PRICE CONTROL FOR NORTHERN IRELAND'S GAS DISTRIBUTION NETWORKS GD29

Consultation on our approach
25 June 2026

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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 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.

ABSTRACT

This paper sets out a consultation on our approach to GD29, the price control review for the three gas conveyance licence holders in Northern Ireland who operate the gas distribution networks. This price control period will commence on 1 January 2029. This approach document consults on proposed GD29 approach to help facilitate the continued operation of a safe and efficient gas industry in Northern Ireland. This includes approach proposals for the treatment of Kinecx Energy and Phoenix Energy treatment of GD29 corporation tax.

AUDIENCE

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

CONSUMER IMPACT

Gas Distribution Network Operators (GDNs) play a pivotal role in conveying gas to domestic and non-domestic properties across Northern Ireland. The price control will set out the allowed distribution charges for the gas distribution companies. Distribution charges make up around 30% of the total domestic customer bill presently. The price control approach detailed in this document will set out the basis on which we propose to determine the allowed distribution charges.

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1. Introduction

1.1 The gas industry in Northern Ireland is made up of a number of component parts. Transmission companies own and operate the high-pressure transmission network which provides for the bulk transport of gas, including the undersea interconnectors from Great Britian. The Gas Distribution Network (GDNs) operators provide the local distribution networks which all consumers (with the exception of power stations) connect to. Shippers and suppliers purchase the gas conveyed on the network with supply companies serving as the intermediaries which supply and bill consumers.

1.2 Northern Ireland currently has three GDNs

- Evolve owns and operate the distribution network mains laid as part of the 'Gas to the West' project in the west of Northern Ireland.
- Kinecx Energy (KE) owns and operate the distribution network, normally called the ten towns area.
- Phoenix Energy (PE) owns and operate the distribution network in the Greater Belfast and Larne areas and East Down

1.3 These companies currently operate under the GD23 price control which runs to the end of 2028. GD29 is anticipated to begin on the 1 January 2029. Our current proposal is that it will run for 6 years however we will consider feedback to this consultation document before finalising this decision.

1.4 This document sets out our proposed approach to the GD29 price control. The price control will regulate the outputs and costs of these three gas distribution network operators from 1 January 2029.

1.5 This document builds on the strategic pre-approach Call for Information on the Future of Gas Price Controls[1] (CfI) issued in June 2025 and lessons learnt from GD23. It also builds on our November 2025 Call for Evidence on treatment of KE and PE corporation tax for GD29[2].

1.6 It includes a timetable for the delivery of company business plans, our determinations and the changes to the company licences necessary to

[1] Call for Information on future gas distribution and transmission price controls in Northern Ireland | Utility Regulator

[2] Call for Evidence on the treatment of corporation tax for gas distribution network price controls in Northern Ireland | Utility Regulator

give effect to our decisions; including the process for further considering GD29 treatment of Corporation Tax.

The role of UR and preparing for net zero

1.7 UR is the independent, non-ministerial department responsible for regulating Northern Ireland's gas, electricity, water and sewerage industries. UR's principal objective in relation to gas can be found in Article 14 of the Energy (Northern Ireland) Order 2003[3] and states that:

- "....Department and the Authority in carrying out their respective gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland."

1.8 In doing so, we have regard to the need to ensure a high level of protection of the interests of current and future consumers of gas, and the needs of vulnerable consumers in a Just Transition[4]. However, we set out in our CfI, that due to the age of this legislation, there are constraints on what we can do as a regulator to fully take account of the move to net zero.

Preparing for net zero

1.9 The Climate Change (Northern Ireland) Act (2022)[5] sets a target of at least 100% reduction in net zero greenhouse gas (GHG) emissions by 2050 for Northern Ireland. The next two Carbon Budgets[6] will span the period GD29. As such, we will need to consider these when setting the price control, subject to being capable under our current legislation:

- The Carbon Budget for the 2028-2032 budgetary period is an annual average of 48% lower than the baseline.
- The Carbon Budget for the 2033-2037 budgetary period is an annual average of 62% lower than the baseline.

1.10 As a creature of statute, we must operate within our legislative powers. We have discussed with the Department for the Economy (DfE) the need to update our powers to allow us to fully support the decarbonisation agenda across the energy sector, including gas. While changes to these

[3] The Energy (Northern Ireland) Order 2003

[4] As set out in the Climate Change Act, Just Transition refers to managing the move to a lower-carbon energy system in a way that is fair and equitable, including for consumers and wider society.

[5] Climate Change Act (Northern Ireland) 2022

[6] The Climate Change (Carbon Budgets 2023-2037) Regulations (Northern Ireland) 2024

powers remain under consideration, it is unlikely that any amendments will be implemented prior to GD29. We have therefore assumed, for the purposes of this Approach Consultation, that the price control will be developed within the current legal framework.

1.11 In June 2024, DfE consulted on the "Utility Regulator (Support for Decarbonisation Preparation) Bill"[7] . The bill is intended to empower UR in its role of providing technical opinions and expert advice, assistance and support to inform DfE in its development and delivery of energy policy.

1.12 For GD29, we propose to develop the price control in accordance with our existing powers and statutory duties. While changes to these may be considered, it is unlikely that any such amendments will be implemented in time to materially influence the GD29 framework.

1.13 Net zero and any legislative change is recognised in stakeholder responses to our CfI:

1.14 Consumer Council Northern Ireland (CCNI) said in their response:

- 'Delivering a Just Transition and intergenerational fairness should be important components of the future gas price controls'

1.15 Evolve said in their response:

- 'Price controls need to maintain flexibility to address potential changes as they arise.'

1.16 Flogas said in their response:

- 'The next price controls must support decarbonisation by including allowances for biomethane and hydrogen blending, pilot projects, and innovation funding'

1.17 PE said in their response:

- 'The GD29 final determination must create flexibility… to address potential legislative change

Delivering a responsive and future ready GD29

1.18 Respondents to the CfI noted the role of Government policy to support the setting of GD29. The GD29 price control can be designed to remain flexible and responsive to uncertainty, but we agree that it is not our role to resolve the larger strategic questions around the future role of gas in Northern Ireland.

[7] Utility Regulator (Support for Decarbonisation Preparation) Bill | Department for the Economy

1.19 Clearer government policy direction is required to support UR in setting and delivering our GD29 framework. Strategic direction from DfE on the long-term role of gas, alongside progress in areas such as biomethane and heat decarbonisation, is important to support the setting of our framework. Government policy would also help strategic gas network planning led by the gas distribution and transmission network operators. This is critical to support efficient investment, reduce uncertainty, and promote consumer value. We will continue to work with Government to understand its strategy for the future role of the gas network.

1.20 We welcome the publication of the DfE Energy Strategy Action Plan 2026[8], which includes actions to develop biomethane policy and progress the Executive's response on hydrogen, providing initial signals on future policy direction in these areas.

1.21 We recognise that there are a number of potential sources of uncertainty concerning the future role of the gas network. For example:

- Uncertainty about the levels of future demand for gas distribution, in terms of the number of connected customers and their consumption levels. For example, demand may fall substantially if homes move to forms of heating using electricity rather than gas inputs.
- Uncertainty about what capacity is needed in different parts of the distribution system to accommodate gas entering the system for delivery to consumers. For example, a greater role for biomethane may call for increases in capacity or other investment in some parts of the system (and may affect utilisation in other parts of the system).

1.22 Reflecting stakeholder feedback, we will consider how the price control framework may to need to adapt to handle such uncertainty. We recognise the need to support a just and fair transition, support intergenerational equity, and consider appropriate mechanisms that enable innovation and preparatory activity for decarbonisation such as biomethane and hydrogen blending but only to the extent that this is consistent with our statutory remit.

Approach to support decision making on GD29 corporation tax for PE and KE

1.23 This consultation also represents the second stage of a process to review the treatment of GD29 corporation tax for PE and KE. We have carefully

[8] Energy Strategy Action Plan 2026 and Action Plan Report 2025 | Department for the Economy

considered responses to our November 2025 Call for Evidence on treatment of corporation tax for GD29.

1.24 After taking account of responses, we are consulting on our proposed approach to further inform our future decision making on the treatment of GD29 corporation tax. In particular, we set out our approach to gathering evidence on the historical framework for corporation tax, and modelling corporation tax liabilities and allowances, and further regulatory policy considerations.

1.25 As such, we are not making policy positions on preferred options or narrowing down options for further consultation at this point; however, we do set out an updated timetable and approach for further developing regulatory policy to support our future GD29 positions and decision making in this area.

1.26 Annex A: GD29 Treatment of Corporation Tax, published alongside this Approach Consultation, provides further detail on our proposed approach.

2. Context and objectives for the price control review

Future of Gas

2.1 Northern Ireland's policy direction has firmly anchored the future of gas within a wider commitment towards decarbonisation and the statutory target of net zero greenhouse gas emissions by 2050.

2.2 The Climate Change (Northern Ireland) Act (2022) establishes the wider legal framework for the transition, including binding carbon budgets that shape future energy decisions, although these obligations do not apply directly to UR.

2.3 The DfE Energy Strategy (2021) outlines a strategic pathway for transforming the energy system, emphasising the shift away from fossil fuels, the expansion of renewable and low carbon technologies, and the need to future proof gas infrastructure, for example through the integration of biomethane and hydrogen.

2.4 Together, these frameworks provide the foundation for assessing the role of gas in a net zero future and guide the development of our approach.

2.5 While it is clear that the pathway to net zero will involve significant further electrification, which is underpinned by the significant investment committed in our recent RP7 Price Control[9]. The exact extent, speed and geographical variance in the transition away from gas is uncertain. It is anticipated that energy sector decarbonisation pathways may evolve over time.

2.6 Achieving net zero may involve a number of technologies, including electrification, heat networks, biomethane and hydrogen. Each possible pathway or combination of interventions would result in a very different future use of the gas networks.

Gas demand throughout GD29

2.7 The newly developed Gas Transmission Outlook[10] indicates that Northern Ireland gas total annual gas demand is expected to decline gradually over the period, reflecting reduced gas use in power generation as the energy system decarbonises. However, peak gas demand is projected to increase, driven by greater reliance on gas-fired generation to support intermittent

[9] RP7 Final Determination | Utility Regulator

[10] Gas Transmission Outlook

renewables and rising distribution demand, requiring the network to meet higher short-term capacity requirements despite lower overall volumes.

2.8 UR latest Quarterly Retail Energy Market Monitoring report (QREMM) shows over 346,500 gas connections in NI at the end of Quarter 1 2026 (both domestic and Industrial and Commercial users (I&C's)), contributing to over 2.6 million MWh of total gas consumption.

2.9 Additionally, with over 600,000 properties passed throughout GD23 so far, there is potential for gas network operators to continue increasing connections and completing the infill of gas main in most of the main cities, towns and larger villages already served by the GDNs.

2.10 In GD17 we included plans to complete the infill of gas mains in most of the main cities, towns, and larger villages already served by the GDNs. In GD23, infill would be further developed in the GDN areas. The infill position was informed by our assessment of the gas network that suggests we are at, or close to, the limit of the economic extension to the gas network, when assessed against our current economic test.

2.11 We are, however, aware that demand for natural gas is likely to decline in the long-term as we decarbonise homes and businesses. We consider that gas demand will be affected to some extent by several strategic drivers going forward. For example:

- The availability of biomethane as a decarbonisation choice for large energy users and I&C's) connected to the gas network. If biomethane is not available, these users may seek alternative decarbonisation options and reduce their natural gas demand to meet climate targets.
- Whether excess renewable electricity can be stored (e.g. using batteries) until needed and so reduce the demand for natural gas.
- Potential for electrification of heat (through heat pumps) to reduce gas demand or hybrid solutions (such as hybrid heat pumps).
- Future growth in heat networks could decrease demand for gas connections.
- The uptake of energy efficiency measures in commercial and domestic properties currently using gas.

2.12 The overall balance of integrating green gases, repurposing natural gas assets, as well as the speed and timing of any changes, will be influenced by future government decisions.

2.13 To protect both consumers and have regards to the financeability of licensees, we consider it is important to develop the flexibility within the price control to manage the strategic uncertainties around the future of gas networks, recognising that not all sources of uncertainty can be addressed through the regulatory framework alone.

Whole system planning, scenarios and pathways

2.14 Whole system pathways and planning are becoming an increasingly important backdrop for how gas networks plan for the future. Across the UK and Ireland, regulators and system planners are placing greater emphasis on understanding how different energy pathways and scenarios interact at a system level.

2.15 Within this context, data has a central role in enabling more coordinated and informed planning. Improved data sharing between network companies, government and wider system planners will be essential to developing more robust forecasting.

2.16 Today, the core drivers for the gas distribution networks continue to be connections activity and gas volumes, while gas transmission planning is influenced more heavily by volume forecasts including those driven by use of gas in electricity generation, than by customer connections. However, as whole system pathways and planning becomes more relevant, particularly in the context of the long-term energy transition, there is increasing value in understanding how these drivers may evolve.

2.17 Better data availability and improved analytical capability could help network companies, government and UR explore a wider range of potential future scenarios and assess how uncertainty in gas demand, connections trends, or gas prices may influence network requirements over time. This should be supported by a more coordinated approach to modelling and forecasting, with alignment sought where appropriate to avoid the development of competing assumptions.

2.18 Such improvements would also support modelling of future risks and provide a stronger evidence base for company business plans. This whole system approach therefore forms an integral component of the contextual landscape for GD29 and informing our regulatory decisions.

2.19 In Northern Ireland, responsibility for whole system planning sits primarily with the Transmission System Operators (TSOs), reflecting their established role in system planning and forecasting. This work has been

supported through the TSO Strategic Network Planning project funded under GT22[11].

2.20 In our approach decision for GT27 we highlighted that the TSOs are best placed to lead on whole system planning. This reflects their ability to take a whole system view across the energy network, supported by their role in forecasting and system planning, and their engagement with SONI.

2.21 For GD29, we therefore expect that TSO led analysis and data evaluation will form the primary basis for whole system planning, with GDN inputs used to inform and supplement this analysis. GDNs will contribute relevant data and insights on distribution level developments, including connection activity and local network characteristics, to ensure that these are appropriately reflected in wider planning outputs.

2.22 This approach emphasises the importance of well-judged investment decisions in the context of uncertain future demand, supported by robust and credible data. A TSO led framework provides a whole system perspective, enabling a more robust assessment of future demand and network requirements, and supporting lower risk investment decisions for transmission and distribution networks.

2.23 This approach is already evident in outputs such as the Gas Transmission Outlook (2025–2026)[12], and will continue to form part of the broader framework for network planning in NI.

Desired outcomes and the role of the GDNs

Key outcomes for consumers and network users

2.24 In our approach consultation we set out some of what we consider are the key outcomes that consumers and network users would expect the GDNs to deliver through GD29. These outcomes ensure that consumer priorities and a Just Transition to net zero remain central to our decision making.

(i) Secure supply - remains a key outcome. GDNs must maintain a dependable network that ensures continuity of supply for existing and foreseeable customers throughout the GD29 period.

[11] GT27 Approach Decision.pdf
[12] Gas Transmission Outlook

(ii) Safety/reliability - including cyber and physical security, are fundamental. GDNs must continue to meet high standards to protect consumers, consumer information, network assets and system integrity, recognising evolving risks associated with digitalisation, interconnection and wider system change.

(iii) High quality standard of service – The GDNs are expected to meet high-level quality of service standards that place a strong emphasis on the end-to-end customer journey, while also anticipating future customer needs and supporting the pathway to a changing energy system. This includes the consistent delivery of existing emergency and operational response standards, alongside clear, timely communication and effective service delivery. Gas Distribution Networks are expected to achieve this through responsive, customer-focused engagement, demonstrated by strong performance across connections, interruptions, safety, complaints handling, and stakeholder engagement, while preparing customers and communities for future developments.

(iv) Efficiency – this is central to the GD29 price control. GDNs must demonstrate efficient use of resources and effective cost management, delivering required outcomes at the lowest sustainable cost, particularly in light of uncertainty about future gas demand.

(v) Net zero investment – this will be an increasingly important outcome for GD29. GDNs are expected to take proportionate steps to support Climate Action Plan objectives, including preparatory activities for decarbonisation such as biomethane and hydrogen blending where this is consistent with our statutory remit, where appropriate.

(vi) Improved data - this is a critical enabler of effective regulation. GDNs must provide transparent, accurate, timely and consistent data to support monitoring, assessment and regulatory decision-making, including data relevant to long-term system planning and pathways.

(vii) Consumer protection/vulnerable consumers – it remains a key outcome. GDNs must ensure services are delivered fairly and inclusively, with appropriate protections for customers in vulnerable circumstances.

Role of the GDNs in GD29

2.25 The role of the GDNs during GD29 will continue to be the safe and efficient operation of the gas distribution system in line with their licenced obligations.

2.26 Additionally, we expect the GDNs to play an enhanced role in longer term planning and investment in response to uncertainty over the future role of gas.

