

# **FIRMUS ENERGY SUPPLY LIMITED**

## **2027 - 2030 PRICE CONTROL**

**Draft Determination**

**2 June 2026**

## 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 Millennium 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.

### 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 document sets out Utility Regulator's (UR) draft determination proposals for the next firmus energy (supply) Ltd (FES) price control. The price control covers a four-year period which begins in January 2027 and runs to the end of December 2030.

This paper outlines our proposals in relation to the main areas within the price control: structure and form; scope and coverage of regulated tariffs; duration of control; operating costs levels and allocations; and allowed margin.

## AUDIENCE

This document will be of interest to all electricity and gas licensees. Government departments, organisations representing consumer interests and other stakeholders will also be interested given the potential for greater transparency.

## CONSUMER IMPACT

The price control sets the permitted costs, margin and framework for the duration of the control period. Subsequent price regulated tariffs will have to operate within these limits and framework.

FES is the price-controlled gas supplier for domestic and small industrial and commercial customers in the Ten Towns gas distribution network. The price control decisions will therefore impact the bills of these customers. While this review deals with all aspects of the FES price control, its focus is the determination of FES margin and operating costs. These costs account for approximately 10% of a typical domestic gas bill.

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# Executive Summary

## Gas supply price controls

Firmus Energy (Supply) Ltd (FES) currently supplies gas to all domestic customers and to 65% of small industrial and commercial (I&C) customers within the Ten Towns network. Given its dominant position in these markets, FES is subject to periodic price control reviews by the Utility Regulator (UR). The purpose of the price control review is to ensure FES charges its price-controlled (tariff) customers<sup>1</sup> a fair price for gas, while also having sufficient resources to be able to provide a high quality of customer service.

The existing FES price control (SPC23) is set to expire on 31 December 2026, and the next price control SPC27 will apply with effect from 1 January 2027. We began the process to develop the SPC27 price control by publishing a Draft Approach consultation in July 2025. Having considered the responses to the consultation, we published our SPC27 Final Approach in November 2025.

FES submitted its proposals and expenditure requests for the SPC27 price control period on 31 January 2026. We have reviewed and analysed the company's submission in order to provide our draft determination proposals, which we are now publishing for consultation.

SSE Airtricity is the price-controlled gas supplier for the Greater Belfast and West gas distribution network areas. Its existing price control is set to expire on 31 March 2027 and therefore its next price control, SPC27, is also under review. We will publish our proposals in relation to its price control in a separate draft determination consultation document in the coming months.

## Price control framework

The price control sets the treatment and value of the cost elements that make up the maximum average price charged to customers during the price control period. The determined treatment and values are used at each bi-annual tariff review during the price control period to ensure that FES is adhering to the maximum average price when setting its tariff rates.

The cost elements, and how we propose they are set and treated throughout the price control, are as follows:

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<sup>1</sup> Tariff customers are those within the price-controlled markets.

- Operating costs - We evaluate these costs and establish their allowances for the entire price control period. In the operating costs section of the document, you'll find a detailed overview of FES' submission, our thorough assessment, and our proposals for these values. This section is intended to offer clarity and transparency on how we approach operating cost allowances.
- Wholesale gas costs - we recognise the company's limited ability to control the gas purchase and GB network charges, we propose to continue treating these costs as pass-through. We propose to continue to set a unit rate for the cost of credit allowed within this category.
- Network costs - we conduct separate reviews on the network companies to determine the charges that they collect through the supply companies. After evaluating our current process, we propose to continue treating these costs as pass-through. This ensures transparency and consistency, allowing the charges to flow directly without additional intervention.
- Margin - we assess and set a profit margin percentage during the price control review, which is applied to the sum total of the above allowed cost elements. We provide detail of FES' margin submission, our assessment and our proposals in the margin section of this document.

Following the most recent<sup>2</sup> tariff review, the maximum average price from 1 July 2026 comprises of 48% wholesale gas costs, 42% network costs, 8% operating costs and 2% margin costs.

## **Scope and duration of the price control**

Currently, the lack of sufficiently developed competition in domestic and small I&C markets means that customers do not have effective choices when it comes to gas suppliers. Because of this, the price control mechanism serves as a proxy for competition, ensuring that the costs charged by gas suppliers remain fair and reasonable.

With FES continuing to hold a dominant position among domestic and small I&C customers within the Ten Towns network, it is crucial that we maintain the price control approach. This will help protect the interests of these customers and ensure they are not subjected to unreasonable pricing. Therefore, we propose that we continue using price control measures in this context, in order to safeguard customer interests until the market evolves to offer more genuine competition.

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<sup>2</sup> [Conclusion of review of FES tariff to apply from 1 July 2026](#)

We propose to apply the price control for a duration of four years. We consider this to strike a balance between the risk of unforeseen and impactful developments, which would increase with a longer duration, and the regulatory burden more frequent price control reviews. A short control could also mute the incentive for the regulated company to deliver efficiencies.

## Operating costs

Operating costs (opex) relate to costs the company incurs to provide the required services to its customers. They are grouped under three main categories: manpower, operations and billing.

FES changed ownership and separated its operations from the Kinecx distribution network company (formerly Firmus Energy Distribution) during the SPC23 price control period. We have carried out an analysis of FES' proposed operating costs considering this change in its circumstances. However, as outlined in our SPC27 Final Approach, the change of circumstance was a voluntary commercial decision which was made by FES, and our position is that consumers should not bear the costs associated with its implementation.

We have accepted the FES' requests across a number of cost areas where they're in line with actual costs incurred during the SPC23 period. Where appropriate we have taken account of actual costs that reflect the new post-separation operating circumstances.

We have not accepted manpower cost increases that exceed projected customer growth, nor any increases in corporate officer salaries. We have also not accepted costs that we have assessed were incurred due to the implementation of the separation from the distribution company. Fuller details of our assessment and proposals for all operating costs lines are provided in Chapter 7 of this document.

FES' operating costs submission and our draft determination proposals totalled across the four-year SPC27 period are summarised in the table below.

**Table 1: SPC27 operating costs draft determination**

£m	FES Submission	Draft Determination
Manpower	14.12	11.11
Operations	6.09	4.20
Billing	8.91	8.69
<b>Total</b>	<b>29.13</b>	<b>24.00</b>

The costs in the table and throughout the document are presented in October 2025 prices and represent the total FES Ten Towns supply business costs, unless stated otherwise. They exclude any costs relating to FES customers in the Greater

Belfast and West distribution networks. However, costs related to the Ten Towns non-price-controlled (non-tariff) markets are included. An apportionment process ensures that costs are allocated appropriately and that no cross-subsidisation occurs between the tariff and non-tariff Ten Towns markets.

## Margin

We consider that setting the margin at 2.0% for the SPC27 period is appropriate, as it maintains consistency with the levels applied in previous price controls. For reference, FES had initially proposed a margin in the range of 4.8-5.1% for SPC27, but after a series of engagements, this was subsequently reduced to 3.0%.

To ensure a robust outcome, UR brought in First Economics as external consultants to review, analyse, and provide advice and recommendations on FES' capital requirements and cost of capital. Their insights were instrumental in shaping our final proposal. The main adjustments made to FES' updated submission in reaching our 2% margin proposal are as follows:

- reducing the capital base to exclude hypothetical stand-alone supplier requirements that FES does not face in its current position
- reducing the capital base to remove assets that are not being approved as part of the SPC27 review
- accounting for costs recoverable elsewhere in the price control, such as letters of credit and k-factor interest.

Detailed analysis of the margin assessment and proposal is presented in Chapter 9 of this document and Annex A ("Firmus Energy Supply: Profit Margin Report"), published alongside this draft determination.

## About this document

The purpose of this document is to consult on our proposals for the SPC27 price control for FES before we make a final determination. Stakeholder engagement plays an important part in our regulation process, and we encourage you to become part of this. We are keen to hear the views of consumers and stakeholders on any issues connected to this price control.

The closing date for consultation responses is 31 July 2026 and details of how to respond to this consultation are provided in Chapter 11 below.

It is our intention to publish our Final Determination in October 2026. At that time, we will publish a further consultation on licence modifications to give effect to our Final Determination before making a final decision on the licence modifications.

