15 January 2026, we noted that:

a) When UR discussed Storm Éowyn with consumer representative bodies, they highlighted the importance of investing to reduce storm impact and to improve support to consumers, particularly vulnerable consumers, during severe weather events.

b) NIE Networks has completed the first stage of its assessment of network resilience work in the aftermath of Storm Éowyn. It has proposed accelerating a long-term programme of tree cutting on the 11kV main line overhead network to reduce the impact of future severe weather events. Evidence from Storm Éowyn shows that completing this work would see a significant reduction in interruptions if a similar event occurred in future. The proposal would bring forward investment of circa £20m planned for the longer term and complete this by March 2031. To pay for this investment, an average domestic bill would be around £1.50 greater at the end of RP7 than it would otherwise have been.

c) Having considered NIE Networks' proposal to bring forward investment in light of Storm Éowyn, we concluded that it was well

[5] https://www.uregni.gov.uk/consultations/review-electricity-guaranteed-standards-service-and-overall-standards-performance-0

founded. We noted our intention to consult separately on the licence modifications necessary to allow NIE Networks to fund this work. We committed to provide further information on the reasons and effects of the company's proposal including costs and impacts of the proposed work when we consulted on licence modifications.

2.4 The licence modifications proposed below enable additional allowances to be determined as the need arises. While they do not, of themselves, approve any particular project or allowance, we have provided an explanation below of the reasons and effects of NIE Networks' proposal for resilience tree cutting as an example of the type of investment which might be determined if these proposals come into effect following consultation.

Impact of Storm Éowyn

2.5 On Friday 24 January 2025, Storm Éowyn crossed Northern Ireland causing widespread damage. The electricity network in Northern Ireland experienced hurricane winds during Northern Ireland's first ever Red warning alert. Wind gusts greater than 90mph were recorded all over Northern Ireland resulting in over 5,000 faults on the electricity network. This resulted in loss of power to over 320,000 homes and businesses that afternoon. This meant that power had been interrupted to over 30% of all properties in Northern Ireland.

2.6 Within 48 hours, almost 75% of all properties that had lost power had power restored, and all remaining properties had estimated restoration times available on NIE Networks' website. From Sunday 26 January onwards, mutual aid from Great Britain and European electricity companies began to arrive to support NIE Networks' staff and its contracting partners. Power was restored to 99% of all premises within seven days, with the remaining restoration being completed safely by Monday 3 February.

2.7 The cost of repair and power restoration amounted to £22m. Because the RP6 price control includes a 50/50 cost sharing mechanism, half of this cost was paid for by consumers and half by NIE Networks.

2.8 In the aftermath of the storm, NIE Networks began a review of whether further steps could be taken to enhance the resilience of the network and reduce the impact on consumers if similar events occurred in the future, with three main aims –

a) review and consider if enough resilience-enhancing investments are planned during RP7; and if not, to consider what additional investments are necessary;

b) to consider how to improve the speed and efficiency of the emergency response when severe weather events happen; and

c) to consider how new and existing technologies can be used more effectively to make power restoration safer and more efficient, and to provide more accurate and timely information to customers that are without power.

Example - Costs and benefits of resilience tree cut

2.9 The licence modifications proposed below enable additional allowances to be determined for work to reduce the impact on consumers of severe weather events. As an example of the type of allowance which we intend to determine under these proposed licence modifications, this section of the consultation provides an explanation of a specific proposal to accelerate a long-term plan for resilience tree cutting on the 11kV overhead line (OHL) network.

2.10 The electricity transmission and distribution networks operate at a series of voltage levels and comprise both overhead and underground cables. Summary information on the network is provided in Table 2.1 below to provide context for this example. Most consumers connect to the low voltage (LV) network. During Storm Éowyn there was widespread damage to the OHL network.

Table 2.1: Network lengths by voltage level

Voltage	Network length (km)				
	Total	UG	OHL - total	11kV OHL Main line	11kV OHL Spur line
Transmission	2,274	117	2,157	n.a.	n.a.
33kV	4,259	1,286	2,973	n.a.	n.a.
11kV	25,412	4,837	20,575	8,230	12,345
LV	29,557	22,507	7,050	n.a.	n.a.
Total	61,502	28,747	32,755	8,230	12,345

2.11 In the table above, information on the 11kV network has been divided into two categories:

a) **11kV Main Line:** the backbone of the circuit and electrically protected by circuit breakers at the source substation. In the event of a fault on the main line, a circuit breaker will operate isolating the faulted section and all consumers connected to it and its linked spur line. Main line constitutes around 40% of the total 11kV network length.

b) **11kV Spur Line:** a tee off the main line protected by fuses. In the event of a fault on the spur, the fuses will operate isolating the spur, but all other customers remain on supply. Spurs constitute around 60% of the total 11kV network length.

2.12 A fault on a higher voltage level will affect all consumers on that part of the network and all consumers at lower voltage levels fed from that section of the network. A fault on a section of 11kV main line will affect all associated 11kV spur lines and the LV network which feeds off it. Therefore, a fault on the 11kV mainline network has a proportionately greater impact on the number of consumers interrupted than faults on 11kV spur lines or the LV network. The number of faults, customer interruptions (CI) and customer minutes lost (CML) during Storm Éowyn reported by NIE Networks is shown in Table 2.2 below. This shows that 74% of CI and 65% of CML was during Storm Éowyn was as a result of faults on OHL main line.

Table 2.2: Storm Éowyn impact by voltage levels

	33kV	11kV OHL main line	11kV OHL spur line	6.6kV	LV	Total
Faults	71	480	616	9	1,511	2,687
Customers interruptions	33,371	240,112	36,316	6,095	9,467	325,361
CML (millions)	14	335	103	4	57	514

2.13 As part of its work to protect the OHL network, NIE Networks undertakes two general types of vegetation management:

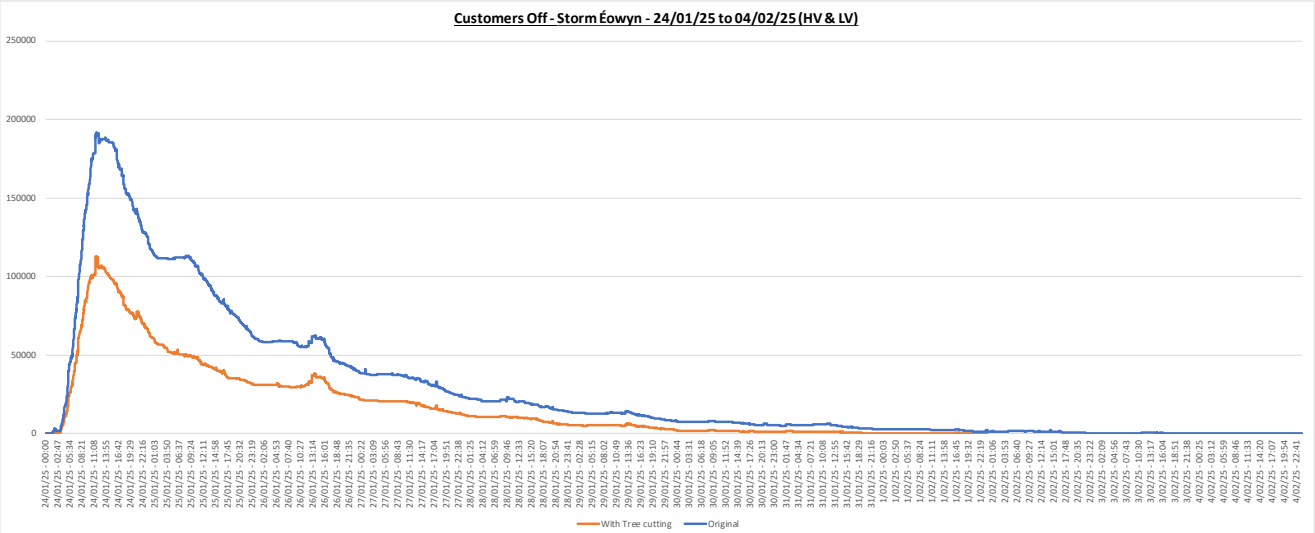
a) A regular **clearance cut** to keep vegetation outside the specified safety distance.

b) A **resilience cut** which involves felling or substantial pruning of trees within falling distance of the 33kV and 11kV OHL following a risk-based approach.

