
SPC27 Price Control (2027-2030)

firmus energy (Supply) Limited ("FES")

Draft Determination Summary Response

31 July 2026

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Glossary of Terms

Acronym	Description
Base Rate	Base rate of the Bank of England as amended from time-to-time
BEQ	Business Expenditure Questionnaire submitted on 31 st January 2026 (and later amended)
BEQ Narrative	FES' accompanying narrative paper to its BEQ submission
Capex	Capital Expenditure
CCNI	Consumer Council for Northern Ireland
CMA	Competition and Markets Authority
CPIH	Consumer Prices Index including owner occupiers' housing costs
FES	firmus energy (Supply) Limited
FTE	Full-Time Employee
Gt	Gas cost recovery term within the licence/tariff methodology
Kinecx	Kinecx Energy Limited, formerly firmus energy (Distribution) Limited
PCG	Parent Company Guarantee
SPC23	Supplier Price Control - Period 2023-2026
SPC27	Supplier Price Control - Period 2027-2030
UR	Utility Regulator
Yuno	Yuno Energy Group

Overview

The Utility Regulator (“UR”) published its SPC27 approach document for consultation in November 2025. Since then, FES has been engaging with UR in the price control review and consultation process. FES made its BEQ Narrative submission to UR in January 2026 for necessary cost allowances and the price control structure and mechanisms FES requires to operate the business economically and efficiently. FES has since engaged with UR diligently, providing all available back up and supplementary information in response to UR’s requests, seeking to ensure the regulator fully understands the requirements of the business and its objectives over the SPC27 period.

UR published its SPC27 Draft Determination in June 2026, setting out its view and position on the costs being sought by FES. Having engaged with UR in advance of this publication FES is appreciative of the opportunity to provide further evidence to support its BEQ and furnish more up to date information.

Letters of Credit

FES notes that in its Draft Determination, UR has determined that letter of credit fees are to remain a fixed cost as part of the Gt term. This is contrary to FES’ request that such costs should be treated as passthrough and the basis on which its submission has been made. FES believes UR’s determination is inconsistent with the general principle of gas cost passthrough, creates predominantly downside risk with limited scope for mitigation and, as described in more detail below, is based on a mistaken understanding of the key drivers for such cost (most notably the unit cost of gas).

In its Draft Determination paper, UR states the following:

“...the company already receives sufficient protection from the inflation and volume adjustment mechanisms. Pass-through treatment would also reduce the incentive on the company to seek out and negotiate the best deal available from issuing banks.”

FES believes this is incorrect for four primary reasons:

1. The amount of letter of credit collateral required by FES’ gas counterparty is directly linked to the wholesale cost of gas
2. Not treating costs as passthrough represents a higher risk profile than currently reflected in FES’ and First Economics’ margin calculations in relation to the Beta value used.
3. The interest cost of letter of credit facilities is impacted by base rate exposure and foreign exchange risk.
4. FES’ letter of credit facility is in place for its whole business (both regulated and unregulated), and indeed the wider Yuno group. FES is therefore highly incentivised to keep costs to a minimum for the non-regulated portion of its business.

Interest on K Factor

FES notes that UR intends to retain the existing mechanism to apply interest to the K Factor balances. Whilst FES understands the rationale for this, FES does not believe the current method of applying Base Rate + 1.5% to over-recovered K Factor balances is appropriate.

Over-recovery balances are not free-cash that can be returned to equity holders and FES can only place such funds on quick-access deposit accounts earning less than Base Rate (typically Base Rate less 0.5-1.0%). FES feels this is the most appropriate treatment for interest earned on over-recovery balances. Incurring a charge of Base Rate + 1.5% on over-recovered balances will inevitably create a shortfall in interest earned versus interest charged.

Manpower

FES notes UR’s Draft Determination position that FES’ staffing levels at the end of 2025 represent an efficient

base with which to operate the Ten Towns regulated supply business.

However, as outlined to UR throughout the consultation process, the year end 2025 FTE position does not include open vacancies and planned hires that had already been offered at the end of 2025 and due to start in early 2026. FES notes that UR has not taken this into consideration in its Draft Determination, nor has it allowed for the full extent of FES' incremental resource needs in 2026 and thereafter. Management costs have also been materially understated in the Draft Determination. FES details each of these in the following four sub-sections.