# 1. Background

## Regulation of the Northern Ireland gas industry

- 1.1 The Utility Regulator (UR) is required to carry out its functions, including the setting of price controls, in accordance with the duties specified at Article 14 of the Energy (Northern Ireland) Order 2003. This legal obligation ensures that UR's actions are consistent with the relevant regulatory framework and uphold the standards expected within the industry.
- 1.2 The principal objective of UR is "to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland", whilst having regard to "the need to ensure a high level of protection of the interests of consumers of gas". However, the statute also sets out a range of other relevant duties which apply while we seek to fulfil that principal objective, and we will carefully take into account, and act in accordance with, all of them in making any decisions relating to the price control. We do not repeat the detailed provisions of Article 14 here, but reference should be made to them for an understanding of the duties that will shape our decisions.
- 1.3 Where competition is neither possible nor sufficiently developed or effective, UR protects customers by regulating the amount that can be charged by relevant companies. This applies to monopoly network businesses, but also to any electricity and gas supply markets in which there is a dominant supplier. Therefore, in the geographical gas markets, in which there are supply companies with dominant market positions in relation to household and small business customers, UR retains price controls on those companies.
- 1.4 In Northern Ireland, there are three distinct distribution network areas for natural gas. These are the Greater Belfast area, the Ten Towns area, and the West. The Greater Belfast area is served by Phoenix Energy Ltd, the Ten Towns area is served by Kinecx Energy Ltd (formerly known as Firmus Energy Distribution Limited), and the West is served by Evolve Ltd.
- 1.5 There are currently two price-regulated gas supply companies in Northern Ireland:
  - SSE Airtricity is the price-regulated gas supply company in Greater Belfast and the West; and
  - FES is the price-regulated gas supply company in the Ten Towns area.

- 1.6 In March 2005, firmus energy was awarded a licence to develop a new natural gas network outside Greater Belfast, along the route of the north west and south north gas transmission pipelines.
- 1.7 This is referred to as the Ten Towns network and covers Derry/Londonderry, Limavady, Coleraine (including Portstewart and Bushmills), Ballymoney, Ballymena (Broughshane), Antrim (including Ballyclare and Templepatrick), Craigavon (including Portadown and Lurgan), Banbridge, Newry (Warrenpoint) and Armagh (Tandragee).
- 1.8 Along with the licence to construct a network and convey gas, firmus was awarded a supply licence and a period of exclusivity. Given this initial monopoly position, the distribution and supply businesses have been subject to price controls. As detailed in the next chapter, FES retains a dominant market position in the domestic and small I&C gas supply markets.
- 1.9 Until November 2024 firmus had operated as integrated distribution and supply business. However, subsequent to this firmus made the voluntary decision to separate its business. The distribution and supply businesses are now under different ownership. The distribution network has also rebranded as Kinecx Energy.

## 2. Scope and Coverage

- 2.1 As set out in the 2025 Q4 Retail Energy Market Monitoring (REMM) report<sup>3</sup> the Ten Towns gas market has approximately 77,040 connections to the gas network broken down as follows:
- 73,865 - Domestic (EUC1)
  - 1,947 - Small I&C < 73,200 kWh (EUC1)
  - 1,228 - I&C < 732,000 kWh (EUC2), I&C > 732,000 kWh (EUC3), I&C Daily Metered > 2,196,000 kWh
- 2.2 FES supplies all 73,865 domestic customers. This market has been open to competition since April 2015, though there have been no new entrants.
- 2.3 The market for small I&C customers has also been open to competition since April 2015 and there are currently six suppliers in it. FES currently supplies 1,272 (65%) of the 1,947 customers, with Flogas the next largest with 389 customers (20%).
- 2.4 FES is subject to a price control for its supply to the domestic and small I&C EUC1 markets. FES was previously subject to price control for the EUC2 market but its share in terms of number of customers and consumption fell once competition opened in it in April 2015. The price control for FES EUC2 customers was disapplied from 1 April 2018 following consultation<sup>4</sup>. At that stage FES' EUC2 market share was less than 40%.
- 2.5 Given its continued position as the only supplier to the Ten Towns domestic market, we propose to continue to subject FES to a price control that will apply for SPC27 period for this market. We have therefore included cost allowances for it to serve this market in our SPC27 proposals.
- 2.6 For the small I&C market where competition and choice is provided by other suppliers, we have assessed if recent developments have affected FES' dominance.
- 2.7 In the decision paper for Power NI for the 2014-2017 Price Control<sup>5</sup>, UR had set a market share level of 50% as the threshold for consulting on the possible removal of a control on Power NI tariffs. This paper set out a

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<sup>3</sup> [Table 9 - Q4 2025 Retail Energy Market Monitoring report](#)

<sup>4</sup> [2017 Review of FES Price Control Scope](#)

<sup>5</sup> [2014 Power NI Supply Price Control Decision paper](#)

roadmap that would automatically trigger a consultation on further price deregulation in the non-domestic sector.

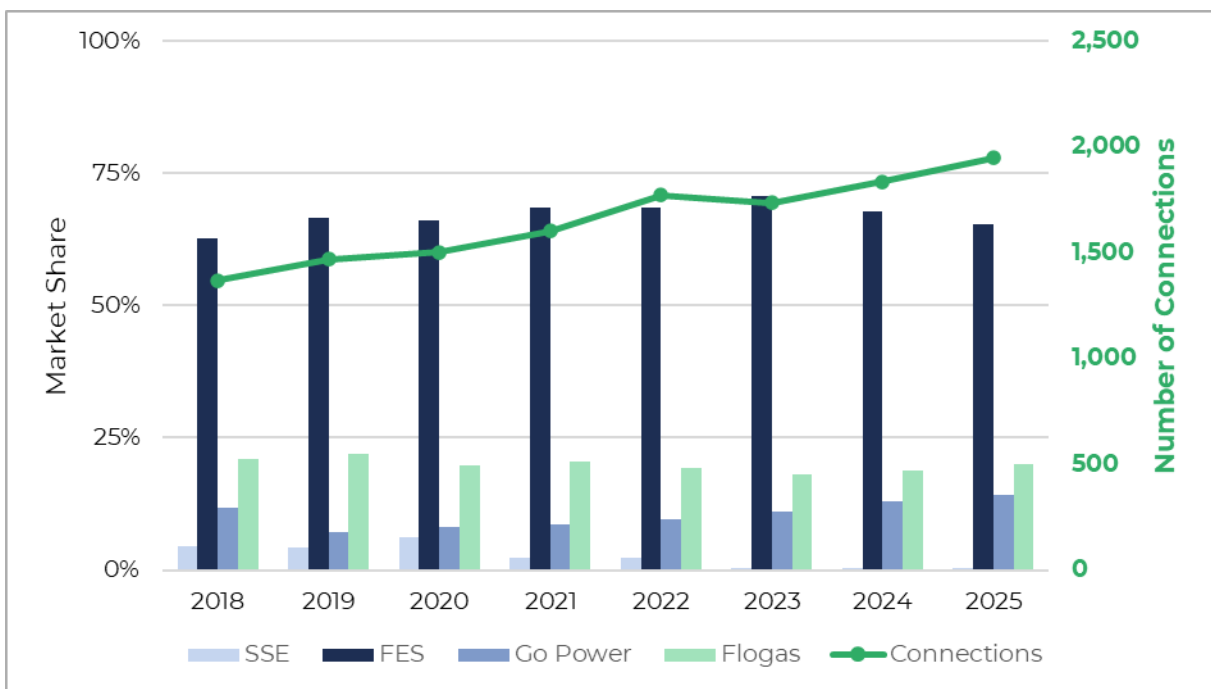
2.8 This paper noted:

- The relevant supplier must have a combined market share (by consumed units) of less than 50% for two consecutive quarters; and
- There must be a minimum of three independent suppliers, each of which has at least a 10% share of consumed units in the relevant market.

2.9 In this paper the UR did not suggest that an automatic trigger for a consultation would necessarily involve the lifting of all or part of the residual price control but merely the consideration of whether a further reduction in scope should occur. We would expect this to be subject to a range of factors, having regard in particular to the fact that in the case of the smaller non-domestic customers the need for consumer protection measures can be expected to be greater.

2.10 Out of the four suppliers in the Ten Towns small I&C market, FES has consistently held a dominant position with >60% of the market share over recent years, peaking at 70% in 2023. While this has since dropped to a current share of 66%, Figure 2.1 below shows that FES has generally tended to recover well from any year-on-year losses in market share.

**Figure 2.1: Evolution of the Small I&C Market in the Ten Towns**



- 2.11 From our assessment, we have no evidence that would suggest FES' small I&C market dominance would be eroded such that it would not need to be price controlled from 2027 to 2030. We have therefore included cost allowances for it to serve this market in our SPC27 proposals. However, should there be evidence of material changes to market dominance, FES can request to UR to consider disapplying the price control.