2.14 Prior to Storm Éowyn the company had completed a resilience cut of 72% of the 33kV network and 11% of the 11kV mainline network. It planned to continue the 11kV resilience cut over RP7 and subsequent price controls. Based on a comparison of 11kV main line network with and without a resilience cut, it has concluded that fault levels on the 11kV main line during Storm Éowyn would have been reduced by over 50% had the resilience cut on the 11kV main line network been complete. While this would only have reduced overall fault levels by 9%, it is estimate that it would have reduced customer interruptions by 35%, as shown on Figure 2.1 below. It is estimated that total CML would have reduced by 50% as a result.

2.15 Much of the benefit comes as a reduction in the initial peak of the impact, reducing the number of customers off supply and decreasing restoration times in the initial period. However, it has a limited impact on the long tail of supply restoration which relates to individual consumers or small clusters of consumers affected by faults on the LV network. While the evidence shows that completing the 11kV main line resilience cut will improve network resilience, we must emphasise that it reduces, but does not eliminate, the impact of severe weather events.

Figure 2.1: Estimated impact completing the 11kV main line resilience cut on the number of consumers off supply during Storm Éowyn.



2.16 While we expect NIE Networks to gather more information to establish a robust cost of completing a resilience cut of the 11kV network, past

experience indicates that this work would cost in the order of £20m and would add £1.50 (0.15%) to the average domestic bill by the end of 2031.

2.17 Therefore, noting the following:

a) That the acceleration of the 11kV resilience cut would result in a significant reduction in the impact on consumers of severe weather events.

b) That NIE Networks has concluded that there is sufficient resource to compete this work during the RP7 period.

c) That completing the work in the RP7 period is an acceleration of planned activity which would have been funded in subsequent price controls.

d) That the proposal would add £1.50 (0.15%) to the average domestic bill by the end of 2031.

e) That the proposal will reduce, but not eliminate, the impact of severe weather events.

We have concluded that such an investment would be in the interest of consumers and is an example of an additional allowance UR would consider under the licence modifications proposed below.

2.18 In addition to responses on the proposed licence modifications, we would welcome feedback on these specific proposals as part of this consultation.

Proposed modifications to the distribution licence

2.19 We propose to modify Annex 2 of the distribution licence as set out in Table 2.3 below.

Table 2.3: Proposed modifications to Annex 2 of the distribution licence to allow the determination of additional allowances for projects to enhance network resilience

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 4.46(l)	To allow the determination of additional allowances for network resilience.	After sub-paragraph 4.46(k) of Annex 2, insert a new sub-paragraph: l) the allowed capex (if any) amount in Regulatory Reporting Year t, for network resilience enhancement projects, being the additional amount that the Authority determines in one or more published decisions, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any projects to enhance network resilience against the consequences of severe weather events.
Annex 2 4.47(l)	To allow the determination of additional allowances for network resilience.	After sub-paragraph 4.47(k) of Annex 2, insert a new sub-paragraph: l) an allowance may only be determined in respect of any project to enhance network resilience if the project is sufficiently material and the Licensee has demonstrated to the satisfaction of the Authority that the project is likely to result in a significant reduction in the adverse impact of severe weather events on the continuity of electricity supply to consumers.
Annex 2 6.15(i)	To allow the determination of additional allowances for network resilience	After sub-paragraph 6.15(h) of Annex 2, insert a new sub-paragraph: i) the allowed opex (if any) amount in Regulatory Reporting Year t, for network resilience enhancement projects, being the additional amount that the Authority determines in one or more published decisions, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any projects to enhance network resilience against the consequences of severe weather events.

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 6.15A(j)	To allow the determination of additional allowances for network resilience	After sub-paragraph 6.15A(i) of Annex 2, insert a new sub-paragraph: j) an allowance may only be determined in respect of any project to enhance network resilience if the project is sufficiently material and the Licensee has demonstrated to the satisfaction of the Authority that the project is likely to result in a significant reduction in the adverse impact of severe weather events on the continuity of electricity supply to consumers.

Proposed modifications to the transmission licence

2.20 We propose to modify Annex 2 of the transmission licence as set out in Table 2.4 below.

Table 2.4: Proposed modifications to Annex 2 of the transmission licence to allow the determination of additional allowances for projects to enhance network resilience

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 4.40(j)	To allow the determination of additional allowances for network resilience.	After sub-paragraph 4.40(i) of Annex 2, insert a new sub-paragraph: j) the allowed capex (if any) amount in Regulatory Reporting Year t, for network resilience enhancement projects, being the additional amount that the Authority determines in one or more published decisions, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any projects to enhance network resilience against the consequences of severe weather events.
Annex 2 4.41(j)	To allow the determination of additional allowances for network resilience.	After sub-paragraph 4.41(j) of Annex 2, insert a new sub-paragraph: j) an allowance may only be determined in respect of any project to enhance network resilience if the project is sufficiently material and the Licensee has demonstrated to the satisfaction of the Authority that the project is likely to result in a significant reduction in the adverse impact of severe weather events on the continuity of electricity supply to consumers.

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 6.15(h)	To allow the determination of additional allowances for network resilience	After sub-paragraph 6.15(g) of Annex 2, insert a new sub-paragraph: h) the allowed opex (if any) amount in Regulatory Reporting Year t, for network resilience enhancement projects, being the additional amount that the Authority determines in one or more published decisions, to be appropriate for the expected incremental efficient costs in that Regulatory Reporting Year in respect of any projects to enhance network resilience against the consequences of severe weather events.
Annex 2 6.15A(h)	To allow the determination of additional allowances for network resilience	After sub-paragraph 6.15A(g) of Annex 2, insert a new sub-paragraph: h) an allowance may only be determined in respect of any project to enhance network resilience if the project is sufficiently material and the Licensee has demonstrated to the satisfaction of the Authority that it is likely to result in a significant reduction in the adverse impact of severe weather events on the continuity of electricity supply to consumers.

Reasons

2.21 We have proposed modifications to the licences to allow the determination of additional allowances for projects to enhance network resilience following representations from NIE Networks.

2.22 In the aftermath of Storm Éowyn in January 2025, NIE Networks began a review of further measures it might take to reduce the impact on consumers if similar events occurred in the future. Initial output from this work has already identified the benefit of accelerating a planned programme of resilience tree cutting on the 11kV network, which is described above, beginning at Paragraph 2.9.

2.23 It would be necessary for the company to have additional funding to deliver this work. However, the current licences only allow for the determination of additional allowances for additional work undertaken by the company in specific and prescribed circumstances. Therefore, we are proposing licence modifications to expand the relevant licence conditions to include this type of work.

2.24 While we expect most of the additional allowances determined under these proposed modifications to relate to the distribution network, work may be required under the transmission licence as well. Therefore, we have proposed similar modifications to both the distribution and transmission licences.

Effects

2.25 The overall effect of the proposed licence modifications is to allow the determination of additional allowances to enhance network resilience and reduce the impact on consumers of severe weather events. They enable additional allowances to be determined as the need arises. They do not, of themselves, approve any particular project or allowance.

2.26 While the work described above, beginning at Paragraph 2.9 is an example of what might be funded under these proposed licence modifications, the proposed modifications have been drafted in general terms. This will allow for the determination of further allowances for projects to enhance network resilience if NIE Networks brings forward further proposal which are well justified.

2.27 For each licence, the proposed modifications make provision for additional allowances for capital expenditure (capex - for example, new sub-paragraphs 4.46(l) and 4.47(l) of the distribution licence) and operational expenditure (opex - for example, new sub-paragraphs 6.15(i) and 6.15A(j) of the distribution licence).