Issue 1 – 2027 Opening FTE Allowance and 2027+ FTE Allowances

Having reviewed the Draft Determination, FES does not feel UR has considered any of the evidence or rationale provided by FES in relation to specific roles. Instead, it appears UR has taken the 2025 closing position (before vacancies/planned hires) and rudimentarily extrapolated incremental headcount needs based on customer number growth.

In response to the Draft Determination, FES has sent UR evidence that UR's opening FTE allowance for 2027 is **below FES' present day headcount**. This is because the Draft Determination does not consider the open vacancies and planned hires that had not yet been filled at the end of 2025. These individuals had been offered positions late in 2025 after many months of recruitment and joined the business in early 2026.

To demonstrate FES' resourcing needs in further detail, FES has extrapolated and forecasted its resourcing needs using the modelling methodology used in Appendix 2 of its BEQ Narrative, together with the BEQ customer number forecast. FES understands UR has accepted this modelling methodology as an appropriate representation of FES' resource needs on the basis that the BEQ Narrative Appendix 2 modelling outputs support the actual 2025 closing FTE position (which UR has approved). The resource modelling for the 2027 to 2030 period, demonstrates that the shortfall in opening FTE position continues through the SPC27 period, ranging from 2 to 4 FTEs per year.

The resource modelling analysis demonstrates that not only is UR's opening FTE position for 2027 understated, the 2027-2030 FTE allowances do not adequately allow for the necessary FTEs required based on resource modelling. FES feels this position is irreconcilable and it can see no credible operational and resource plan that would feasibly allow it to support 4.7k additional customers per year with the allowances provided. FES also notes that the understated FTE position causes other material shortfalls in allowances across the operating cost base where costs are driven by FTE numbers. FES' shortfall therefore extends to other costs that have a direct relationship with FTE increases, rather than just the underlying Manpower costs.

Issue 2 – 2027 Opening Cost per FTE Is Incorrect

As outlined above, in determining its 2027 opening FTE allowance, UR has used the closing 2025 FTE position (excluding vacancies and planned hires) and rudimentarily extrapolated a headcount increase of 1.71 for 2026 using customer number growth. In doing so, UR has omitted the cost of senior hires onboarded in early 2026 from its 2027 opening Cost per FTE.

These variances carry through the remaining years of the price control, resulting in FES being required to employ FTE necessary for regulated activities but not being able to recover the associated cost of those FTEs.

Issue 3 – Cost per FTE Remains Static

FES also notes that UR has determined a static Cost per FTE throughout the price control period. This methodology is overly simplistic and ignores the specific roles required and their differing remuneration costs; for example, where a manager grade of staff is required versus an agent grade. The Draft Determination therefore does not take into account FES' need for differing grades/levels of staff throughout the price control period and does not align to the resource profile provided by FES.

Issue 4 – Management Costs Are Significantly Below Benchmark

FES provided extensive, local benchmarking data to UR to demonstrate why its BEQ submission represents appropriate and efficient Management costs.

Intercompany Recharges

Arm's Length Markup

In its Draft Determination, UR has disallowed intercompany markup applied to the intercompany recharges for specialist services rendered to FES by Yuno. As previously highlighted to UR, a mark-up is required to remain tax

compliant with HMRC and Irish Revenue tax legislation and FES has received expert advice to this effect. FES has had to and will have to pay the markup regardless of UR's determination. The mark-up is also intended to cover Yuno staff ancillary costs that are not included in the recharge amounts (which represent payroll costs only).

Notwithstanding FES' view on UR's determination with respect to intercompany markup, FES notes that UR's calculation to remove the margin component is incorrect. This reduces the allowances below the pre-markup amount by c.£3k per annum.

Intercompany Manpower – Executive

FES' submission included an FTE driver for Executive intercompany charges and it notes that UR has maintained a flat allowance for this cost category. The BEQ shows a projected 24% growth in the Ten Towns business (customer numbers) across the SPC27 period. It is self-evident to FES that such business growth warrants additional Executive time and scrutiny as the business experiences high growth rates and becomes more complex and demanding. FES therefore felt that using FTE growth as a proxy for business growth was an appropriate method of ensuring Executive time demand is fairly reflected. FES is content to change the driver to customer number growth if UR is more amenable to this as an alternative driver.