### 3. Duration

- 3.1 In our SPC27 Final Approach we set out that we considered that the price control should apply for 4-years, from 1 January 2027 to 31 December 2030. We requested that FES submit its proposals on this basis.
- 3.2 Our Final Approach position was informed by stakeholder responses to the SPC27 Draft Approach consultation and an assessment of duration options. We considered a 4-year period preferable as it would allow the review for the next price control to assess multiple years of data in the existing control, whereas a 3-year control would limit available data to 1-year.
- 3.3 FES did suggest in its SPC27 Draft Approach response that the control should be 3-years. Its rationale was that market changes and its new operating structure may mean there's a greater chance of forecast errors.
- 3.4 The current SPC23 price control covered a 4-year period, and in our SPC27 review we have found access to multiple years data to be beneficial for our assessment. Also, as set out in our operating costs section we have been able to review FES' costs in its new operating structure.
- 3.5 We also consider that our price control design proposals provide a relatively high level of protection from market changes:
- Allowances are adjusted by actual CPIH inflation.
  - The majority of costs that make up the tariff are subject to retrospective adjustment to reflect actual costs or activity levels.
  - We have proposed appropriate mechanisms in our uncertain costs section to allow for anticipated developments during the period.
- 3.6 A 4-year price control will also align with our decision for the recent Power NI price control. It was considered that a 4-year period strikes a balance between the risk of unforeseen and impactful developments, that would increase with a longer duration, and the regulatory burden associated with more frequent price control reviews. A short control could also mute the incentive for the regulated company to deliver efficiencies.
- 3.7 We therefore propose that SPC27 should be applied for 4-years.

## 4. The Regulated Tariff

4.1 The gas supply licence confers on UR the power to control charges if deemed necessary:

### 2.4.1 Control over Charges

*“The Licensee shall take all reasonable steps to secure that in any Relevant Year the average price per unit of gas supplied by it to Regulated Premises<sup>6</sup> shall not exceed the maximum price calculated”*

4.2 A price control is the mechanism that the UR uses to determine the costs which make up the maximum average price per therm that a price regulated gas supply company can charge.

4.3 In granting consent, we review the maximum average price to ensure that it is constructed in line with the provisions within the price control. The maximum allowed average unit price of gas ( $Ps_t$ ) for customers (subject to price control) is calculated as follows:

$$Ps_t = G_t + U_t + S_t + M_t + E_t - Ks_t$$

4.4 In any given year, t:

- a) **G<sub>t</sub>** refers to the cost of the “wholesale” gas which the supply company purchases in Relevant Year t.
- b) **U<sub>t</sub>** covers the costs of using the gas distribution and transmission networks in Relevant Year t.
- c) **S<sub>t</sub>** means the allowed operating charge in pence per unit of gas supplied by the Licensee to Regulated Premises in Relevant Year t.
- d) **M<sub>t</sub>** means the applicable margin to be applied to each unit of gas supplied by the Licensee to Regulated Premises in Relevant Year t.
- e) **E<sub>t</sub>** is an uncertainty mechanism used for allowing certain pre-defined categories of cost that are too uncertain at the start of the control to be included as an allowance in the  $S_t$  term, but in each case subject to a determination by UR of what is reasonable and efficient spend in Relevant Year t.

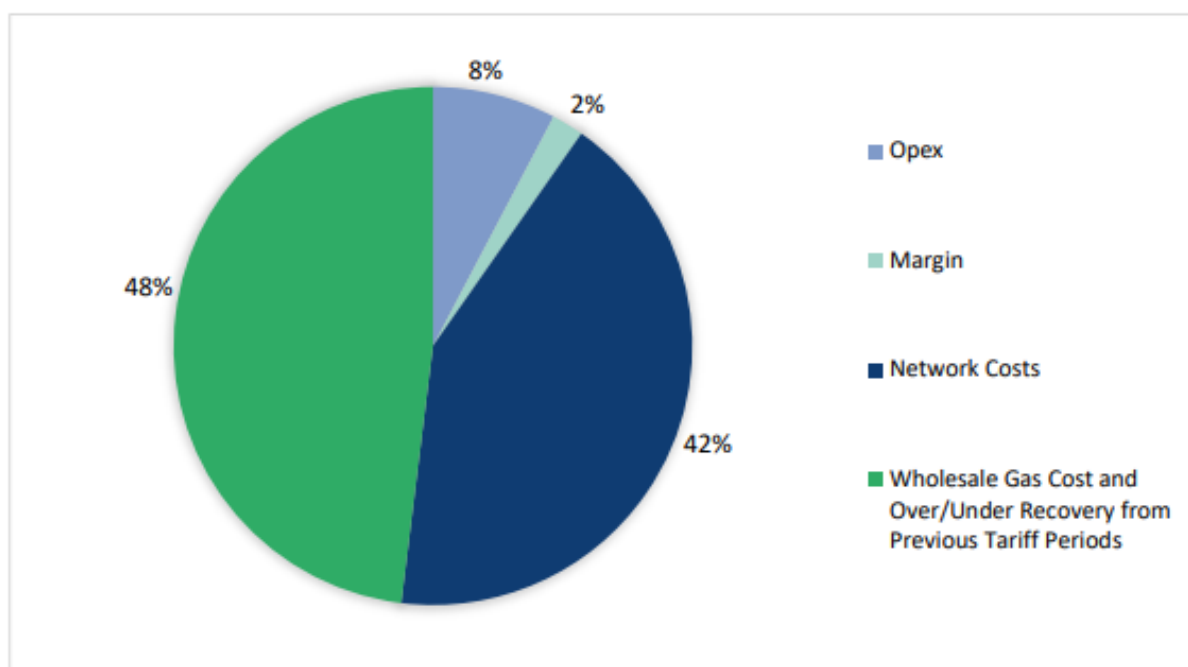
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<sup>6</sup> Regulated Premises means premises supplied by the Licensee in the Ten Towns Area at which the normal annual consumption of gas is reasonably expected not to exceed 73,200 kilowatt hours

- f) **K<sub>s</sub>** is a correction facility referred to as the k-factor whereby under or over-recoveries in the previous year can be collected by the business (under-recovery) or given back to consumers (over-recovery).

4.5 The percentage breakdown of the most recent<sup>7</sup> maximum average price into the main cost elements is provided in Figure 4.1 below. This was based on a maximum average price of 222.60 pence per therm which means the typical annual bill for an average domestic credit customer would be £973. The proportion of each cost element can fluctuate which has been observed in the SPC23 period due to material changes in the wholesale gas costs.

**Figure 4.1: Makeup of the FES maximum average price from 1 July 2026**



4.6 We have set out our proposals for the treatment of each element during the SPC27 period in the below chapters of this document.

### Tariff Review

4.7 A tariff review is the process of analysis and discussion of the tariff to consider if a change to the tariff is needed, and to decide the magnitude and timing of any change.

4.8 We review the gas tariffs on a bi-annual basis. In addition, we are able to initiate a tariff review under the trigger mechanism as discussed below.

<sup>7</sup> [Conclusion of review of FES tariff to apply from 1 July 2026](#)

We consider that regular reviews minimise the impact of k factor on the tariff and can help mitigate tariff volatility for consumers.

- 4.9 We have established a process in consultation with FES, the Consumer Council NI (CCNI), and the Department for the Economy (DfE) which sets out the timescales and information required in setting the tariff.
- 4.10 The tariff review process is a consultative one where all parties bring their expertise and opinion in relation to the needs of the gas supplier, the needs of the consumer, and the wider impact on the economy. Therefore, it is important that all parties are aware of and in agreement with the formal process.
- 4.11 This process provides a robust procedure, which is in line with the requirements of the licence to ensure that all parties are consulted in a timely, prescribed, and comprehensive manner for both anticipated and unanticipated tariff reviews.

### Trigger Mechanism

- 4.12 In addition to the bi-annual tariff reviews we establish a trigger mechanism within the price control. The aim of this trigger mechanism is to initiate a tariff review should the cost of wholesale gas purchased by the gas supplier vary significantly from the cost forecast within the tariff.
- 4.13 The trigger mechanism will operate to allow the UR to initiate a tariff review should the tariff costs change between review periods, either increase or decrease, so as to change the tariff by 5%.
- 4.14 We consider the 5% level to be an appropriate level, any level under this and volatility in the wholesale market could necessitate a number of tariff reviews in a year. Tariff reviews can be costly and complex for the company.
- 4.15 Where a review is initiated by the trigger mechanism, the tariff review group will look at a number of factors including:
- Volatility in the wholesale gas market
  - Time since last tariff review
  - Level of k-factor
  - Amount of gas purchased by the supplier
- 4.16 The UR also retains the flexibility to initiate a review at any stage if it considers it is in the interest of customers.

