

# **FIRMUS ENERGY SUPPLY LIMITED**

## **2027 - 2030 PRICE CONTROL**

**Final Determination**

**30 September 2026**

## About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Millennium House in the centre of Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls; Networks and Energy Futures; and Markets and Consumer Protection and Enforcement. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

### OUR MISSION

To protect the short and long-term interests of consumers of electricity, gas and water.

### OUR VISION

To ensure value and sustainability in energy and water.

### OUR VALUES

#### ACCOUNTABLE:

We take ownership of our actions.

#### TRANSPARENT:

Ensuring trust through openness and honesty.

#### COLLABORATIVE:

Connecting and working with others for a shared purpose.

#### DILIGENT:

Working with care and rigour.

#### RESPECTFUL:

Treating everyone with dignity and fairness.

## ABSTRACT

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

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

## AUDIENCE

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

## CONSUMER IMPACT

FES is the price-controlled gas supplier for domestic and small industrial and commercial customers in the Ten Towns gas distribution network. The price control decisions will therefore impact the bills of these customers. While this review deals with all aspects of the FES price control, its focus is the determination of FES margin and operating costs. These costs account for approximately 11% of a typical domestic gas bill.

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# Executive Summary

## Gas supply price controls

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

The existing FES price control (SPC23) is set to expire on 31 December 2026, and the next price control SPC27 will apply with effect from 1 January 2027. This paper sets out our final determination for this next price control.

We have followed a robust and thorough process in coming to our decisions. We began the process to develop the SPC27 price control by publishing an approach consultation in July 2025. Having considered the responses to the consultation, we published our SPC27 Final Approach in November 2025.

FES submitted its proposals and expenditure requests for the SPC27 price control period on 31 January 2026. Following a review and analysis of the submission, along with extensive engagement with the company, we published our draft determination proposals for an eight-week consultation on 2 June 2026.

FES and Consumer Council Northern Ireland (CCNI) provided responses to our draft determination consultation. We have carefully considered and taken into account the two responses received, and completed further engagement with the company, in order to reach our final determination. We have published CCNI's response and the non-confidential version of FES' response along with this final determination.

SSE Airtricity is the price-controlled gas supplier for the Greater Belfast and West gas distribution network areas. Its existing price control is set to expire on 31 March 2027 and therefore its next price control, SPC27, is also under review. A separate draft determination was published for SSE on 30 June 2026. We will consider the responses received to that consultation through the final determination for SSE.

## Price control framework

The price control sets the treatment and value of the cost elements that make up

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

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

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

- Operating costs - We assessed FES' operating cost submission and determined allowances for the full price control period. The operating costs section of this document details FES' submission, draft determination responses, our assessment, and the reasons for our final determination. This section is intended to offer clarity and transparency on how we approach operating cost allowances.
- Wholesale gas costs – in recognition of the company's limited ability to control the gas purchase and GB network charges, we have decided to continue treating these costs as pass-through. We have decided to treat the cost of credit allowed within this category also as pass-through due to gas prices affecting the costs the company incurs in this area.
- Network costs - we conduct separate reviews on the network companies to determine the charges that they collect through the supply companies. After evaluating our current process, we have decided to continue treating these costs as pass-through. This ensures transparency and consistency, allowing the charges to flow directly without additional intervention.
- Margin - We have assessed and determined an appropriate profit margin percentage, which will be applied to the total allowed costs set out above. The margin section of this document details FES' submission, draft determination responses, our assessment, and the reasons for our final determination.

Following the most recent<sup>2</sup> tariff review, the maximum average price from 1 October 2026 comprises of 50% wholesale gas costs, 39% network costs, 9% operating costs and 2% margin costs.

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

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

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

for competition, ensuring that the costs charged by gas suppliers remain fair and reasonable.

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

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

## **Operating costs**

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

We highlighted at the draft determination that FES' separation from the Ten Towns distribution business in October 2024 was a central issue for this review. Our draft determination acknowledged that operating as a standalone supplier can create additional ongoing costs and we therefore based our assessment primarily on the company's 2025 operating position. However, we did not accept that consumers should fund costs arising from the implementation of the commercial decision to separate the businesses and as such disallowed costs for the fit-out of a new office.

CCNI was broadly supportive of our draft determination, in particular it did not object to our approach to the business separation issue.

Firmus challenged a number of aspects of the draft determination. We reconsidered several areas and increased allowances where justified. Most notably, we increased senior management allowances following a review of benchmarking evidence and updated the bad debt allowance to reflect more recent data. In total, the changes increased the operating costs allowance by £1.15 million compared with the draft determination.

However, we did not accept a number of FES' key arguments and have maintained our draft determination position on staffing levels, office fit-out, advertising expenditure, and the mark-up applied to intercompany recharges. Fuller details of our assessment and decision for all operating costs lines are provided in Chapter 7 of this document.

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

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

| £m           | FES Submission | Draft Determination | Final Determination |
|--------------|----------------|---------------------|---------------------|
| Manpower     | 14.12          | 11.11               | 11.84               |
| Operations   | 6.09           | 4.20                | 4.34                |
| Billing      | 8.91           | 8.69                | 8.96                |
| <b>Total</b> | <b>29.13</b>   | <b>24.00</b>        | <b>25.15</b>        |

The costs in the table and throughout the document are presented in October 2025 prices and represent the total FES Ten Towns supply business costs, unless stated otherwise. They exclude any costs relating to FES customers in the Greater Belfast and West distribution networks. However, costs related to the Ten Towns non-price-controlled (non-tariff) markets are included. An apportionment process ensures that costs are allocated appropriately and that no cross-subsidisation occurs between the tariff and non-tariff Ten Towns markets.

## Margin

Our final determination provides a margin of 2.0% for the SPC27 period, maintaining the level applied in previous price controls.

FES originally proposed a margin of between 4.8% and 5.1%. Following engagement before the draft determination, it reduced this to 3.0%.

Our consultants First Economics provided expert review of the margin proposals and advice for the draft determination. Following that assessment, we proposed maintaining a 2.0% margin. While the assessment suggested that a margin of 1.5% was sufficient, we considered the uncertainty in the calculation and the margins applied to other supply companies and concluded that a 2.0% margin remained appropriate.

The main adjustments made to FES' updated submission in reaching our 2% margin proposal were as follows:

- reducing the capital base to exclude hypothetical stand-alone supplier requirements that FES does not face in its current position
- reducing the capital base to remove assets that are not being approved as part of the SPC27 review

- accounting for costs recoverable elsewhere in the price control, such as letters of credit and k-factor interest.

CCNI's draft determination response supported our margin proposals.

FES response argued that the margin should be 4.1%, in contrast to its 3% position before the draft determination. It did not provide sufficient quantitative evidence for us to assess whether this higher margin was justified.

FES had a full and fair opportunity to present its case with supporting evidence through its response to the draft determination. However, we gave FES an additional opportunity to support its revised margin proposal through a further information request. FES' response provided a further change to a margin of 4.2%, driven by its request that UR ignore FES' real-life collateral arrangements and finance expenditure that, is at this stage, subject to a future submission and approval.

First Economics provided expert review of the company's response. The two main drivers of the company's uplifted position were already considered and rejected at the draft determination stage, and we consider the company's further representations did not justify a change to our position.

The margin assessment continued to suggest that a calculated margin of 1.5% was sufficient, but as at the draft determination, we considered the uncertainty in the calculation and the margins applied to other supply companies and have determined a 2.0% margin.

Detailed analysis of the margin assessment and determination is presented in Chapter 9 of this document. Fuller analysis is provided at Annex A - First Economics SPC27 Draft Determination Margin Report and Annex B – First Economics review of FES' response to the SPC27 Draft Determination, both published alongside this final determination.

## **Next steps**

In parallel with the publication of this final determination, we have published a consultation on the licence modifications necessary to give effect to our decisions. This licence modification consultation will close on 29 October 2026. We intend to publish a final decision on licence modifications at the end of November 2026. Subject to the right of FES or any other qualifying body to appeal that decision to the Competition and Markets Authority (CMA), the modifications will take effect in January 2027. In all circumstances, the modifications will be treated as applying from 1 January 2027.

We will continue to monitor delivery and engage as we always do in a process of continuous improvement, which will inform the development of our next price control for FES.