2.28 In each case, the first additional sub-paragraph relating to capex and opex, allow amounts determined by the Authority to be included in the **'additional allowed capex amount'** and the **'allowed opex other' amount**' of the distribution and transmission licences. These amounts will be those determined in a published decision by the Authority. The amounts determined are the expected costs, as opposed to actual costs. Any difference between determined costs and actual costs will be subject to 50/50 cost sharing between the company and consumers under the existing provisions of the licences.

2.29 In each case, the second additional sub paragraph relating to capex and opex has the effect that an allowance may only be determined for a project where the Licensee has demonstrated that it is likely to result in a significant reduction in the impact on consumers of severe weather events. It also notes that an allowance may only be determined if the project is sufficiently material with the effect of excluding consideration of proposals which are not considered material.

2.30 In each case, the second additional sub paragraph relating to capex and opex sits in the context of a paragraph which confirms that the value of any additional allowance determined by the Authority shall be that which it considers appropriate. That paragraph includes a series of sub-paragraphs setting out general and specific considerations for the purposes of determining additional allowances which will also apply to the determination of network allowances for any project to enhance network resilience. These existing general sub-paragraphs are summarised below:

a) confirms that no allowance will be determined in respect of outputs or costs that are already funded;

b) sets out the requirement for the Licensee to provide such information as may be required by the Authority for the purposes of making a determination;

c) notes that the Authority may follow such procedures it considers appropriate, including providing for any audit, assessment, or consultation on the submission; and

d) notes that the Authority can make its determinations subject to conditions which the Licensee shall be required to comply with.

3. Proposed Modification of Annex 2 to Limit NIE Networks' Financial Exposure to Severe Weather Recovery Costs

Overview

3.1 We propose to modify NIE Networks' distribution and transmission licences to limit NIE Networks' financial exposure to severe weather recovery costs.

3.2 This proposal is made in response to representations from NIE Networks following Storm Éowyn which resulted in recovery costs which were materially greater than those experienced in the past.

3.3 We accept that there is likely to be some damage to the distribution network during severe weather. As a result, repairing damage following severe weather events is one of the functions which NIE Networks must undertake as part of its duty to develop and maintain an efficient, coordinated and economical system of electricity distribution[6]. Therefore, it is an activity which UR must consider as it has regard to the need to secure NIE Networks' ability to finance the activities which are the subject of obligations imposed on it by or under Part II of the Electricity Order or the Energy Order.[7]

3.4 To date, our price controls have included ex-ante allowances in respect of severe weather recovery costs. While these are assessed separately, they are included in the overall ex-ante allowances which we determine are necessary for NIE Networks to deliver its obligations. These ex-ante allowances form part of the price control mechanisms which include a cost sharing mechanism through which NIE Networks bears 50% of cost over-runs against the ex-ante allowances and retains 50% of any underspend against the ex-ante allowances. The sharing mechanism incentivises efficient expenditure during the price control and reveals efficient costs which can be captured in future price controls.

3.5 We continued to apply this approach in our final determination of the RP7 price control, which covers the six-year period from April 2025 to March 2031. Our determination of an ex-ante allowance for severe weather recovery costs was based on historical expenditure for the 12 year

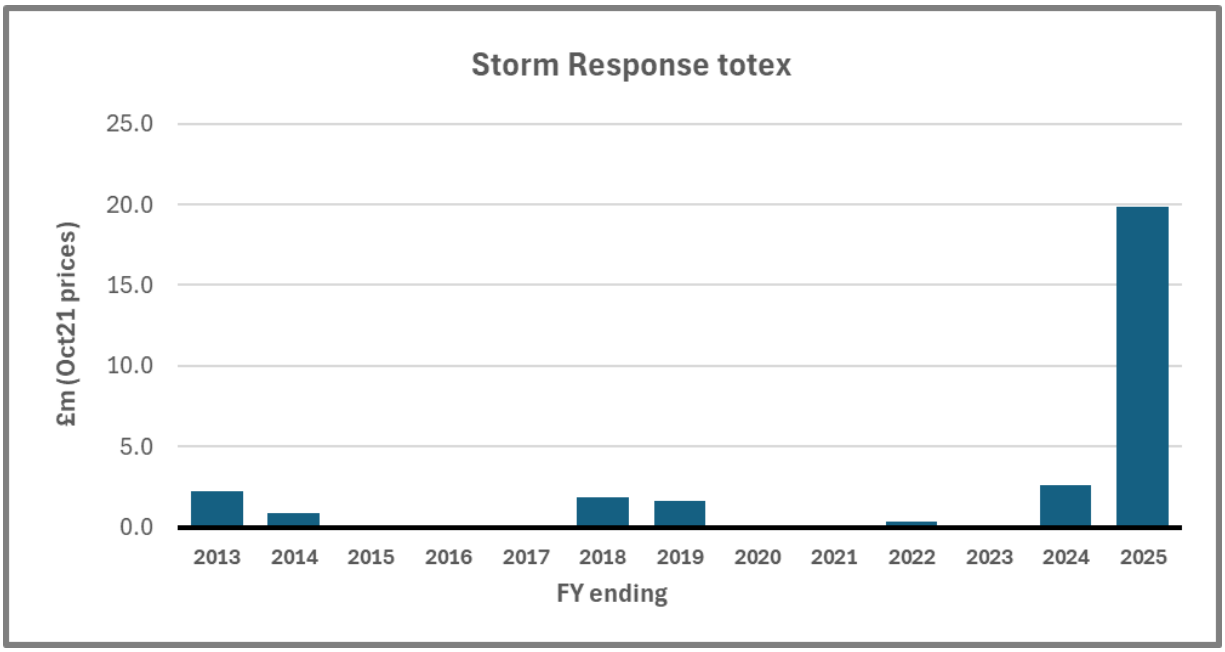
[6] Article 12(1) of The Electricity (Northern Ireland) Order 1992

[7] Article 12(2) of The Energy (Northern Ireland) Order 2003

period from 2012/13 to 2023/24. Using this method, we determined ex-ante allowances for severe weather recovery costs of £0.447m/a for operational expenditure (opex) and £0.357m/a for capital expenditure (capex). This is the equivalent to a total annual expenditure (totex) allowance of £0.804m/a, or total of £4.824m over the six year period of RP7. These allowances are stated in 2021/22 prices before the application of real price effect factors and productivity factors set out in the licence.

3.6 In the RP7 Final Determination, we used long term averages of historical data to estimate future allowances in the absence of any robust forward-looking methodology for forecasting severe weather recovery costs. While this approach might provide a reasonable estimate of the likely out-turn of severe weather recovery costs in RP7, the highly variable nature of historical costs (as shown in Figure 3.1 below) means that NIE Networks could spend more or less in any one year that the average allowance and more or less than the total allowance over the price control as a whole. Provided the distribution of future costs reflects the distribution of historical costs, NIE Networks' financial exposure to cost overrun during RP7 in respect of severe weather recovery costs should be manageable.

Figure 3.1 – Historical recovery costs as a result of severe weather (total expenditure £m 2021/22 prices)



3.7 Figure 3.1 also shows severe weather recovery costs incurred in 2024/25 which cover the response to Storms Darragh and Éowyn. The cost of £19.9m (£24.890m in 2024/25 prices) reflects the severity of these events with most of these costs incurred as a result of Storm Éowyn. Under the mechanisms of the RP6 price control, NIE Networks covered half this cost

at its own expense with the other half recovered from consumers through tariffs.

3.8 Because we completed our final determination for RP7 in advance of these exceptional events, they were not included in our assessment of ex-ante allowances. Had we done so, our determination of ex-ante allowances for RP7 (capex plus opex) might have increased from £0804m/a to £2.274m/a, almost treble the determined amount.

3.9 The scale of the costs and the severity of the events in 2024/25 means that it is likely to be a very low frequency event which could be excluded from any reasonable assessment of future costs based on historical, 12-year, averages. But it is also an indication of what is possible and may be a reflection of changes in the severity of severe weather events compared to recent averages.

3.10 Even if Storm Éowyn is a high impact, low probability event, there is a possibility that a number of events of similar magnitude might occur during RP7. While NIE Networks might recover these costs through allowances in future price controls, it would be exposed to significant costs in the short term which could increase the cost to the company (and ultimately to consumers) of raising finance.