## Tariff Structure

- 4.17 FES publishes its current tariff structure for each of its domestic credit, Pay as You Go (PAYG) and small I&C customers (IC1) at the below page on its website.

<https://www.firmusenergy.co.uk/home/tariffs-offers/all-tariffs>

- 4.18 At each tariff review we require the supplier to demonstrate the assumptions used to create the tariff structure in order to ensure that the average weighted price charged to customers is equal to or less than the allowed maximum average tariff.

## 5. Wholesale Gas Costs

- 5.1 Wholesale gas costs include the costs suppliers face when purchasing natural gas to supply its customers. They also include the costs for transporting gas through Great Britain to the SNIP (Scotland-Northern Ireland Pipeline).
- 5.2 Previous controls have determined that these costs are pass-through, which means that the company is allowed to recover its actual wholesale gas costs. Therefore, where these costs increase or decrease, the additional costs, or resulting savings, are passed on to customers.
- 5.3 We proposed in our SPC27 Draft Approach to continue to allow wholesale gas costs and the related transportation costs as pass-through costs. All responding stakeholders agreed with this approach and therefore we propose to continue with this treatment for SPC27.
- 5.4 Wholesale gas costs will be allowed as pass-through at the level purchased at the National Balancing Point (NBP). All wholesale cost inputs are then verified as part of the price-regulated tariff review exercise every six months.

### Letters of credit

- 5.5 In the SPC27 Final Approach document, we included the costs of credit arrangements relating to the purchase and transportation of gas within the wholesale gas costs section, as they are part of the  $G_t$  term. However, these costs were incorrectly described as also being treated on a pass-through basis. To clarify, these costs are recovered through a fixed unit rate per unit of gas, with the overall allowance adjusted based on actual gas volumes.
- 5.6 The company submitted rate was 0.03315 pence per kWh, which would equate to £0.92m for the SPC27 period based on forecast tariff volumes. We propose to accept the submitted unit rate as it is in line with the latest actual unit rate the company has experienced.
- 5.7 FES proposed that these costs be treated as pass-through. However, in our view the company already receives sufficient protection from the inflation and volume adjustment mechanisms. Pass-through treatment would also reduce the incentive on the company to seek out and negotiate the best deal available from issuing banks. We therefore propose to maintain the existing treatment for these costs.

## 6. Network Costs

6.1 Network costs are the charges incurred by FES for its use of the Northern Ireland gas transmission and distribution systems.

6.2 The costs for the transmission system are those costs involved in bringing gas from Scotland to Northern Ireland, via the Scotland to Northern Ireland Pipeline (SNIP), and all the transmission pipelines within Northern Ireland. These costs are published on the Gas Market Operator for Northern Ireland (GMO NI) website.

[gmo-ni.com/tariffs](https://gmo-ni.com/tariffs)

6.3 Transmission costs are subject to price control by UR. The current price control GT22 for the transmission system operators will end in September 2027. The process for setting the next price control GT27 is underway.

6.4 The costs for the distribution system are those costs associated with moving gas throughout the distribution network's area to homes and businesses. The Ten Towns distribution network conveyance charges are published on the Kinecx website.

[kinecxenergy.co.uk/publications](https://kinecxenergy.co.uk/publications)

6.5 Distribution costs are also subject to price control by UR. The current price control, GD23, runs from the period of January 2023 to 31 December 2028.

6.6 Within the previous controls for FES, the network costs have been treated as pass through costs. This means that the customer pays for the actual cost of the network charges that FES incur, and no more than that.

6.7 We propose that network costs remain as pass through costs as these are costs which are outside the control of the supplier and subject to regulation elsewhere.

## 7. Operating Costs

- 7.1 Operating costs are those costs which relate to the day to day operating of the FES supply business; and include among other things salaries, IT costs, billing costs, rent and rates, consultancy/legal fees and bad debt.
- 7.2 In our SPC27 Final Approach document published in November 2025, we committed to using a bottom-up approach to assess operating costs. This involves a detailed review of each cost line with historical trend analysis.
- 7.3 Along with the Final Approach publication we issued a template to FES to populate with its operating costs. The template requested historical actual costs for 2023, 2024 and 2025 up to October, and a forecast of costs from October 2025 through 2026 and the four-year SPC27 price control period covering 2027-2030.
- 7.4 On 31 January 2026 FES submitted the populated template along with a supporting operating costs narrative paper and a benchmarking report prepared on its behalf by its consultants Baringa. FES proposed operating costs for the SPC27 price control period are summarised under three main costs categories in Table 7.1 below.

**Table 7.1: FES SPC27 operating costs submission**

£m	2027	2028	2029	2030	SPC27 Total
Manpower	3.31	3.55	3.60	3.66	14.12
Operations	1.48	1.45	1.54	1.62	6.09
Billing and other costs	2.08	2.17	2.28	2.38	8.91
<b>Total</b>	<b>6.87</b>	<b>7.18</b>	<b>7.42</b>	<b>7.66</b>	<b>29.13</b>

Note 1: Figures may not sum due to rounding.

- 7.5 The costs throughout this document are presented in October 2025 prices and represent the total FES Ten Towns supply business costs, unless stated otherwise. They exclude any costs relating to FES customers in the Greater Belfast and West distribution networks. However, costs related to the Ten Towns non-price-controlled (non-tariff) markets are included. An apportionment process ensures that costs are allocated appropriately and that no cross-subsidisation occurs between the tariff and non-tariff Ten Towns markets. A summary of the apportionment method for each cost line is provided in Annex 1 - Apportionment Cost Drivers.

## Submission review

- 7.6 We have engaged with FES to understand its submission through additional information requests and meetings. We have analysed the forecast cost figures against historical costs and previous determinations and cross-checked information against other companies where appropriate.
- 7.7 In our final approach we stated we would use the 2024 year as the base year for the SPC27 price control review. Our rationale for this was that it would be the latest available full year of actual costs. However, as set out in the business separation section below, we have assessed that the 2025 data is more appropriate in certain areas.
- 7.8 FES provided actual 2025 costs up to the end of October 2025 and forecast costs for the remainder of the year. We have scrutinised the actuals and the forecasts and have deemed that the 2025 data is a reliable benchmark and appropriate for our assessment.
- 7.9 Our review process included a detailed assessment of each cost line in the company's submission. However, this is not intended to prescribe a line-by-line budget for the company to follow. Instead, we determine an efficient overall allowance, based on our assessment, for the company to spend running the price regulated business.

## Business separation

- 7.10 FES operated as part of a combined business with the distribution network operator Firmus Energy Distribution (now known as Kinecx Energy). The supply business was acquired in October 2024 by Yuno Group, resulting in it now operating separately.
- 7.11 FES' SPC27 submission reflected these new operating arrangements. It included costs associated with implementing the separation, primarily relating to the fit-out of its new office space. It also assessed that it requires higher ongoing operating costs due to the loss of shared resources and operational synergies previously available when it was part of the combined business.
- 7.12 As set out in the SPC27 Final Approach<sup>8</sup>, in paragraphs 5.40 to 5.43 of that publication, we consider the sale to be a voluntary corporate restructuring and do not consider it appropriate for consumers to bear the associated separation costs. We therefore propose to disallow the requested costs related to the new office fit-out.

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<sup>8</sup> [SPC27 Final Approach](#)

- 7.13 We also stated in the Final Approach, in paragraph 5.45 of that publication, that while the company had new operating circumstances, its ongoing costs would be subject to a robust efficiency assessment. In particular, we were concerned that business separation could give rise to inefficiencies associated with diseconomies of scale.
- 7.14 We have assessed the cost data provided by FES in its SPC27 submission. Operating costs per customer increased by 32% from the pre-separation position in 2024 to the post-separation position in 2025. It has also overspent against its 2025 SPC23 allowances. This increase is not fully attributable to the separation as there were increases to billing costs due to new contract rates, and there are one-off expenses in 2025 due to the SPC27 process.
- 7.15 However, there has been a substantial increase in manpower costs. In 2025, FES hired an additional nine Full Time Equivalents (FTEs) to perform business support roles that remained with the distribution company, including at director level. It has also incurred additional costs on business support from its parent company.
- 7.16 FES attributes this increase in manpower costs to the loss of operational synergies following separation. It also stated that, prior to separation, shared business support resources were not sufficiently allocated to the supply business, resulting in understated reported costs
- 7.17 When considering what is appropriate for the SPC27 period we could take the view that Yuno should have carried out adequate due diligence and recognised that operating as a separate business would entail higher operating costs. However, we consider this would not be an appropriate approach to hold over a longer term. As noted above, FES is overspending against its SPC23 allowances following separation.
- 7.18 We have assessed FES' 2025 costs to consider if these are efficient and could form an appropriate basis for the SPC27 period. This involved a line-by-line review of each area, to compare pre and post-separation costs, and if they are justified for future allowances.
- 7.19 We acknowledge that using 2025 costs as a benchmark is an increase from pre-separation, but consider it is the most appropriate approach. As detailed below, this proposed approach still provides a significant £5.12m (17.5%) reduction to the company's submission.