# 1. Background

## Regulation of the Northern Ireland gas industry

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

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

## 2. Scope and Coverage

- 2.1 As set out in the 2025 Q4 Retail Energy Market Monitoring (REMM) report<sup>3</sup> the Ten Towns gas market has approximately 77,040 connections to the gas network broken down as follows:
- 73,865 - Domestic (EUC1)
  - 1,947 - Small I&C < 73,200 kWh (EUC1)
  - 1,228 - I&C < 732,000 kWh (EUC2), I&C > 732,000 kWh (EUC3), I&C Daily Metered > 2,196,000 kWh
- 2.2 FES supplies all 73,865 domestic customers. This market has been open to competition since April 2015, though there have been no new entrants.
- 2.3 The market for small I&C customers has also been open to competition since April 2015 and there are currently six suppliers in it. FES currently supplies 1,272 (65%) of the 1,947 customers, with Flogas the next largest with 389 customers (20%).
- 2.4 FES is subject to a price control for its supply to the domestic and small I&C EUC1 markets. FES was previously subject to price control for the EUC2 market but its share in terms of number of customers and consumption fell once competition opened in it in April 2015. The price control for FES EUC2 customers was disapplied from 1 April 2018 following consultation<sup>4</sup>. At that stage FES' EUC2 market share was less than 40%.

### Draft determination

- 2.5 Given FES' position as the only supplier to the Ten Towns domestic market, our draft determination proposed to continue the price control for the SPC27 period. We therefore included cost allowances for it to serve the domestic market in our SPC27 proposals.
- 2.6 For the small I&C market where competition and choice are provided by other suppliers, we assessed if recent developments have affected FES' dominance.
- 2.7 In the decision paper for Power NI for the 2014-2017 Price Control<sup>5</sup>, UR had set a market share level of 50% as the threshold for consulting on the possible removal of a control on Power NI tariffs. This paper set out a

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

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

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

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

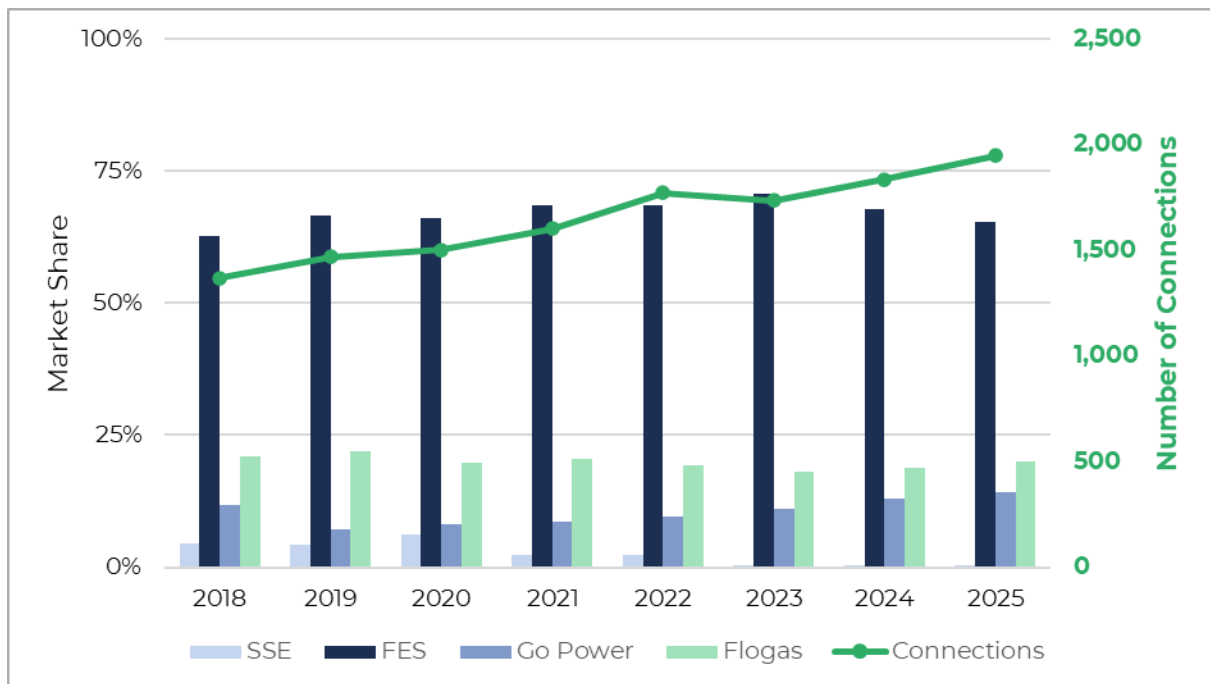
2.8 This paper noted:

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

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

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

**Figure 2.1: Evolution of the small I&C market in the Ten Towns**



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

### **Consultation responses on scope and coverage**

- 2.12 FES did not provide any comments in relation to scope and coverage in its response.
- 2.13 CCNI's response supported our proposed continuation of the price control for domestic and small I&C customers throughout the SPC27 period. Its response highlighted that the price control continues to serve an important role in protecting consumers where effective competition has not developed.
- 2.14 CCNI also noted provisions for future consideration of the scope of the control should market circumstances change materially. It highlighted that any such considerations be undertaken transparently and subject to appropriate stakeholder engagement.

### **UR's response to consultation comments**

- 2.15 We note CCNI's support of our scope and coverage proposals. We agree that we should undertake any future consideration of the scope of the control transparently and with appropriate stakeholder engagement.

### **Final determination**

- 2.16 Following publication of our draft determination on 2 June 2026, UR published the 2026 Q1 Retail Energy Market Monitoring (REMM) report on 17 June 2026<sup>6</sup>. We have reviewed the updates to the data that we used to inform our draft determination proposals.
- 2.17 FES remains the only supplier to the Ten Towns domestic market. Its share in the Ten Towns small I&C market reduced slightly from 65.3% to 64.4% and it retains a dominant position.
- 2.18 Following assessment of the consultation responses and review of the updated data, we remain satisfied that our draft determination proposals for the scope and coverage are appropriate.

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<sup>6</sup> [Q1 2026 Retail Energy Market Monitoring report](#)

### 3. Duration

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

#### Consultation responses on duration

- 3.8 CCNI supported the proposed four-year duration of the control, stating that it provided an appropriate balance between regulatory oversight and business planning certainty. It noted the duration would allow UR to

assess a meaningful body of operational and cost data while maintaining incentives for efficiency.

- 3.9 FES did not provide any comments in relation to duration in its response to the draft determination.

#### **UR's response to consultation comments**

- 3.10 We note CCNI's support of our duration proposal. We agree that the duration strikes an appropriate balance between regulatory oversight and business planning certainty.

#### **Final determination**

- 3.11 Following assessment of the consultation response, we remain satisfied that our draft determination proposal for the duration is appropriate.

## 4. The Regulated Tariff

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

### 2.4.1 Control over Charges

*“The Licensee shall take all reasonable steps to secure that in any Relevant Year the average price per unit of gas supplied by it to Regulated Premises<sup>7</sup> shall not exceed the maximum price calculated”*

- 4.2 A price control is the mechanism that UR uses to determine the costs which make up the maximum average price per therm that a price regulated gas supply company can charge.
- 4.3 In granting consent, we review the maximum average price to ensure that it is constructed in line with the provisions within the price control. The maximum allowed average unit price of gas (**Ps<sub>t</sub>**) for customers (subject to price control) is calculated as follows:

$$\mathbf{Ps_t = G_t + U_t + S_t + M_t + E_t - Ks_t}$$

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

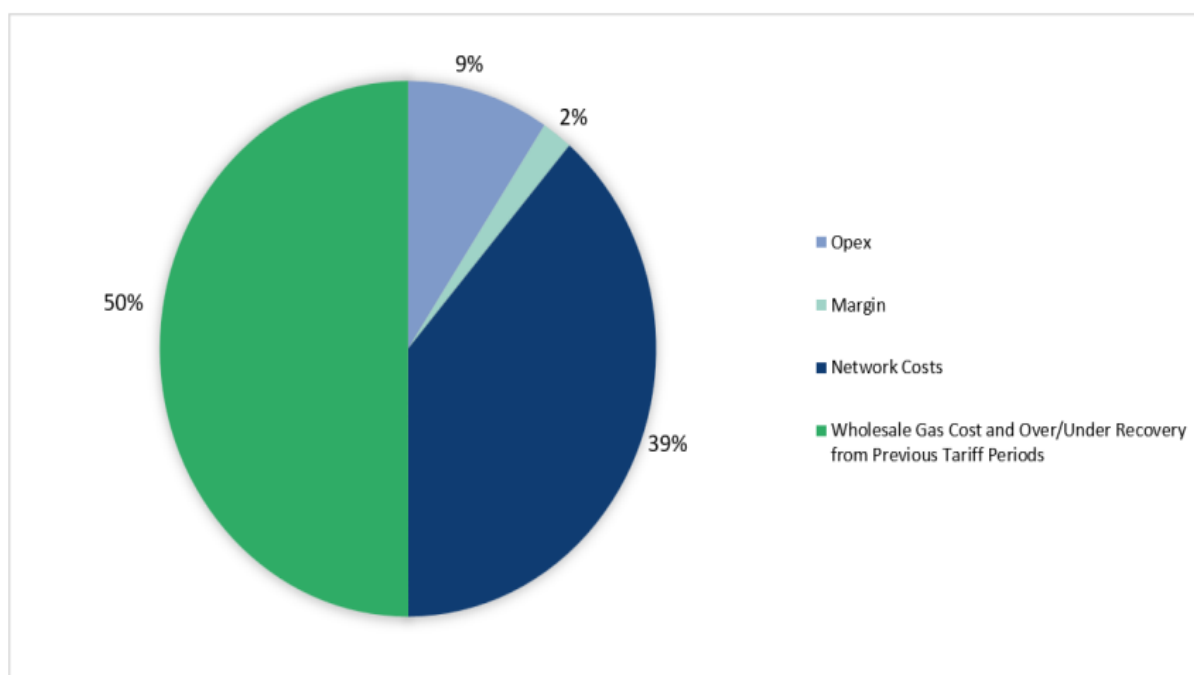
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<sup>7</sup> Regulated Premises means premises supplied by the Licensee in the Ten Towns Area at which the normal annual consumption of gas is reasonably expected not to exceed 73,200 kilowatt hours