3.11 In light of the increased level of financial risk exposed by storm events in 2024/25 we have set out proposals for modify the licence to place a cap of £3.500m (in 2021/22 prices) on the total distribution expenditure and £5.0m total transmission expenditure the company is exposed due to severe weather events in any one year. Expenditure below those caps will continue to be subject the 50/50 cost sharing mechanism. Expenditure above the caps will be recovered from consumers in full through tariffs.

3.12 We do not propose to change the ex-ante allowances of the RP7 Final Determination as a result of these changes.

Proposed modifications to the distribution licence

3.13 We propose to modify Annex 2 of the distribution licence as set out in Table 3.1 below.

Table 3.1: Proposed modifications to Annex 2 of the distribution licence to limit NIE Networks' financial exposure to severe weather recovery costs

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 1	Limit NIE Networks' financial exposure to severe weather recovery costs	Add a new definition: "Severe Weather Recovery Costs" means the marginal opex expenditure and marginal capex expenditure incurred by the Licensee due to Severe Weather Events as approved by the Authority following the submission of information by the Licensee and any further investigation or audit required by the Authority.
Annex 2 4.17	Limit NIE Networks' financial exposure to severe weather recovery costs	After sub-paragraph 4.17(b)(vii) of Annex 2, insert a new sub-paragraph: viii) any severe weather recovery capex expenditure incurred by the Licensee in Regulatory Reporting Year t which exceeds an amount calculated as follows: £3,500,000 *CPIHt/CPIHtbp.
Annex 2 4.21	Limit NIE Networks' financial exposure to severe weather recovery costs	In the equation for PTCE_Xt (pass through capex expenditure amount) add an additional term CSW_Xt.
Annex 2 4.21	Limit NIE Networks' financial exposure to severe weather recovery costs	After the definition of CCSA_Xt in paragraph 4.21(b) of Annex 2, add definition of additional term: CWS_Xt …means the severe weather recovery capex amount in Regulatory Reporting Year t for RAB_D5Y only, being the amount, if any calculated under paragraph 4.17(b)(viii) of this Annex.
Annex 2 6.3	Limit NIE Networks' financial exposure to severe weather recovery costs	After sub-paragraph 6.3(b) (vii) of Annex 2, insert a new sub-paragraph: viii) any positive amount calculated as the sum of the severe weather recovery capex expenditure and severe weather recovery opex expenditure incurred by the Licensee in Regulatory Report Year t, minus both £3,500,000 * CPIHt/CPIHtpb and the amount, if any, determined by paragraph 4.17(b)(viii).

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 6.7	Limit NIE Networks' financial exposure to severe weather recovery costs	In the equation for PTOE_Xt (pass through capex expenditure amount) add an additional term OSWt
Annex 2 6.7	Limit NIE Networks' financial exposure to severe weather recovery costs	After the definition of OBRAt in paragraph 6.7(b) of Annex 2, add definition of additional term: OSWt means the severe weather recovery opex amount in Regulatory Reporting Year t, being the amount, if any, calculated under paragraph 6. 3(b)(viii) of this Annex.

Reasons

3.14 The proposed licence modifications set out above have been developed to:

a) Allow the company to recover severe weather costs which exceed £3.5m in 2021/22 prices in any one year as pass-through expenditure.

b) In the event of total severe weather recovery costs exceeding that threshold amount in any year, the proposed modifications preferentially allocate severe weather operational costs to pass-through expenditure and then allocate capex expenditure costs to pass-through expenditure only to the amount that severe weather capital costs exceeds the threshold amount.

Definition of severe weather recovery costs

3.15 The reason for proposing a definition of severe weather recovery costs is to provide clarity on the scope of costs which might pass-through to revenue under this mechanism.

3.16 Our general preference is to limit pass-through costs to items where there is a clear external driver and a clear means of accounting for the costs. For example, amounts paid for licence fees or business rates. In the case of severe weather recovery costs, NIE Networks must make an allocation of costs in, what can be, challenging circumstances.

3.17 At present, severe weather recovery costs are treated in the same way as most other costs when it comes to determining tariffs, falling under the 50/50 cost sharing mechanism against determined ex-ante allowances. As a result, how NIE Networks identifies these costs does not have an impact on the calculation of revenue when tariffs are set. If part of this

expenditure passes through to tariffs, we consider it appropriate to ensure that the pass-through amount is subject to reasonable regulatory scrutiny and challenge. To achieve this, we have:

a) Defined severe weather recovery costs as the marginal cost incurred by the Licensee due to severe weather events. The reference in the definition to 'marginal' costs will exclude any accounting allocation of indirect costs and business support costs which would remain fixed in total.

b) Made the amount of severe weather recovery costs subject to approval of the Authority following the submission of information by the Licensee and any further investigation or audit required by the Authority. This makes provision for reasonable regulatory scrutiny and challenge of costs will be recovered from customers in full.

Proposed annual threshold of £3.5m in 2021/22 prices

3.18 We propose to set a threshold of £3.5m in 2021/22 prices in any one year, above which severe weather recovery costs will be recovered from consumers in full. This threshold will apply to total expenditure being the sum of capex expenditure and opex expenditure.

3.19 Having concluded that is appropriate to cap the financial exposure of NIE Networks to severe weather recovery cost following Storm Éowyn (for reasons set out in the overview to this Chapter) we considered two options:

a) Option 1: to cap the financial exposure of the company to severe weather recovery costs in any one financial year.

b) Option 2: to cap the total financial exposure of the company to severe weather recovery costs over RP7 as a whole.

3.20 In principle, we would prefer to

a) Limit pass-through of costs incurred to consumers to maintain incentives for the company to manage expenditure efficiently.

b) Limit pass-through to costs which can be clearly identified such as licence fees and business rates and avoid costs which might be difficult to account for specifically and require some reliance on allocation by the company.

3.21 In line with that general principle, we believe that it is appropriate to apply an annual threshold on severe weather recovery costs rather than a cap on costs over RP7 as a whole. The experience of Storm Éowyn shows

that there is every possibility of a severe event in one year exceeding any reasonable threshold we might set on cumulative costs. If we applied a cap on costs over RP7 as a whole, all costs would pass-through to consumers for the remainder of the price control. This would reduce the incentive to manage costs efficiently and increase reliance on company cost allocations in challenging circumstances. In addition, it would risk a further increase in regulatory burden of regular scrutiny of costs incurred.

3.22 The proposed threshold of £3.5m in 2021/22 prices is based on our analysis of the distribution of reported severe weather recovery costs shown in Figure 3.1, excluding 2024/25. Considering both the number of years with zero or trivial severe weather costs and the distribution of other costs), we concluded that a reasonable 95 percentile of annual severe weather costs was £3.5m in 2021/22 prices (equivalent to a 1 in 20 year event).

3.23 While we recognise the limitations of any statistical analysis based on 12 years of reported costs for severe weather events, we consider an annual threshold of £3.5m reasonable against a maximum value of £2.6m prior to 2024/25.

3.24 A threshold of £3.5m would have provided the company with significant protection during Storm Éowyn, reducing its exposure to severe weather costs from £9.8 m to £1.75m (in 2021/22 prices) following application of the 50/50 cost sharing mechanism. However, its key purpose is to protect the company against the small probability of repeated Storm Éowyn scale events during one price control. It would cap the company's maximum exposure to severe weather costs to £10.5m over the duration of the price control (after the application of the 50/50 cost sharing mechanism).

3.25 The threshold amount is stated in 2021/22 prices. To ensure that the threshold value remains relevant over the long term, we propose to inflate it to nominal prices using CPIH, the general measure of inflation applied in the RP7 determination and licence modifications.

Preferential allocation of severe weather operational costs to pass-through expenditure

3.26 Having proposed to set a threshold on total severe weather costs we must decide how that thresholds is applied in a licence which provides for separate treatment of opex and capex. This could be done in one of three ways:

a) Allocate the threshold value between capex and opex in proportion to actual expenditure to calculate pass-through values.

b) Preferentially allocate opex expenditure to pass-through with an allocation of capex expenditure to pass-through when capex expenditure itself exceeds the threshold value.

c) Preferentially allocate capex expenditure to pass-through with an allocation of capex expenditure to pass-through when capex expenditure itself exceeds the threshold value.