Office Costs

FES notes UR's comments in the Draft Determination as follows:

"Following an information request, a change was made to rent payments for SPC27 as it was found the reallocation in rent agreement costs were incorrect at submission and there was a duplication of service costs."

Response

FES does not believe service charge costs were duplicated in its submission and FES would ask UR to confirm its interpretation of the information sent by FES. In its response to IR079, FES provided a full schedule of shared site costs covered in the service charges.

Advertising and Marketing

FES notes UR's comments in the Draft Determination as follows:

"FES is still the monopoly domestic supplier and faces no competition in the Ten Towns market. However, like in SPC23, we will keep this under review as the market develops and observe whether FES' domestic market share deteriorates should competition emerge."

Response

Through lived-experience, FES knows that its position as the only gas supplier operating within the Ten Towns network does not mean that customer-facing expenditure is not required or beneficial to customers. This is highly inconsistent with the treatment of its supply peers.

FES has an obligation to communicate clearly with customers, publish and maintain tariff information, promote payment options, maintain digital channels and engage with stakeholders. These obligations and the ever-increasing bar of customer expectations requires a multi-channel communication and engagement approach. The setting of allowances through SPC27 must include efficient customer-facing activity as part of the operating model and should not be dismissed on the basis of being the only supplier in the network area. It should not be the case that existing and prospective customers in the Ten Towns network experience poorer levels of engagement from its gas supplier than customers in other network areas.

Therefore, the appropriate test should be whether the proposed customer communications, digital, PR and market development activity is justified by customer need, regulatory obligations, market maturity and efficient costings. **A monopoly status should not be used as a proxy for 'no communication required'.** Regulated monopoly utility entities such as NIE Networks, Phoenix Natural Gas, SONI and Kinecx operate within a price

control framework that recognises the need for customer engagement, stakeholder engagement and public-facing activity.

The Ten Towns supply network remains less mature than a fully developed utility market. Customer communications and market development activity remain necessary to support customer growth, customer understanding, tariff awareness, payment choices, energy efficiency and vulnerable customer support. Removing this allowance risks customers becoming less informed, slowing customer growth and the adoption of lower carbon fuels, and increasing pressure on the remaining customer base to absorb fixed costs.

Capex

FES notes UR's comments in the Draft Determination as follows:

"FES included office fit-out costs within its submission related to the office move in 2025. As set out in paragraph 7.12 above we have removed these costs as we consider they have resulted from the commercial decision to separate and therefore deem it inappropriate to pass these costs on to consumers."

Response

As detailed comprehensively in its BEQ Narrative, FES notes that its offices at the time of sale were in a considerable state of disrepair and required material levels of capital investment. It is reasonable for a company to have a suitable office space for staff to work in and, regardless of the separation of the business from Kinecx, material sums were needed to be spent on office arrangements which would otherwise have been capitalised and depreciated. On this basis, it is unclear to FES why the office depreciation has been excluded from the allowance, whereas depreciation allowances have been determined in other price controls.

Given the condition of the offices at the time of sale, and the unavoidable expenditure required on those offices, FES does not believe UR's position on refurbishment costs recovery is the correct treatment. It is also inconsistent with First Economics' margin paper where the true cost of FES' new office is accepted as necessary and genuine capital deployed. FES does not understand how such capital can be treated as a required component of fixed asset investment in the margin calculation but not recoverable under the tariff.

Network Maintenance

FES notes UR's comments in the Draft Determination as follows:

"Following an information request FES amended the costs for all the network maintenance categories. The reason for this is the average rates included in the submission were incorrect. Once this was corrected SPC27 was reduced on average by £40k a year."

Response

Whilst FES agrees with the costs being corrected, in line with its response during the consultation FES would like to reiterate that these rates do not increase in line with CPIH. For example, during 2025, one of FES' main suppliers increased its costs by [redacted]% - common reasons cited by the industry for higher than inflation increases is the shortage of skilled labour and the cost of spare parts being sensitive to geopolitical supply constraints. To drive efficiency, FES uses the same suppliers for tariff and non-tariff network maintenance activities where possible. It is therefore incentivised to ensure costs are negotiated to the lowest level available. FES would therefore again request that these costs are treated as passthrough rather than placing undue risk on FES to work within allowance rates that only increase by CPIH.