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

4.5 The percentage breakdown of the most recent<sup>8</sup> maximum average price into the main cost elements is provided in Figure 4.1 below. This was based on a maximum average price of 242.60 pence per therm which means the typical annual bill for an average domestic credit customer would be £1,060. The proportion of each cost element can fluctuate which has been observed in the SPC23 period due to material changes in the wholesale gas costs.

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



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

### Tariff review

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

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

<sup>8</sup> [Conclusion of review of FES tariff to apply from 1 October 2026](#)

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

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

### Trigger mechanism

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

### Tariff structure

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

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

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

### Consultation responses on the regulated tariff

- 4.19 CCNI welcomed the continued operation of the tariff review arrangements and associated trigger mechanism. It encouraged UR to continue considering the impact of tariff changes on consumers, particularly vulnerable households and those on lower incomes.
- 4.20 CCNI also welcomed the continued emphasis on transparency within the tariff-setting process. It noted that consumers should receive timely, accessible and comprehensible information regarding tariff changes, including the reasons for those changes and their expected impact on household bills. It further noted that communications should be accessible to consumers who are digitally excluded or who require alternative communication channels.
- 4.21 FES did not provide any specific comments on the regulated tariff. It did however highlight its obligations to communicate clearly with customers, publish and maintain tariff information, promote payment options, maintain digital channels and engage with stakeholders.

### UR's response to consultation comments

- 4.22 We acknowledge CCNI's support for the existing regulated tariff framework. As outlined at paragraphs 4.9 to 4.11 above, tariff reviews are undertaken by UR and the regulated company in consultation with DfE and CCNI. We consider that these arrangements provide an appropriate mechanism for identifying and implementing improvements to the tariff review process and consumer communications, with the objective of delivering better outcomes for consumers.

## 5. Wholesale Gas Costs

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

### Letters of credit

- 5.5 In the SPC27 Final Approach document, we included the costs of credit arrangements relating to the purchase and transportation of gas within the wholesale gas costs section, as they are part of the  $G_t$  term. However, these costs were incorrectly described as also being treated on a pass-through basis. To clarify, these costs are recovered through a fixed unit rate per unit of gas, with the overall allowance adjusted based on actual gas volumes.

### Draft determination

- 5.6 The company submitted rate was 0.03315 pence per kWh, which would equate to £0.92m for the SPC27 period based on forecast tariff volumes. In the draft determination, we proposed allowing this rate as it reflected the most recent actual costs incurred by the company.
- 5.7 In its submission, FES proposed that these costs be treated as pass-through. However, at the draft determination stage we considered that the company receives sufficient protection from the inflation and volume adjustment mechanisms. As such pass-through treatment could reduce the incentive on the company to seek out and negotiate the best deal available from issuing banks. We therefore proposed to maintain the existing treatment for these costs.

### Consultation responses on wholesale gas costs

- 5.8 CCNI did not provide any comments on the draft determination proposals relating to wholesale gas costs. However, it should be noted that CCNI supported the continuation of pass-through treatment in its response to the SPC27 Approach consultation.
- 5.9 FES reiterated its request that the letters of credit component be treated as a pass-through cost. In support of this position, and in response to UR's draft determination rationale, FES argued that:
- the existing volume and inflation adjustment mechanisms are inadequate because letters of credit costs are linked to wholesale gas costs, which are both volatile and largely outside its control;
  - these costs are also influenced by movements in money markets, which can be volatile and outside its control, particularly during periods of geopolitical instability;
  - letters of credit costs relate to both tariff and non-tariff activities and, therefore, pass-through treatment would not reduce FES's incentive to minimise costs; and
  - given the potential volatility of these costs and the difficulty in forecasting them accurately, pass-through treatment would ensure that FES neither gains nor loses financially as a result of forecast variances.
- 5.10 FES also stated that the beta value used for the draft determination margin calculation was inappropriate due to the exposure to cost volatility in this area. Pass-through treatment would align with UR's beta proposals.

### UR's response to consultation comments

- 5.11 We acknowledge the concerns raised by FES regarding the treatment of the letters of credit allowance. Given the potential volatility of these costs, a unit-rate allowance could result in material underfunding or overfunding of the company. Pass-through treatment better aligns cost recovery with actual costs incurred and reduces the risk of forecast error. We consider this approach provides a more appropriate outcome for both the company and consumers.

### Final determination

- 5.12 Having considered FES' response, we have concluded that pass-through treatment should apply to the letters of credit allowance. We consider this

approach provides a more appropriate outcome for both the company and consumers. We expect the company to be able to evidence the actual costs it has incurred during the reconciliation process to ensure accurate and transparent pass-through of costs to consumers.

- 5.13 We remain satisfied that the other wholesale gas costs elements recovered under the  $G_t$  term of the licence should continue to be treated as pass-through.

## 6. Network Costs

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

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

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

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

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

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

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

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

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

### Consultation responses on network costs

6.8 Neither of the consultation respondents made specific comments regarding the treatment of network costs.

### Final determination

6.9 Network costs will continue to be treated as pass-through.

## 7. Operating Costs

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

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

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

Note 1: Figures may not sum due to rounding.

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

### Submission review

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

### Business separation

- 7.10 FES operated as part of a combined business with the distribution network operator Firmus Energy Distribution (now known as Kinecx Energy). The supply business was acquired in October 2024 by Yuno Group, resulting in it now operating separately.
- 7.11 FES' SPC27 submission reflected these new operating arrangements. It included costs associated with implementing the separation, primarily relating to the fit-out of its new office space. It also assessed that it required higher ongoing operating costs due to the loss of shared resources and operational synergies previously available when it was part of the combined business.
- 7.12 As set out in the SPC27 Final Approach<sup>9</sup>, in paragraphs 5.40 to 5.43, we consider the sale to be a voluntary corporate restructuring and do not consider it appropriate for consumers to bear the associated separation costs. We therefore disallowed the requested costs related to the new office fit-out.

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<sup>9</sup> [SPC27 Final Approach](#)

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

### **Customer forecasts**

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

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

- 7.21 FES submitted a forecast of an additional 4.7k customers per year from 2025 out to the end of the SPC27 period. It will primarily gain these customers through new connections by the Distribution Network Operator to the Ten Towns network.
- 7.22 We have accepted FES' submitted forecast and therefore adjusted certain allowances accordingly. While the forecast is higher than the two most recent years, it is in line with the five-year average. Gas has also been made newly available to properties recently and there remains c.120k properties with gas available that have not yet connected to the network.
- 7.23 As some allowances are based on forecast customer numbers, there is a risk that the actual number of customers served may differ from those forecasts. In setting allowances, we have adopted the company's customer forecasts, which assume continued customer growth over the control period that is above recent outturn levels. We intend to consider the potential introduction of an allowance adjustment mechanism at the next price control review to better reflect variations between forecast and actual customer numbers.

### **Consultation responses on operating costs**

- 7.24 FES and CCNI provided comments specific to each of the three operating costs categories, which we have set out and considered under each of the cost category sections below. Both also provided general comments to the operating costs draft determination proposals.
- 7.25 FES expressed concerns regarding the level of operating cost allowances proposed in the draft determination. In particular, it argued that the allowances did not adequately reflect the costs of operating as a standalone supplier following separation.
- 7.26 FES also contended that its operating model remains more efficient than comparable suppliers when assessed using metrics such as cost per connection and FTEs per connection. It argued that the draft determination outcome was inconsistent with evidence previously provided on relative efficiency, including benchmarking analysis submitted as part of its business plan and supporting evidence prepared by Baringa.
- 7.27 FES stated that UR had not provided sufficient justification for the difference between the operating cost allowances proposed for FES and SSE in the respective draft determinations. It argued that the draft determination applied a greater efficiency challenge to FES despite its

smaller scale and contended that this was inconsistent with evidence it had provided on relative efficiency.