3.27 Capex and opex are treated differently when calculating revenue. Opex expenditure passes directly into revenue, subject to the rules set out in the licence. Capex expenditure is recovered more slowly through depreciation and rate of return.

3.28 In our view, there is merit in passing severe weather costs through to consumers quickly to ensure that those who benefit pay for the work in their tariffs. We therefore propose to preferentially allocate severe weather recovery opex expenditure to pass-through expenditure when the pass-through threshold is exceeded. However, this will create additional volatility in tariffs with much of the additional revenue being recovered from consumers in the tariff year (running from October to September) following a major event. The alternative would be to smooth the additional revenue over a period of time, but this would come at an additional cost of a rate of return applied to any amount until it is recovered.

Explanation of the proposed licence modifications

3.29 The proposed licence modifications are designed to exclude expenditure above the cap from "qualifying expenditure", the term in the licence to denote expenditure which is subject to the existing 50/50 cost sharing mechanism of the licence. The expenditure above the cap is then designated as "pass-through" expenditure, the term in the licence to denote expenditure which is recovered in full from consumers.

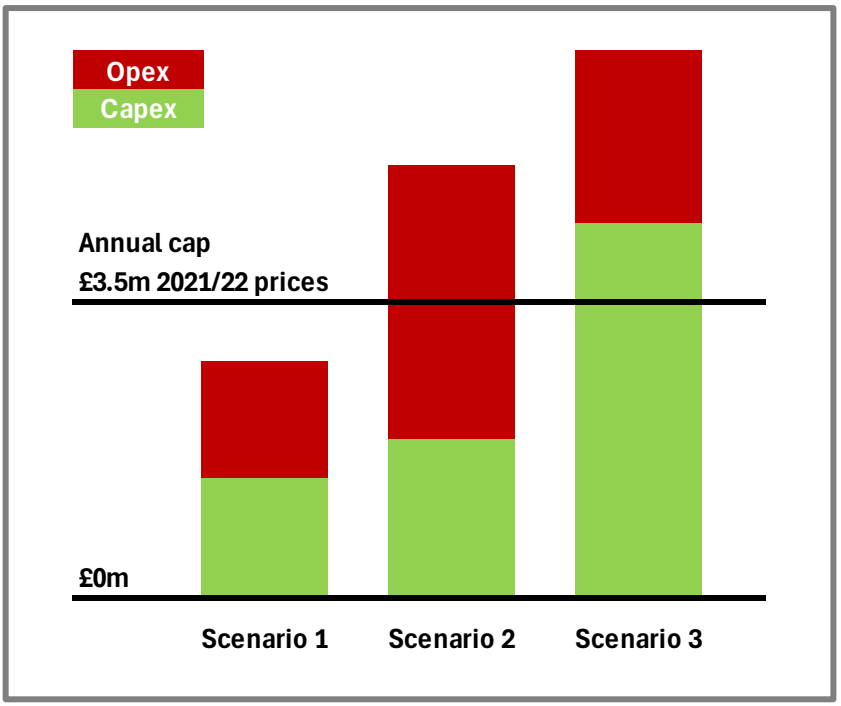
3.30 The proposed licence modifications are a series of mathematical statements which give effect to the proposals above. This section provides an explanation of the proposed modifications against three possible scenarios which are described below and shown in Figure 3.2:

a) Scenario 1: Total capex and opex expenditure does not exceed the threshold.

b) Scenario 2: Total capex and opex expenditure exceeds the threshold, but capex expenditure is below the threshold.

c) Scenario 3: Total capex and opex expenditure exceeds and capex expenditure exceeds the threshold.

Figure 3.2: Possible cost scenarios against the pass-through threshold



3.31 The proposed modification to Annex 2, paragraph 4.17,

"any severe weather recovery capex expenditure incurred by the Licensee in Regulatory Reporting Year t which exceeds an amount calculated as follows: £3,500,000 *CPIHt/CPIHtbp. "

reflects Scenario 3, where the capex expenditure exceeds the threshold value. It excludes the amount of capex expenditure which exceeds the threshold value from qualifying capex expenditure which is subject to the 50/50 mechanism. It is zero in Scenario 1 and Scenario 2.

3.32 The proposed modification to the equation at Annex 2 paragraph 4.21 creates a new term CSW_Xt in the equation for pass-through capex expenditure to capture any amount of severe weather recovery costs excluded from capex qualifying expenditure as defined above.

3.33 The proposed modification to the definitions in Annex 2, paragraph 4.2.1 defines the amount of severe weather recovery capex expenditure added as pass-through expenditure as the amount excluded from capex qualifying expenditure defined above. We have decided to allocate all severe weather pass-through capex to the RAB depreciated over 5 years to ensure that it is recovered over a short period of time from those consumers which benefitted directly from the expenditure.

3.34 The proposed modification to Annex 2 paragraph 6.3

"any positive amount calculated as the sum of the severe weather opex expenditure and severe weather capex expenditure incurred by the Licensee in Regulatory Report Year t, minus both £3,500,000 * CPIHt/CPIHtpb and the amount, if any, determined by paragraph 4.17(b)(viii)."

reflects the opex amount above the threshold value shown in both Scenarios 2 and 3. It is the amount of total expenditure above the threshold value less the amount of capex expenditure determined by paragraph 4.17(b)(viii). This capex amount is the amount of capex above the threshold amount in Scenario 3, and zero in Scenarios 1 and 2. The text excludes the determined opex amount from qualifying opex expenditure.

3.35 The proposed modification to the equation at Annex 2 paragraph 6.7 creates a new term OSW_Xt in the equation for pass-through opex expenditure to capture any amount of severe weather recovery costs excluded from the qualifying expenditure as defined above.

3.36 The proposed modification to the definitions in Annex 2, paragraph 6.7 defines the amount of severe weather recovery opex expenditure added as pass-through expenditure as the amount excluded from opex qualifying expenditure.

3.37 The existing conditions of the licence with regard to demonstrably inefficient and waste full expenditure in respect of qualifying expenditure and pass-through expenditure are general in nature and will continue to apply to any severe weather recovery expenditure.

Long term consistent approach

3.38 One or more events of the magnitude of Storm Éowyn would have a material impact on the determination of long-term average ex-ante allowances for severe weather recovery costs for future price controls (see paragraph 3.8 above). Because these events are likely to be of low probability, this would increase the risk of that the company would receive material allowances in any one price control which would be unused or over-spent. Introducing a cap on severe weather expenditure subject to the 50/50 sharing mechanism also provides a basis for moderating this potential mismatch between allowances and expenditure in future price controls.

3.39 If we implement the proposals set out in this consultation, we would be minded to adopt the following approach to the determination of allowances for severe weather recovery costs in future price control determinations:

a) We would calculate an ex-ante allowance on the basis of a 12 year trailing average of reported severe weather recovery costs less a determined annual cap.

b) In the absence of significant new evidence to the contrary (such as a higher and more frequent severe weather recovery costs in RP7), we would maintain the level of the annual cap at the amount determined for RP7 following this consultation, adjusted for the general measure of inflation applied in the next price control.

c) The company would continue to recover any annual expenditure on severe weather recovery above the capped amount through revenue as a pass-through cost.

3.40 While providing an indication of what we are minded to do in future determinations, we reserve the right to adopt new approaches or new determined values in the light of circumstances which pertain at the time, following appropriate consultation.

Effects

3.41 The proposed modifications to the licence will limit NIE Networks' financial exposure to severe weather recovery costs to a total amount of £3.5m (in 2021/22 prices) in any one year.

3.42 This will ensure that the company's ability to finance its activities will not be compromised by its exposure to high costs of exceptional events such as Storm Éowyn which were not considered when we determined allowances for the RP7 period.

3.43 If the proposed modifications are applied over the long term, it will provide a more robust framework for dealing with events such as Storm Éowyn when calculating ex-ante allowances in future price controls.