### **Customer forecasts**

- 7.20 As detailed in our operating costs assessment below, we have considered the number of customers FES expects to serve when proposing

allowances. In certain areas we have provided for cost increases which align with the forecast increase in the number of customers.

- 7.21 FES submitted a forecast of an additional 4.7k customers per year from 2025 out to the end of the SPC27 period. It will primarily gain these customers through new connections by the Distribution Network Operator to the Ten Towns network.
- 7.22 We have accepted FES' submitted forecast and therefore adjusted certain allowances accordingly. While the forecast is higher than the two most recent years, it is in line with the five-year average. Gas has also been made newly available to properties recently and there remains c.120k properties with gas available that have not yet connected to the network.

## Manpower

- 7.23 Manpower covers costs on salaries, intercompany recharges, staff entertainment, training, travel and subsistence and recruitment costs. The initial submission for manpower costs can be seen in Table 7.2.

**Table 7.2: FES SPC27 manpower costs submission**

£'000	2027	2028	2029	2030	SPC27 Total
Manpower	2,659	2,852	2,895	2,946	11,353
Intercompany Recharges	503	552	564	577	2,195
Entertainment	10	11	11	12	44
Training	41	45	46	47	180
Travel and Subsistence	20	22	23	23	88
Recruitment Costs and Contract Staff	79	71	56	56	261
<b>Total</b>	<b>3,312</b>	<b>3,553</b>	<b>3,596</b>	<b>3,662</b>	<b>14,121</b>

- 7.24 Salaries and intercompany recharges make up 96% of the total manpower cost submission, with salaries accounting for 80% of the SPC27 total and intercompany recharges making up a further 16%.
- 7.25 Intercompany recharges relate to costs which FES incur by utilising specialist resource from the Yuno group on an ad-hoc or recurring basis. These specialist resources are utilised in situations where permanent hires at FES are deemed inefficient.

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**Table 7.3: UR proposed SPC27 manpower cost allowances**

£'000	2027	2028	2029	2030	SPC27 Total
Manpower	2,058	2,173	2,266	2,360	8,858
Intercompany Recharges	405	429	444	459	1,736
Entertainment	9	10	10	10	39
Training	37	39	41	42	159
Travel and Subsistence	18	19	20	21	78
Recruitment Costs and Contract Staff	64	61	58	58	242
<b>Total</b>	<b>2,591</b>	<b>2,731</b>	<b>2,839</b>	<b>2,951</b>	<b>11,112</b>

7.26 Table 7.3 presents UR's proposed manpower cost allowances for the SPC27 period. Following FES' submission in January 2026, we have conducted an extensive review of the costs submitted, engaging with FES where necessary.

7.27 When considering Manpower costs overall, UR is minded to allow for £11.1m during the SPC27 period. An allowance of 79% of FES' original submission.

### Manpower

7.28 As part of the submission, FES provided a list of additional FTEs required over the SPC27 period, based on a bottom-up analysis. FES provided each role and how it would be allocated between the tariff and non-tariff parts of the business. The requirement for these additional FTEs was justified primarily on the following grounds:

- Backfilling positions that remained with the distribution company following separation.
- FES' assessment that the pre-separation FTE allocation understated the actual level required for the supply business.
- Anticipated customer growth over the SPC27 period.

7.29 To reflect the company's post-separation operating context, our proposals are based on the 2025 staffing level. At this level, the company demonstrated its ability to operate effectively in its new circumstances. Therefore, we do not consider additional staffing increases to be justified, either to further backfill roles or to address the company's view that FTEs were under-allocated.

- 7.30 However, we have considered forecast customer growth, which is expected to require additional resources relative to 2025. On this basis, FTE levels have been scaled in proportion to the projected increase in customer numbers. This adjustment has been applied at an aggregate level, as we consider the company to be best placed to determine the specific roles required to meet its business needs.
- 7.31 FES' submission included the requested costs for its SPC27 staffing level. On a cost-per-FTE basis, these costs are 11% higher than the 2024 pre-separation level, reflecting the recruitment of more senior roles and significantly higher senior management costs for corporate officers.
- 7.32 Initially we based our proposed cost-per-FTE on the average across the SPC23 period, including post-separation 2025 costs. However, through engagement with the company it was clarified that in the submission the 2025 staff costs did not align with the staff level. This was due to staff level representing the end of year position, whereas the costs were the total across the year and did not accurately reflect the onboarding of staff throughout the year.
- 7.33 FES provided the costs to reflect the 2025 end-of-year staff level. We have used these costs, apart from the management line where we used 2024 costs, to set our overall cost-per-FTE. This cost-per-FTE was then multiplied by the FTE count outlined in paragraph 7.30 to establish our proposed manpower allowance.
- 7.34 We have used the 2024 management cost-per-FTE in our proposals, as the 2025 costs were such a significant increase. We received the updated 2025 costs at a late stage of the draft determination review. We understand the management cost line is remuneration of directors. Our initial view is that this increase is not justified, particularly as FES is now utilising executive support from its parent company for operational activities, as discussed in the intercompany recharges section below.

### **Intercompany Recharges**

- 7.35 As part of the Yuno group, FES makes use of specialist Yuno resource on an ad-hoc or recurring basis in areas such as board governance, cyber security and payroll. This use is then recharged to FES for services rendered. The process is utilised when permanent hiring is deemed inefficient.
- 7.36 As part of its submission, FES detailed the areas in which intercompany recharges had been availed of and provided an estimation for the forecast costs allocated to the Tariff business within the SPC27 period.

**Table 7.4: Intercompany recharge areas**

Area	Rationale
Finance	support with monthly reporting, consolidation, trading collateral and group banking covenant compliance as well as payroll administration for all FES employees.
Marketing	support with the marketing activities as all marketing staff remained with Kinecx post the sale of FES.
Trading	support with trading risk management, regulatory reporting, contract negotiations and trading compliance.
Executive	Yuno executives and non-executives for FES board and weekly operations support. Yuno group CFO and CEO jointly performing the role of overall FES CEO.
HR	Group HR strategy and support
Insurance	Cyber and D&O insurance

- 7.37 Table 7.4 provides the areas for which FES utilise Yuno group's expertise as well as the rationale for each area.
- 7.38 The arrangement which FES has as a subsidiary of the Yuno group means that in line with an arm's length approach to intercompany recharges, resources are charged at consulting rates (i.e. cost + % uplift) and operational costs (such as insurance) as a passthrough.
- 7.39 UR does not propose to include the uplift applied to Finance, Trading, Executive and HR costs. We consider that services provided by related parties should be recovered on a cost-only basis. This approach has been adopted in previous price controls for regulated companies. The forecast allowance is therefore based on 2025 costs, excluding the uplift for these items.
- 7.40 We are minded to accept the Trading and Insurance forecasts provided by FES, which are based on forecast volumes and revenue. The Finance costs are forecast at a flat rate in line with FES' actuals for 2025, which again UR is minded to accept (less the uplift for Finance and Trading).
- 7.41 In line with UR's position regarding the advertising elements of operational costs (see 7.67 to 7.69), we are minded to disallow the intercompany recharges in relation to Marketing. Our position, in line with regulatory precedent, is that customers of a regulated company, which is also the commissioning supplier and in a dominant position in the market and a monopoly position in the domestic sector, should not bear the costs of marketing.

- 7.42 As discussed above, UR is minded to partially allow the original FTE submission based on our top-down analysis of customer growth forecasts. Applying the allowed forecast of FTEs results in a partial allowance for the HR and Executive cost lines, as these are forecast based on FTEs.

### Remaining Manpower Elements

- 7.43 Within FES' submission the Recruitment Costs and Contract Staff category was comprised of three elements: Agency Costs, Recruitment costs and an incremental increase to allow for the increase in FTEs. We propose to accept the Recruitment and Agency Costs in line with the averages of the SPC23 years. The incremental increase has reduced in line with the reduction in FTEs allowed.
- 7.44 The remaining manpower costs (Entertainment, Training, and Travel and Subsistence) were all forecast on a fixed cost per FTE. While the overall allowance presented in Table 7.3 differs from the original cost submission in Table 7.2, we propose to accept the underlying cost per FTE.
- 7.45 The cost per FTE for Training and Travel and Subsistence was in line with the actual costs incurred during the 2023-2025 period. While the cost per FTE for Entertainment was in line with HMRC recommendations for Entertainment costs, uplifted to account for wellbeing benefits.