- 7.28 FES further questioned how the proposed allowances were consistent with UR's statutory duties, including the requirement to ensure that licensees are able to finance their activities. It requested further explanation of the basis for the differing allowances and how UR had concluded that the proposed allowances would support a financeable and economically viable business.
- 7.29 CCNI welcomed the detailed review of FES's operating cost submission and the reductions made to the company's proposed costs, noting that this helped protect consumers from unnecessary expenditure while providing sufficient funding for FES to deliver services and maintain financial resilience. It supported UR's position that consumers should not bear the costs associated with the separation of the supply and distribution businesses and welcomed the continued focus on allowing only efficient and justified costs.
- 7.30 CCNI noted that post-separation operating costs had been used as an important reference point in parts of the review and recognised the rationale for considering FES's current operating structure when setting future allowances. However, it requested further clarity on how UR had concluded that the resulting baseline allowances reflected the efficient cost of ongoing operations. It considered that this would provide assurance that consumers are funding an efficient level of service while recognising the company's post-separation operating arrangements.
- 7.31 CCNI also emphasised the importance of taking account of the needs of Pay as You Go (PAYG) customers in the price control. It noted PAYG customers account for 77% of FES's domestic customer base and represent one of the most financially vulnerable consumer groups.

### **UR's response to consultation comments**

- 7.32 We have given careful consideration to FES's concerns regarding the overall level of operating cost allowances and the potential impact on the financeability and effective operation of the Ten Towns supply business. This assessment has taken account of both FES's representations and the additional evidence provided following the draft determination.
- 7.33 In determining operating cost allowances, our objective is to provide funding for an efficient licensee to deliver its obligations while protecting consumers from bearing inefficient or unjustified costs. Our assessment has been informed by a detailed review of FES's business plan submission, supporting evidence, responses to information requests and consultation responses.

- 7.34 We do not agree that the draft determination failed to recognise the costs associated with operating as a standalone supplier. Throughout our assessment we considered the impact of the separation of the supply and distribution businesses and the practical realities of FES's current operating model. However, the existence of additional costs following separation does not, in itself, demonstrate that all such costs should be funded through customer tariffs. We have assessed each cost category on its merits and have only included expenditure that we consider to be efficient and justified.
- 7.35 While comparisons with other suppliers can provide a useful cross-check, we determine allowances based on the evidence and price control framework of each individual company. UR applies a consistent methodology across all suppliers, undertaking a bottom-up assessment of each company's operating costs. This is fully aligned with the approach outlined in the SPC27 Final Approach. Therefore, where a supplier has provided evidence supporting the need for an allowance to carry out a specific operational activity, it does not follow that an equivalent allowance should be granted to another supplier.
- 7.36 In any event, FES' comparison of its draft determination position with that of SSE Airtricity is not on a like-for-like basis. FES' comparison is based on published data that includes non-tariff costs which are not subject to the price control, and which we do not necessarily adjust.
- 7.37 In relation to financeability, we have had regard to our statutory duties throughout this review. Our assessment is based on the principle that an efficiently operated licensee should be able to finance the activities undertaken to fulfil its licensed obligations.
- 7.38 We are satisfied that the allowances set out in this determination provide sufficient funding for an efficient operator while also meeting our duty to protect consumers from bearing unnecessary costs. Our statutory duty is to secure that an efficient licensee can finance its licensed activities, not to insulate a company from the consequences of all business decisions.
- 7.39 In the SPC27 Final Approach, we stated that we would obtain expert advice to ensure that the allowed return on equity was no lower than the cost of equity. As set out in chapter 9, our margin assessment, informed by expert advice, indicated that a margin of 1.5% would be sufficient to provide an appropriate return on equity. We have nevertheless determined a margin of 2.0% to reflect uncertainty in the assessment and to maintain consistency with margins allowed for comparable supply businesses.
- 7.40 In the final approach, we also stated that we would consider financeability with reference to debt interest cover and other financial ratios commonly

applied in network price controls where relevant. However, as anticipated at the final approach stage, FES has not sought funding through borrowing and has not requested that financeability be assessed on that basis. We therefore do not consider such metrics to be relevant to our assessment.

- 7.41 We welcome CCNI's supportive response to our approach to operating costs and note its request for further clarity on the assessment of post-separation operating costs. As set out throughout this chapter, post-separation expenditure was not accepted without scrutiny, and we made adjustments where expenditure was not sufficiently justified or was inconsistent with the price control framework. We acknowledge that there is increased uncertainty in relying on costs from a single reporting period, particularly given the post-separation changes being implemented by FES. However, we still consider that the price control framework incentivised the company to reveal efficient operating costs in 2025, and we were able to gain greater assurance through cross-checks.

## Manpower

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

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

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

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

## UR draft determination

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

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

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

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

**Manpower**

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

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

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

- 7.49 However, we had considered forecast customer growth, which was expected to require additional resources relative to 2025. On this basis, FTE levels had been scaled in proportion to the projected increase in customer numbers. This adjustment was applied at an aggregate level, as we considered the company to be best placed to determine the specific roles required to meet its business needs.
- 7.50 FES' submission included the requested costs for its SPC27 staffing level. On a cost-per-FTE basis, these costs were 11% higher than the 2024 pre-separation level, reflecting the recruitment of more senior roles and significantly higher senior management costs for corporate officers.
- 7.51 Initially we based our proposed cost-per-FTE on the average across the SPC23 period, including post-separation 2025 costs. However, through engagement with the company it was clarified that, in the submission, the 2025 staff costs did not align with the staff level. This was due to staff level representing the end of year position, whereas the costs were the total across the year and did not accurately reflect the onboarding of staff throughout the year.
- 7.52 FES provided the costs to reflect the 2025 end-of-year staff level. We used these costs, apart from the management line where we used 2024 costs, to set our overall cost-per-FTE. This cost-per-FTE was then multiplied by the FTE count outlined in paragraph 7.49 to establish our proposed manpower allowance.
- 7.53 We used the 2024 management cost-per-FTE in our proposals, as the 2025 costs were such a significant increase. We received the updated 2025 costs at a late stage of the draft determination review. We understood that the management cost line was remuneration of directors. Our initial view was that this increase was not justified, particularly as FES is now utilising executive support from its parent company for operational activities, as discussed in the intercompany recharges section below.

### **Intercompany recharges**

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

**Table 7.4: Intercompany recharge areas**

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

- 7.56 Table 7.4 provides the areas for which FES utilise Yuno group's expertise as well as the rationale for each area.
- 7.57 The arrangement which FES has as a subsidiary of the Yuno group means that in line with an arm's length approach to intercompany recharges, resources are charged at consulting rates (i.e. cost + % uplift) and operational costs (such as insurance) as a pass-through.
- 7.58 We removed the uplift applied to finance, trading, executive and HR costs for our draft determination. We considered that services provided by related parties should be recovered on a cost-only basis, aligning with our approach to other price-controlled companies. The forecast allowance was therefore based on 2025 costs, excluding the uplift for these items.
- 7.59 We were minded to accept the trading and insurance forecasts provided by FES, which are based on forecast volumes and revenue. The Finance costs were forecast at a flat rate in line with FES' actuals for 2025, which again UR was minded to accept (less the uplift for finance and trading).
- 7.60 In line with UR's position regarding the advertising elements of operational costs (see 7.96 to 7.98), we were minded to disallow the intercompany recharges in relation to marketing. Our position, in line with regulatory precedent, was that customers of a regulated company, which is also the commissioning supplier and in a dominant position in the market and a monopoly position in the domestic sector, should not bear the costs of marketing.
- 7.61 As discussed above, UR was minded to partially allow the original FTE submission based on our top-down analysis of customer growth forecasts.

Applying the allowed forecast of FTEs resulted in a partial allowance for the HR and executive cost lines, as these were forecast based on FTEs.

### **Remaining manpower elements**

- 7.62 Within FES' submission the recruitment costs and contract staff category was comprised of three elements: agency Costs, recruitment costs and an incremental increase to allow for the increase in FTEs. We proposed to accept the recruitment and agency Costs in line with the averages of the SPC23 years. The incremental increase had reduced in line with the reduction in FTEs allowed.
- 7.63 The remaining manpower costs (entertainment, training, and travel and subsistence) were all forecast on a fixed cost per FTE. While the overall allowance presented in Table 7.3 differs from the original cost submission in Table 7.2, we proposed to accept the underlying cost per FTE.
- 7.64 The cost per FTE for training and travel and subsistence was in line with the actual costs incurred during the 2023-2025 period. While the cost per FTE for entertainment was in line with HMRC recommendations for entertainment costs, uplifted to account for wellbeing benefits.