3.44 As a result of these proposals consumers will pay more of the costs of severe weather recovery in the two years immediately following the event. This will add some additional volatility to tariffs. However, the additional pass-through cost will be countered by taking these severe events out of the determination of future ex-ante allowances which have, to date, been based on an average of historical costs.

Proposed modifications to the transmission licence

3.45 We propose to modify Annex 2 of the transmission licence as set out in Table 3.1 below.

Table 3.2: Proposed modifications to Annex 2 of the transmission licence to limit NIE Networks' financial exposure to severe weather recovery costs

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2	Limit NIE Networks' financial exposure to severe weather recovery costs	Add a new definition "Severe Weather Event" means an incident affecting the transmission network linked to weather conditions. "An incident" is defined as any occurrence on the NIE transmission system, which: • Results in an interruption of supply to customer(s) for one minute or longer; or • Prevents a circuit or item of equipment from carrying normal load current or being able to withstand "through fault current" for one minute or longer. "Weather conditions" means the effect of one or more of wind, lightning, rain, snow, ice, flooding, thermal heating and other recognised weather phenomena as the Authority may from time to time deem appropriate for inclusion in this list.
Annex 2 1	Limit NIE Networks' financial exposure to severe weather recovery costs	Add a new definition: "Severe Weather Recovery Costs" means the marginal opex expenditure and marginal capex expenditure incurred by the Licensee due to Severe Weather Events as approved by the Authority following the submission of information by the Licensee and any further investigation or audit required by the Authority.
Annex 2 4.17	Limit NIE Networks' financial exposure to severe weather recovery costs	After sub-paragraph 4.17(b)(vi) of Annex 2, insert a new sub-paragraph: vii. any severe weather recovery capex expenditure incurred by the Licensee in Regulatory Reporting Year t which exceeds an amount calculated as follows: £5,000,000 *CPIHt/CPIHtbp.
Annex 2 4.21	Limit NIE Networks' financial exposure to severe weather recovery costs	In the equation for PTCE_Xt (pass through capex expenditure amount) add an additional term CSW_Xt.

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 4.21	Limit NIE Networks' financial exposure to severe weather recovery costs	After the definition of CCSA_Xt in paragraph 4.21(b) of Annex 2, add definition of additional term: CWS_Xt …means the severe weather recovery capex amount in Regulatory Reporting Year t for RAB_D5Y only, being the amount, if any calculated under paragraph 4.17(b)(viii) of this Annex.
Annex 2 6.3	Limit NIE Networks' financial exposure to severe weather recovery costs	After sub-paragraph 6.3(b) (vii) of Annex 2, insert a new sub-paragraph: viii. any positive amount calculated as the sum of the severe weather opex expenditure and severe weather opex expenditure incurred by the Licensee in Regulatory Report Year t, minus both £5,000,000 * CPIHt/CPIHtpb and the amount, if any, determined by paragraph 4.17(b)(vii).
Annex 2 6.7	Limit NIE Networks' financial exposure to severe weather recovery costs	In the equation for PTOE_Xt (pass through capex expenditure amount) add an additional term OSWt
Annex 2 6.7	Limit NIE Networks' financial exposure to severe weather recovery costs	After the definition of OBRAt in paragraph 6.7(b) of Annex 2, add definition of additional term: OSWt means the severe weather recovery opex amount in Regulatory Reporting Year t, being the amount, if any, calculated under paragraph 6. 3(b)(viii) of this Annex.

Reasons

3.46 The proposed licence modifications set out above have been developed to:

a) Allow the company to recover severe weather costs which exceed £5.0m in 2021/22 prices in any one year as pass-through expenditure.

b) In the event of total severe weather recovery costs exceeding that threshold amount in any year, the proposed modifications preferentially allocate severe weather operational costs to pass-through expenditure and then allocate capex expenditure costs to pass-through expenditure only to the amount that severe weather capital costs exceeds the threshold amount.

Definition of severe weather event

3.47 It is necessary to introduce a definition of a severe weather event into the transmission licence.

3.48 The distribution licence defines a severe weather event in terms of the number of incidents occurring on the high voltage distribution network in defined periods of time relative to long term averages. We propose to include a simpler definition for the purposes of the transmission licence, being any incident due to the impact of weather because:

a) There is no experience of incidents caused by the impact of severe weather events on the transmission network.

b) Any failure of the transmission network due to the impact of severe weather is expected to be significant, affecting large numbers of consumers.

c) The proposed threshold of £5.0m (in 2021/22 prices) before additional costs are subject to pass-through is only likely to be exceeded in severe events.

Definition of severe weather recovery costs

3.49 The reasons for the definition of severe weather recovery costs are the same as those set out for the proposed modifications for the distribution licence beginning at Paragraph 3.15 above.

Proposed annual threshold of £5.0m in 2021/22 prices for transmission severe weather costs

3.50 We propose to set a threshold of £5.0m in 2021/22 prices in any one year, above which severe weather recovery costs for the transmission network will be recovered from consumers in full. This threshold will apply to total expenditure being the sum of capex expenditure and opex expenditure.

3.51 For the reasons set out above for the distribution network we have concluded that it is appropriate to apply an annual threshold on severe weather recovery costs rather than a cap on costs over RP7 as a whole.

3.52 We determined a threshold for the distribution network based on an analysis of historical severe weather recovery costs. In the absence of any historical severe weather recovery costs for the transmission network we are unable to make a similar estimate related to an event return period. In the absence of such information, the introduction of a threshold for the transmission network only serves to limit the financial exposure of NIE Networks to severe weather events of which we have no experience. In

these circumstances, we consider it appropriate to make a judgement on an appropriate threshold.

3.53 Because there is no experience of severe weather events affecting the transmission network, and no expectation of severe weather impacts, we would only allow severe weather recovery costs to pass through to consumers once we had been satisfied that the root cause of the failure of the network event had not been the result in some deficiency of the company in respect of the design or maintenance of the network.

3.54 The threshold amount is stated in 2021/22 prices. To ensure that the threshold value remains relevant over the long term, we propose to inflate it to nominal prices using CPIH, the general measure of inflation applied in the RP7 determination and licence modifications.

Preferential allocation of severe weather operational costs to pass-through expenditure

3.55 We propose to preferentially allocate severe weather recovery opex to pass-through when the expenditure when the pass-through threshold has been exceeded. The reasons for this are the same as those given for the distribution licence beginning at Paragraph 3.26 above with a threshold of £5.0m (n 2021/22 prices).

Explanation of the proposed licence modifications.

3.56 The way in which the proposed licence modifications act to allocate costs between qualifying expenditure and pass-through expenditure, and between capex and opex is the same as that described for the distribution licence beginning at Paragraph 3.29 above.

Effects

3.57 The proposed modifications to the licence will limit NIE Networks' financial exposure to severe weather recovery costs to a total amount of £5.0m (in 2021/22 prices) in any one year.

3.58 This will ensure that the company's ability to finance its activities will not be compromised by its exposure to high costs of exceptional events such as Storm Éowyn which were not considered when we determined allowances for the RP7 period.

3.59 If the proposed modifications are applied over the long term, it will provide a more robust framework for dealing with events such as Storm Éowyn when calculating ex-ante allowances in future price controls.

3.60 As a result of these proposals consumers will pay more of the costs of severe weather recovery in the two years immediately following the event. This will add some additional volatility to tariffs. However, the additional pass-through cost will be countered by taking these severe events out of the determination of future ex-ante allowances which have, to date, been based on an average of historical costs.

4. Proposed Modification of Condition 32(17) Regarding Non-locational Charging

Overview

4.1 Condition 32 of the distribution licence sets out requirements for the 'Basis of Charges for use of and connection to the Distribution system', otherwise known as the DUoS charge. Condition 32(17) (Non-discrimination) specifies the application of 'non-locational' tariffs as part of the DUoS charge.

4.2 NIE Networks has identified an issue with the wording of the licence condition which could result in a small number of customers potentially facing tariff changes to higher prices despite reducing their maximum demand (MD) and freeing up network capacity, consequently it has approached UR to seek a licence modification to address this situation.