2.27 This includes responsibilities previously addressed under whole system, security and governance considerations. GDNs are expected to understand and respond to interactions across the energy system, while working together collaboratively and appropriately with other bodies, such as the Gas Market Operator Northern Ireland (GMO NI) and Gas Transmission System Operations (TSOs), where relevant. Clear roles, coordination and information sharing will be important.

2.28 One of our key expectations for GD29 is that GDNs develop and use robust forecasts, scenarios and long-term plans. GDNs should move away from reliance on a single assumed future and instead demonstrate how a range of credible scenarios for demand, connections and supply inform investment decisions and risk management. This is likely to require defined deliverables and appropriate funding within the price control.

2.29 We expect these scenarios and associated analysis to be aligned with wider system planning outputs, including TSO led publications such as the Gas Transmission Outlook and any future Energy Horizons reporting, with GDNs demonstrating how their assumptions are informed by and contribute to these outputs. In doing so, this approach should support a coherent whole-system view of future gas demand and network requirements

2.30 Uncertainty about the future role of gas increases the importance of good investment decision making. GDNs must demonstrate that investments are proportionate, appropriately timed, incorporate appropriate consideration of tariff implications and, where possible, flexible, in order to protect consumers from unnecessary cost and the risk of asset stranding.

2.31 To build on lessons learned from delivery of GD23 and identify areas where performance could be improved to help inform decisions for GD29. In particular, learning on forecasting, delivery confidence, transparency, risk management and stakeholder engagement should be reflected in how GDNs plan and operate during the next price control period.

Aims and priorities for the price control review

2.33 Our aims and objectives for the GD29 Price Control are set within the wider strategic and policy context for NI's gas sector, including the DfE Energy Strategy and the Climate Change Act (Northern Ireland) 2022, both of which signal a major shift in how gas networks must evolve to support decarbonisation.

2.34 However, our statutory duty remains to promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interests of current and future consumers, including those in vulnerable circumstances.

2.35 Therefore, our current legislation limits the extent to which we can directly regulate for decarbonisation, and potential legislative changes.

2.36 In this context, our overarching aims for GD29 are to:

(i) Deliver a price control that reflects consumer priorities, including affordability, strong consumer protection and a fair and just transition as set out in our Forward Work Programme[13].

(ii) Support the efficient, safe and sustainable development of the gas distribution network through a period of energy transition.

(iii) Ensure that the regulatory framework protects consumers while maintaining financeability, in the context of uncertain future demand.

(iv) Provide a flexible and adaptable framework capable of responding to uncertainty in policy, law and market developments.

2.37 To enable achievement of these aims, we must deliver on the following GD29 objectives:

(i) Strengthen consumer engagement to ensure GD29 Business Plans reflect the priorities and expectations of consumers.

(ii) Enhance consumer protections, with a particular focus on vulnerable consumers, in line with UR frameworks.

(iii) Improve the quality, transparency and integration of data to support whole system planning and robust decisions.

[13] Forward Work Programme 2026/2027

(iv) Develop meaningful outputs and performance measures to improve accountability.

(v) Support the development of a flexible and decarbonised gas network, aligned with emerging policy direction.

(vi) Provide for efficient investment under uncertainty through the use of appropriate uncertainty mechanisms.

(vii) Require robust, evidence-based business plans, including clear justification and alignment with policy.

(viii) Promote efficiency and innovation, whether delivered as business-as-usual or through carefully targeted innovation mechanisms, where it delivers measurable consumer benefit.

(ix) Ensure the framework remains proportionate and adaptable, mitigating risks of asset stranding for consumers and investors.

2.38 We invite stakeholders to consider and comment on this outline set of aims and objectives for GD29, and to propose additional considerations that may support a fair, efficient and future proofed regulatory framework for the NI gas distribution networks.

3. Price control design

Overview

Introduction

3.1 The GD29 price control will set revenue limits. We will do so in a way that ensures that the companies' operational and investment costs can be met and objectives delivered effectively and efficiently, providing best value for money to consumers.

3.2 All aspects of the GDN's business plans will be considered and the objectives to be delivered will be tailored to take account of the needs of local consumers (today's and those of tomorrow) and associated costs. While we expect to focus on this price control period, we will also consider the planning work necessary to support the effective and efficient delivery of service into the longer term.

3.3 We will also carefully consider the impact of any price control decisions on consumers.

3.4 We note that the provision of relevant and robust information in a timely manner by the GDN's to us is a pre-requisite for a balanced price control decision. We therefore envisage clearly setting out our information requirements and liaising with the companies on an ongoing basis through a formal query process, with defined timescales.

3.5 The GDN's are now proficient at populating the annual Reporting Instructions and Guidance (RIGs) data templates. In doing so, this has provided a baseline of actual expenditure incurred, on a consistent basis, to support future benchmarking with its peers. However, there may be areas where historic costs are no longer an indicator of future expenditure, and we will assess those costs as appropriate.

3.6 In Chapter 6 of this document, we provide a timeline of the key milestones which will be followed throughout the GD29 price control process.

A proportionate approach

3.7 Our approach will be proportionate and grounded in established regulatory precedent, ensuring we apply the appropriate level of scrutiny while addressing the information asymmetry that exists between us and the GDNs.

3.8 We will apply several principles to ensure a proportionate approach. We will adopt a light-touch approach if:

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

3.9 We will adopt a more detailed approach if:

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

3.10 We expect the companies to provide the data necessary to support a robust assessment of expenditure and outputs. Where there is insufficient data, we will adopt an approach to funding which is prudent but conservative.

3.11 We will consider as part of our price control, where relevant and appropriate, best practice relating to other price controls and the adoption of cross utility approaches, principles and standards of regulation.

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

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

3.13 For GD29 we will:

- Require the companies to submit their business plans in the format requested, with sufficient historic information included. We will ask that submissions also include an explanation of the impact of these business plans presented in a way that can be understood by stakeholders.

- Promote the collaborative working already present within the gas industry and seek further alignment between price control submissions and other processes such as the potential evolution of the energy landscape.
- Consider whether further amendments to the format of our price control determination or other regulatory submissions are necessary to ensure clarity and reconciliation between them.
- Use appropriate methods to check and verify key information.
- Provide reliable driver-based cost information with appropriate explanations of any changes in numbers or circumstances.

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

- Demonstrate that responsibility for the assurance of the data and plans submitted resides at Board level. We are seeking a Board Assurance Statement to the effect that the GDN business plan aligns with UR's regulatory principles and approach as set out within this approach document and that the Board Assurance Statement should accompany submission of the business plan.

Duration of GD29

3.15 The GD23 price control was set for a period of six years beginning in January 2023. We consider the duration of the GD29 price control should also cover a six-year period (2029 to 2035), beginning 1 January 2029. This timeframe is consistent with the duration set out in our recent RP7 electricity price control and is broadly consistent with the duration proposed for our PC28[14] price control and the timeline adopted by Ofgem for RIIO3.

3.16 We propose that the six-year timeframe would provide the GDNs with the best opportunity to accommodate long-term planning, achieve efficiencies and limit regulatory burden. We also view that anything greater than six years is too long, as forecasting this far ahead is difficult, particularly during times of uncertainty.

3.17 In view of the uncertainty created by the transition to net zero, we are conscious that the outputs and need for investment in GD29 could change as legislation and policy direction evolves. We propose to continue our approach from GD23 and rely on uncertainty mechanisms to respond to any policy developments in period, rather than price control

[14] PC28 Approach Decision

re-openers or a mid-term review. We are also considering changing cost risk sharing arrangements as set out later in this document.

Structure of the GD29 Price Control

3.18 The GD23 price control applied a revenue cap for KE (formerly Firmus Energy) and PE continuing long established arrangements. KE and PE operate in mature distribution areas where a revenue cap regime provides appropriate insulation from year-to-year volume volatility.

3.19 For GD29, we intend to retain the current revenue cap form of control for KE and PE. This approach ensures continuity with GD23 and preserves appropriate incentives aligned to each network's stage of development.

Evolve

3.20 Evolve, by contrast, continues to operate a price cap regime to maintain strong incentives to secure new customers in a developing network. Under this approach, Evolve set conveyance charges for each customer category, and total revenue depends on the volumes of gas transported at those charges.

3.21 The operation of the control is defined by two constraints that must be met in each year, the Primary Constraint and the Supplemental Constraint.

3.22 The Primary Constraint compares allowed and actual revenues at the level of individual conveyance categories. It requires that revenues recovered through charges remain consistent with the determined tariffs, while also tracking any differences between allowed and actual revenues. These differences are recorded as over- or under-recovery and carried forward between years.

3.23 The Primary Constraint also allows these balances to be offset across categories and across years, subject to the limits set out in Evolve's licence. As a result, differences between expected and actual volumes or revenues are reflected in subsequent periods through adjustments to charges.

3.24 The Supplemental Constraint applies to total revenue. It limits the extent to which revenue in any year can exceed the allowed level by applying a fixed margin set at the price control review.

3.25 Together, these constraints require Evolve to set conveyance charges in line with determined tariffs, while ensuring that both category-level and overall revenue limits are maintained. The framework also provides for any differences between allowed and actual revenues to be addressed

over time and protect the company from material deviations in forecast demand, ensuring that differences between forecast and outturn volumes do not result in sustained financial gains or losses.

3.26 For the GD29 Price Control we are reviewing our approach to Evolve's regulatory framework and considering whether to change their operation from a price cap to a revenue cap in line with KE and PE. This change would align with the ten year start up period during which both KE and PE operated under a price cap regime.

3.27 Another key consideration for GD29 is whether the current form of control remains appropriate, given the evolving context of network maturity and increased uncertainty around future gas demand. Moving to a revenue cap framework, consistent with the other GDNs could:

(i) Provide greater consistency across networks.

(ii) Improve transparency around the allocation of volume risk.

(iii) Reduce complexity associated with the current licence framework.

(iv) Better align with the broader tariff smoothing approach by avoiding volatility in tariffs arising from short-term demand fluctuations.

3.28 Evolve outlined in response to our CfI:

- 'Evolve consider that it is now an appropriate time to review, however we believe that consideration should be based on the relative level of network development and customer connections rather than an arbitrary period of 10 years. Any decision should also consider the stability of revenues, the allocation of risk and the UR's duty to protect consumers while enabling efficient investment. The benefit of which price control regime a network operator functions under can only truly be evaluated when the other elements have been established.'

3.29 We agree with Evolve's response and plan to establish a dedicated workstream to evaluate the benefit of moving to a revenue cap for GD29. We will therefore undertake further analysis of the potential costs and benefits of alternative forms of control for Evolve and welcome views from stakeholders, including evidence from Evolve on the impact of different approaches on both consumers and its business operations.

Revenue determination framework based on core building blocks

3.30 For GD29, our price control framework will continue to determine ex ante maximum revenue allowances for each GDN using the established regulatory building blocks approach. Under this approach, allowed revenues are set by assessing the efficient costs required to operate, maintain and develop the gas network over the price control period.

3.31 The key components of the revenue allowance will be:

- Operating Expenditure (Opex): Efficient operational costs will be assessed based on benchmarking, historic performance and justified forward looking requirements. Allowances will reflect only those costs necessary for the GDNs to run a safe, reliable and efficient system.
- Capital Expenditure (Capex): Investment in the gas network (e.g. infill, connections, replacement and strategic developments) will be reviewed and challenged to ensure need, timing, cost efficiency and deliverability. Allowed capex will be added to the Regulatory Asset Base (RAB), consistent with long-term cost recovery principles.
- Depreciation of the RAB: In GD23, depreciation is based on the prevailing asset lives and RAB structures defined in each GDN's licence. For GD29, we may continue this approach, however, we have also outlined in Chapter 4 potential considerations for accelerated depreciation profiles.
- Rate of Return: A weighted average cost of capital (WACC) will be applied to the RAB to allow a fair return on efficiently incurred capital investment. The WACC calculation will follow established regulatory practice and consider prevailing financial market conditions, comparators, and evidence.

3.32 Together, these building blocks, subject to the contribution from the profile adjustment, will set total allowed revenues for each GDN in respect of the GD29 period.

3.33 This approach maintains consistency with GD23 while ensuring that maximum revenues are grounded firmly in transparent, evidence-based assessments of efficient opex, capex, depreciation and return on capital.

The role tariff smoothing of the profile adjustment

3.34 In a more standard building block methodology, the allowed revenue for a price control period is built up using a calculation of opex plus depreciation plus return. This standard methodology was applied to the established national utility industries following privatisation.

3.35 Aspects of the same calculation would not work well for the regulatory approach to GDNs in NI which were new-build networks. In the early stages of network development, a conventional RAB-based revenue control might lead to undesirable or perverse effect of customers: if starting with a relatively small initial customer base, the revenue required to be recovered from each customer could lead to very high initial tariffs, followed by much lower tariffs if and when the customer base increases. The high initial tariffs could themselves act as a barrier to growth in customer numbers.

3.36 In this context, a smoothed tariff was calculated based on projected costs and revenues over a longer-term forecasting horizon of volumes.

3.37 The GD23 price controls retained an approach to tariff smoothing. In practical terms, tariff smoothing is implemented using the profile adjustment. This long-term tariff smoothing, and the profile adjustment, are a unique element, which is not part of a more standard building block methodology. We discuss our proposed approach to tariff smoothing and the profile adjustment further in the subsection on “recovery of revenues over time”.

Price control adjustments to allowances, revenues and RAB

3.38 Price controls are established on the basis of forecasts of efficient costs, outputs and funding requirements. As with previous controls, adjustments are required over time to ensure that allowed revenues and the RAB reflect actual outturn costs, delivered outputs and updated information, rather than relying solely on ex ante assumptions.

3.39 In GD23, this was achieved through a structured set of adjustment mechanisms which provided for:

- reconciliation of allowed and actual expenditure and outputs at the end of the price control period; and
- in-period updates where material new information arose that could not reasonably have been anticipated at the time of the final determination (for example Energy Strategy projects).

3.40 Taken together, these mechanisms are intended to ensure that consumers pay only for efficient, necessary and delivered activity, while providing GDNs with appropriate protections against uncertainty.

3.41 At the end of each price control period, adjustments are made to allowances, revenues and the RAB to reflect outturn delivery compared to the assumptions made at the time of the determination. These adjustments typically arise from differences between forecast and actual:

- Capital and operating expenditure
- Delivery of outputs and connections
- Volumes and other cost drivers

3.42 This end period reconciliation, or 'True-up', process is a core part of the price control framework. It allows efficient underspend or outperformance to be appropriately shared, while protecting consumers from funding inefficient or undelivered activity. The resulting adjustments are reflected in the opening RAB and revenues for the subsequent price control period.

3.43 In addition to reconciling outturn delivery, price controls must also be capable of responding to material new regulatory information that emerges during the control period. These may include changes in statutory obligations, government policy, industry standards or wider economic conditions that were not known, or not fully foreseeable, when allowances were set.

3.44 To address this, GD23 includes uncertainty mechanisms which enable allowances and revenues to be updated where justified by robust evidence. This helped to balance stability and predictability for consumers with the need for flexibility in an evolving operating and policy environment.

3.45 For GD29, we propose to continue to apply the underlying principles that have guided incentive and uncertainty mechanisms in previous price controls, rather than reopening settled aspects of the regulatory framework.

3.46 In particular, the GD29 framework will be designed so that:

- allowances are adjusted where necessary to reflect efficient outturn costs and delivered outputs;
- risks associated with forecasting uncertainty are shared appropriately between consumers and companies;

- companies retain incentives to control costs and deliver outputs efficiently; and
- consumers are protected from funding inefficient expenditure or undelivered activity.

3.47 These principles will be implemented through a combination of end period reconciliations, defined risk-sharing arrangements and targeted uncertainty mechanisms.

3.48 The detailed design of these mechanisms will be consulted on separately. In doing so, we will seek to build on learning from the GD23 framework to inform any appropriate refinements over time. The overall approach is intended to provide continuity, transparency and predictability, while remaining proportionate to the evolving nature of the gas sector and wider energy policy objectives.

3.49 Consistent with this approach, we intend that GD29 will build on the established structure of GD23 rather than introduce fundamental changes to the adjustment framework. This includes maintaining established approaches to inflation indexation and the treatment of material new obligations, while ensuring that the framework remains fit for purpose in the context of the ongoing energy transition.

Cost and performance incentives

Performance incentives and regulatory tools

3.50 In the GD23 Price Control, we have mainly used licence and legislative obligations such as those set out in the Gas (individual Standards of Performance) Regulations (Northern Ireland) 2014[15] to set minimum standards of performance and service for consumers.