### **Consultation responses on manpower allowance**

- 7.65 CCNI's response on manpower and senior management costs supported our approach to set staffing allowances in line with projected customer growth and supported our approach to senior management costs. CCNI encouraged continued review during the price control period to ensure the efficiency and appropriate justification of manpower costs.
- 7.66 FES' response on manpower allowances flagged several potential issues to be addressed in the final determination, those being focused on:
- a) the 2027 opening FTE allowance,
  - b) the 2027 cost per FTE,
  - c) the static treatment of the cost per FTE across SPC27
  - d) benchmarking of the management costs.

FES also noted concerns that the FTE growth was lower than SSE's despite equivalent increases to the customer base.

- 7.67 FES' response also flags concerns that the opening 2027 allowance is lower than the actual FTEs required in June 2026 as the draft determination is based on 2025 staffing numbers which ignore the open vacancies in the organisation.

- 7.68 CCNI welcomed UR's review of intercompany recharges and focus on a transparent and justified allowance, welcoming further clarity in the final determination on the reporting, transparency and assurance arrangements during the SPC27 period.
- 7.69 FES' response also addressed intercompany recharges, expressing concerns over the flat treatment of executive charges within this cost line. FES also disagreed with the removal of margin applied to intercompany recharges, stating it was obligated to pay to this, and also highlighted that UR's removal of this margin was calculated incorrectly.

### **UR's response to consultation comments**

- 7.70 Regarding manpower allowance, UR acknowledges the comments from CCNI. Throughout SPC27 we have set an allowance which we consider to be efficient and appropriately justified.
- 7.71 UR has considered the issues raised by FES regarding manpower allowances. When considering the total number of FTEs following the restructure of the organisation, FES has not presented further information relating to exogenous drivers to identify the need for additional FTEs beyond those provided for in line with customer growth.
- 7.72 While we have undertaken a bottom-up assessment, this has been carried out at the departmental level rather than by assessing individual roles that FES currently employs or may choose to employ in future. We set an overall manpower allowance that we consider sufficient for an efficient operator to discharge its licensed obligations. We consider that FES is best placed to determine the specific roles and organisational structure required to deliver its activities within the allowance provided.
- 7.73 We have also considered FES's concerns regarding the cost per FTE allowance reflected in the 2027 opening position. In relation to vacancies that existed at the end of 2025, we have placed greater weight on the staffing resources that were actually in place and used to operate the business. Some level of vacancy is a normal feature of any organisation and does not, in itself, demonstrate a requirement for a higher ongoing staffing allowance.
- 7.74 The manpower allowance uses FES' end-2025 staffing level as its starting point. This results in a higher allowance than would be produced by using average staffing levels during 2025, as FES increased its workforce over the 14-month period following business separation. It therefore reflects a level of staffing that is higher than that under which the company operated for much of 2025 and allows an appropriate period for the company to transition to its new operating arrangements.

- 7.75 The difference between FES' submitted costs per FTE and our draft determination is driven by the difference in the management costs. As detailed below, we have considered FES response on this area and adjusted the allowance.
- 7.76 In considering comparisons with SSE, the UR sets an overall manpower allowance and does not prescribe the number of FTEs that a supplier must employ. It is the responsibility of the company to determine how the allowance is utilised, including the balance between staffing numbers and remuneration. When comparing the additional annual manpower allowance attributable to tariff activities across both businesses, we consider our approach to have been consistent. At the draft determination, the allowance provided for FES equated to a slightly higher manpower cost per customer than that allowed for SSE.
- 7.77 In relation to CCNI's comments on intercompany recharges, the introduction of these costs following business separation presented a new area for assessment by the UR. We have cross-checked the overall manpower allowance against relevant comparator suppliers. This has provided a broader reasonableness check, irrespective of whether resources are provided directly by FES employees or through intercompany arrangements.
- 7.78 We have considered FES' comments regarding the percentage uplift applied to the base costs of intercompany recharges. As set out in the draft determination, our proposal to disallow the uplift is consistent with the treatment of related-party uplifts in other price controls. FES has not provided evidence that this is a legal obligation, and as result we are not persuaded that there is justification to a depart from the established approach. We have however adjusted how the margin deduction is calculated following the clarification in FES' response.
- 7.79 We have not accepted FES concerns on the flat treatment of executive charges within intercompany recharges. At the draft determination the allowance provided was linked to the number of FTEs which grows with the forecast number of customers.

### **Final determination**

- 7.80 Table 7.5 provides the updated manpower cost allowances for the final determination. The updated allowance totals £11.8 million, an increase from the draft determination position and 84% of the original submission allowance from FES.

**Table 7.5 UR SPC27 manpower final determination cost allowances**

| £'000                                | 2027         | 2028         | 2029         | 2030         | SPC27 Total   |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------|
| Manpower                             | 2,231        | 2,355        | 2,451        | 2,562        | 9,606         |
| Intercompany Recharges               | 401          | 424          | 439          | 454          | 1,719         |
| Entertainment                        | 9            | 10           | 10           | 10           | 39            |
| Training                             | 37           | 39           | 41           | 42           | 159           |
| Travel and Subsistence               | 18           | 19           | 20           | 21           | 78            |
| Recruitment Costs and Contract Staff | 64           | 61           | 58           | 58           | 242           |
| <b>Total</b>                         | <b>2,760</b> | <b>2,909</b> | <b>3,026</b> | <b>3,148</b> | <b>11,842</b> |

- 7.81 The increased allowance beyond that of the draft determination is driven by the re-evaluation of the management costs in the manpower line. As part of the submission, FES provided evidence from executive hiring firms detailing a range of packages typically offered at senior executive levels.
- 7.82 In order to determine an appropriate uplift for the management costs, we considered the uplift across the other departments in the organisation and applied an average uplift to the 2024 management costs to arrive at a figure for SPC27. In the absence of appropriate historic management cost data, we considered this approach to provide a reasonable proxy whilst remaining consistent with movements observed elsewhere in the organisation.
- 7.83 This approach to management costs has provided an allowance which falls within the range of values provided through FES' evidence gathering from the executive hiring firms. The provided evidence considers a low, medium and high value package for the job roles consisting of base salary, bonus, pension and other expectations at this level. FES' original request was in the medium to high range. Our determined allowance aligns with the low value packages.
- 7.84 As discussed above we have adjusted how the intercompany recharges margin deduction is calculated for the final determination. Regarding all other elements of the manpower allowance, we are satisfied that our draft determination position remains appropriate. We have, however transferred the intercompany insurance recharges allowance from manpower to operations.

## Operations

7.85 Operations mainly cover costs related to the office building, systems and professional services that support delivery of services to customers. FES' initial submission for operation costs can be seen in Table 7.7 below.

**Table 7.6: FES SPC27 operations cost submission**

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

Note 1: Figures may not sum due to rounding.

## UR draft determination

**Table 7.7: UR proposed SPC27 operations cost allowances**

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

Note 1: Figures may not sum due to rounding.

- 7.86 Table 7.7 above shows the UR's proposed operational cost allowances for the SPC27 period. We proposed an operations cost allowance of £4.2m, representing 69% of the company's initial £6.1m submission.

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

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

#### **Information technology**

- 7.89 We based our proposed information technology allowance on 2025 actuals. We made two adjustments to the submission. The first adjustment was we treated the costs in the application and support line as fixed, rather than growing with FTEs.

- 7.90 Secondly, we removed the costs for the implementation and running of an Energy Trading and Risk Management (ETRM) system. During the information request phase FES explained the benefits of a ETRM system- mainly that it would increase efficiency, mitigate risk and improve upon its current process. We acknowledged that there is a benefit to consumers to implement this system as it will provide greater assurance for pass-through wholesale gas costs. However, as the ETRM system costs included in the submission were indicative, we have removed them and propose it should be considered via a reopener in the future when there is greater certainty on costs, as set out from paragraph 8.4 below.

### **Capex**

- 7.91 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 removed these costs as we considered they have resulted from the commercial decision to separate and therefore deem it inappropriate to pass these costs on to consumers.
- 7.92 Capex costs also reduced due to the reduction in allowed FTEs. This analysis reduced capex costs by £5k across SPC27. The remaining capex costs were for new or replacement IT equipment and office furniture. Most of these costs are forecast for the last year of SPC27 in line with the expected lifecycle for this equipment. We allowed all other capex costs.