Licence Condition 32(17)

4.3 The NIE Networks Distribution Licence condition 32(17) governs the application of non-locational tariffs. It currently states:

'Non-discrimination

The Licensee shall make charges to all relevant suppliers for the provision of use of the Distribution System which are such as to secure that the element for use of the Distribution System in the amounts payable for supplies of electricity by customers of relevant electricity undertakings whose maximum monthly demand in the 3 months of the highest maximum demand on the Distribution System in each period of 12 consecutive months does not exceed 1 MW, shall be the same in that period, irrespective of where such customers are located or reside.'

4.4 In simple terms the condition sets out (alongside the DUoS charging statement – see below) that to determine which tariff a customer should be on, four factors need to be considered:

a) Connected voltage level.

b) Customer contracted Maximum Import Capacity (MIC).

c) Customers location (distance from the source substation).

d) Actual maximum demands (MDs) in the peak winter months.

4.5 NIE Networks has approached UR about the wording of this condition as, in attempting to ensure network capacity is more efficiently managed via a review of large users MIC, some users have reduced their MD below the 1MW threshold in the licence. In doing so however, NIE Networks has advised that the strict implementation of the wording of the condition could result in a small number of customers seeing their tariffs increase – despite them reducing their energy demands and freeing up network capacity.

4.6 Practically speaking this means, if a large user on the T202 tariff reduces their MD below the 1MW threshold in the licence in the three peak winter months they are obligated by the licence to pay the non-locational T203 tariff. This would result in a higher tariff being paid as a result of the reduction in MD.

4.7 This would be a counter intuitive set of circumstances to prevail consequently we are proposing to amend the licence to redress this anomaly.

DUoS Statement of Charges

4.8 Licence condition 32 is practically implemented through the NIE Networks Distribution Use of System (DUoS) Statement of Charges (SoC). NIE Networks charge electricity Suppliers based on the DUoS SoC prices. Suppliers can then recoup the DUoS charges from consumers through their electricity bills. The costs applicable are those as set out in the NIE Networks DUoS SoC[8] published online.

4.9 Schedule A.9 of the DUoS SoC sets out tariffs applicable for "Supply to Industrial, Commercial and Miscellaneous Premises where the supply is greater than or equal to 70kVA[9]. This contains the tariff structure which applies to the current consultation: "Supplies where MIC >=1MW and taken at High Voltage (6,600/11,000 Volts)" which are reproduced in Table 4.1 below.

Table 4.1: Current Statement of Charges for supplies where MIC >=1MW and taken at High Voltage (6,600/11,000 Volts)

DUoS Tariff Code	T202	T203
Voltage	HV	HV
Distance from Source Substation	0-0.15km	Over 0.15km
Standing Charge (£/mth)	290.67	290.67

8 2025/2026 charges included for information as the applicable charging statement at the time of publication.

9 kilo-volt-amperes, is a unit of apparent power that measures the total power in an electrical system, combining real and reactive power.

DUoS Tariff Code	T202	T203
MIC Charge (£/kVA)	1.144	1.456
Unit Charge 1 (p/kWh)	0.393	0.629
Unit Charge 2 (p/kWh)	1.026	2.699
Unit Charge 3 (p/kWh)	1.711	4.988
Unit Charge 4 (p/kWh)	1.444	4.160
Unit Charge 5 (p/kWh)	2.477	7.604
Unit Charge 6 (p/kWh)	0.335	0.458
Unit Charge 7 (p/kWh)	0.312	0.372
Reactive Power Charges (p/kVarh)	8.186	12.401

4.10 Two different tariffs apply based upon distance from the substation, T202 - premises within 0.15km of the substation (also referred to as locational) and T203 - premises over 0.15km from the substation (also referred to as non-locational).

4.11 While for the purposes of this consultation T202/T203 are the identified locational/non locational tariffs, the DUoS charges have other such tariffs T102/T103 and T302/T303 and this modification would similarly apply to them.

Proposed modifications to Condition 32 of the distribution licence regarding non-locational charging.

4.12 We propose to modify Condition 32 of the distribution licence as set out in Table 4.2 below.

Table 4.2: Proposed modifications to the distribution licence to correct inconsistencies

Licence paragraph	Purpose/Reason	Proposed modification
32(17)	To allow for the introduction of a more customer focused mechanism for determination of DUoS charges.	Remove the current text of paragraph 32(17) and replace with: 17 The Licensee shall ensure that charges made to all relevant suppliers for use of the Distribution System by customers whose Maximum Import Capacity (MIC) is less than 1,000 kVA shall be the same, irrespective of where such customers are located or reside.

Licence paragraph	Purpose/Reason	Proposed modification
32(19)	Introduction of a definition for explanatory purposes	At the end of Condition 32, add a further sub-paragraph: 19 "Maximum Import Capacity" means the maximum amount of electricity, recorded in kVA, that has been agreed (between the Licensee and the customer) can be supplied to the connection point.

Reasons

4.13 The current drafting of condition 32(17) has inadvertently created a scenario whereby large energy users who are trying to manage their MD (and in doing so assist NIE Networks to ensure network capacity is more efficiently managed), could be financially disadvantaged for doing so due to the requirement that dropping below 1MW across the peak winter months requires them to move onto a more expensive non-locational tariff. This is considered both counter intuitive and counterproductive as it disincentivises such a company to reduce their MD.

4.14 A secondary reason is also considered in that the current drafting of the condition is overly complex and ambiguous, leading to different interpretations of the licence condition.

Effects

4.15 The proposed redrafting of the licence condition simplifies it and makes it easier to implement/regulate.

4.16 Actual Maximum Demands would no longer need to be considered to determine which tariff any customer should be on. The tariff would be selected based on three criteria (rather than the original four)

- the customer's connected voltage level;
- contracted MIC; and,
- location (distance from the source substation).

4.17 Since these factors are fixed, it means the tariff will initially be selected and no annual reviews or annual tariff changes will be required. This creates more stability for customers[10] in terms of their tariff and DUoS charges.

10 Those customers on non-locational tariffs as set out in Appendix A9 of the DUoS Statement of Charges

4.18 The modification also relates the MIC threshold to kVA rather than MW which is more in keeping with how MICs are recorded by NIE Networks on customer connection agreements. It will also resolve the ambiguity of interpretation in the current drafting.

4.19 The modification may result in a small number of customers being eligible to move to lower priced tariffs as a one-off change. It is important to note however the overall DUoS revenue will not change. The savings made by those I&C customers referenced above, will still need collected by Northern Ireland consumers, so it will result in a very slight increase in charges for all other customers to recoup this non locational tariff saving[11].

11 the potential increases are 0.1% of total DUoS revenue. For a domestic retail bill this could be as little as 0.02% and for larger customers could be c.0.005%.

5. Proposed Modification to Make Provision for the Deferral of the Determination of Further IT Investment

Overview

5.1 The RP7 Final Determination stated that NIE Networks would submit an updated request to UR for 'Phase 2' expenditure (Years 3 to 6 of the period) in October 2026. The updated submission document, with evidence and associated spreadsheets, would recognise additional information available at that time. UR would then provide a decision in relation to adjusted allowances in advance of the commencement of Year 3 of RP7 – by 1 April 2027.

5.2 NIE Networks has notified us that there is currently insufficient information on the smart metering programme of work to understand how it will impact the rest of the RP7 digital and IT investment plans. As a result it has suggested deferring the submission by 12 months.

5.3 We propose to modify NIE Networks' distribution and transmission licences to give UR more flexibility over when we determine additional IT allowances.

Proposed modifications the distribution licence

5.4 We propose to modify Annex 2 of the distribution licence as set out in Table 6.1 below to correct inconsistencies in licence drafting.