3.51 The use of both output delivery incentives (both evaluative and mechanistic), such as those adopted by Ofgem in RIIO-2 & RIIO-3 has been limited in our price control design for gas distribution. This is an issue raised in response to our CfI from respondents:

3.52 PE outlined in their response:

- 'Incentive-based regulation is the cornerstone of economic regulation and unlike its GB counterparts, the incentive opportunities presented for Phoenix in GD23 are limited… Phoenix would therefore recommend a review of the incentives available to GDNs is undertaken by UR…'

[15] The Gas (Individual Standards of Performance) Regulations (Northern Ireland) 2014

3.53 KE added in their response:

- 'As highlighted in our GD23 lessons learned submission, we believe that well-designed incentives can play a constructive role in encouraging innovation. We encourage the Utility Regulator and DfE to explore mechanisms that appropriately recognise and reward projects that deliver measurable cost or carbon savings, helping to align innovation efforts with broader decarbonisation and affordability goals.'

3.54 Evolve also added in their response:

- '…we believe that incentives could also be restructured to promote green gas readiness and low-carbon heating solutions. Simply incentivising the installation of gas connections without considering their long-term carbon impact is no longer acceptable. We propose that future connection incentives be linked to the level of carbon reduction, in particular consideration should be given to consumers who install hybrid heating systems, and/or hydrogen or biomethane ready appliances.'

3.55 CCNI outlined in their response:

- 'The Consumer Council emphasise the need for the regulatory frameworks to address customer numbers, affordability and to incorporate incentives to encourage energy efficiency, provision of information and to include fuel poverty schemes.'

3.56 For GD29, we will consider whether targeted incentives are required to encourage delivery of specific outcomes beyond cost efficiency. This may include incentives linked to, 'Desired outcomes and the role of the GDNs' outlined in Chapter 2, such as customer service, data quality, security and delivery of agreed outputs or milestones.

3.57 In this context, we are also considering the extent to which certain expenditure allowances (particularly capital and some categories of operational expenditure) could be more clearly linked to the delivery of defined outputs or milestones. Where funding is linked in this way, it is important that there is reasonable clarity on how allowances would be treated in the event of non-delivery, late delivery or changes in scope, while retaining flexibility to reflect circumstances outside the GDNs control.

3.58 For example, as one potential way of incentivising delivery of agreed outputs and outcomes in GD29, we are considering whether an Evaluative Performance Framework (EPF), similar to that adopted in recent SONI and NIEN RP7 price controls, could play a role in areas that

are outcome focused and evolving and where performance assessment is less amenable to quantitative targets set for a price control period.

3.59 In particular, there are aspects of gas network activity, such as long-term delivery, stakeholder engagement, facilitation of the energy transition, and the development of new or emerging technologies, where setting ex ante targets or mechanistic incentives is inherently challenging.

3.60 An EPF provides a structured and transparent way of assessing company performance against clearly defined objectives, allowing both qualitative and quantitative evidence to be considered. In this way, an EPF could complement other GD29 incentives by focusing on behaviours, adaptability and the delivery of consumer value in areas where outcomes are influenced by external factors or where historical benchmarks are limited.

3.61 Potential areas for an EPF approach in GD29 could include activities where outcomes are shaped by the quality of decision-making, responsiveness to policy developments, and stakeholder engagement which informs decision making. This would include preparation for decarbonisation pathways, strategic asset stewardship under uncertainty, and GDN contributions to whole system scenario planning, recognising that overall system planning is led by the TSOs in coordination with SONI.

3.62 In this context, an evaluative approach could also be applied to aspects of GDN specific network planning, where outcomes are influenced by how effectively companies respond to changing volume drivers such as infill connection activity and evolving demand for low carbon gases (e.g. biomethane). This may include how GDNs coordinate network development and investment decisions to support efficient, optimal connections and minimise, or negate the need for reinforcement costs.

3.63 We emphasise that this work is at an early stage. If progressed, any evaluative framework for GD29 would be designed to be proportionate, transparent and aligned with statutory duties.

3.64 Alongside incentives, the way GDNs plan and make decisions about their assets will be increasingly important during GD29. Uncertainty about the future role of gas means that choices made now about maintaining, replacing or investing in assets will have long-term implications for costs and consumers.

3.65 In this context, we are considering whether there is scope to place greater emphasis on transparency around long-term planning and investment decisions, including the assumptions used and how uncertainty is managed, particularly in mind of the asset stranding risk.

3.66 This would build on existing licence requirements relating to asset management and long-term planning and would be aimed at supporting good decision making. We will consider how this could sit alongside incentives within the GD29 framework to help protect consumers from underutilised or poorly timed investment.

3.67 Where incentives are not appropriate or effective, we will consider alternative regulatory tools to protect consumers. These may include licence obligations, output-based requirements, enhanced reporting and monitoring, or the ability to take corrective action where delivery falls short.

3.68 We would welcome proposals from GDNs for further incentive mechanisms for GD29 in response to this approach consultation. Any incentive mechanisms should be linked to tangible and sustainable improvements in performance, at a cost which consumers are willing to pay. The company should explain why any incentive mechanism it proposes is a better alternative to including planned activities to deliver the same effect in the Price Control. The company should show that it has robust information on current performance trends which will allow future incentive targets to be set. This includes demonstrating how performance against the incentive mechanism can be separated from other improvements such as network upgrades funded through the Price Control.

Cost efficiency and cost sharing

3.69 In GD23, we introduced a 35:65 capex cost sharing mechanism. In practice, the capex risk-sharing mechanism worked as a symmetrical risk-sharing incentive. This means that the GDNs would take 35% reward or risk of all outperformance or underperformance on capex targets.

3.70 Under the GD23 price control, there is no explicit risk-sharing mechanism applied to opex. GDNs are therefore exposed to 100% of any over- or under-spend relative to their ex ante allowances over the course of the price control period, subject only to adjustments through specified uncertainty mechanisms where applicable.

3.71 However, the framework also recognises that outturn opex is typically considered when setting allowances for the subsequent price control, such that sustained over- or under-performance may inform the recalibration of future allowances. In this way, while there is no within-period sharing, there remains an implicit longer-term adjustment.

3.72 Cost sharing options for GD29 were explored by respondents to our CfI:

3.73 Evolve outlined in their response:

- 'The GD23 framework currently utilises a Capex risk sharing mechanism where any outperformance or underperformance in Capex compared to the allowed level is shared between the network company and consumers, creating an incentive for efficiency while allowing for appropriate risk to be passed back to consumers for challenging targets. This mechanism has been effective during GD23, however Evolve believe that given the significant uncertainty experienced to date during GD23, a similar mechanism for sharing Opex risk should also be considered under the GD29 framework.'

3.74 Our view is that cost sharing arrangements will continue to be a central mechanism for encouraging efficient expenditure. This includes:

- Incentivising efficient delivery of outputs in the price control period.
- Sharing the benefits and risks from over-/under-spend in a manner that contributes to addressing uncertainty and information asymmetry.

3.75 We will consider the inclusion of an opex risk-sharing mechanism in GD29 in response to feedback from the GDNs, as a means of helping to rebalance risk within the overall price control package in the context of uncertainty around the future role of gas and reflecting wider developments in other UK price controls.

3.76 We are seeking feedback from stakeholder on the overall incentive strength for both capex and opex risk sharing mechanisms for GD29, including options to:

(i) Retain the current approach with a 35:65 risk-sharing rate for capex (i.e. GDNs would take 35% reward or risk of all outperformance or underperformance) with no direct cost risk-sharing for opex (i.e. 0% passthrough).

(ii) Align risk sharing on opex with that on capex (i.e. 35:65 for both opex and capex).

(iii) Adopt alternative risk-sharing ratios for opex and capex such as 50:50 utilised in RP7, or other regulator frameworks.

(iv) Amend the cost risk-sharing rates in other ways.

3.77 These options are not exhaustive, and we welcome views on other approaches to cost risk-sharing that could better balance incentives, risk and consumer protection under GD29.

Passthrough costs and safeguards

3.78 GD23 included a passthrough uncertainty mechanism. This covered costs such as statutory/legislative duties, licence fees, market operator charges, and other cost items treated as primarily outside the GDNs' control. These are automatically passed directly into tariffs without efficiency challenge.

3.79 For GD23, we included an uncertainty mechanism to allow network rates for the GDNs to be trued-up at the end of the price control period.

3.80 Following GD23, the GDNs made representations to the UR that network rates should be treated as a passthrough cost, since these costs are deemed uncontrollable by the GDNs. We note, in our recent RP7 final Determination for NIEN our decision was to accept business rates as a passthrough cost, subject to evidence that they have been efficiently incurred and appropriately challenged.

3.81 For GD29, we will consider the appropriate treatment of network rates for GDNs, informed by our recent regulatory decisions. This will include assessing whether there is merit in moving from the current uncertainty mechanism approach towards treating network rates as a passthrough cost, subject to appropriate assurance on efficiency and challenge.

3.82 We also intend to liaise with Land & Property Services (LPS) to understand their approach to network rates for the GDNs in the GD29 period given that it is possible that revaluations could be undertaken in the lead up to, or throughout GD29.

Uncertainty mechanisms

Role of uncertainty mechanisms

3.83 In GD23, uncertainty mechanisms enable adjustments to allowed revenues where material issues arise during the control period that could not be efficiently forecast at the time of the price review. They are an integral part of the price control framework and support both consumer protection and GDN financeability.

3.84 During the GD29 period, we anticipate heightened uncertainty, including uncertainty relating to gas demand, energy strategy, government policy development and potential legislative change.

3.85 In their response to the CfI PE emphasised that predictable governance is vital for major projects like metering, energy transition, and consumer protection.

- ‘It is essential that the regulatory framework takes a dynamic approach… to deliver the outputs in a timely manner.’

3.86 Evolve also said:

- ‘clear need to ensure that there are suitable mechanisms… to address… shifts in costs and unforeseen circumstances.’
- ‘a more simplified ring-fenced allowance or ‘use it or lose it allowance’ could be implemented…’

3.87 Flogas stated:

- ‘The next price controls must be designed with built-in flexibility to respond to unforeseen developments.’

3.88 Uncertainty mechanisms provide a proportionate way of managing these risks without reopening the entire price control.

Objectives of uncertainty mechanisms

3.89 Consistent with GD23 and other UR price controls, uncertainty mechanisms are intended to avoid the early funding of uncertain activity through ex ante allowances. Where outcomes are unclear, it may be more efficient to consider funding closer to delivery, once better information is available.

3.90 Uncertainty mechanisms also reduce the need for GDNs to include excessive risk premia in their business plans. By managing material uncontrollable risks explicitly, these mechanisms support efficient planning and mitigate undue risk being borne by either consumers or themselves.

Uncertainty mechanisms versus output deliverables

3.91 It is helpful to distinguish between:

a) Arrangements that adjust allowances based on outturn delivery of outputs, projects or deliverables.

b) Arrangements that adjust allowances, outputs or performance requirements in light of new information arising during the control period.

3.92 The first category is similar to output or deliverable based mechanisms, including approaches comparable to price control deliverables used in other regulatory frameworks.

3.93 The second category is more naturally described as uncertainty mechanisms, where the purpose is to respond to material new information, changed circumstances or developing legislation that could not be fully anticipated when setting ex ante allowances.

3.94 We recognise that there is a grey area between these categories. For example, a unit cost adjustment linked to outturn meter or connection volumes could be characterised either as a volume driver uncertainty mechanism or as a mechanistic deliverable based adjustment.

3.95 On a practical basis, where a mechanism could reasonably fall into either category, our proposed approach is to treat it primarily as an output or deliverable based adjustment rather than as an uncertainty mechanism.

3.96 In the GD23 Output Based uncertainty mechanism we determine a unit price (capex) or unit allowance (opex). The value included in the cost base is the determined unit price/unit allowance (e.g. cost of meter/connections incentive) multiplied by the forecast driver for that item (e.g. number of connections). Any difference in the driver (e.g. higher connections) between the determination and outturn will result in an adjustment at the time of GD29, i.e.

determined unit rate/allowance x outturn driver output
minus (-)
determined unit rate/allowance x forecast driver output

3.97 This distinction would support clearer document structure and help separate arrangements linked to delivery against ex ante outputs from mechanisms intended to respond to new in period information.

Types of uncertainty mechanisms

3.98 GD29 is expected to retain a suite of targeted uncertainty mechanisms consistent with GD23, rather than relying on a single broad uncertain cost approach.

3.99 This a suite of targeted uncertainty mechanisms can be grouped into two categories:

- Mechanistic adjustments to ex ante allowances.
- Within period determination of adjustments to ex ante allowances.

Mechanistic adjustments to ex ante allowances.

3.100 As in GD23, this may include several mechanisms within the overall Rate of Return Adjustment mechanism. This annually adjusts the allowed rate of return to reflect actual inflation, risk free rates, and the cost of

debt/equity, ensuring returns match real economic conditions. It replaces forecast assumptions with outturn values, preventing windfall gains or losses for either consumers or GDNs.

- Cost of debt indexation – This ensures that GDNs' allowed returns reflect actual market conditions rather than forecast assumptions by automatically updating the cost of debt component of the allowed rate of return. This mechanism reduces forecast error, protects consumers from paying unnecessary risk premia, and maintains financeability by aligning revenues with prevailing debt market conditions over the control period.

- Cost of equity indexation – This ensures that the equity return allowed to GDNs reflects actual financial market conditions rather than static forecasts made at the Final Determination. By updating key parameters within the Capital Asset Pricing Model (CAPM) framework, the mechanism reduces forecasting risk, maintains financeability, and ensures consumers are not exposed to unnecessary risk premia embedded in ex ante assumptions.

- Corporation Tax - This mechanism ensures that GDN revenues remain neutral to changes in corporation tax, so that companies are neither advantaged nor disadvantaged by differences between assumed and actual tax conditions. It sits within the wider rate of return uncertainty framework and is designed to correct for tax impacts in a controlled, forward-looking way rather than embedding speculative tax allowances in base revenues.

- Tax Allowance Adjustment Evolve - The Evolve tax adjustment mechanism sets Evolve's tax allowance at zero throughout GD23 because its weighted average cost of capital is calculated on a vanilla basis, meaning no corporation tax needs to be funded in this period. A principle is established, however, for future price controls particularly GD29 to adjust Evolves's tax allowance if tax becomes payable (expected from 2035) or if corporation tax rates change.

Within period determination of adjustments to ex ante allowances.

3.101 The GD23 ring fenced uncertainty mechanism covers strictly ring-fenced funding pots such as the 1% Totex Energy Strategy Fund, which can only be accessed for approved projects once a robust business case is submitted or Traffic Management Act (TMA) were new legalisation has come into effect. The allowance will be removed through an adjustment in the next price control unless we determine that the costs (or adjusted costs) are necessary and efficient.

3.102 GD23 included the Economic Project mechanism. It covered major new projects not included in our determination as the developments were not foreseen or adequately scoped at the time of determination. It includes where the project is demonstrated to be economic or necessary and exceeds the materiality threshold of £120k net of contributions.

3.103 The Necessary Projects uncertainty mechanism covers an allowance for new projects not included in our determination, which may be deemed non-economic through the Economic Project Mechanism, but which are necessary for the development, strength or integrity of the gas network.

3.104 In the Nominated Outputs uncertainty mechanism, an allowance is included for the delivery of a specific project (e.g. 7bar mains reinforcement) proposed by the GDN after undertaking a detailed technical assessment to identify a need and the optimum way of meeting that need. If the GDN subsequently decides that the work is not necessary or can be deferred to a later date, we will either remove the investment from the price control or re-profile the allowance to reflect actual delivery. If the company decides that an alternative solution will deliver the same output, we will review the proposal and determine whether the original allowance should be maintained, or the allowance adjusted to reflect a change of output.

Continuity and review of GD23 mechanisms

3.105 UR current view is to retain the core uncertainty mechanisms used in GD23 where they remain fit for purpose. This continuity supports regulatory predictability and provides a clear precedent for stakeholders.

3.106 However, these existing mechanisms will be reviewed to ensure they remain appropriate in the GD29 context. Where necessary, refinements may be made to cost lines or potential new mechanisms added to reflect evolving risks, lessons learned from GD23 delivery, and the changing policy and legislative environment.

3.107 For example, as part of our broader framework for uncertainty mechanisms, we are considering the introduction of a targeted mechanism to address Real Price Effects (RPEs). Such a mechanism could allow for adjustments to allowances where there are material differences between forecast and outturn input price inflation relative to CPIH. Further detail on the rationale for this approach, and the potential design of an RPE specific uncertainty mechanism, is set out in Chapter 4.

3.108 We welcome well thought through and appropriate proposals from GDNs and will work with them through the approach and pre-business plan submission phase to understand their emerging thinking.

Legislative and policy uncertainty

3.109 A key feature of GD29 is uncertainty relating to potential legislative change and the evolution of government energy policy. Changes to UR's governing legislation or to obligations placed on GDNs may arise during the control period.

3.110 As in GD23, uncertainty mechanisms provide a proportionate means of accommodating such changes without reopening the full price control, supporting both flexibility and regulatory stability.

Innovation and supporting the energy transition

3.111 In GD23 we introduced a ring-fenced uncertainty mechanism with a level of funding set at 1% of determined total capex and opex per annum to enable flexibility and a degree of financeability for the price control Energy Strategy requirements.

3.112 Any GDN that required access to this Energy Strategy funding for a project, is required to submit a business case for approval and evidence that alternative funding methods have been considered.