### **Network maintenance including safety inspections**

- 7.93 Network maintenance costs included meter activities and boiler safety inspections.
- 7.94 Following an information request FES amended the costs for all the network maintenance categories. We allowed these updated costs for network maintenance as they were based on historic actual costs.
- 7.95 Within SSE's SPC27 submission, an allowance was included within network maintenance costs to fund the reconnection of vulnerable customers to the gas supply network. UR approved this cost, recognising the importance of protecting vulnerable customers. To ensure consistency across both companies, we have included an equivalent allowance for FES, enabling it to cover reconnection costs for vulnerable customers who would otherwise be unable to afford them. We allowed FES the same reconnection cost per vulnerable customer as approved for SSE. The total allowance for FES was calculated by applying this cost to the number of vulnerable customers within the FES network in each year of the SPC27 period.

### **Advertising, website and sales development**

- 7.96 FES included costs in its submission of £48k for public relations and £3k for advertising. They stated these were essential expenses to promote the FES brand; support new connection activities and ensure customers were informed about FES' role as a gas supplier in the Ten Towns area and its obligations.
- 7.97 We reduced the public relations and advertising costs as customers of a regulated company, which is also the commissioning supplier and in a dominant position in the market and a monopoly position in the domestic sector, should not bear the costs of advertising. This approach was stated in SPC23 and is also consistent with the price control treatment of both Power NI and SSE, neither of which were provided a marketing allowance under their respective price controls when their regulated business first faced competition.
- 7.98 FES is still the monopoly domestic supplier and faces no competition in the Ten Towns market. However, like in SPC23, we propose to keep this under review as the market develops and observe whether FES' domestic market share deteriorates should competition emerge. We proposed to accept all other advertising, website and sales development as they were in line with SPC23 allowances.
- 7.99 ⌘
- 7.100 ⌘
- 7.101 ⌘.

### **Remaining operations elements**

- 7.102 We proposed to allow the submitted costs for the remaining operation costs categories; professional and legal fees, rates, insurance, licence fees and the call centre.
- 7.103 We allowed professional and legal costs as they were based on current run rates of costs which are driven by and apportioned by customer numbers. This methodology is accepted as it is consistent with SPC23.
- 7.104 Call centre costs were allowed as they were based on an average of historic costs and then driven by and apportioned by customer numbers. We allowed the costs for rates as they were based on expected costs as per the Land and Property Services website and driven by FTEs.
- 7.105 Insurance costs were allowed as they align with historic actuals and are driven by FTEs and revenue. There has been an increase from the draft

determination due to a reclassification of intercompany insurance recharges from manpower to operations costs.

- 7.106 We also allowed licence fees as they align with historic actuals.

### Consultation responses on operations allowance

- 7.107 FES and CCNI both provided responses on the five operations cost categories outlined above. FES provided comments on the office costs, advertising and marketing, capex and network maintenance, CCNI provided comments on advertising and marketing and the IT reopener.
- 7.108 Firstly, FES challenged the removal of the service charges arguing that they did not believe there was any duplication and sought confirmation from the UR on their interpretation of the submission and information requests.
- 7.109 CCNI supported the principle of the proposed IT reopener mechanism but requested further detail on the framework UR would use to assess future claims, including how expenditure would be evaluated for reasonableness, efficiency and consumer benefit.
- 7.110 FES disagreed with UR's approach in removing the depreciation costs for the 2025 office fit out. They reference the SPC25 Power NI Price Control and the depreciation costs for the refurbishment of the Omagh office being deemed allowable. FES state that regardless of the business separation they would have been requiring investment in its office as its previous office required several upgrades, which would have been capitalised and depreciated. FES also highlight that excluding depreciation is inconsistent with First Economics' margin analysis, which recognises the new office as necessary capital investment. It questioned why this investment is accepted in the margin calculation but not recoverable through the tariff.
- 7.111 FES provided concerns regarding network maintenance costs, stating that these costs increase in excess of inflation. It argued that UR should "again" consider treating these costs as pass-through.
- 7.112 Both respondents sent responses on the advertising and marketing costs. FES believes the proposed allowance for advertising and marketing is insufficient and inconsistent with allowances granted to comparable suppliers. It highlights that customer communication, tariff publication, digital services and stakeholder engagement are core obligations requiring a multi-channel approach, and that efficient customer-facing activities should be adequately reflected in operating cost allowances under SPC27. FES argues that 'a monopoly status should not be used as a proxy for no communication required'.

- 7.113 CCNI supported the UR's approach to the advertising and PR costs. They highlighted the appropriateness of the UR's approach, specifically that the UR were being consistent ensuring customers of a regulated business with a dominant market position should not fund promotional activities.

### UR's response to consultation comments

- 7.114 Service charges were removed by UR at the draft determination stage as they were considered to be duplicated costs. Alongside its response FES provided evidence that there was no duplication and as a result, these costs have been reinstated in the final determination.
- 7.115 Regarding the IT reopener, CCNI requested further detail on how future claims would be assessed, including the criteria the UR would apply to determine whether expenditure is efficient, reasonable, and provides value for consumers. The criteria UR would use is set out in paragraph 8.9 below.
- 7.116 FES references depreciation being included in the SPC25 Power NI Price Control; however, this price control is unrelated to the FES one. The decision reached for Power NI was based on specific facts and circumstances applicable to that review. FES insists that capital investment would have been necessary irrespective of business separation. However, if FES identified a requirement to invest in its office facilities, this should have been raised during the previous price control by the relevant distribution or supply company, either through an allowance request or a reopener. UR cannot provide retrospective adjustments based on actual costs, to do this would be inconsistent with the fundamental principles of incentive-based regulation.
- 7.117 FES also highlighted that UR's approach to depreciation is inconsistent with First Economics' margin analysis, which recognises the new office as necessary capital investment. FES are correct, this should not have been included in the margin analysis. We have considered this for the margin review in chapter 9.
- 7.118 In relation to FES response asking "again" for network maintenance costs to be treated as pass-through, we sought clarification on when this was previously requested. FES confirmed that they had not previously explicitly requested this. As this is the first mention of this change of treatment, we have not had an opportunity to assess this proposal through the full price control review and consultation process. It would be inappropriate to consider FES' new position at this stage.
- 7.119 FES provided a detailed response on the advertising and marketing costs emphasising its belief that the allowance is insufficient and inconsistent with comparable suppliers. FES state that their monopoly status should

not be used as a proxy for no communication required. UR have provided £1.2m of costs to meet communication best practice already allowed in SPC27. This allowed expense can be seen within the billing section of the submission. UR note that FES have referenced customer engagement costs provided to SSE in its draft determination. Whilst we cannot disclose details of SSE's proposals, we can confirm that they were not for marketing, and they have been assessed to ensure they demonstrate benefit to consumers.

- 7.120 As previously outlined in the draft determination FES is the monopoly domestic supplier and faces no competition in the Ten Towns market, and as such costs for PR and advertising were reduced. This is a consistent approach and is supported also by CCNI.

### Final determination

**Table 7.8 UR SPC27 operations costs final determination cost allowances**

| £'000                                    | 2027       | 2028         | 2029         | 2030         | SPC27 Total  |
|------------------------------------------|------------|--------------|--------------|--------------|--------------|
| Office Costs                             | 159        | 187          | 195          | 203          | 744          |
| Rates                                    | 26         | 26           | 26           | 26           | 103          |
| Professional and Legal Fees              | 152        | 160          | 219          | 205          | 735          |
| Insurance                                | 33         | 34           | 36           | 37           | 141          |
| Information Technology                   | 435        | 435          | 435          | 435          | 1,740        |
| Capex                                    | 19         | 18           | 18           | 65           | 119          |
| Licence Fee                              | 3          | 3            | 3            | 3            | 12           |
| Network Maintenance                      | 159        | 168          | 178          | 187          | 692          |
| Call Centre                              | 2          | 2            | 2            | 3            | 10           |
| Advertising, Website & Sales Development | 10         | 11           | 11           | 12           | 45           |
| <b>Total</b>                             | <b>999</b> | <b>1,045</b> | <b>1,123</b> | <b>1,175</b> | <b>4,342</b> |

Note 1: Figures may not sum due to rounding.

- 7.121 Table 7.8 above provides the updated operations costs for the final determination. The updated allowances total £4.34 million, an increase from the draft determination position and 70% of the original submission allowance from FES.
- 7.122 There have been three changes from the draft determination stage. The service charge from the office cost line which had previously been

removed, as it was considered a duplication, has been added back into the office cost lines.

- 7.123 The second change is to the network maintenance cost line, where an additional allowance has been included for reconnecting vulnerable customers. This ensures that FES can cover reconnection costs when a vulnerable customer is unable to do so themselves. This cost has been allowed in SPC27 for SSE and to maintain consistency with the two supply companies UR have added this additional allowance.
- 7.124 Finally, as noted in the manpower section, the allowance for intercompany insurance recharges has been reclassified from manpower costs to insurance within operations.
- 7.125 Having undertaken further review and scrutiny, we consider that all other draft determination proposals relating to operations remain appropriate. No evidence has been presented that would justify any further adjustments.