### Operations

- 7.46 Operations mainly cover costs related to the office building, systems and professional services that support delivery of services to customers. FES' initial submission for operation costs is set out in Table 7.5, with our proposed allowances presented in Table 7.6 below. Our proposals provide an operations cost allowance of £4.2m, representing 69% of the company's initial £6.1m submission.

**Table 7.5: FES SPC27 operations cost submission**

£'000	2027	2028	2029	2030	SPC27 Total
Office Costs	174	191	196	200	761
Rates	28	28	28	28	111
Professional and Legal Fees	152	160	219	205	735
Insurance	77	83	85	86	331
Information Technology	696	617	637	658	2,608
Capex	109	107	102	149	467
Licence Fee	3	3	3	3	12
Network Maintenance	187	198	209	220	814
Call Centre	2	2	2	3	10
Advertising, Website & Sales Development	56	59	63	66	244
<b>Total</b>	<b>1,485</b>	<b>1,449</b>	<b>1,543</b>	<b>1,617</b>	<b>6,094</b>

Note 1: Figures may not sum due to rounding.

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**Table 7.6: UR proposed SPC27 operations cost allowances**

£'000	2027	2028	2029	2030	SPC27 Total
Office Costs	149	176	183	191	699
Rates	26	26	26	26	103
Professional and Legal Fees	152	160	219	205	735
Insurance	20	21	22	23	86
Information Technology	435	435	435	435	1,740
Capex	19	18	18	65	119
Licence Fee	3	3	3	3	12
Network Maintenance	150	159	168	176	654
Call Centre	2	2	2	3	10
Advertising, Website & Sales Development	10	11	11	12	45
<b>Total</b>	<b>966</b>	<b>1,011</b>	<b>1,088</b>	<b>1,139</b>	<b>4,204</b>

Note 1: Figures may not sum due to rounding.

### **Office Costs including stationary, telephone and postage**

- 7.47 We have based our proposed allowances on the rent and service contracts for FES' new office. Our proposals have reallocated rent agreement costs and removed what we consider are a duplication of service costs in the submission. Dilapidation costs were also removed as we consider that consumers should not bear the cost of an unknown and uncertain future cost.
- 7.48 As office costs are driven and apportioned by FTEs, our adjustments to the manpower level reduced our proposed office costs by £65k across SPC27.

### **Rates**

- 7.49 We propose to allow the costs for rates which are based on expected costs as per the Land and Property Services website and driven by FTEs.
- 7.50 The UR's manpower analysis reduced the number of allowable FTEs which consequently reduced the amount allowed for rates to £103k.

### **Professional and Legal Fees**

- 7.51 We propose to allow the costs for professional and legal fees.
- 7.52 These costs are based on current run rates of cost, driven by and apportioned by customers numbers - this methodology is consistent with SPC23.

### **Insurance**

- 7.53 We propose to allow the costs for insurance which are driven by FTEs and revenue but note that due to the UR manpower analysis the FTE reduction reduces allowable insurance costs by £11k.
- 7.54 Following an information request, FES updated its insurance submission cost as there was duplication of insurance costs within the intercompany recharges section. This reduced the SPC27 annual average by £59k.

### **Information Technology**

- 7.55 We have based our proposed information technology allowance on 2025 actuals.
- 7.56 We made two adjustments to the submission. The first was to treat costs in the application and support line as fixed, rather than growing with FTEs.
- 7.57 Secondly, we have removed the costs for the implementation and running of an Energy Trading and Risk Management (ETRM) system. FES

highlighted that implementing this system will increase efficiency, mitigate risk and improve the current process, and that they are seen as standard in the industry. We consider that there is a benefit to consumers to implement this system as it will provide greater assurance for pass through wholesale gas costs. However, as the ETRM system costs included in the submission were indicative, we propose it should be considered via a reopener in the future when there is greater certainty on costs, as set out from paragraph 8.4 below.

### **Capex**

- 7.58 FES included office fit-out costs within its submission related to the office move in 2025. As set out in paragraph 7.12 above we have removed these costs as we consider they have resulted from the commercial decision to separate and therefore deem it inappropriate to pass these costs on to consumers.
- 7.59 Capex costs have also reduced due to the reduction in allowed FTEs. This analysis reduced capex costs by £5k across SPC27
- 7.60 The remaining capex costs are for new or replacement IT equipment and office furniture. Most of these costs are forecast for the last year of SPC27 in line with the expected lifecycle for this equipment.
- 7.61 We propose to allow all other capex costs.

### **Licence Fee**

- 7.62 We propose to allow the submitted costs for licence fees.

### **Network Maintenance including safety inspections**

- 7.63 Network maintenance costs include meter activities and boiler safety inspections.
- 7.64 Following an information request FES amended the costs for all the network maintenance categories.
- 7.65 We propose to allow these updated costs for network maintenance as they are based on historic actual costs.

### **Call Centre**

- 7.66 We propose to allow the costs for the call centre which are based on an average of historic costs and then driven by and apportioned by customer numbers.

## Advertising, Website and Sales Development

- 7.67 FES included costs in their submission of £48k for public relations and £3k for advertising. The supplier has stated that these costs are essential expenses to promote the FES brand, support new connection activities and ensure customers are informed about FES' role as gas supplier in the Ten Towns area and its obligations.
- 7.68 In SPC23 we stated that the customers of a regulated company, which is also the commissioning supplier and in a dominant position in the market and a monopoly position in the domestic sector, should not bear the costs of advertising. We therefore have reduced the public relations and advertising costs. This approach is consistent with the price control treatment of both Power NI and SSE, neither of which were provided a marketing allowance under their respective price controls when their regulated business first faced competition.
- 7.69 FES is still the monopoly domestic supplier and faces no competition in the Ten Towns market. However, like in SPC23, we will keep this under review as the market develops and observe whether FES' domestic market share deteriorates should competition emerge.
- 7.70 We propose to accept all other advertising, website and sales development as they are in line with SPC23 allowances.
- ✂
- 7.71 ✂
- 7.72 ✂
- 7.73 ✂

## Billing

- 7.75 Billing mainly covers costs related to the administration, data handling and other activities that relate to customer payments. It also includes some other costs such as bank and interest charges.
- 7.76 The initial submission for billing costs can be seen in Table 7.7 and our position is provided in Table 7.8.

**Table 7.7: FES SPC27 billing costs submission**

£'000	2027	2028	2029	2030	SPC27 Total
Bad Debt	180	178	184	185	727
PayPoint Costs	945	992	1,039	1,086	4,061
Credit Check Costs	6	6	7	7	27
Bank and Interest Charges	14	14	14	15	57
Meter Reading	643	679	715	750	2,788
Bill Processing and Postage	289	305	321	337	1,250
<b>Total</b>	<b>2,076</b>	<b>2,174</b>	<b>2,279</b>	<b>2,380</b>	<b>8,910</b>

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**Table 7.8: UR proposed SPC27 billing costs allowances**

£'000	2027	2028	2029	2030	SPC27 Total
Bad Debt	126	124	127	128	505
PayPoint Costs	945	992	1,039	1,086	4,061
Credit Check Costs	6	6	7	7	27
Bank and Interest Charges	14	14	14	15	57
Meter Reading	643	679	715	750	2,788
Bill Processing and Postage	289	305	321	337	1,250
<b>Total</b>	<b>2,022</b>	<b>2,120</b>	<b>2,223</b>	<b>2,323</b>	<b>8,687</b>

### Bad Debt

- 7.77 FES has requested an allowance for bad debt costs that sees a rate of 0.50% applied to tariff credit revenue and 0.22% to non-tariff credit revenue. The rationale FES provided for this is that tariff customers are more likely to default on payments than non-tariff customers.

7.78 We note from our analysis that the methodology applied by FES in its submission includes both bad debt write-offs and provisions. However, UR is minded to maintain consistency with the methodology applied at SPC23, whereby the tariff bad debt allowance is based on actual levels of tariff bad debt write-offs per tariff credit revenue. From taking this approach over a three-year average, we have calculated a tariff bad debt allowance of 0.18%, which we propose to apply to tariff credit revenue through a retrospective adjustment each year of the price control.

### **Meter Reading Costs**

7.79 We propose to allow the costs submitted by FES, as the unit rates that form the basis of these costs are set and actual costs are retrospectively adjusted based on the number of meter reads taken.