3.113 Throughout GD23, the Energy Strategy fund has been used to good effect to undertake several projects to support policy development, totalling over £2.0m of investment so far.

3.114 The continued need for specific funding to support the energy transition has been reflected in response to our CfI by all three GDNs:

3.115 PE outlined in their response:

- 'Phoenix would encourage UR to reflect on the current ESF framework and use this as the building block for developing the appropriate regulatory framework for GD29 that allows for the development of thinking, trialling, testing and strategic research on energy transition matters.'

3.116 KE said in their response:

- 'There is an opportunity to explore a dedicated innovation funding mechanism within the GD29 price control framework. We acknowledge the positive progress made with the Energy Strategy Funding mechanism introduced in GD23, which has supported innovation activities. However, its scope, funding levels, and approval processes could be improved by streamlining procedures, reducing administrative red tape and multi-level review processes, and increasing flexibility on allocation of funds.'

3.117 Evolve also added in their response:

- 'The current Energy Strategy Funding pot has provided essential funding to progress projects relating to the energy transition, however the process under which funding is made available is lengthy and time consuming, for costs which have already been approved under price control; this process could be refined for GD29. Evolve consider that a more simplified ring-fenced allowance or 'use it or lose is allowance' could be implemented to allow for preparatory decarbonisation investments to ensure essential "no regrets" work can proceed while minimising consumer risk.'

3.118 We propose granting an ex ante allowance for prioritised known projects to facilitate the energy transition. We see benefit in continued use of an uncertainty mechanism to retain flexibility during the price control period to respond to emerging policy direction and regulatory need. However, we recognise that more work will be required to explore how an ex ante allowance could be designed and tailored and we recognise the need for the GDNs to demonstrate justification (e.g. eligibility criteria, alignment with DfE's energy policy, quantum of funding within an ex ante baseline).

3.120 We will also assess the current Energy Strategy funding uncertainty mechanism to ensure the design remains fit for purpose throughout GD29. For example, we are considering whether to adopt a window for opportunity approach towards energy transition projects which aligns closely with the innovation framework set out in RP7. However, we consider that any window of opportunity approach will need to remain flexible to the timing of emerging policy decisions and regulatory need.

Design principles for GD29 uncertainty mechanisms

3.121 The design of uncertainty mechanisms for GD29 will follow the principles applied in GD23. Mechanisms will be used only where impacts are material, and where scope, triggers and evidential requirements can be clearly defined.

3.122 Mechanisms will be proportionate and administratively efficient, with a clear consumer value rationale. Flexibility will be introduced where it improves value for money, while maintaining regulatory certainty and strong delivery incentives.

3.123 In designing uncertainty mechanisms for GD29 we will also develop supporting guidance documents, where appropriate, so there is clarity on when mechanisms can be used and their purpose.

3.124 GD23 contained a Materiality Threshold uncertainty mechanism. It applied to any cost category or project where deviations from allowed

expenditure exceeded a UR set materiality threshold. Ensuring only material, clearly evidenced overspends or underspends across areas such as capex, opex, re openers, and specific uncertainty items are eligible for adjustment, thereby preventing trivial or low-value reopenings.

3.125 This materiality threshold does not sit as a stands alone mechanisms but should form a component part of all other mechanisms.

Governance and next steps

3.126 The detailed design of uncertainty mechanisms will be informed by this consultation, GDN business plans and targeted engagement where appropriate. Business plans will be expected to clearly identify risks addressed through uncertainty mechanisms and distinguish these from ex ante allowances. We welcome well-thought through proposals from the GDNs and will work them through the approach phase and pre-business plan submission phase to understand their emerging thinking.

3.127 Decisions on uncertainty mechanisms will be taken at Draft and Final Determination stages, consistent with the approach adopted in GD23.

Approach to new connections and network development

3.128 The approach to new connections under GD29 is an important component of the overall price control framework. It influences the level and timing of cost recovery, the distribution of costs between existing and new consumers, and the future utilisation of the gas network.

3.129 While the GD23 framework supported continued connection activity through a combination of funding and incentives, the changing context for gas networks requires a clearer and more structured consideration of how connections should be treated under GD29.

Historical role of connections policy and the connections incentive

3.130 The development of the natural gas network in NI has been underpinned by a clear statutory and policy objective to promote the growth of an efficient and coordinated gas industry. This objective, set out in the Energy (Northern Ireland) Order 2003, has historically required UR to facilitate the expansion of the gas network as a means of delivering economic and consumer benefits.

3.131 In this context, the policy of free connections at the point of delivery for consumers and connection incentives have played an important role in supporting the growth of the network. The price control frameworks for

GD14 and GD17 were explicitly designed to encourage increased connections and network expansion, reflecting the objective of extending the availability of natural gas to a growing customer base.

3.132 The rationale for this approach was that increasing customer numbers would support the recovery of network investment over time, improve utilisation of the asset base, and enable costs to be spread across a wider base of consumers.

3.133 As such, the connections policy and incentive were a key component of the broader regulatory framework designed to stimulate demand, support network roll-out, and ensure the long-term sustainability of tariffs during the growth phase of the industry.

Emerging challenges with the current approach to connections incentive

3.134 As the gas network has matured, the context in which the connections incentive operates has changed significantly. A key feature of this is that the number of properties available to connect within the existing network footprint is now reducing. This reflects the completion of much of the economically viable network infill.

3.135 Evidence from GD23 indicates that connection activity is becoming more uncertain and, in some cases, diverging from forecast expectations. Actual connection levels have not always matched original forecasts, reflecting the impact of factors such as changes in energy prices, consumer behaviour and evolving decarbonisation policy.

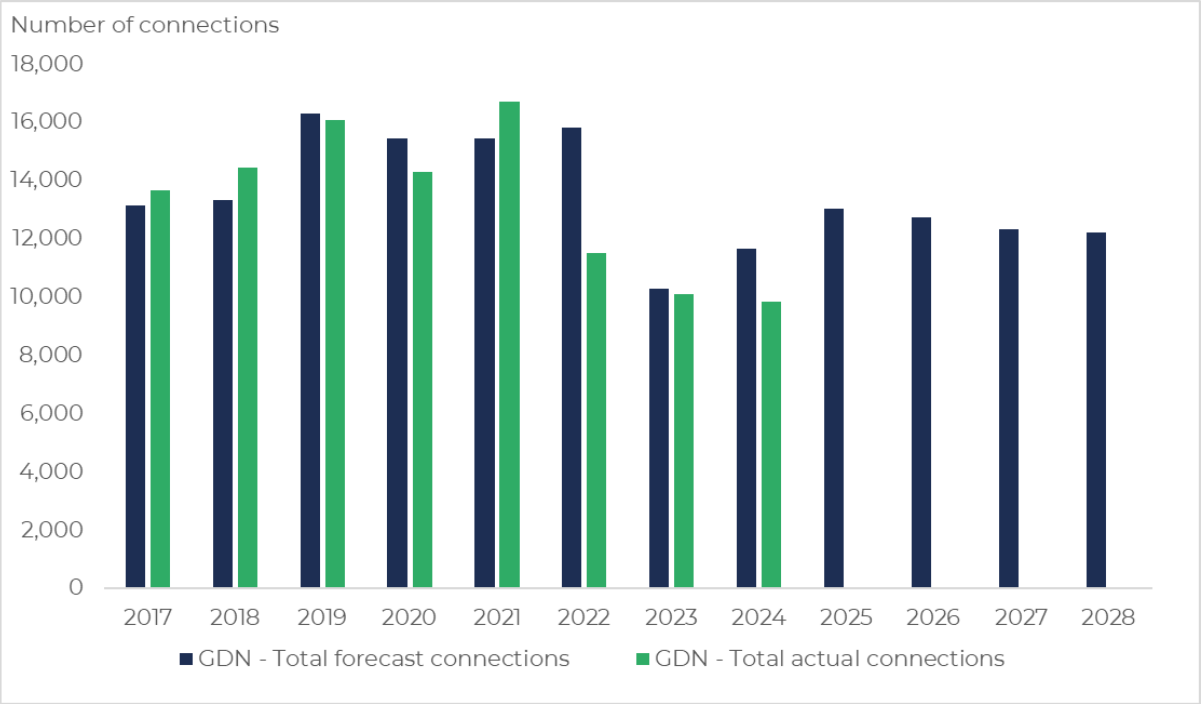
3.136 UR latest Quarterly Retail Energy Market Monitoring report (QREMM)[16] shows over 346,500 gas connections in NI at the end of Quarter 1 2026 (both domestic and Industrial and Commercial users (I&C's)), contributing to approximately 2.6 million MWh of total gas consumption.

3.137 Understanding how outturn take-up has compared to expectations is important to inform how we approach connections under GD29, where uncertainty about future demand is likely to be greater.

3.138 Figure 3.1 shows the forecast and outturn annual connection numbers for the three GDNs combined since the outset of the GD17 price control.

[16] QREMM

Figure 3.1: Forecast and outturn annual connections, combined GDN total



3.139 The decrease in forecast connections between GD17 and GD23 is clear, with forecast connections decreasing from an average of 14,900 per annum in GD17 to 12,000 in GD23. This has been reflected by actual outturn connections which have also decreased from an average of 14,500 per annum in GD17 to 10,000 in the first two years of GD23.

3.140 In broad terms, the acquisition of new customers can affect GDN costs and tariffs for existing customers in different ways. Gas distribution networks are characterised by a high proportion of fixed costs, meaning that additional customers can help spread these costs across a wider user base and, in some circumstances, reduce average tariffs.

3.141 However, new domestic, and industrial and commercial connections may give rise to additional costs, including connection works, local reinforcement and ongoing operational expenditure. Where these costs are not fully recovered from new connecting customers, there may be upward pressure on tariffs for existing users. This risk is heightened as connection volumes and future utilisation become more uncertain.

3.142 More broadly, the role of new connections must now be considered in the context of net zero. Future energy system pathways, including electrification, heat networks and low carbon gases, may result in lower natural gas demand over time. In this context, incentivising additional connections may increase the risk of underutilised assets and higher long-term costs for consumers.

3.143 Taken together, these developments indicate that the historical approach to supporting connections requires reassessment to ensure it remains aligned with consumer interests and the future direction of the energy system.

Connection charging policy

3.144 Under the current arrangements, certain domestic customers are eligible to receive a connection to the gas network at no upfront cost. This can be described as a policy of free connections at the point of delivery, with costs recovered over time through distribution charges.

3.145 Looking ahead, this approach may need to be reconsidered. In particular, there is potential for alternative approaches where connecting customers make some or all of the direct contribution towards connection costs. These could include:

- full upfront payment of connection costs by the customer.
- partial contributions, with remaining costs recovered through tariffs.
- continuation or refinement of the current approach, subject to further review.

3.146 The choice of connection charging policy has important implications for the price control. It affects the level of costs recovered through tariffs, the distribution of costs between consumers, and the volume of connections delivered.

3.147 Any future decisions will need to be based on an assessment of the costs and benefits of alternative approaches, taking account of demand uncertainty and wider system impacts.

3.148 We welcome views on whether it is proportionate, as part of the GD29 Approach, to consider changes to connection charging policy at this stage, or whether such matters are more appropriately addressed through separate policy processes. In either case, we consider that the price control framework should retain sufficient flexibility to respond to any future policy developments and ensure alignment with wider objectives.

Types of costs associated with connections

3.149 To support a clearer assessment of regulatory options, it is important to distinguish between two broad categories of costs:

- Connection delivery costs: the costs of physically providing a new connection once requested, including network construction and associated administrative activities. These costs are directly recovered through connection policy arrangements and socialised across all consumers.

- Promotional and customer acquisition costs: the costs associated with encouraging consumers to connect to the network, including marketing, advertising and engagement activities. These costs are primarily recovered through the GD23 connections incentive framework.

3.150 Under the current framework, both types of costs are recovered through the price control. However, the appropriate treatment of these cost categories may differ under alternative policy approaches, particularly if connection charging arrangements change.

Current approach to connections under GD23

3.151 Under GD23, connection activity is supported through a combination of funding arrangements, including free connections for eligible owner-occupiers, allowances for advertising, marketing and development activity, and funding for certain non-domestic connections in the Evolve network area.

3.152 Funding is primarily delivered through an output based uncertainty mechanism, which adjusts allowances to reflect actual connection volumes.

3.153 While this approach has supported connection activity to date, we outlined in GD23 that this model would become more challenging as the number of properties available to connect reduces.

Stakeholder feedback and approach to connections under GD29

3.154 In light of the above, we consider that there is a need to revisit the role and design of the current connection's framework for GD29. While connection activity will continue to play a role in network utilisation in the short to medium term, the case for broadly applied financial incentives to increase connection volumes is less clear with increasing uncertainty and changing policy objectives.

3.155 In this context, the approach to connections under GD29 raises a number of key policy considerations, including:

(i) how connection costs should be recovered between connecting customers and the wider consumer base.

(ii) how price control funding should respond to connection volumes.

(iii) how performance in relation to connection activity should be assessed.

3.156 Our approach to connections was a key theme raised in our CfI, and we received a number of responses on our approach to the connection incentive for GD29.

3.157 PE outlined in their response:

- 'Maintaining gas connection activity at levels aligned to those experienced during GD23 will require appropriate allowances for GDNs to overcome (i) existing market challenges; and (ii) a new level of consumer apathy brought about by a lack of clear decarbonisation messaging.'

3.158 KE added in their response:

- '...any transition toward a cost-to-serve model must be carefully assessed. While it may provide a more proportionate and transparent basis for reimbursing DNOs for supporting individual connections, it lacks the market-stimulating effect of previous incentive models. As we enter GD29, the penetration of connections within the Ten Towns network is forecast to be 45%. This level of network maturity would suggest that any move towards a cost-to-serve model for future connections is very much premature.'

3.159 Evolve also outlined in their response:

- 'Further to this we believe that incentives could also be restructured to promote green gas readiness and low-carbon heating solutions. Simply incentivising the installation of gas connections without considering their long-term carbon impact is no longer acceptable. We propose that future connection incentives be linked to the level of carbon reduction, in particular consideration should be given to consumers who install hybrid heating systems, and/or hydrogen or biomethane ready appliances.'

3.160 In principle, there are several approaches that could be adopted:

(i) Allowance linked to connection volumes: Funding is linked to the delivery of connections, providing a financial incentive to increase connection numbers where this is considered beneficial. An allowance per connection could include some contribution to customer acquisition and marketing costs.

(ii) Cost-based (cost-to-serve) approach: Funding is provided based on the efficient cost of delivering a connection once requested, ensuring that connection costs are recoverable without directly incentivising additional volumes.

(iii) Fixed allowance approach: Allowances are set based on forecast connection activity (whether for connection delivery costs and/or marketing costs) and do not adjust for outturn volumes.

3.161 These approaches are not necessarily mutually exclusive and may be combined depending on the policy objectives and the wider design of the price control. We welcome views on the relative merits of these approaches, including whether a combination of mechanisms may be most appropriate for GD29.

Role of an evaluative approach

3.162 We are also considering whether an evaluative performance framework could play a role in assessing company performance in relation to connections.

3.163 Such an approach may be appropriate where performance is not solely defined by connection volumes, but by the quality of planning, targeting of connections, engagement with consumers and alignment with longer-term system objectives.

3.164 An evaluative approach could complement the funding arrangements outlined above, particularly in areas where performance is not easily captured through mechanistic incentives. It could also provide an important accountability mechanism, ensuring that activities such as promotional spend and connection development are delivered efficiently, targeted appropriately, and aligned with overall value for consumers in the context of increasing uncertainty.

Properties passed incentive mechanism

3.165 The properties passed incentive mechanism was introduced to support the expansion of the gas network by increasing the number of properties able to connect, while also providing a control to ensure that extensions

were undertaken along efficient routes and maximised engagement with potential customers.

3.166 A property passed is a property located sufficiently close to a gas main (typically within a set distance) such that it can connect to the network. The incentive therefore focuses on increasing the number of properties that can connect, rather than those that actually do connect.

3.167 The mechanism operates alongside the capex framework as an output-based incentive. Allowed expenditure for network extension is set ex ante based on an assessment of efficient costs and the application of an economic test to ensure that investment can be recovered from future revenues without increasing costs for existing consumers.

3.168 A financial incentive is then applied based on performance against defined targets for properties passed, with rewards for outperformance and penalties for underperformance assessed on a cumulative basis.

Current approach under GD23

3.169 Under GD23, the financial incentive is applied on a targeted basis to reflect the stage of network development across the GDNs. It continues to apply to Evolve throughout the price control period, while for KE it applies only in the early years as infill opportunities diminish, and it no longer applies to PE where the main infill programme is largely complete.

3.170 Targets are set for the number of existing properties made connectable through network extension, with the mechanism limited to existing properties to maintain a focus on network infill rather than new build connections.