## Billing

- 7.126 Billing mainly covers costs related to the administration, data handling and other activities that relate to customer payments. It also includes some other costs such as bank and interest charges.
- 7.127 The initial submission for billing costs can be seen in Table 7.9 and our position is provided in Table 7.10

**Table 7.9: FES SPC27 billing costs submission**

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

## Draft determination

**Table 7.10: UR proposed SPC27 billing costs allowances**

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

**Bad debt**

- 7.128 FES had requested an allowance for bad debt costs that would see a rate of 0.50% applied to tariff credit revenue and 0.22% to non-tariff credit revenue. The rationale FES provided for this was that tariff customers are more likely to default on payments than non-tariff customers.
- 7.129 We noted from our analysis that the methodology applied by FES in its submission included both bad debt write-offs and provisions. However, we were minded to maintain consistency with the methodology applied at SPC23, whereby the tariff bad debt allowance was based on actual levels of tariff bad debt write-offs per tariff credit revenue. From having taken this approach over a three-year average, we calculated a tariff bad debt allowance of 0.18%, which we proposed to apply to tariff credit revenue through a retrospective adjustment each year of the price control.

**Meter reading costs**

- 7.130 We proposed to allow the costs submitted by FES, as the unit rates that form the basis of these costs are set and actual costs are retrospectively adjusted based on the number of meter reads taken.
- 7.131 We noted that FES had also requested a retrospective adjustment of the unit rates at a later stage, as its contract with the current meter reading supplier is due to expire in October 2026. However, as FES also pointed out in its submission, its current contract allows the company the option to extend its contract for an additional two-year period. While this would see FES' contract lapsing within the price control period, it still provides the company with some level of cost certainty entering the period, and it

should also serve the company with an incentive to seek the best available rates when it enters contract negotiations with suppliers.

- 7.132 For these reasons, we proposed to set the unit rates for meter reading as they had been submitted and without scope for later retrospective adjustment.

### **Remaining billing costs**

- 7.133 We proposed to allow the costs submitted by FES for Customer Information, Bill Processing and Postage and PayPoint Costs as the unit rates are set and costs are retrospectively adjusted.
- 7.134 We proposed to allow the costs submitted by FES for Credit Check Costs and Bank and Interest Charges, as they have been reasonably based on costs between 2023 and 2025 and subsequently forecast across SPC27.

### **Consultation responses on billing costs**

- 7.135 FES disagreed with our position to base the bad debt allowance solely on written-off debt, thereby excluding provisions. In its response, FES explained that written-off bad debt between 2023 and 2025 serves as an understatement of its historical bad debt performance due to the way debt was dealt with prior to the sale of the business. It stated that in the time leading up to the sale, bad debt was assessed under normal procedures, but remained provisioned, with the intention being to provide the new owners with an opportunity for further debt recovery before being written off.
- 7.136 FES' response provided updated figures for the bad debt that it intends to write off in its 2026 accounts. This resulted in an increased bad debt allowance of 0.6% based on the 2023 to 2025 period data. FES also drew comparison to its proposed allowance and the 0.80% we proposed for SSE.
- 7.137 CCNI also provided a response to our position on bad debt, noting our decision to continue using actual bad debt write-offs as the basis for setting the bad debt allowance. It affirmed that this use of historical evidence provides an objective and transparent approach, while helping to ensure that consumers are not exposed to unnecessary costs. It also sought clarification on the monitoring arrangements that will apply to bad debt performance during the control period and how any emerging trends would be assessed.
- 7.138 Neither FES nor CCNI provided any further comments on any other aspect of our billing costs proposals.

## UR's response to consultation comments

- 7.139 We remain of the view that the bad debt allowance methodology proposed in the draft determination represents the most reasonable basis for setting the SPC27 bad debt allowance. We therefore accept that the updated data submitted by FES should be incorporated into the calculation.
- 7.140 In assessing the updated figures submitted by FES, we identified that the bad debt data had been provided in nominal terms rather than in the required October 2025 SPC27 price base. Once restated in the correct price base, the bad debt percentage of tariff credit revenue was 0.57%.
- 7.141 The same methodology has been applied to both FES and SSE in setting the bad debt allowance. We consider that the price control framework incentivises the efficient management of bad debt while also providing an appropriate benchmark that reflects each company's circumstances for future allowance-setting purposes.
- 7.142 Regarding CCNI's query on debt monitoring arrangements, UR monitor Domestic and Industry & Commerce customer debt levels on a monthly basis. We collect a range of metrics from both suppliers and Network Operators. Our monitoring includes the number of customers in debt and value of debt, along with a range of additional metrics. Through our monitoring of the Code of Practice on Payment of Bills, we collect additional data annually from suppliers on domestic debt which includes data on age of debt.

## Final determination

**Table 7.11: UR final determination billing costs**

| £'000                       | 2027         | 2028         | 2029         | 2030         | SPC27 Total  |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Bad Debt                    | 189          | 191          | 198          | 203          | 782          |
| PayPoint Costs              | 945          | 992          | 1,039        | 1,086        | 4,061        |
| Credit Check Costs          | 6            | 6            | 7            | 7            | 27           |
| Bank and Interest Charges   | 14           | 14           | 14           | 15           | 57           |
| Meter Reading               | 643          | 679          | 715          | 750          | 2,788        |
| Bill Processing and Postage | 289          | 305          | 321          | 337          | 1,250        |
| <b>Total</b>                | <b>2,086</b> | <b>2,187</b> | <b>2,294</b> | <b>2,398</b> | <b>8,964</b> |

- 7.143 As outlined above in Table 7.11, the bad debt allowance has increased to 0.57% of tariff credit revenue, following a review and assessment of

updated figures provided by FES in response to our draft determination document.

- 7.144 Regarding all other elements of the billing costs allowance, we remain satisfied that the proposals outlined in our draft determination document remain appropriate.

## 8. Uncertain Costs

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

**Table 8.1: Draft determination proposals for current  $E_t$  Terms**

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

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

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

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

### Consultation responses on uncertain costs

- 8.6 FES welcomed the proposed IT systems reopener.
- 8.7 CCNI was also supportive of the proposed IT reopener mechanism, noting that it would ensure necessary investment can be considered as costs and requirements become clearer. However, it requested further detail on the framework UR will use to assess any claims and determine whether the proposed expenditure is efficient, reasonable and in consumers' interests.

### UR's response to consultation comments

- 8.8 In response to CCNI's request for further detail on the assessment of reopener cost claims, we set out below the information requirements and key considerations that will inform our assessment of any application.
- 8.9 Applications should include but not be limited to:
- A clear description of the proposed project, the need it is intended to address, and the reasons why additional funding is required through the reopener mechanism.
  - A description of the outcomes the proposal is intended to deliver, with particular regard to consumer benefits.

- An assessment of alternative options, including a do-nothing option, and an explanation of why the preferred option has been selected.
  - Details of the preferred option's costs and expenditure profile, including implementation and ongoing costs, together with basis for those costs.
  - Details of the procurement approach, including evidence that the proposed costs have been subject to an appropriate competitive process, or justification where this has not been possible.
  - Details of any interaction with existing allowances already provided within the price control.
  - Identification of the key risks and potential drawbacks associated with the project, together with proposed mitigation measures.
- 8.10 In assessing any application, we will undertake appropriate engagement through information requests and meetings to ensure we have a full understanding of the proposal and its implications. Where a project is approved, we may also implement appropriate monitoring arrangements to track delivery against the approved scope, timetable and expenditure, helping to ensure that allowances are used as intended and that consumers receive the anticipated benefits.

### **Final determination**

- 8.11 Following assessment of the consultation responses, we remain satisfied that our draft determination proposals for the uncertain costs are appropriate.

## 9. Margin

### Draft determination

#### Background and FES' proposed margin

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

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

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

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

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

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

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

### **Cost of equity capital**

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

### **Margin position**

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

### **Margin structure considerations**

- 9.22 In response to the SPC23 Draft Determination, CCNI and National Energy Action questioned the use of a fixed percentage margin. The fixed percentage margin means that, in effect, the margin scales with turnover. Instead, CCNI and National Energy Action proposed that the margin

should taper as wholesale gas prices increase. This concern arose during the energy price crisis, as applying a fixed percentage to higher gas prices results in greater absolute profit for the company.