7.80 We note that FES has also requested a retrospective adjustment of the unit rates at a later stage, as its contract with the current meter reading supplier is due to expire in October 2026. However, as FES also points out in its submission, its current contract allows the company the option to extend its contract for an additional two-year period. While this would see FES' contract lapsing within the price control period, it still provides the company with some level of cost certainty entering the period, and it should also serve the company with an incentive to seek the best available rates when it enters contract negotiations with suppliers.

7.81 For these reasons, we propose to set the unit rates for meter reading as they have been submitted and without scope for later retrospective adjustment.

### **Remaining Billing Costs**

7.82 We propose to allow the costs submitted by FES for Customer Information, Bill Processing and Postage and PayPoint Costs as the unit rates are set and costs are retrospectively adjusted.

7.83 We propose to allow the costs submitted by FES for Credit Check Costs and Bank and Interest Charges, as they have been reasonably based on costs between 2023 and 2025 and subsequently forecast across SPC27.

## 8. Uncertain Costs

- 8.1 Costs within this category refer to the  $E_t$  term in the licence. The introductory text to the  $E_t$  section of the licence outlines that the Licensee may make a claim to UR and UR may determine whether to allow costs for the listed categories.
- 8.2 These cost categories are considered uncertain as there may be insufficient information available at the price control review stage for the company to provide a submission or for UR to make a robust assessment. However, developments may mean it is appropriate to provide flexibility to consider costs during the price control period.
- 8.3 In our SPC27 Final Approach document we stated we would review the current  $E_t$  categories and update where appropriate with consideration of stakeholder views.

**Table 8.1: Review of current  $E_t$  Terms**

Current $E_t$ Term	Proposal
Any reasonable and efficient costs incurred (or to be incurred) by the Licensee in Relevant Year $t$ to comply with any mandatory roll out of smart meters in Northern Ireland	Propose to amend this term to refer to meters developed from the Northern Ireland Gas Metering Solutions Group rather than smart meters.
Any reasonable and efficient costs incurred (or to be incurred) by the Licensee in Relevant Year $t$ to comply with any new or modified Conditions of the licence which are made in consequence of the Authority's project described in the document entitled 'Consumer Protection Programme - Final Decisions Paper', as published by the Authority in April 2019	Propose to amend this term to remove reference to April 2019 version of the Consumer Protection Programme - Final Decisions Paper.
Any reasonable and efficient costs incurred (or to be incurred) by the Licensee in Relevant Year $t$ to comply with the requirements of the Directive (or to comply with any requirements which implement the Directive);	Propose to retain
Any reasonable and efficient costs incurred (or to be incurred) by the Licensee in Relevant Year $t$ to comply with the requirements of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (or to comply with any requirements which implement that directive)	Propose to retain

Current E <sub>t</sub> Term	Proposal
Any reasonable and efficient costs incurred by the Licensee in Relevant Year t as a result of a UR review of the governance arrangements relating to gas metering	Propose to retain

### New E<sub>t</sub> Terms

- 8.4 As set out in the section on operations costs in Chapter 7, FES has submitted IT related system proposals. However, there is insufficient certainty on the costs at this stage to determine upfront allowances.
- 8.5 We therefore propose the addition of a new E<sub>t</sub> term to give flexibility to implement new or upgrade existing systems within the SPC27 period. This reopener would be subject to a minimum £100k materiality threshold, inclusive of the systems implementation and running costs that fall due within the SPC27 control period.

## 9. Margin

### Background and FES' proposed margin

- 9.1 The FES price control incorporates a profit margin applied as a percentage of allowed revenue. This margin is intended to enable the company to secure the financial capital required to operate effectively as a supply business. In setting the margin, consideration is given to ensuring it is high enough to attract investment, while avoiding overcompensation that would result in customers paying more than necessary.
- 9.2 As part of UR's Approach Consultation for SPC27, we announced our intention to complete a review of the gas retail margin to determine an appropriate level of margin for the SPC27 Price Control.
- 9.3 The last full assessment of FES' profit margin was conducted in 2016 as part of the review for SPC17. Following that assessment, a profit margin of 2% was deemed appropriate for FES.
- 9.4 In its SPC27 submission, FES provided a report by Frontier Economics detailing the forecast capital requirements and the expected cost of capital. This initial report set out a margin of 4.8-5.1% of forecast revenue.
- 9.5 As part of our review, UR consulted with First Economics to understand the evidence presented by FES and Frontier Economics and arrive at our own position on the appropriate profit margin for FES. We have engaged with FES throughout the process through information requests, responses and meetings.
- 9.6 Throughout these meetings FES identified a number of adjustments to the Frontier Economics proposal and in April 2026, provided an updated profit margin for the SPC27 period of 3.0% of forecast revenue.
- 9.7 First Economics in its review of the margin submission recommended several changes which UR should consider when setting the appropriate margin.

### Real-life supplier vs hypothetical stand-alone supplier

- 9.8 The first amendment relates to the purchasing of gas. FES purchases gas that it supplies to customers from Bord Gais. For this commercial relationship, FES is required to post collateral to cover the trades which it enters into. This collateral takes the form of a letter of credit (LoC) from its parent company's bank.

- 9.9 In order to obtain this LoC, FES is required to provide a minimum cash covenant to support this arrangement. FES has included a line in the margin calculation which recognises this.
- 9.10 Alongside this, FES has included an estimate of 'trading collateral' within the capital base sizing which is the estimate of cash which would be required for a hypothetical stand-alone supplier to place with Bord Gais instead of a letter of credit. These two lines represent two alternative depictions of the capital requirement which a supplier might face.
- 9.11 In the absence of clear reasoning from FES as to why both need to be included, we must consider which item to retain. In line with previous work carried out on the SSE Airtricity, FES, and PowerNI price controls we consider it realistic and in the best interest of consumers to allow, where it is cost efficient, for the actual capital provided by either related or unrelated persons.
- 9.12 As such, we are minded to assume that FES is able to make maximum use of facilities, LoC, parent company guarantees etc. before looking to injections of cash, and as such we retain the minimum cash covenant within the capital base estimation and remove the notional trading collateral element.

### **Sizing of the projected capital requirements**

- 9.13 As part of the assessment of the capital base, First Economics reviewed the historic and forecast capital requirements for FES' working capital and non-current assets.
- 9.14 Following the sale of FES to Yuno group there were a number of changes in working capital requirements. Consistent with the overarching approach of looking at the real-life financing that a supplier requires, First Economics has accepted these changes in requirements in relation to FES' new governance structure.
- 9.15 There are, however, two further suggested amendments which First Economics has proposed:
- (i) FES' estimate of working capital includes a buffer, however there is also a similarly sized 'standby risk capital' as a separate line item in the calculations. First Economics recommends removing the buffer and retaining standby risk capital to cover all risks (sized at 2% of turnover)

- (ii) Within the non-current assets FES has included an estimate for new IT systems. In line with UR's position to consider a reopener to recover these costs, First Economics proposes it is not necessary to make an upfront allowance for the associated financing within the margin.

### Cost of Equity Capital

- 9.16 First Economics utilised the capital asset pricing model (CAPM) to estimate the cost of equity at 10.5%. This aligned with FES original submission which estimated cost of equity between 10.2-10.8%.
- 9.17 First Economics did not consider it appropriate to apply the 10.5% rate of return to the whole of FES' capital base. In particular, the standby risk capital was treated as contingent capital with a cost of contingent capital at 2%, opting for the low end of a 2-3% range for contingent capital which has been determined in a number of previous price controls.
- 9.18 A final adjustment to the calculation was made to account for two alternative ways in which some of the financing cost can be met, namely:
  - a) The cost of credit allowance within the  $G_t$  term in FES' price control and
  - b) The interest applied to the annual k-factor reconciliation for under- and over-recoveries against FES' price cap entitlements.

### Margin position

- 9.19 Following these amendments, First Economics presented an appropriate profit margin for FES as 1.5% of forecast revenues. Noting that the current margin is 2.0%, First Economics proposed retaining the current margin level given the range of values available for the cost of equity and contingent cost of capital.
- 9.20 UR is minded to accept First Economics recommendation at this stage and retain a profit margin of 2.0% of the forecast revenues for FES.
- 9.21 First Economics report is available at Annex A ("Firmus Energy Supply: Profit Margin Report"), published alongside this draft determination.

### Margin structure considerations

- 9.22 In response to the SPC23 Draft Determination, CCNI and National Energy Action questioned the use of a fixed percentage margin. The fixed percentage margin means that, in effect, the margin scales with turnover. Instead, CCNI and National Energy Action proposed that the margin should taper as wholesale gas prices increase. This concern arose during

the energy price crisis, as applying a fixed percentage to higher gas prices results in greater absolute profit for the company.