Emerging challenges through GD29

3.171 As part of GD23, this mechanism was reviewed in the context of the maturing network. The GD23 framework recognised that a significant proportion of economically viable network development had already been identified and progressed, and that the remaining opportunities for extension were increasingly limited and higher cost. In this context, the role of mechanisms designed to support further network expansion was subject to ongoing reassessment.

3.172 Evidence from GD23 indicates that the gas network is approaching, or has reached, the economic limits of its extension, with remaining properties generally more dispersed and more costly to serve. This reduces the scope for further expansion to deliver net benefits to consumers under the existing framework.

3.173 As part of GD23, the assessment of network extension was underpinned by an economic test which required that the cost of extending the network could be recovered over time from expected future customers, without placing undue upward pressure on tariffs for existing users. This approach provided a structured means of ensuring that expansion was targeted and efficient.

3.174 However, GD23 also recognised that the application of this test becomes more challenging as the network matures, particularly where future demand and connection rates are subject to greater uncertainty. In this context, there may be merit in considering whether the current approach to assessing economic viability remains appropriate, including how it reflects uncertainty in future demand and longer-term system considerations.

3.175 In light of this, we are considering whether the continuation of the properties passed mechanism, and the associated framework for assessing network development, remains appropriate for GD29. As the network approaches the limits of economic extension, the case for changing the mechanism designed to support further expansion is less clear, in the absence of clear Government policy on the future use of the gas network. We note that legally we cannot currently take account of carbon savings in making network development decisions.

Government policy context for network development and connections

3.176 Looking ahead, future decisions on network development are likely to require a targeted, case-by-case approach. The evolving policy context, including the DfE Energy Strategy, uncertainty in long-term demand, and the role of alternative decarbonisation pathways is important context. In this environment, stronger strategic direction and clearer policy signals is important context for the UR in setting the regulatory framework in these areas, and the GDNs on connections planning and investment. Greater certainty on the long-term role of gas would enable efficient planning and is important context for work in this area.

Tariff smoothing and revenue recovery over time

3.177 As summarised earlier, the GD23 price controls involve what we understand to be a unique feature amongst UK RAB-based price controls for regulated utilities: smoothing of tariffs over a long-term forecasting horizon, involving a special element of the RAB (called the profile adjustment, or PA).

3.178 Looking beyond GD29, we see that other regulators are considering how net zero may affect risks relating to the longer-term life of the gas network assets. They are also considering the impact of declining gas volumes on consumer gas network charges which are passed onto consumer bills[17] and how the tools within their financial frameworks can mitigate this. One example we refer to in our CfI[18] is a case study which discusses how Ofgem is using tools within its financial framework, such as accelerated depreciation, to manage uncertainty around these risks within its price control framework.

3.179 These issues concern a common theme: the approach to the recovery of revenue over time. It makes sense to consider together a number of interrelated issues. We take the following in turn below:

- Policy position on tariff smoothing over long-term forecasting period.
- Overview of calculations used for revenue smoothing.
- Proposed changes to the implementation of tariff smoothing.
- Timing of opex recovery in the context of uncertainty mechanisms.
- Regulatory depreciation profiles.

Policy position on tariff smoothing over long-term forecasting period

3.180 The GD23 price controls for the GDNs reflect an established regulatory policy position that tariffs for gas distribution should be calculated in a way that is intended to smooth tariffs over a long-term time horizon. We provided more context on the rationale for tariff smoothing above in Section 3.

3.181 For GD29 approach, we have identified regulatory policy questions at two levels:

[17] CEER report

[18] CfI on Future of Gas Distribution and Transmission Price Controls in Northern Ireland_0.pdf

(i) whether to retain the policy of tariff smoothing over a long-term time horizon; and

(ii) if so, whether to make changes to the way that tariff smoothing is implemented in practice.

3.182 We focus on the first of these in this subsection, before turning to the second in the subsection that follows.

3.183 We have not identified grounds to move away from the established position of setting GDN price controls in a way that supports tariff smoothing over time.

3.184 This policy was established in the context of new networks with relatively low but growing customer numbers. Insofar as the customer base, or demand, for each of the GDNs continues to grow, the original rationale for the long-term tariff smoothing stands.

3.185 Furthermore, our view is that long-term tariff smoothing also has benefits in the context of potential changes to gas demand relating to decarbonisation. For example, if there were to be forecasts of reductions in the number of gas customers towards the end of the forecasting period, tariff smoothing could help avoid a situation where the tariffs for remaining customers need to be increased. Instead, more revenue could be collected during the period with higher demand, contributing to a more stable and fairer bill profile over time.

3.186 As discussed in more detail further below, we consider that changes could be implemented to the way that tariff smoothing is done in practice to better accommodate uncertainty about future gas demand. But, overall, we consider that the principle of tariff will remain valid for the GD29 period.

3.187 On this basis, our proposed approach to GD29 is to retain the high-level policy of tariff smoothing over a long-term forecasting period, but to consider changes to the way this works in practice.

Overview of calculations used for revenue smoothing

3.188 Tariff smoothing sets a single, constant tariff over a defined forecasting horizon. The model calculates the Net Present Value (NPV) of allowed revenues and compares this with the NPV of the underlying asset base.

3.189 A flat tariff is chosen so that, over the smoothing horizon, the discounted revenue is consistent with the recovery of allowed costs, including operating expenditure, depreciation and the opening value of the profile adjustment. This calculation is done at each price review using the latest forecasts, including volumes, capex, depreciation, inflation, and other

building block components, but the smoothing path is not reopened annually.

3.190 The profile adjustment is the balancing item that ensures the discounted revenue path matches the Total Regulatory Value (TRV) path. It reflects differences in timing between revenue recovery and the evolution of the asset base.

3.191 The PA was introduced as a means of storing (or recording) the difference between revenue recovered in the early years and the actual revenue requirement calculating under a building blocks approach to the price control. Each year, this difference was added to the PA as part of the TRV, such that TRV is the sum of the PA and the Depreciated Asset Value (DAV).

3.192 The PA supports the smoothing of tariffs over time as the customer base grows (e.g. through increasing connections to the network). This means a proportion of the allowed revenue, from when there was a small customer base, would be released to the companies when the customer base is much larger. The target for the calculation of this smoothed tariff is that at the end of the forecasting horizon period for each GDN the PA has been fully unwound to zero and the TRV = DAV.

3.193 Beyond the end of the forecasting horizon period, the gas distribution licence conditions set out that where the depreciated asset value at the end of the formula period remains positive, that value is to be recovered in subsequent formula years, under arrangements to be determined by the Authority (UR).

Proposed changes to the implementation of tariff smoothing

3.194 We are considering a number of changes to the way that tariff smoothing is implemented, reflecting opportunities for improvements in the approach and uncertainty relating to future gas demand.

3.195 First, we propose that the calculations done to smooth tariffs over the forecasting period, and to calculate the profile adjustment, would be done annually. This would have several benefits:

(i) It would enable tariffs to be set each year in light of the latest long-term forecasts rather than using long-term forecasts which may have become out-of-date.

(ii) It would help ensure that adjustments for past under- or over-recovery (e.g. because outturn demand differed from forecast) are made in a way that is consistent with the overall policy on tariff smoothing.

(iii) It would provide opportunities for any changes to price control allowances under uncertainty mechanisms to be factored into tariffs as they arise (as far as practical), subject to the overall policy on tariff smoothing.

3.196 This process would need to be done in a proportionate way. For example, there may be some elements of the forecasts used in the calculations that are updated annually (e.g. demand forecasts) while other elements might not be updated (e.g. relating to aspects of price control revenue allowances in future periods).

3.197 Second, we propose that the long-term demand forecasts used for the calculations are built up from a number of explicit and agreed scenarios relating to future gas demand, potentially drawing on or linking to established scenario frameworks such as Energy Horizons where appropriate. These scenarios could be assigned weights to calculate a weighted-average demand forecast, supporting tariff smoothing while maintaining alignment with wider system planning outputs

3.198 We propose that the weights would be a policy decision and not necessarily tied to estimates of the probability of each scenario occurring. This would provide flexibility to help protect customers and investors in the context of uncertainty. For example, giving a higher weight to a scenario involving low demand in the future would have the effect of bringing forward revenue recovery and reducing the risks of remaining customers facing high bills if that scenario transpires. At the same time, if too much weight is given to such scenarios, this could lead to higher near-term prices which might be perceived as unfair to current customers and could raise risks of reducing demand.

Timing of opex recovery in the context of uncertainty mechanisms

3.199 During GD23, the GDNs made representations to UR outlining concerns with the timing of revenue recovery for additional opex projects which were included as items under the GD23 Uncertainty Mechanism.

3.200 While the GD23 Uncertainty Mechanism provided appropriate flexibility to fund such projects, any adjustments to price control expenditure allowances are to be implemented via adjustments at the subsequent price control review rather than increased allowed revenue during the price control period. The GDNs raised concerns that these arrangements could adversely affect their ability to maintain Investment Grade Credit Ratings.

3.201 One specific suggestion we had from one of the GDNs was that if we were to allow some additional operating expenditure for a particular year of the

price control period, as part of a decision under an uncertainty mechanism during the period, the price control revenue allowance for that year would be increased by a corresponding amount. This type of approach is used elsewhere (e.g. in Great Britain for Ofgem price controls where revenue allowances are updated during the period).

3.202 However, in considering these issues it is important to take appropriate account of the specific features of the gas distribution price controls in NI, including the broader policy on tariff smoothing and the role of the profile adjustment within the TRV.

3.203 The suggestion noted above would directly contradict tariff smoothing. A direct consequence of the policy on tariff smoothing over a long-term forecasting period is that if a GDN is expected to incur an additional £500,000 of expenditure in a specific year only, the impact on tariffs would be smoothed over the forecasting period rather than collected in that year. Any regulatory change to enable the company to collect £500,000 in that year would work against tariff smoothing.

3.204 The established regulatory model for the GDN has in effect involved investors providing debt and equity finance as needed to enable tariffs to be smoothed over time. While we will need to carry out the necessary analysis to ensure that the price control we set at GD29 is financeable, we have not identified a reason to move away from tariff smoothing.

3.205 However, there are opportunities for improvements in the way that tariff smoothing is implemented. As indicated above, we propose that the calculations carried out for tariff smoothing and the profile adjustment could be done annually using latest forecasts of price control revenue allowances and of demand. This could allow the effects of decisions to provide additional funding via uncertainty mechanisms to be taken into account in the calculation of tariffs, albeit subject to the overall approach of tariff smoothing.

Regulatory depreciation profiles

3.206 In GD23, depreciation of the GDNs' DAV is calculated using a broadly linear depreciation profile, and the resulting depreciation allowance is included as a building block of the GDNs' allowed revenue over the price control period.

3.207 For GD29, we will review our approach to the depreciation rates applied to the DAV in determining allowed revenues. In particular, we will consider whether current asset life assumptions remain appropriate in the context of increased uncertainty around the future role of gas.

3.208 Consistent with evolving regulatory practice, there may be a case for adopting shorter asset lives for regulatory depreciation purposes in certain circumstances, where this is justified by evidence. This could include consideration of whether accelerated depreciation profiles should apply across asset categories, between existing and new capex investment, or where assets might be perceived to be subject to greater demand or policy risk.

3.209 Because of the role of long-term tariff smoothing, and the profile adjustment outlined previously, changing depreciation profiles for the GDNs may not have the same impact as for a company subject to a more conventional price control framework (e.g. that for NIE, or for GDNs in Great Britain).

3.210 Any changes to asset lives and associated depreciation assumptions would require further analysis to understand their potential impact on customer tariffs and the residual asset value at the end of the forecasting period. In particular, the interaction with tariff smoothing assumptions would need to be carefully assessed to determine how changes in the timing of cost recovery may affect charges over time.

3.211 This assessment would also need to take account of the scale and profile of future capital investment, and the depreciation assumptions applied to that investment. These elements are likely to be material in determining the overall impact of any changes and therefore would need to be considered alongside broader price control design considerations, including financeability and the overall allocation of risk between current and future consumers, before any adjustments are made.

3.212 We welcome stakeholder views on our proposal for managing tariff smoothing and revenue recovery over time.

4. Setting the price control

Cost assessment

4.1 The approach set out in this chapter provides a broad view of how we will undertake a robust cost assessment based on our previous experience and regulatory best practice.

4.2 The quality and robustness of GDN business plans will be a critical input to our cost assessment for GD29. We will expect GDNs to develop comprehensive, evidence-based business plans that clearly articulate the need for proposed expenditure, supported by appropriate justification, data and analysis. This should include, where relevant, benchmarking against comparable activities, consideration of alternative approaches, and clear links to outputs and consumer outcomes.

4.3 Business plans will be assessed alongside other sources of evidence, including market benchmarks, historical performance, and independent analysis in forming our view of efficient costs.

4.4 As part of GD29, we will assess GDN business plan expenditure using clearly defined expenditure categories, aligned to Regulatory Instructions and Guidance (RIGS) and consistent with previous price controls. These categories will be used not only to structure cost assessment and benchmarking, but also to support transparency on how proposed expenditure translates into defined outputs, deliverables and value for consumers.

4.5 Where appropriate, we will refine the level of granularity within expenditure categories to ensure robust challenge of need, efficiency and deliverability, while maintaining a proportionate regulatory approach.

Operational expenditure

4.6 Operational expenditure will continue to be assessed using established opex categories, reflecting the ongoing nature of network operation and service delivery. These categories will include, but are not limited to:

(i) work management;

(ii) work execution;

(iii) business support; and

(iv) other opex categories, including advertising and market development and non-controllable costs.

4.7 This level of categorisation has provided an appropriate balance between analytical transparency and proportionality in previous price controls, and supports benchmarking, efficiency challenge and ongoing performance monitoring. We do not propose a significant increase in opex granularity for GD29, unless justified by material changes in cost drivers, service delivery arrangements or the risk borne by consumers.

4.8 We will engage with the GDNs during the development of the Business Plan Reporting templates to identify and consider any new opex categories that may have emerged during GD23, including those associated with delivery of Energy Strategy related projects. This engagement will support accurate classification and assessment of such costs, where they are material, necessary and efficiently incurred.

Capital expenditure

4.9 Capital expenditure will be subject to greater granularity than opex, reflecting its long-term impact on consumers, the importance of effective asset stewardship, and the increased uncertainty associated with future gas demand.

4.10 Greater granularity will support clearer assessment of the need for investment, the options considered, the timing of delivery, and the associated risks to consumers.

4.11 For GD29, we expect to distinguish between capital expenditure associated with:

(i) network growth, including new connections and reinforcement driven by demand;

(ii) asset replacement and maintenance, required to maintain safety, serviceability and compliance;

(iii) energy strategy and decarbonisation; and

(iv) other capital investment, including system operations, IT, vehicles, plant and equipment.

4.12 Where appropriate, further disaggregation within these categories may be required to distinguish between different underlying drivers (for example growth, replacement or compliance), risk profiles, and expected asset lives. This will enable more robust scrutiny of capital proposals, clearer accountability for delivery and consumer impact assessment.

4.13 For GD29, we will expect capital expenditure proposals within GDN business plans to be clearly informed by credible future demand scenarios. Consistent with our wider approach to whole system planning,

GDNs should demonstrate how their capex programmes have been developed against a range of gas demand pathways, aligned with TSO-led outputs such as the Gas Transmission Outlook and related Energy Horizons publications.

4.14 This should include evidence of how alternative scenarios have been considered, how timing and scale of investment responds to uncertainty, and how risks such as asset stranding are managed. We will consider the extent to which these requirements have been met as part of our cost assessment approach.

Link to deliverables and regulatory treatment

4.15 Expenditure categories will be explicitly linked to defined outputs and deliverables, enabling us to assess not only the efficiency of proposed costs but also the benefits they deliver for consumers. This linkage will support clearer monitoring of delivery during the price control period and inform our view of value for money.

4.16 The categorisation of expenditure will also inform the regulatory treatment applied, including whether costs are included in baseline allowances, subject to uncertainty mechanisms, or contingent on the delivery of specific outputs or business cases. In this way, expenditure categorisation will play a key role in determining the allocation of risk between GDNs and consumers.

4.17 This approach is intended to improve transparency, accountability and alignment between expenditure, delivery and consumer interests in GD29, while ensuring that regulatory requirements remain proportionate and focused on areas of greatest risk to consumers.

Approach to cost assessment across expenditure categories

4.18 In GD29, our approach to cost assessment will recognise that different categories of expenditure give rise to different risks for consumers, different levels of company discretion, and differing degrees of uncertainty. Consistent with our approach in GD23, and with more recent regulatory practice, we will therefore apply a range of complementary assessment techniques, proportionate to the nature of the expenditure and its potential impact on consumers.

4.19 For operational expenditure, our assessment will place primary weight on evidence of efficient historical delivery, supported by bottom-up review where costs are material or have changed in nature.

4.20 We will expect GDNs to demonstrate that proposed opex reflects efficient baseline activity required to operate and maintain the network, taking

account of past performance, changes in outputs, and evolving regulatory or policy requirements.