Bad Debts

FES notes UR's comments in the Draft Determination as follows:

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

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

Response

FES disagrees with UR’s approach to ignore bad debt provisions and focus solely on debt written off. As indicated to UR throughout the consultation, debt write-offs were limited in the 2023-2025 period. Debt instead underwent normal recoverability procedures, was assessed for write-off as normal but remained provisioned. FES has since been working through the debtors’ ledger to recover provisioned debt where possible, before finalising necessary write-offs. UR appears to have concluded from these circumstances that bad debt in the 2023-2025 period was negligible, allocating an allowance of 0.18% which is considerably below the bad debt percentage allowed for SSE (0.8%). FES can find no discernible reason why its bad debt percentage should differ proportionately from its regulated supply peer.

FES has now completed the review of its provision and quantified the amount of debt written off. Over the 2023-2025 period, this results in an average bad debt percentage of 0.6%.

The original BEQ request of 0.5% was based on FES’ estimate of the outcome of ongoing work on the provision at that time. Now that the work has completed, its assessment has increased to 0.6%.

UR is aware that cost of living pressures are acute, energy prices are rising, energy debt is rising, consumer payments are becoming slower and more customers are falling into vulnerable circumstances. These facts are well documented by both UR and CCNI, and the increasing amounts of vulnerable customer debt is acknowledged by UR in SSE’s SPC27 Draft Determination. It is therefore only appropriate that UR allows, at a minimum, FES’ actual historical bad debt %. A more appropriate allowance would be similar to that of SSE’s which appears to have factored in present and future changes in consumer circumstances based on macroeconomic and geopolitical pressures.

Margin

The following section details FES’ response to First Economics’ report ("Firmus Energy Supply: Profit Margin Report"), included at Annex A to UR’s Draft Determination.

Cash Buffer

In its paper, First Economics states:

“we think it is better to remove any cash buffer from the working capital line and to provide explicitly for a suitable amount of standby capital to cover all risks.”

FES accepts that standby risk capital is necessary to address the risk of volatility in the wholesale gas market. Per its submission, FES also believes that such an allowance should be significantly greater than 2%; a view supported by the recent rise in gas prices by c.120% since January 2026. FES requests that UR reviews the appropriateness of the 2% allowance, not least in light of the recent macroeconomic and geopolitical events.

Notwithstanding the above, FES does not accept that UR has provided for a “suitable” amount of standby risk capital to “cover all risks”; including gas price volatility and the risk of unforeseen changes to customer payment patterns. FES therefore disagrees with UR’s broad interpretation of standby risk capital coverage, which has

resulted in the removal of FES' cash buffer of £1m (designed to cover, among other things, the risk of changes to customer payment patterns).

To use UR's broader definition of standby risk capital infers that "all risks" are adequately addressed exclusively by the minimum level of deployed capital and no additional capital whatsoever is needed to be deployed in the business to cover the risk of cashflow timing uncertainties. This therefore suggests that FES can operate its intra-month cashflows with absolute certainty and to a precise and balanced position of zero. To that effect, any delay whatsoever in top up activity or credit customer receipts would push FES into a negative cash position. FES finds it inconceivable that any business would or could operate without *any* level of headroom cash to cover unforeseen changes in customer payment behaviour. Such changes in behaviour are highly sensitive to media attention to large macroeconomic and geopolitical events and FES has experienced high levels of volatility historically (as outlined later in the Sensitivity Analysis sub-section below).

UR is aware that cost of living pressures are acute, energy prices are rising, energy debt is rising, consumer payments are becoming slower, prepayment customers are operating with smaller amounts of credit on meters and more customers are falling into vulnerable circumstances. These facts are well documented by both UR and CCNI, and the increasing amounts of vulnerable customer debt is acknowledged by UR in SSE's SPC27 Draft Determination. This highlights the risks that supply companies operate under with respect to the timing of customer receipts; including top up habits and delayed credit bill payments in times of rising prices. FES' intra-month cash forecasts submitted to UR assume customer receipts are aligned with recent trends and do not take into account the current macroeconomic issues and the inevitable rise in tariffs early in the SPC27 period. The allowed level of intra-month cash therefore only covers intra-month cash shortfalls as they occur today and it is highly likely (if not inevitable) that the £1m cash buffer will be utilised throughout SPC27. Either way, the £1m buffer is and will continue to be deployed in the business as a necessary protection measure against such eventualities. The Sensitivity Analysis and Commodity Volatility Analysis below demonstrate how this buffer is needed for such eventualities.