Table 5.1: Proposed modifications to the distribution licence

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 4.46 i	to allow more flexibility over when additional IT allowances are determined.	Delete 'in line with the approach set out in Annex W of the Final Determination'

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 4.47 k	to allow more flexibility over when additional IT allowances are determined.	Delete 'an allowance may only be determined in respect of additional IT investment at times determined by the Authority to fall immediately in advance of year 3 (April 2027), in respect of submissions made by the Licensee at least 6 months in advance of that times.' and replace with 'not used'
Annex 2 6.15 f	to allow more flexibility over when additional IT allowances are determined.	Delete 'in line with the approach set out in Annex W of the Final Determination'
Annex 2 6.15A i	to allow more flexibility over when additional IT allowances are determined.	Delete 'an allowance may only be determined in respect of additional IT investment at times determined by the Authority to fall immediately in advance of year 3 (April 2027), in respect of submissions made by the Licensee at least 6 months in advance of that times.' and replace with 'not used'

Proposed modifications to the transmission licence

5.5 We propose to modify Annex 2 of the transmission licence as set out in Table 6.2 below to correct inconsistencies in licence drafting.

Table 5.2: Proposed modifications to the transmission licence

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 4.40 g	to allow more flexibility over when additional IT allowances are determined.	Delete 'in line with the approach set out in Annex W of the Final Determination'
Annex 2 4.41 i	to allow more flexibility over when additional IT allowances are determined.	Delete 'an allowance may only be determined in respect of additional IT investment at times determined by the Authority to fall immediately in advance of year 3 (April 2027), in respect of submissions made by the Licensee at least 6 months in advance of that times.' and replace with 'not used'
Annex 2 6.15 e	to allow more flexibility over when additional IT allowances are determined.	Delete 'in line with the approach set out in Annex W of the Final Determination'

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 6.15A g	to allow more flexibility over when additional IT allowances are determined.	Delete 'an allowance may only be determined in respect of additional IT investment at times determined by the Authority to fall immediately in advance of year 3 (April 2027), in respect of submissions made by the Licensee at least 6 months in advance of that times.' and replace with 'not used'

Reasons

5.6 We propose to make the modifications to the NIE Networks' distribution licence itemised in Table 6.1 above and the modifications to the NIE Networks' transmission licence itemised in Table 6.2 above to allow more flexibility in when we determine additional IT allowances.

Effects

5.7 The proposed modifications remove the time bound constraint within the existing licence drafting and will allow NIE Networks the ability to make submissions for additional IT when sufficient information is available.

6. Proposed Correction of Licence Inconsistencies

Overview

6.1 As part of the preparation of the licence modification consultation, we identified a number of inconsistencies in the drafting of licence modifications pursuant to the RP7 Final Determination and other regulatory decisions published on 4 February 2025.[12]

Proposed modifications the distribution licence

6.2 We propose to modify Annex 2 of the distribution licence as set out in Table 6.1 below to correct inconsistencies in licence drafting.

Table 6.1: Proposed modifications to the distribution licence to correct inconsistencies

Licence paragraph	Purpose/Reason	Proposed modification
Annex 1 2.3	Correction of licence inconsistency	Delete '1 April 2012' and replace with '1 April 2025'
Annex 2 4.6	Correction of licence inconsistency	Delete the equation for OE_X_{2026} and replace with $OE\_X_{2026} = (CE\_X_{2025} + CAAD\_X_{2025}) * CPIH_{2026}/CPIH_{2025}$
Annex 2 4.33	Correction of licence inconsistency	In the equation at Paragraph 4.33, delete the second '5' from the term AC_FD_D5Y5t to restate it as AC_FD_D5Yt.
Annex 2 4.45A	Correction of licence inconsistency	After paragraph 4.45 of Annex 2, introduce new paragraph. '4.45A For the purposes of this Annex, in each Regulatory Reporting Year t, the additional allowed capex (ACDR_Xt) amounts for each RAB_X shall be calculated as follows:'
Annex 2 4.45A	Correction of licence inconsistency	In the equation delete the term 'ACDR_X_t and replace it with ACDR_Xt.
Annex 2 4.46 j	Correction of licence inconsistency	Delete 'affectation' and replace with 'affection".

[12] RP7 Licence Modifications - decision paper | Utility Regulator

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 6.14A	Correction of licence inconsistency	After paragraph 6.14 of Annex 2, introduce new paragraph. '6.14A For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed opex other (AOOt) amount shall be calculated as follows:'
Annex 2 6.15 g	Correction of licence inconsistency	Delete 'affectation' and replace with 'affection'.

Proposed modifications to the transmission licence

6.3 We propose to modify Annex 2 of the transmission licence as set out in Table 6.2 below to correct inconsistencies in licence drafting.

Table 6.2: Proposed modifications to the transmission licence to correct inconsistencies

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 4.6	Correction of licence inconsistency	Delete the equation for OE_X_{2026} and replace with $OE\_X_{2026} = (CE\_X_{2025} + CAAD\_X_{2025}) * CPIH_{2026}/CPIH_{2025}$
Annex 2 4.39	Correction of licence inconsistency	At the start of the paragraph and immediately before the equation for ACTR_Xt, insert 'For the purposes of this Annex, in each Regulatory Reporting Year t, the additional allowed capex (ACTR_Xt) amounts for each RAB_X shall be calculated as follows:'
Annex 2 4.39	Correction of licence inconsistency	In the equation delete the term 'ACTR_X_t and replace it with ACTR_Xt.
Annex 2 4.41 f	Correction of licence inconsistency	At the end of the paragraph following the word prescribed, insert 'months'.
Annex 2 6.14A	Correction of licence inconsistency	After paragraph 6.14 and immediately before the equation for AOOt, insert 'For the purposes of this Annex, in each Regulatory Reporting Year t, the allowed opex other (AOOt) amount shall be calculated as follows:'
Annex 2 6.15 f	Correction of licence inconsistency	Delete 'affectation' and replace with 'affection'.

Licence paragraph	Purpose/Reason	Proposed modification
Annex 2 6.15A f	Correction of licence inconsistency	Delete the words 'to fall immediately after'.

Reasons and effects

6.4 We propose to make the modifications to the NIE Networks' distribution licence itemised in Table 6.1 above and the modifications to the NIE Networks' transmission licence itemised in Table 6.2 above to correct minor errors and inconsistencies in the respective licences.

6.5 The proposed modifications have no substantive effect on the meaning or operation of the licences.

7. Next Steps

Consultation response

7.1 This is an open consultation. We invite stakeholders to express a view on any particular aspect of the paper or any related matter. Responses should be received on or before 29 May 2026 and should be addressed to:

Colin Walker
Manager
Northern Ireland Authority for Utility Regulation
Millennium House
Great Victoria St
Belfast, BT2 7AQ
Tel: 02890 316648

Email: Electricity_Networks_Responses@uregni.gov.uk
with cc to colin.walker@uregni.gov.uk

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

7.2 Your response may be made public by us. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'.

7.3 If you want other information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

7.4 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 and the Data Protection Act 2018).

7.5 As stated in the GDPR privacy statement for consumers and stakeholders, any personal data contained within your response will be deleted once the matter being consulted on has been concluded, though the substance of the response may be retained.

7.6 This document is available in other accessible formats, such as large print, Braille, audio cassette and a variety of relevant minority languages if required. Please contact Colin Walker on either 02890 316648 or email:

Electricity_Networks_Responses@uregni.gov.uk with cc to colin.walker@uregni.gov.uk

7.7 If appropriate, we can have individual discussions with interested parties. Please contact us if you consider this to be more suitable.

Timelines

7.8 The next steps and associated timelines for the licence modification process are summarised below.

Table 7.1: Overview of proposed modifications to the distribution licence

Nex steps	Proposed date
Closure of consultation on proposed licence modifications.	29 May 2026
Decision on licence modifications.	24 August 2026
Effective date of licence modification decision	19 October 2026

7.9 We note that this timetable assumes the effective date of the licence modifications to be 56 days after the publication of the licence modification decision, in line with the requirements of Article 14 of the Electricity Order.

7.10 This period provides an opportunity for the licence holder concerned, any other licence holder materially affected by the decision, a qualifying body or association representing one of those licence holders, and/or the Consumer Council for Northern Ireland (CCNI) to appeal the decision on the licence modifications to the Competition and Markets Authority (CMA).