4.21 In response to our CfI, the GDNs outlined that GD29 would not be a business as usual price control. For example, PE included in their response:

- 'The GD29 price control process is taking place at a time of significant change. This means that some of the traditional assessments applied by UR in reaching a final determination may not be appropriate for all "business as usual" activities e.g. where costs and /or activities are not reflective of past experience or where industry best practice and /or regulations has evolved.'

4.22 Evolve also added in response to our CfI:

- For GD29 it is clear that the UR must operate within its current vires and, while it is understood that future policy developments may impact the activities of gas networks, it will be essential that Capex and Opex allowances are set in such a way that allows network companies to continue to develop their business as usual activity whilst also carrying out low regret preparatory work to support decarbonisation.'

4.23 Where new or expanded activities are proposed, GDNs will need to clearly evidence the need for the activity, alignment with government policy, the drivers of cost, and why these costs cannot reasonably be managed through efficiencies or within existing allowances.

4.24 For capex, we will undertake a more granular and structured assessment, reflecting the long-term nature of capital investment and its enduring impact on consumers. This will include scrutiny of the need for investment, the options considered, proposed timing, deliverability, and unit costs.

4.25 Our assessment will draw on a combination of techniques, including historic cost evidence, unit cost challenge, activity benchmarking where appropriate, and assessment of alignment with defined outputs and asset management objectives.

4.26 Where appropriate, we will draw on benchmarking and evidence from other regulatory frameworks, including Ofgem price controls in Great Britain, to inform our assessment of efficient costs, including comparison of unit rates, contractor costs and delivery practices.

4.27 In line with GD23, we will also differentiate between categories of expenditure that are suitable for inclusion within baseline allowances and those where uncertainty is sufficiently high to warrant alternative

regulatory treatment. This may include the use of uncertainty mechanisms, output-based allowances, or specific delivery conditions where costs are driven by external factors, emerging policy requirements, or activity levels that cannot be robustly forecast at the time of determination.

4.28 Across all categories, our assessment will be guided by proportionality. We will apply greater scrutiny and granularity where expenditure is material, or presents higher risk to consumers, and we will avoid unnecessary complexity where costs are reasonably well justified and evidenced.

4.29 This approach is intended to ensure that GD29 allowances reflect efficient costs, are aligned to delivery of required outputs, and appropriately balance risk between GDNs and consumers.

Approach to efficiency adjustments

4.30 When setting efficiency targets as part of price control reviews, two effects are often considered: catch-up to frontier performance and continued movement of the frontier over time.

(i) Frontier shift describes the efficiency gains resulting from companies in the economy becoming more efficient over time.

(ii) The move towards the frontier describes the efficiency gains an individual company can achieve through catching-up with the efficiency frontier.

4.31 Several broad approaches are available to any economic regulator to take account of both or either of these effects. Whenever possible regulators have tended to use both approaches in combination when setting allowances.

(i) A bottom-up approach to analyse each of the main cost categories to determine what might be considered as an efficient level of costs. In doing so, any atypical circumstances that might impact on costs need to be considered as appropriate.

(ii) A top-down approach to analyse the efficiency gap with a comparator operating at a chosen performance. A variety of statistical approaches are available, foremost amongst these is econometric analysis. Any atypical circumstances that might impact on cost need to be considered.

4.32 In GD29, we will continue to apply efficiency adjustments to expenditure allowances to protect consumers and promote delivery of services at least cost to consumers, consistent with our statutory duties.

4.33 Our approach will build on the assessment framework applied in GD23, and learning from recent price controls, including developments in regulatory precedent, while ensuring that efficiency challenges remain proportionate, grounded in evidence and robust.

4.34 As in GD23, efficiency adjustments may reflect a combination of factors, including GDN efficiency gains, scope for ongoing productivity improvement, and the extent to which forecast costs exceed efficient levels revealed through benchmarking, historic performance or bottom-up assessment.

4.35 There will be no presumption that all areas of expenditure are equally capable of delivering efficiency gains, and we will consider the characteristics of different cost categories when determining the scale and form of any adjustment, including the impact of Real Price Effects.

Productivity and frontier shift

4.36 In line with established regulatory practice, we will consider what efficiency or productivity assumption (sometimes referred to as a frontier shift assumption) is appropriate when setting allowances for GD29. Any such assumption will be evidence based and informed by a range of sources, which may include observed productivity trends, regulatory precedent, and the specific context of the NI gas networks.

4.37 We note recent challenge by GB Gas Network Operators on the productivity assumptions applied in other UK network price controls to the Competition and Markets Authority (CMA). These developments reinforce the importance of ensuring that efficiency challenges are transparent, justified and grounded in clear evidence.

Historical performance and baselining

4.38 We will place material weight on demonstrated historical performance when establishing baseline cost allowances. Where GDNs have delivered services efficiently and consistently in previous price controls, historic outturns may be a strong indicator of efficient future costs. Conversely, where costs have increased materially without commensurate changes in scope or outputs, we will expect clear justification and supporting evidence.

4.39 As demonstrated in GD23, where external benchmarking is limited by differences in scale, geography or network maturity, we may rely more

heavily on bottom-up assessment and internal consistency checks. However, we do not consider that forensic scrutiny is required across all areas of expenditure. Instead, the depth of assessment will be informed by materiality and consumer risk.

Proportionality and balance of risk

4.40 Our overall approach to efficiency adjustments in GD29 will be guided by proportionality. We will focus challenge where it is most likely to deliver value for consumers and avoid imposing efficiency targets that are unsupported by evidence or that unduly increase delivery risk. In doing so, we will seek to strike an appropriate balance between incentivising efficient operation and ensuring that networks remain financeable, resilient and capable of meeting their obligations over the long-term.

Real Price Effects (RPEs)

4.41 We will consider the impact of RPEs, the deviation between the Consumer Price Index including Housing (CPIH) measure of inflation and the rate by which licence holders' input prices increase in two ways:

(i) make an assessment of what adjustments for RPEs are appropriate (if any) to make when setting ex ante expenditure allowances for the price control period (i.e. based on forecast/assumed RPEs); and

(ii) consider the case for an uncertainty mechanism for RPEs that would adjust for differences between outturn RPEs and forecast/assumed RPEs.

4.42 In assessing the appropriate treatment of RPE risk, we will have regard to developments in other price controls, including our recent RP7 Final Determination, our determinations for the gas transmission (GT27) price control, and the decisions taken by Ofgem in their RIIO3 framework[19] towards RPE adjustments.

4.43 In assessing whether there is a case for a more targeted RPE uncertainty mechanism in GD29, we will take account of the risk protection already provided by the price control framework. This includes the uncertainty mechanisms applied in GD23, which adjust for defined differences between forecast and outturn costs, as well as the potential introduction of explicit cost sharing incentive rates for both capex and opex in GD29.

4.44 In progressing this assessment, we will consider the appropriate allocation of RPE risk between consumers and GDNs, taking account of

[19] RIIO3 Final Determination

proportionality, incentives for efficiency, and other elements of the price control framework. We will also have regard to stakeholder views and ongoing regulatory developments, with any proposals subject to consultation as part of our overall approach to uncertainty and risk allocation.

Cyber security

4.45 Ensuring security of the gas networks, including cyber security and Security of Supply (SoS), will be key priority during the next price control period.

4.46 The GDNs stressed the importance of improved cyber security and their enhanced requirements under the Government's 2018 Network and Information System Regulations (NISR)[20] in response to our CfI.

4.47 PE said in their response:

- 'This heightened threat environment has prompted infrastructure companies, particularly those like Phoenix that deliver critical services to energy consumers, to significantly strengthen their cybersecurity frameworks and invest in advanced protective measures.'

4.48 KE said in their response:

- 'The Utility Regulator is correct to highlight the growing importance of digital and physical security the Call for Information paper. As gas networks become more digitalised, DNOs face increasing cyber and infrastructure security risks. [...] Evolving regulations such as NIS-R require DNOs to remain agile and invest in secure systems, enhanced processes, and skilled personnel to manage these threats effectively.'

4.49 Evolve also outlined in their response:

- 'It will be critical that GD29 provides allowances to support network companies in increasing cyber resilience, particularly for areas such as the introduction of the new metering solution. Alongside this we are mindful of the imminent changes in policy in this area therefore any allowances within the price control will need to have agile mechanisms associated with them to ensure that network companies can quickly react to increased and differing requirements.'

[20] The Network and Information Systems Regulations 2018

4.50 Ensuring that GDNs are adequately equipped to detect, mitigate and manage risks to network infrastructure, while maintaining safe, secure and resilient operations, should remain a core requirement of business plan submissions. In line with previous price controls, cyber security costs should be transparently identified and justified, recognising that effective cyber risk management is fundamental to maintaining network integrity and continuity of service.

4.51 Cyber security should be considered an integral component of the companies' broader operational architecture for monitoring, control and data acquisition. GDNs should clearly set out how their planned investments in these areas support cyber resilience, including capabilities for threat detection, risk mitigation and responsive control, while identifying any incremental costs that are not inherent within underlying systems, technology or software.

4.52 We expect business plans to demonstrate how cyber security considerations are embedded within wider operational systems and processes, rather than treated as standalone activities. We will assess proposed cyber security costs to ensure they are efficient, clearly defined and aligned with the delivery of secure and resilient network operations, and will set ex ante allowances where this is supported by appropriate justification.

4.53 We will also consider whether targeted uncertainty mechanisms may be required to address emerging cyber security costs where these arise as a result of changes in government policy, legislation or regulatory requirements during the price control period.

Risk and return

4.54 In GD29, we will set the allowed level of returns and associated financial parameters in a manner that supports the delivery of required outputs at least cost to consumers, while ensuring that GDNs are able to finance the activities necessary to meet their obligations. Our approach will build on the framework applied in GD23, and wider UK regulatory precedent, and will consider risk and return in a coherent and integrated way across the price control.

Weighted Average Cost of Capital (WACC)

4.55 The objective of an economic regulator is to set a rate of return that reflects the cost of capital, both debt and equity, that the markets will bear given the level of risk associated with the business. It is important that we properly assess the level of risk associated with the licensed activity.

4.56 At GD23, our approach to setting the weighted average cost of capital involved:

(i) a regulatory assumption on the proportion of debt finance within the overall capital requirements for a notional efficient company performing GDN's functions;

(ii) use of a standard CAPM (Capital Asset Pricing Model) methodology to estimate the cost of equity for the notional company, drawing on market data and relevant regulatory precedent; and

(iii) use of cost of debt benchmarks, other market data and relevant regulatory precedent to estimate the cost of debt for the notional company.

4.57 For GD29 we will determine a WACC for the three gas network operators through continued use of the standard CAPM model. In doing so we will:

(i) take account of recent regulatory settlements to benchmark appropriate rates including decisions by Ofgem, Ofwat, and the CMA; and

(ii) where possible, use real world observations such as forward debt curves to inform our decisions.

4.58 In assessing WACC, we will consider the overall allocation of risk within the GD29 framework, including the role of incentive mechanisms, uncertainty mechanisms and any cost sharing incentive rates. This approach aims to avoid double counting of risk, such that risks mitigated elsewhere in the framework are not also compensated through a higher allowed return.

4.59 We recognise that increased uncertainty about the long-term demand for gas, including uncertainty arising from decarbonisation pathways and future energy policy, may affect the risk perceived by investors and, in turn, the required return on capital.

4.60 In assessing WACC for GD29, we do not consider this uncertainty is necessarily immaterial. However, we will also take account of the extent to which these risks are mitigated elsewhere within the regulatory framework, including through asset lives, depreciation profiles, uncertainty mechanisms, cost sharing incentive rates and the overall duration and form of the price control.

4.61 In GD23, we introduced a Rate of Return adjustment mechanism which annually adjusts the allowed rate of return to reflect actual inflation, risk free rates, and the cost of debt/equity, ensuring returns match real

economic conditions. We plan to continue to use a Rate of Return adjustment mechanism in GD29.

Semi-nominal WACC

4.62 Another tool Ofgem is using within its financial framework is a semi-nominal approach to the WACC for RIIO3[21].

4.63 In GD23, we adopted a traditional real WACC approach, which provides investors with a return on an inflation linked RAB. Under this approach, inflation is added to the RAB over time, meaning that a portion of cost recovery is deferred and paid by future consumers rather than recovered fully in the year in which it arises.

4.64 Ofgem's semi-nominal approach combines a nominal cost of debt with a real cost of equity. Under a notional capital structure (for example 60% gearing), applying a nominal cost of debt means that consumers fund the inflation component of debt financing costs in year through revenues, rather than this amount being added to the RAB.

4.65 The net effect of paying the nominal cost of debt in year is that the RAB does not grow as fast as it would under a real WACC approach. Under Ofgem's price controls, this can result in a greater proportion of costs being recovered earlier, with a smaller RAB remaining to be recovered in later years. While this does not formally change depreciation rates, it does have the effect of bringing forward revenue recovery over time.

4.66 Because of the role of long-term tariff smoothing, and the profile adjustment for GDNs, the impact on tariffs from a move to a semi-nominal WACC would be less for the GDNs than under Ofgem's approach in GB. Furthermore, while part of the rationale for a semi-nominal WACC relates to uncertainty about inflation, there is some protection against this under the rate of return adjustment mechanism from GD23 which we propose to retain. Given these issues, the case for moving to a semi-nominal WACC might be weaker for GD29 than in other price control reviews.

4.67 We welcome views on whether a semi-nominal WACC approach is appropriate for GD29

Role of Return on Regulated Equity (RoRE) analysis

4.68 We see an important role for RoRE analysis to play in assessing how risk and reward are distributed under the GD29 Price Control framework.

[21] https://www.ofgem.gov.uk/sites/default/files/2025-12/RIIO-3-Final-Determinations-Finance-Annex.pdf

RoRE analysis helps to illustrate the potential range of outcomes for companies and consumers under different delivery scenarios, rather than acting as a determinant of allowed returns in its own right.

4.69 Analysis of RoRE considers the potential financial impact on notional equity investors (under assumed notional gearing levels) for hypothetical scenarios of upside and downside risk under the price control framework.

4.70 RoRE risk analysis is an established tool used by Ofgem and Ofwat in their work to balance risk and allowed returns when setting price controls for monopoly infrastructure companies. In addition, we have made use of RoRE risk analysis in past work, such as that for SONI's 2020-25 price control.

4.71 We will use RoRE analysis to test whether the overall package of allowed returns, incentives and risk sharing provides an appropriately balanced price control package over the GD29 period, rewarding efficient delivery and the management of risk, while protecting consumers from the consequences of poor performance or cost overruns.

Notional gearing

4.72 We will continue to assess allowed returns using a notional capital structure, rather than the actual financing arrangements of individual GDNs. The notional gearing assumption will be informed by regulatory precedent, the risk profile of the sector and the characteristics of a notionally efficient and financeable GDN.

4.73 In GD23, we adopted a notional gearing assumption of 55%, alongside consideration of alternative scenarios, including a lower gearing level of 45%. We intend to undertake a similar approach for GD29 and consider a range of potential gearing assumptions. For example, the actual gearing of the GDNs, as well as other companies (e.g. gearing of companies used for equity beta evidence to set cost of equity) to test sensitivity of the financial framework.

4.74 In developing our approach, we recognise that the choice of notional gearing has important implications for both financeability and consumer outcomes. All else equal, a higher level of gearing may help limit the cost of capital and/or corporation tax liabilities, but at some point the level of gearing could lead to concerns relating to a deterioration in credit metrics (which in turn could lead to an increase the cost of capital through impacts on the cost of debt).

4.75 Conversely, a lower notional gearing assumption may support financial resilience but could increase costs for consumers, including through the

treatment of corporation tax, depending on the interaction with capital allowances and the timing of tax liabilities.

4.76 We also recognise that the appropriate level of notional gearing for GDNs must be considered in the context of the specific characteristics of the NI regulatory framework. This includes features such as the use of the TRV and profile adjustment mechanisms, which may result in a different risk and financing profile compared to other regulated utilities operating under alternative models.

4.77 Furthermore, there may be differences in the characteristics and risk profiles of the individual GDNs, including their stage of development and customer base, which could be relevant when considering the appropriate notional gearing assumption. We will consider whether a common notional gearing assumption remains appropriate, or whether there is merit in differentiating between companies.

4.78 A notional approach to gearing supports neutrality between financing structures and ensures that consumers are not exposed to the consequences of inefficient or company specific financial decisions. As with GD23, we intend to undertake sensitivity analysis across a range of gearing assumptions to assess the resilience of the notional company under different scenarios, including potential downside conditions.

4.79 We will expect GDNs, as part of their GD29 business plan submissions, to set out their views on the appropriate notional gearing assumption, including supporting evidence and explanation of why their proposed approach is in the interests of consumers, and how it compares to alternative assumptions considered.

Treatment of corporation tax

4.80 In GD23 and prior price controls, PE and KE have received allowances for corporation tax through a pre-tax weighted average cost of capital (WACC). Under this approach, tax is remunerated implicitly within the cost of capital. By contrast, many other regulated companies, including Evolve and utilities in Great Britain, operate under a post-tax vanilla WACC, where tax is treated separately and modelled explicitly.