Sensitivity Analysis – Lower Prepayments and Higher Debtor Days

The margin calculation for the BEQ was completed using forecasts based on historical trends the company has experienced over the last three years as prices had settled after high volatility periods during Covid and the Ukraine war. As geopolitics enters another uncertain phase that is impacting gas prices and cost of living materially, it is appropriate to perform a sensitivity analysis using historical data from the Ukraine war to assess the likely impact to cash flow from adverse changes to the timing of customer receipts.

Applying the Ukraine War debtor days to the SPC27 forecasts results in highly material levels of cash shortfalls which have been presented to UR as part of FES response to the Draft Determination. Whilst the Ukraine crisis was an extreme scenario, even a less severe scenario analysis would indicate that the allowed standby risk capital of £1.03m is inadequate to cover *both* the risk of changes to consumer payment trends and changes to wholesale gas prices. The associated increase in debtor days would also require a similar increase in working capital requirement of – this is further evidence that the standby risk capital allowance is inadequate "to cover all risks".

Commodity Volatility Analysis

As highlighted above wholesale gas prices have risen c.120% since January 2026. The original intra-month requirement was compiled using fuel curves accurate as at December 2025. Based on the latest curves (end of July 2026) higher Ten Towns creditor payments would result in the tariff business having a cash shortfall (this is after factoring in increases to tariffs). FES will necessarily use its £1m cash buffer to cover this shortfall.

Intangible Assets

FES notes that First Economics has excluded the historical cost of FES' IT systems from capital deployed. FES believes this to be an unrealistic reflection of the IT infrastructure needs of a supply company and inconsistent with FES historical margin determinations and that of other suppliers.

FES notes that its Ten Towns balance sheet provides UR with a clear historical data point that would it allow it to include the historical cost of its IT systems in its margin calculation. FES notes that this historical cost is

demonstrably below market standard and that its regulated supply peers receive capital allowances for similar IT systems that are multiples above FES' historical cost.

Trading Collateral

FES does not understand the conclusion reached in the First Economics paper where only £1.55m is treated as capital deployed. The £1.55m physical cash is accompanied by actual contingent capital in the form of a £9.49m letter of credit, for which FES incurs interest and PCG fees (recovered through the Gt term). This capital is not "notional" as stated in the Draft Determination.

FES therefore believes UR's Draft Determination to be incorrect and, in the absence of an agreement on this point, would request that UR apply First Economics' alternative treatment; that is, to "size FES' capital base in line with the... capital requirement that an alternative hypothetical stand-alone supplier would face". To that effect, it is self-evident that a stand-alone supplier operating on such thin margins and volatile working capital would not have sufficient assets from trading activity to enable it to cash-back a letter of credit. Such cash would need to be in the form of equity. FES suggests therefore that the £1.55m is removed from the capital build up and replaced with an equity-backed capital component of £9.49m to represent a notional supplier's capital requirements.

Removal of Letter of Credit Fees

Notwithstanding FES' request above regarding the treatment of trading collateral, FES notes that UR has treated the £1.55m cash covenant as equity capital, but at the same time reduced the return rate of 10.6% by the amount of letter of credit fees incurred. FES does not understand this treatment. The equity capital is deployed and must, as a standalone, attract the equity rate of return. The letter of credit fees are a separate third-party cost that the business incurs.

FES' Margin Assessment

FES has recalculated the margin determination by reinstating the cash buffer, making allowances for the historical IT systems cost (at a minimum) and treating the letter of credit requirement on a "notional" supplier basis. In doing so, FES calculates that an appropriate margin, at a minimum, would be 4.1%. A more realistic capital requirement for present-day costs of similar IT systems and an enhanced standby risk capital percentage would result in a margin greater than 4.1%.

As outlined at the beginning of this paper, should letter of credit fees recovery continue to remain a fixed allowance, FES also believes the Beta value used in the margin calculation must adjust accordingly, resulting in a further upward movement of its margin assessment.