- 9.23 At the time of the SPC23 Final Determination, we concluded that any change to the structure or methodology of the margin would require more detailed analysis than was feasible within the SPC23 timetable. We also noted that Ofgem was consulting on revisions to its margin methodology for the GB price cap in response to the energy price crisis.
- 9.24 For SPC27 we have assessed the outcome of the Ofgem consultation<sup>9</sup> and considered the function of the margin for FES.
- 9.25 Ofgem has introduced a margin calculation methodology that incorporates a taper by differentiating between fixed and variable capital requirements. Fixed costs, such as capital investment, are not directly affected by energy prices, whereas variable costs, including energy procurement, fluctuate with market conditions. This framework reflects the fact that increases in energy prices lead to greater capital requirements for supply businesses.
- 9.26 FES' capital requirements for SPC27 exclude investments that would typically be treated as fixed within the Ofgem margin, such as capital asset expenditure. We have also taken the approach in the past to provide financing costs associated with such investments separately, rather than incorporated within the margin.
- 9.27 FES' capital requirements are therefore primarily driven by variable costs linked to gas prices. In this context, we consider that a fixed percentage margin is the most appropriate approach to finance these requirements.

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<sup>9</sup> <https://www.ofgem.gov.uk/decision/amending-price-cap-methodology-earnings-interest-and-tax-ebit-allowance-decision>

## 10. Reconciliation

- 10.1 On an annual basis a reconciliation process is carried out to ensure tariffs accurately reflect the price control. This includes a series of adjustments to the allowed revenue.
- 10.2 As in the previous price control we propose to uplift all allowances by CPIH inflation. Allowances in the determination are stated in October 2025 prices, these will be adjusted to the calendar year CPIH average for the relevant SPC27 year.
- 10.3 Certain operating allowances are also adjusted on a retrospective basis. The method of adjustment for these costs can be grouped under three methods:
- Pass-through - allowance is adjusted to the actual costs incurred.
  - Volume adjustment - a unit rate allowance is set, with the overall allowance adjusted by actual volume.
  - Apportionment - the overall allowance is fixed, but the share apportioned to the price-controlled (tariff customers) part of the business adjusts.
- 10.4 The proposed operating costs subject to retrospective adjustment and adjustment methods are provided in Table 10.1 below.

**Table 10.1: Retrospective cost adjustment**

Cost line	Cost adjustment
Professional and Legal Fees	Fixed allowance apportioned and adjusted by actual number of tariff versus non-tariff customers
Insurance	Fixed allowance apportioned by FTEs for employee, broker fees and other insurance. For third party legal liability insurance fixed allowance apportioned and adjusted by revenue.
Information Technology	Fixed allowance apportioned and adjusted by actual number of tariff versus non-tariff customers
Network Maintenance incl. safety inspections	For meter exchanges and safety inspections, unit rates set with allowance adjusted by actual volume of activities. Other activities allowances are fixed.
Call Centre	Fixed allowance apportioned and adjusted by actual number of tariff versus non-tariff customers
Advertising, Website and Sales Development	Fixed allowance apportioned and adjusted by actual number of tariff versus non-tariff customers

Cost line	Cost adjustment
Bad debt	Allowance adjusted by actual credit revenue and determined percentage
PayPoint costs	Pass-through cost
Credit Check Costs	Fixed allowance apportioned and adjusted by actual number of credit customers
Meter reading	Unit rates set with allowance adjusted by actual volume of activities
Customer Information Bill Processing and Postage	Unit rates set with allowance adjusted by actual volume of activities

- 10.5 In simple terms tariff rates are calculated by dividing the allowed revenue by the volume of gas units. Tariff unit rates are set at the start of charging periods, therefore the revenue collected may not reflect the revenue allowed. This can be caused by actual gas demand being higher or lower than forecast, and adjustments to allowances due to inflation and any retrospective treatment.
- 10.6 At the reconciliation we account for this difference in collected revenue and allowed revenue by using an adjustment called k-factor. We also account for the cash flow timing difference by applying an interest rate to the adjustment. This is to reflect the cost to the suppliers of financing the under recovery or the benefits to them of holding any over recovery.
- 10.7 During SPC23 we applied the calendar year average Bank of England base rate plus 1.5% to the k-factor and we propose to apply this again for SPC27.

## 11. Consultation and Next Steps

- 11.1 Stakeholder engagement plays an important part in our regulation process, and we encourage you to become part of this. We are keen to hear the views of consumers and stakeholders on any issues connected to this price control.

### Responding to this consultation

- 11.2 Responses should be received on or before 5:00pm on Friday 31 July 2026 and should be addressed to:

Dwayne Boyle

Utility Regulator

Millennium House

Great Victoria Street

Belfast

BT2 7AQ

Email: [gas\\_retail\\_responses@uregni.gov.uk](mailto:gas_retail_responses@uregni.gov.uk) with cc to [dwayne.boyle@uregni.gov.uk](mailto:dwayne.boyle@uregni.gov.uk)

Our preference would be for responses to be submitted by email

- 11.3 Your response may be made public by the Utility Regulator. 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'.
- 11.4 If you want other information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, 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.
- 11.5 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).
- 11.6 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.

- 11.7 Copies of all documents can be made available in large print, Braille, audio cassette and a variety of relevant minority languages if required.

## **Subsequent decisions and key milestones**

- 11.8 Once we have considered the responses to this Draft Determination, we will publish a Final Determination of the SPC27 Firmus Supply Price Control in October 2026. At the same time, we will publish draft licence modifications which give effect to our Final Determination. These licence modifications will be subject to further consultation in line with the requirements of Article 14 of the Gas (Northern Ireland) Order 1996. Having considered the responses to the consultation, we intend to publish our final decision on licence modifications at the end of December 2026.
- 11.9 Subject to any appeal to our final decision, the licence modifications will be made in the middle of February 2027 (56 days after the licence modification decision notice is expected to be published). However, once the licence modifications are made, they will apply in respect of the whole of the first year of the new control period (i.e. on and from 1 January 2027). In practical terms, therefore, the timing of the licence modifications coming into force will be designed to ensure that all the licence formalities are fully satisfied, but the application of the new Price Control once the modifications are made will be such as to ensure that the Price Control allowances and outputs will apply with effect from the 1 January 2027.
- 11.10 Any licence modification decision made under Article 14 of the Gas (Northern Ireland) Order may be appealed to the Competition and Markets Authority (CMA) by:
- the licence holder concerned;
  - any other licence holder materially affected by the decision;
  - a qualifying body or association representing a licence holder concerned or a licence holder materially affected by the decision; or
  - the Consumer Council for Northern Ireland.
- 11.11 As set out in Schedule 3A, paragraph 1(3) of the Gas Order, any application to the CMA for permission to appeal is not to be made after the end of 20 working days after the day on which the decision is published.

- 11.12 If an appeal is brought to the CMA, the CMA will, as a first step, decide whether to give permission for the appeal to proceed or not. If permission is granted, the CMA has a period of 4 months, or in the case of licence modifications relating to Price Controls 6 months, in which to determine the appeal. These timelines can be extended to 5 months or 7 months for licence modifications relating to Price Controls, if required.
- 11.13 The key milestones described above are summarised in Table 11.1 below.

**Table 11.1: FES SPC27 key milestones**

Date	Indicative Dates
2 June 2026	UR publishes Draft Determination for 8-week consultation.
31 July 2026	Consultation on Draft Determination closes.
2 October 2026	UR publishes Final Determination and proposed licence modifications.
30 October 2026	Consultation on licence modifications closes.
17 December 2026	Decision on licence modifications published.
1 January 2027	Licence Modifications become effective.

## Annex 1 - Apportionment Cost Drivers

The below apportionment methodology is used when setting and forecasting costs for the price control period. Some cost lines are subject to retrospective adjustment, with the methodology for this provided in Chapter 10.

Cost line	Apportionment method
All manpower cost lines excluding intercompany recharges	FTEs
Finance intercompany recharges	FTEs
Trading intercompany recharges	Load in therms
Executive intercompany recharges	FTEs
HR intercompany recharges	FTEs
Insurance intercompany recharges	Revenue
Office Costs	FTEs
Rates	FTEs
Professional and Legal Fees	Number of customers
Insurance	Revenue and FTEs
Information Technology	Number of customers
Capex	FTEs
Licence Fee	Load in therms
Network Maintenance	Number of activities
Call Centre	Number of customers
Advertising, Website & Sales Development	Number of customers
Bad Debt	Credit revenue
PayPoint Costs	PAYG customers
Credit Check Costs	Credit customers
Bank and Interest Charges	Load in therms
Meter Reading	Number of customers
Bill Processing and Postage	Number of customers