4.81 An important consideration for GD29 is around whether the historical approach to the treatment of corporation tax for PE and KE remains fit for purpose, particularly in light of:

- Increasing corporation tax liabilities that now exceed the implicit allowances.
- Concerns about financeability and credit ratings, especially for PE.

- The risk of consumers paying twice if a potential transition to a post-tax approach is not carefully managed.

4.82 The Call for Evidence[22] (CfE) issued in November 2025 marked the first stage in a managed process with a view to setting out a regulatory position on the treatment of corporation tax for PE and KE at GD29.

4.83 As we move forward with this process, and taking into account the CfE responses, we are not consulting at this stage on the policy position regarding corporation tax treatment in the GD29 price control. Instead, as outlined in Annex A: GD29 Treatment of Corporation Tax, we are consulting on three key aspects of the approach we plan to use to help make our decision on the treatment of corporation tax for GD29:

- Evidence gathering to inform the appropriate understanding of the historical regulatory framework for corporation tax from licence award to GD23 for PE and KE.
- Financial modelling of corporation tax allowances and liabilities to inform the GD29 policy decision and, where relevant, support implementation of the chosen option.
- Policy considerations and a risk assessment framework which can be used to guide and inform the eventual regulatory policy direction.

4.84 These processes are intended to inform two central questions:

- Whether corporation tax allowances from GD29 onwards should, in principle, be set with or without regard to historical allowances.
- The financial significance, in practice, of any historical difference between corporation tax allowances and corporation tax liabilities.

4.85 This evidence will directly influence the suitability and appropriateness of the seven proposed policy options outlined in the CfE.

4.86 We do not expect to reach a final policy decision on this issue in the near term. However, as a subsequent step, we plan to publish a policy update consultation on the GD29 tax treatment. This would set out an emerging view of the historical regulatory framework, an update on our initial modelling of corporation tax allowances and liabilities, a narrowed set of prioritised policy options, and an emerging view of our preferred option(s) based on the analysis to that point.

[22] Call for Evidence on the treatment of corporation tax for gas distribution network price controls in Northern Ireland | Utility Regulator

4.87 Our current plan is to publish the policy update consultation alongside our GD29 Approach Decision. However, the timing and contents of the consultation will be subject to stakeholder feedback on the GD29 Approach Consultation. Then, we plan to take a minded-to decision on the price control remuneration of corporation tax for GD29 as part of our GD29 Draft Determination.

4.88 Full details of these points are discussed in Annex A: GD29 Treatment of Corporation Tax published alongside this Approach Consultation.

Financeability analysis

4.1 In setting price controls, the UR has a statutory duty under Article 14(2)(b) of the Energy (Northern Ireland) Order 2003 to have regard to the ability of licence holders to finance the activities which are the subject of obligations imposed under the relevant legislation and licence conditions.

4.2 In assessing this duty, we use the notional efficient licence holder as a general benchmark, while also having regard, where relevant, to the circumstances of the individual licence holder. This helps avoid consumers bearing the consequences of company specific decisions on financial structure, sources of finance or payments to shareholders, while recognising that the financing duty cannot be considered solely on a notional basis but also that we must give consideration to the particular circumstances of the individual licence holder.

4.3 Financeability analysis will continue to be an important tool within the GD29 framework. As in GD23, we will assess whether the overall package of allowed revenues and returns is consistent with a notionally efficient company being able to finance its functions, drawing on financial metrics, such as gearing assumptions, debt ratios, PMICR (Post-Maintenance Interest Coverage Ratio), etc.

4.4 We recognise that it may be appropriate to carry out the analysis of financial metrics, and associated financial modelling, for multiple scenarios. For example:

- Where there is potential for price control allowances during the period to differ significant from those set ex ante, as a result of decisions under uncertainty mechanisms (e.g. to provide additional funding for completion of specific projects or investments) it may be relevant to assess the metrics in a scenario involving additional allowances under uncertainty mechanisms, rather than focusing on modelling only on the ex ante price control position.

- If there is potential for revenues collected during the period to differ significantly from those expected at the time of the price control, due to uncertainty about gas distribution volumes during the price control or updates to longer-term volume forecasts (which may affect revenues via the tariff smoothing arrangements if these are to be updated annually), it may be appropriate to assess metrics for alternative scenarios for the volume forecasts.

4.5 We will consider financeability in the context of the full price control design, including the balance of risk, the presence of uncertainty mechanisms and the scope for GDNs to make a prudent choice of capital structure. Where financeability concerns arise, we will consider whether these are better addressed through changes to the overall framework, rather than through adjustments to individual financial parameters in isolation.

4.6 As part of the GD29 Treatment of Corporation Tax Call for Evidence (November 2025) we discussed several issues relating to financeability assessment.[23] These concerned some specific complications that arise from the price control remuneration of corporation tax.

4.7 We said that we saw merit in consulting on two specific proposals: (i) using different scenarios for the treatment of the depreciation on the TRV when calculating credit metrics; and (ii) assessing credit metrics over a long-term time horizon rather than the period covered by the price control review.

4.8 On the first of these we noted that, for the purposes of calculating the PMICR metric, there is a reasonable argument that any element of regulatory depreciation allowances that is actually the release of funding stored in the TRV for *future corporation tax liabilities* should be treated differently from conventional regulatory depreciation (e.g. gradual repayment to investors of upfront funding provided historically for capital investment).

4.9 PE opposed this approach and stated that we should conduct financeability assessments in line with the methodologies used by credit ratings agencies, such as Moody's, and in line with typical regulatory practice.

4.10 This is a complicated issue that interacts with broader aspects of the regulatory approach to corporation tax and the understanding of the historical regulatory framework in relation to tax – see Annex A: GD29 Treatment of Corporation Tax. The issue is not that we would be looking

[23] Call for Evidence on the treatment of corporation tax for gas distribution network price controls in Northern Ireland | Utility Regulator

to depart from the methodologies that we would expect a credit rating agency to use, but that the specific metric calculation of a credit rating agency might vary given some of the specific circumstances for PE and KE and this is a potential additional scenario to consider. We plan to consider this issue further as we develop our assessment of financeability for GD29, taking account of responses to the Call for Evidence.

4.11 On the time horizon we said that a longer time horizon would help give assurance that any improvement in financeability metrics arising for PE and KE at GD29 is not the result of a short-term fix that causes problems in subsequent price control periods. We noted that we already utilise a long-term financial modelling perspective for PE and KE because of the calculations required to operate the Profile Adjustment that applies to support long-term tariff smoothing.

4.12 PE did not agree that the extension of the time horizon would be worthwhile. PE expressed concern in particular that we might "assume that financeability issues during GD29 (or other periods) would be acceptable because the long-term forecasts implied that the issues would be reversed on average over time".

4.13 KE gave a more nuanced view: that the formal financeability assessment for price control determinations should remain focused on the price control period itself, but that "it is prudent for the UR to monitor longer-term projections to identify emerging financeability issues at an early stage".

4.14 In consulting on the time horizon in the Call for Evidence, we intended for the longer-term view of financeability to act as a complement to the near-term view. We did not intend for the longer-term view to *displace* established practice of considering financeability within the forthcoming price control period. We think this aligns with KE's view and addresses a key concern raised by PE. But we will give this matter further consideration over the course of the price control review.

4.15 In response to the Call for Evidence, PE and KE provided further input on the approach to debt financeability assessment. We will consider this input further as we develop our financial modelling and analysis for GD29 financeability.

Financial resilience of GDNs

4.16 In addition to the approach to assessing the cost of capital for the GDNs', we also plan to consider whether any regulatory action might be needed to ensure the financial resilience of the licensee. There may be concerns about financial resilience if the context of future gas uncertainty. It is

unclear at this stage whether any such action will be needed, and any proposals that we develop in this area will be subject to consultation.

5. Process for the price control review

Price control process and stakeholder engagement

Price control process

5.1 UR will follow a clear and structured price control process. We begin with this Approach Consultation, which sets out our proposed methodology and key areas of focus. Feedback received at this stage will shape our analytical framework and informs the development of clear regulatory expectations.

5.2 Network companies will then submit their Business Plans, providing the evidence and justification for their proposed expenditure, outputs and performance commitments. The quality and robustness of the company business plans form a central component of our assessment and provide the foundation for subsequent regulatory decisions.

5.3 We will publish a Draft Determination (DD), outlining our provisional decisions on allowed revenues and regulatory mechanisms. This consultation allows stakeholders, including the companies, consumers and consumer bodies, to provide feedback on our proposed decisions. The DD stage is a critical part of the process, offering transparency on our emerging position and ensuring that stakeholders can challenge or support our proposals before they are finalised.

5.4 Following consideration of all responses, we will issue a Final Determination. This document sets out our final decisions on the price control framework, including allowed revenues, performance requirements and the approach to risk and uncertainty.

5.5 To implement these decisions, we will proceed with the required licence modifications, ensuring all mechanisms and obligations are given legal effect for the duration of the control.

5.6 A timetable for this proposed schedule is set out in Chapter 6.

Working with the Consumer Council (CCNI) and consumer groups

5.7 CCNI is the statutory consumer representative body for Northern Ireland, responsible for protecting, empowering and representing consumers, and promoting their interests. CCNI will play a key role in the price control, in line with its statutory role.

5.8 We will continue to engage with CCNI on price control workstreams to support consumers and help advance the various objectives set out in our Corporate Strategy Strategic Objective 4: Providing the highest level of consumer service and protection.

5.9 This includes delivery of our projects applicable to GDNs within Consumer Protection Programme 2024 to 2029 (CPP24, and subsequent Consumer Protection Programmes during the price control period).

5.10 We are also keen to reflect the views of the wider community and voluntary sector, recognising the valuable insight these organisations bring. Their feedback will help ensure our approach is well informed, particularly in understanding and addressing the challenges currently faced by consumers across the energy landscape.

Working with the GDNs

5.11 We have engaged with the GDNs throughout the GD23 price control period through the ad-hoc Price Control Working Group, one-to-one engagement with GDNs on individual issues, progressing Energy Strategy projects, and through monitoring annual business as usual workstreams such as RIGs returns and conveyance charges.

5.12 Building on lessons learned from GD23 we have also undertaken early engagement with the GDNs on the key issues which will impact the GD29 Price Control through our CfI and have incorporated their responses throughout this Approach Consultation.

5.13 PE outlined in response to our CfI the importance of establishing structured working groups for GD29:

- 'Early Engagement: Structured engagement through established working groups, with specific timelines for key decisions, is essential to delivery of informed business plan submissions and informed determinations.'

5.14 KE outlined in response to our CfI:

- 'We warmly welcome the Utility Regulator's early engagement and the collaborative approach taken to date, including the implementation of the price control working group and the scheduling of frequent one-to-one meetings with DNOs. These forums for open discussion on historic and emerging issues have been instrumental in building trust and forging the strong collaborative relationships necessary to navigate such a complex and intense price control process.'

5.15 We intend to set up several working groups with the GDNs to address key frameworks for the GD29 Price Control, including, but not limited to:

(i) expenditure

(ii) uncertainty mechanisms

(iii) financeability and cost of capital

(iv) incentives

(v) revenue recovery

(vi) form of Evolve's price control

5.16 We encourage responses from the GDNs and wider stakeholders on the key frameworks for the GD29 Price Control in which most benefit from establishing a working group would be realised. Additionally, we encourage responses from GDNs on key areas of the GD29 Price Control which require greater one to one engagement due to individual circumstances.

Working with the DfE

5.17 In 2021, DfE published its Energy Strategy "The Path to Net Zero Energy". DfE recognise that natural gas is an interim solution in meeting its longer-term objective of ensuring that energy for heating does not contain fossil fuels.

5.18 We included an Energy Strategy uncertainty mechanism within GD23 to allow GDNs to avail of funding to support projects which contributed to development of the DfE's Energy Strategy goals.

5.19 Throughout GD23 we have engaged with DfE, alongside the GDNs through steering groups, to promote policy developments in key areas such as biomethane and hydrogen preparedness.

5.20 We are also supporting DfE as it considers legislative development so that UR can effectively facilitate delivery of decarbonisation through its energy strategy. As part of this, we are supporting DfE in identifying areas of legislation which may affect regulation and need updated.

5.21 For example, in June 2024, DfE consulted on the 'Utility Regulator (Support for Decarbonisation Preparation) Bill'. The bill is intended to empower UR in its role of providing technical opinions and expert advice, assistance and support to inform DfE in its development and delivery of energy policy.

5.22 Legislative change may have implications for how we set our GD29 Price Control. The June 2024 DfE consultation noted that the expenditure of resources and finances by UR in the development of the required low carbon heat solutions could potentially conflict with our primary objective to promote the development and maintenance of an efficient, economic, and coordinated gas industry.

5.23 We will continue to work with the DfE to understand its programme for legislative change to help support our price control framework development.

Consumer focus

5.24 In line with our statutory duties, consumers remain at the centre of our consideration. We expect the GDNs to continue to develop consumer engagement so that consumers' views inform and influence expectations for service quality and future investment decisions throughout GD29.

5.25 As a precursor to the GD29 Approach Consultation, we issued a CfI on Future Gas Distribution and Transmission Price Controls in Northern Ireland.

5.26 The intent of this CfI was not to make decisions, or pre-empt decisions made by others which are outside of our control (e.g. Government policy). Its purpose was to develop a picture of how energy transition issues may affect our price controls (in this case gas distribution) and to ensure that our price controls can further meet the consumer interest whilst working coherently alongside wider developments which may take place.

5.27 In response to our CfI, CCNI said:

- ' … consumer engagement is essential, not only to gather views on what matters to them, but also to ensure regulation delivers efficient, value-for-money services that reflect consumers' evolving needs.'

5.28 We agree with this assessment and consider that enhanced, structured consumer engagement will be a critical enabler of a fair, proportionate and future ready GD29 price control.

5.29 We will continue to engage with CCNI and Consumer Protection colleagues to ensure emerging insights from their work with gas distribution customers, including those in vulnerable circumstances, are appropriately reflected in GD29.

Consumer engagement structures

5.30 In GD23 the Consumer Engagement Working Group (CEWG) was established as a partnership group of UR, the GDNs, CCNI and DfE and to advance consumer and stakeholder engagement for that price control process.

5.31 In RP7, consumer engagement was supported through a similar Consumer Engagement Advisory Panel (CEAP), bringing together UR, Northern Ireland Electricity Networks (NIEN), CCNI and DfE. This arrangement supported the development of NIENs' business plan and helped ensure that consumer insights helped to support regulatory decision making.

5.32 The GDNs have suggested reconvening the CEWG and consider there is merit in adopting this approach for GD29. Subject to feedback from this consultation, we propose to explore whether the CEWG forum could be introduced to support business plan development and ongoing engagement during the GD29 period.

5.33 PE outlined in response to our CfI:

- 'Phoenix would suggest that UR reconvenes the Consumer Engagement Working Group (CEWG) on this important aspect of the GD29 price control in advance of the GD29 Approach Document being issued to ensure a clear direction of travel for the GDNs before they prepare their GD29 Business Plan submissions and ensure that consumers are at the core.'

5.34 KE also outlined in response to our CfI:

- 'We agree that meaningful consumer engagement is essential for shaping the next price control. Understanding consumer priorities, expectations, and attitudes towards decarbonisation will help ensure service delivery aligns with public need. We welcome the potential use of collaborative working groups, building on experience from other sectors, to inform the development of GD29. We believe this would support the creation of robust and relevant consumer measures and targets.'

5.35 The CEWGs role would be envisaged to oversee and support a best practice approach to consumer and stakeholder engagement by agreeing a clear strategic engagement approach aligned, where

appropriate, with the Consumer Protection Programme (CPP)[24] and Best Practice Framework[25] considered.

5.36 It would help shape overall engagement plans, contributes to the development of engagement materials such as research questions and workshops, and inputs into the design of relevant price control consumer measures.

5.37 The panel would annually review and report on performance against agreed customer measures, analyses customer metrics and data from a range of sources to inform future business decisions and considers relevant policy developments that may impact the delivery of its work.

5.38 Publication of the report annually would help to ensure transparency and accountability of the GDN's performance.

5.39 We would welcome feedback from stakeholders on the proposal of a CEWG.

Key performance indicators (KPIs)

5.40 During the GD23 price control, we undertook further work with the GDNs to explore and scope potential consumer-focused metrics, KPIs and targets.

5.41 The intention of this work is to support improved transparency and accountability, enhance monitoring of service delivery outcomes, and provide clearer and more consistent performance information for consumers. We propose to continue the development of these KPIs through the GD29 framework, with a view to implement them during the GD29 period.

5.42 Further engagement with GDNs and consumer representatives will therefore be undertaken as part of the GD29 process to help inform the development of appropriate consumer-focused metrics, KPIs and targets. Consumer protection

5.43 Protecting consumers, including those in vulnerable circumstances, remains a core regulatory priority. CPP24 is now at its midpoint and is currently under review to inform projects for the fourth and fifth year of the programme. The outcomes of this review, along with any future reviews during GD29, will inform how consumer protections continue to be strengthened during GD29.

[24] CPP 2024-2029 Decision Paper.pdf
[25] BPF Decision - Code of Practice for Consumers in Vulnerable Circumstances March 2024.pdf

5.44 UR's Best Practice Framework, which is a core project within CPP24, will continue to be implemented and embedded during GD29, supporting consistent, high quality outcomes for consumers in vulnerable circumstances and reinforcing a strong consumer focused culture across the sector. This will include the implementation of a single Customer Care Register (CCR) across electricity, gas and water[26].

5.45 Distribution network costs[27] form a significant component of the final gas bill paid by consumers in Northern Ireland. However, the largest element of gas bills continues to be driven by wholesale gas prices, which are determined by market conditions rather than regulation.

5.46 Distribution charges can be more significant for some customer groups, particularly larger industrial and commercial users with higher volumes of gas consumption. While the scope for regulatory decisions to influence overall bills is limited, it remains important to assess the impacts of GD29 decisions across a range of indicative customer groups, including domestic consumers, small businesses and large industrial users.

5.47 This assessment is necessary to ensure that GD29 outcomes are proportionate, affordable and aligned with consumer interests.

Just transition

5.48 The Climate Change (Northern Ireland) Act 2022 [28] places a statutory requirement on Northern Ireland government departments to have regard to Just Transition principles when developing and implementing plans, policies and strategies to meet climate targets. This is to be delivered through advice from the Just Transition Commission.

5.49 Our statutory role requires us to regulate the gas sector in a manner that protects the interests of present and future consumers. To the extent compatible with our existing statutory powers and duties, we will therefore seek to reflect the guiding principles for a Just Energy Transition[29] when making considerations in GD29 where relevant and appropriate.

5.50 In practice, this means having regard to affordability, equity and intergenerational fairness, considering distributional impacts across different consumer groups, and ensuring that network investment

[26] Best Practice Framework Customer Care Register Project - Information and Decision Paper | Utility Regulator
[27] Gas | Utility Regulator
[28] Climate Change Act (Northern Ireland) 2022
[29] Assembly Research and Information Service Research Paper

decisions remain proportionate and minimise the risk of unnecessary consumer cost or asset stranding as the energy system evolves.

5.51 The principle of a 'Just Transition', as set out in section 30(3) of the Climate Change Act (Northern Ireland) 2022, applies to the plans that Northern Ireland Departments are required to prepare under that Act, rather than to regulatory decisions more generally and include:

- Supporting persons who are most affected by climate change, particularly those who may have done the least to cause it or may be the least equipped to adapt to its effects,
- Reducing, with a view to eliminating, poverty, inequality and social deprivation,
- Eliminating gender inequality and advancing equality of opportunity between men and women,
- Supporting the social and economic needs of people in rural areas, and
- Taking into account the future generations principle (to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs).

Evaluative Performance Framework (EPF)

5.52 In RP7, an EPF was introduced to support assessment of outcomes that are difficult to capture through mechanistic incentives alone.

5.53 We are considering whether a similar evaluative approach (as outlined earlier in this consultation) could add value in GD29, particularly in areas such as the quality and effectiveness of consumer engagement, longer term planning and decision making under uncertainty, and preparedness for the energy transition, within the limits of our regulatory remit.

5.54 Any EPF applied in GD29 would be proportionate, transparent and designed to complement existing incentives and monitoring arrangements.

Environmental impact and decarbonisation

5.55 GD29 will be developed in parallel with current Energy Strategy for Northern Ireland as published by the DfE. This strategy is designed to enable new and challenging decarbonisation targets, such as carbon budgets, which move towards a net zero target by 2050.

5.56 Options to decarbonise gas such as biomethane and hydrogen blending may become viable at scale. In the meantime, the supply of natural gas will be necessary until alternatives become available.

5.57 We recognise the interest of GDNs in gaining greater certainty over the implications of the Energy Strategy on their operations, and in particular the availability of financing to implement investments to their networks that will be necessary to meet the Strategy's targets.

5.58 We will liaise with the GDNs on developments in areas relevant to the Energy Strategy as we progress towards a Final Determination. This stems from the UK Government's Net Zero target and we will refine emissions reporting and environmental impact as part of the accountable RIGs process.

5.59 UR warmly welcomes the views of the GDNs and other stakeholders. We look forward to working collaboratively with them. Their insights and expertise are vital as we progress towards the shared ambition of delivering the DfE Energy Strategy. Together, we can maintain a secure, safe, sustainable, and affordable energy future.

Business plan assessment and guidance

5.60 Separate GD29 reporting templates will be produced for GDN with common formats across worksheets so line-level guidance is consistently applicable.

5.61 We intend to publish a more detailed overarching guidance (similar to that published for GT27) to aide in the completion and submission of the various Business Plan Templates (BPTs) for the GD29 price control period. Below outlines this at a high level.

Submission requirements

5.62 Business plans must be submitted using UR provided Excel reporting templates and a single commentary document.

5.63 The commentary must mirror the template structure and explain data movements, methodologies, and assumptions.

5.64 Submissions must include historic and forecast datasets aligned to defined periods and price bases.

5.65 Board level responsibility for data quality is required, evidenced through a formal Board Assurance Statement.

Outline early thinking on key business plan areas

5.66 As part of this consultation, we are seeking stakeholder feedback on the introduction of an outline early thinking on key business plan areas submission for the GDNs. This approach would be similar to the Outline Capital Submission that is currently undertaken by NI Water but it is envisaged to be in a shorter format and not limited to the planned capital programme.

5.67 The timings of a potential submission have not been decided and as such we propose to work with the GDNs on this.

5.68 We are proposing that the submission should take account of:

- Any draft or final consumer, environmental, or energy policy guidance issued by the government departments.
- Information provided by stakeholders on general and specific outputs to be included in the GD29 business plan, including engagement undertaken through GD29 working groups or other stakeholder forums.
- Explaining how GDNs balance competing demands such as safety, asset reliability, decarbonisation objectives, affordability, and long-term asset maintenance. It should provide clear commentary showing how these priorities shape their business plan decisions.

5.69 The proposed submission is intended to provide early visibility of the key themes, priorities and challenges that GDNs expect to bring forward at the full business plan stage. It is designed to support earlier development of thinking, facilitate timely engagement, and ensure that emerging issues are identified and explored in advance of formal submissions.

Assessment framework

5.70 When we receive the GDN's business plan we will assess how it has performed. This assessment is built up from the categorisation below for each of the theme areas.

5.71 This is structured around several questions which we would ask when we assess the quality of the business plan submission. These are grouped under 4 key themes and areas which are set out below:

- Theme 1 - Service contribution to good outcomes.

  (ii) Area 1: Delivering value for money for Consumers.

- Theme 2 - Services and costs

(iii) Area 2: Delivering services and outcomes.

(iv) Area 3: Aligning Risk and Return.

- Theme 3 - Trust in delivery

(v) Area 4: Engaging customers, consumers and other stakeholders.

(vi) Area 5: Ensuring resilience.

(vii) Area 6: Accounting for past delivery.

- Theme 4 - Transition to net zero

(viii) Area 7: Aligning with government net zero policy

(ix) Area 8: Delivering outcomes which will contribute to net zero targets

5.72 We will ask the GDNs to score themselves against these questions and we will then consider how they have performed in relation to these criteria.

5.73 Assessment is designed to be proportionate and focused on key material risks and costs.

Timing & feedback

5.74 We will provide feedback on our view of the quality of their business plan submission within our Draft Determination. This approach is consistent with the approach to other network companies e.g. NIE Networks, SONI and the Transmission System Operators (TSOs).

Data, reporting and Regulatory Instructions and Guidance

Data & templates

5.75 Data must be reported using standardised GD29 templates to ensure consistency and comparability. Templates are structured around outputs, cost categories, and incentive mechanisms.

5.76 Financial data must reconcile to statutory accounts and be reported in real terms using the specified inflation indices.

Assurance and audit expectations

5.77 The GDNs are responsible for demonstrating the robustness of their data and internal controls. Assurance must cover accuracy, completeness, consistency, and transparency of reported information.

5.78 Boards must confirm that the business plan aligns with regulatory principles and that appropriate assurance processes have been applied.

5.79 Audit checks embedded in templates must not be overridden.

Digital reporting standards

5.80 GD29 reporting explicitly references and builds on existing Regulatory Instructions and Guidance (RIGs).

5.81 Templates include embedded validation rules, audit checks, and controlled input cells.

5.82 Digital submissions must retain formula integrity and linking structures to support UR review.

Summary of key GD29 decisions

5.83 Table 5.1 summarises the key elements of our proposed approach for GD29, bringing together both the policy proposals set out in this consultation and areas where further development is required. It distinguishes between those aspects where our direction of travel is established as part of the GD29 approach decision point (column 2), and areas where we intend to undertake further analysis or stakeholder engagement before reaching a final minded-to decision during the determination phase of the price control (column 3 - we note that while this further is characterised as 'post GD29 approach decision' we recognise that aspects will be being developed now and we seek to engage and work on these accordingly). The table is intended to provide clarity on the overall structure of the proposed framework, while also highlighting where stakeholder input will be particularly important.

Table 5.1: Summary of key GD29 policy proposals

GD29 Framework Area	GD29 Approach Consultation position	Further work post GD29 Approach Decision
Price control design	We propose a six-year price control period (2029–2035).	N/A
Future role of gas, uncertainty and scenario planning	We propose that GDN business plans are developed using robust scenario analysis, aligned with TSO-led whole system planning outputs (e.g. Gas Transmission Outlook and future Energy Horizons reporting).	GDNs will be expected to develop business plans using credible scenario analysis aligned with TSO-led outputs, demonstrating how scenarios inform investment decisions, risk management and demand forecasting.
Cost assessment framework	We propose to continue the established cost assessment approach, informed by GD23 experience and wider regulatory best practice, with enhanced focus on scenario-based capex assessment and robust business plan scrutiny.	GDNs will be expected to develop capex proposals that are explicitly informed by a range of credible demand scenarios, demonstrating how scenario analysis drives investment need, timing and scale, and how risks such as asset stranding are managed.
Uncertainty mechanisms	We propose to retain and refine the GD23 suite of uncertainty mechanisms, ensuring flexibility to respond to material new information and policy developments.	GDNs will be expected to identify and justify the use of uncertainty mechanisms within business plans, clearly distinguishing these from baseline allowances and providing supporting evidence for scope, triggers and materiality. We will set out a minded-to decision on retained uncertainty mechanisms at Draft Determination.

GD29 Framework Area	GD29 Approach Consultation position	Further work post GD29 Approach Decision
Uncertainty mechanisms	We propose to retain the existing rate of return adjustment mechanism, with scope for refinement based on lessons learned from GD23.	Further work will consider whether refinements to the mechanism are required with a minded-to position on the mechanism set out at Draft Determination.
Cost sharing and incentives	We propose to review and recalibrate cost risk-sharing mechanisms, including introducing opex risk sharing and strengthening incentive frameworks with a view to taking a minded-to position on this principle by GD29 Approach Decision.	GDNs will be expected to provide evidence-based proposals on cost sharing arrangements, including justification of appropriate risk-sharing rates and how these support efficient delivery and consumer value under uncertainty. We will set out a minded-to position to include risk-sharing rates at GD29 Draft Determination.
Cost sharing and incentives	We propose introducing specific Real Price Effects (RPE) allowances and/or uncertainty mechanism within GD29 to ensure that differences between input cost inflation and general inflation are reflected.	Assessment of GDN business plans will determine whether RPEs are treated ex-ante or through an uncertainty mechanism, and how risk is allocated. We will set out a minded-to position at Draft Determination.
Evaluative Performance Framework (EPF)	We propose to introduce an Evaluative Performance Framework to assess delivery, particularly in areas not suited to mechanistic incentive.	GDNs will be expected to support development of the EPF, including proposals on scope, metrics and evidence to support performance assessment.

GD29 Framework Area	GD29 Approach Consultation position	Further work post GD29 Approach Decision
Energy transition and innovation	We propose a targeted and flexible framework combining ex-ante allowances and uncertainty mechanisms to support no-regrets investment aligned with policy development.	Further work will develop funding design, eligibility and governance arrangements. We expect well thought out proposal from GDNs on funding mechanisms for energy transition activity. We will set out a minded-to position on the scale and design of energy transition funding at Draft Determination.
Form of control for Evolve	We will assess the costs, benefits and impacts of a transition from a price cap to a revenue cap for Evolve to ensure this is appropriate. Following stakeholder feedback we will set out a minded-to position on Evolve form of control by GD29 Approach Decision.	N/A
Connections and network development	We propose to review the role of connection policy, incentives and network development mechanisms in the context of declining demand and network maturity.	Further work will evaluate alternative approaches, including cost-to-serve, targeted frameworks and evaluative models (e.g. EPF), with GDNs expected to provide evidence on efficient connection delivery, targeting and alignment with future demand and network utilisation. This work would strongly benefit from clear Government policy affecting the future role of the gas network. We will set out a minded-to position at Draft Determination.
Tariff smoothing and revenue recovery (policy)	We propose to retain long-term tariff smoothing.	N/A

GD29 Framework Area	GD29 Approach Consultation position	Further work post GD29 Approach Decision
Tariff smoothing and revenue recovery (implementation)	We are proposing enhancements to tariff smoothing, including the use of scenario-based demand forecasting and more frequent updating of inputs.	Further work will determine detailed implementation, including treatment of the profile adjustment, the use of scenario-based demand forecasting and more frequent updating of inputs (e.g. annual updates). We will set out a minded-to position at Draft Determination.
Tariff smoothing and revenue recovery	We propose to include accelerated depreciation as a potential tool within the GD29 framework, allowing for consideration of alternative depreciation profiles where appropriate. We will reach a minded-to position at the Approach Decision stage.	GDNs will be required to assess the costs and benefits of alternative depreciation profiles within their business plans, with further analysis informing minded-to positions on the application of depreciation approaches at GD29 Draft Determination.
WACC and financeability (overall approach)	We propose to continue the established approach to WACC and financeability, including use of RoRE analysis, gearing scenario testing and notional capital structure assumptions.	Further work will inform parameter calibration and supporting assumptions with a WACC minded-to position outlined at Draft Determination. GDNs will be expected to submit robust evidence on WACC components, including cost of debt and equity, notional gearing and financeability, supported by market data and scenario analysis.

GD29 Framework Area	GD29 Approach Consultation position	Further work post GD29 Approach Decision
Semi-nominal WACC	We are considering whether to adopt a semi-nominal WACC approach. Given tariff smoothing, the profile adjustment mechanism and existing rate of return adjustment, the case for change appears limited. We will outline a minded-to position at the GD29 Approach Decision stage.	N/A
Corporation tax treatment	We are proposing a regulatory approach to appropriate treatment of corporation tax for GD29 for PE and KE, including evidence gathering on the historical framework, financial modelling of allowances and liabilities, and assessment of policy options.	Further consultation and analysis will inform regulatory policy development. We expect GDNs to provide evidence to support this review.
Business plans and process (including outline early thinking on key business plan areas submission)	We propose strengthened business plan requirements, including Board assurance, enhanced data expectations and consideration of a submission setting out early thinking on key business plan areas. Business plan requirements will form part of the Approach Decision.	GDNs will be expected to meet enhanced submission requirements, including Board assurance, provision of high quality data and engagement through the development of an outline early thinking on key business plan areas submission and business plan templates.

6. Timetable

Timetable and Next Steps

6.1 This is an open consultation. We have not posed any specific questions in this paper. Instead, we invite stakeholders to express a view on any aspect of this paper. Responses should be received by 5pm Wednesday 23 September 2026 and should be addressed to:

Table 6.1: Response details

Details
Ciaran McSherry
Utility Regulator
Address: Millennium House Great Victoria Street Belfast BT2 7AQ
Tel: +44 (0) 28 9031 1575
Email: Ciaran.McSherry@uregni.gov.uk and Gas_networks_responses@uregni.gov.uk

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

6.3 Individual respondents may ask for their responses in whole or in part, not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, we will ask respondents to also supply us with the redacted version of the response that can be published.

6.4 As a public body and non-ministerial government department, the UR is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this and in particular, if asking the UR to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.

Next steps

6.5 We have set out indicative dates for the key milestones in delivering the GD29 price control below.

Table 6.2: GD29 indicative timelines

GD29 Milestone	Timeline
GD29 approach consultation opens	w/c 22 June 2026
GD29 approach consultation ends	w/c 21 September 2026
GD29 approach decision published	w/c 14 December 2026
Business plan reporting template published	w/c 14 December 2026
GDN business plan submission deadline	w/c 31 May 2027
GD29 draft determination consultation opens	w/c 13 December 2027
GD29 draft determination consultation ends	w/c 6 March 2028
GD29 final determination and licence consultation published	w/c 21 August 2028
GD29 licence modifications published	w/c 25 October 2028
GD29 price control takes effect	1 January 2029