- 9.23 At the time of the SPC23 Final Determination, we concluded that any change to the structure or methodology of the margin would require more detailed analysis than was feasible within the SPC23 timetable. We also noted that Ofgem was consulting on revisions to its margin methodology for the GB price cap in response to the energy price crisis.
- 9.24 For SPC27 we have assessed the outcome of the Ofgem consultation<sup>10</sup> and considered the function of the margin for FES.
- 9.25 Ofgem has introduced a margin calculation methodology that incorporates a taper by differentiating between fixed and variable capital requirements. Fixed costs, such as capital investment, are not directly affected by energy prices, whereas variable costs, including energy procurement, fluctuate with market conditions. This framework reflects the fact that increases in energy prices lead to greater capital requirements for supply businesses.
- 9.26 FES' capital requirements for SPC27 exclude investments that would typically be treated as fixed within the Ofgem margin, such as capital asset expenditure. We have also taken the approach in the past to provide financing costs associated with such investments separately, rather than incorporated within the margin.
- 9.27 FES' capital requirements are therefore primarily driven by variable costs linked to gas prices. In this context, we consider that a fixed percentage margin is the most appropriate approach to finance these requirements.

### Consultation responses on margin

- 9.28 In its response, CCNI considered our assessment, the independent analysis of First Economics and the approach taken by Ofgem in GB. It supported the proposed 2.0% margin for SPC27, given the uncertainty surrounding assumptions made in the analysis.
- 9.29 FES response argued that the margin should be 4.1%, in contrast to its 3% position before the draft determination. It did not provide sufficient quantitative evidence for us to assess whether this higher margin was justified.
- 9.30 FES had a full and fair opportunity to present its case with supporting evidence through its response to the draft determination. However, we

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<sup>10</sup> <https://www.ofgem.gov.uk/decision/amending-price-cap-methodology-earnings-interest-and-tax-ebit-allowance-decision>

gave FES an additional opportunity to support its revised margin proposal through a further information request.

- 9.31 FES' response provided a further change to the margin, arguing for 4.2%. FES' recalculated margin was based on different treatment of the cash buffer, intangible assets, trading collateral and the removal of letter of credit fees.
- 9.32 In addressing the standby risk capital, FES believes that the allowance should be significantly greater than 2%, not least in light of the recent macroeconomic and geopolitical events.
- 9.33 Furthermore, it does not accept the standby risk capital is suitable to cover all risks. It finds it inconceivable that any business would or could operate without any level of headroom cash and as such reinstated the cash buffer when recalculating the margin.
- 9.34 Regarding intangible assets, FES understands the difficulty faced by UR in including a projected future cost in the margin determination, however it finds the decision to disallow any capital component to be an unrealistic reflection of the supply company's infrastructural needs.
- 9.35 At a minimum, FES believes that UR should utilise historical data to allow for a capital amount in the margin calculation. It provided a historical cost which is demonstrably below market standard and used this in its recalculated margin.
- 9.36 FES' response stated a concern that UR and First Economics misunderstand FES' existing collateral arrangements. It provided clarification on the existing arrangements, reiterating that the contingent capital in the form of a letter of credit was not notional.
- 9.37 In the absence of agreement on this point, FES requests that UR apply First Economics' alternative treatment and size the capital base in line with the required capital that an alternative hypothetical stand-alone supplier would face. This treatment has been presented in the updated margin calculation.
- 9.38 Finally, FES notes that UR treats the cash covenant for the letter of credit as equity capital but then reduced the return rate by the amount of the letter of credit fees incurred. FES does not understand this treatment as the equity capital is deployed and must, as a standalone, attract the equity rate of return.

#### **UR's response to consultation comments**

- 9.39 UR notes the response from CCNI in support of the proposed 2% margin.

- 9.40 UR worked with First Economics to address the comments raised by FES in response to the draft determination. Here we summarise key takeaways from the report. Full information can be found in Annex B – First Economics review of FES’ response to the SPC27 Draft Determination.
- 9.41 First Economics begins by explaining that FES have made a number of alterations to the margin calculation compared to its position prior to the draft determination, most notably treating trading collateral as actual capital rather than contingent capital. This is the primary driver in the increase to FES’ calculated margin requirement of 4.2%.
- 9.42 First Economics states that there is no dispute regarding how FES meets Bord Gais’ collateral requirements. First Economics notes that the interest and fees relating to the parent company guarantee (PCG) are not ignored in its calculation of the margin. However, it treats the opportunity cost incurred in funding the cash balance and the costing of the implicit PCG as one and the same thing rather than different costs.
- 9.43 First Economics disagrees with FES’ proposed alternative approach to ignore FES’ real-life collateral arrangements and instead assume that a notionally efficient company would have no choice but to place the collateral required by Bord Gais in the form of cash.
- 9.44 As stated in the report accompanying the draft determination, First Economics considers it more realistic and in the interests of consumers to make allowance, where it is cost-efficient, for the actual capital provided by either related or unrelated persons. First Economics continues to take this view.
- 9.45 First Economics does not consider it sensible to hard-wire into the margin calculation an allowance for additional new investment when there is no guarantee that UR will consent to said investment. Rather it considers the better approach to be to assess the total cost, inclusive of financing costs, as part of the  $E_t$  reopener.
- 9.46 First Economics reviewed FES’ position regarding an additional cash buffer for intra-month cashflows and was not persuaded of an error in the previous margin assessment. While acknowledging that FES cannot forecast its working capital requirements with absolute accuracy, the need for additional capital is likely to be short-lived based on FES’ projections and this eventuality should be catered for in the pot of contingent capital.
- 9.47 First Economics also noted that if FES is correct and it has been too aggressive in the approach, the required margin for FES’ calculation is

0.2%, which is well within the 'rounding up' from the calculated margin to the margin provided.

- 9.48 Finally, First Economics updated the cost of capital calculation in line with updated market data, increasing from 10.6% to 10.8%. The final calculation conducted by First Economics arrives at a margin of 1.5%.
- 9.49 As in the draft determination, given the uncertain nature of the figures feeding into the analysis and the existing margin of 2%, First Economics recommends rolling forward the allowed margin at broadly its current level.

### **Final determination**

- 9.50 Having reviewed and analysed the responses from CCNI and FES, as well as the independent assessment conducted by First Economics, UR is content to retain a profit margin of 2.0% of the forecast revenues for FES during SPC27.
- 9.51 It should be noted that for the final determination we have changed the letter of credit allowance to pass-through. This relatively reduces the risk borne by the company, whereas the margin is intended, in part, to compensate for such risk exposure. This further supports our conclusion that we should not provide a margin in excess of 2.0%.

## 10. Reconciliation

- 10.1 On an annual basis a reconciliation process is carried out to ensure tariffs accurately reflect the price control. This includes a series of adjustments to the allowed revenue.

### Draft determination

- 10.2 In our draft determination we proposed to uplift all allowances by CPIH inflation. Allowances are stated in October 2025 prices and would be adjusted to the calendar year CPIH average for the relevant SPC27 year.
- 10.3 Certain operating allowances are also adjusted on a retrospective basis. The method of adjustment for these costs can be grouped under three methods:
- Pass-through - allowance is adjusted to the actual costs incurred.
  - Volume adjustment - a unit rate allowance is set, with the overall allowance adjusted by actual volume.
  - Apportionment - the overall allowance is fixed, but the share apportioned to the price-controlled (tariff customers) part of the business adjusts.
- 10.4 Our draft determination proposed the operating costs subject to retrospective adjustment and adjustment methods provided in Table 10.1 below.

**Table 10.1: Retrospective cost adjustment**

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

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

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

### Consultation responses on the reconciliation process

- 10.8 In its response, FES highlighted that it considered the current method of applying Bank of England base rate plus 1.5% to over-recovered balances to be inappropriate. It justified this view by explaining that over-recovery balances cannot be returned to equity holders but can only be placed in quick-access deposit accounts that earn less than base rate. As a result a shortfall is created in interest earned versus interest charged by the price control.
- 10.9 FES' response also requested that network maintenance costs should be reconciled on a pass-through basis. It highlighted that suppliers had imposed higher than inflation increases driven by wider economic and geopolitical causes. FES also stressed that it is incentivised to negotiate

the lowest costs available as it uses the same suppliers for both tariff and non-tariff activities. Its position was that setting allowances that are adjusted only by CPIH, rather than on a pass-through basis, would expose it to undue risk.

- 10.10 CCNI did not make any comments directly on the proposed reconciliation process. However, as outlined in the tariff review section, it emphasised the importance of transparency in the tariff-setting process, of which the reconciliation process is a key component.

### UR's response to consultation comments

- 10.11 FES did not propose a different approach to the K-factor interest rate in its SPC27 business plan for our consideration. We have therefore not had an opportunity to assess this proposal through the full price control review and consultation process, and it would be inappropriate to consider FES' new position at this stage.
- 10.12 However, we would make the following initial comments in relation to this proposal:
- The K-factor interest rate is intended to protect the company and consumers. However, we consider that it is the company's responsibility to accurately forecast demand and costs to minimise recovery positions.
  - The price control and regulated tariff set the maximum average price. If FES believes it is disadvantaged by an over-recovery it can reduce its tariff if this position is developing.
- 10.13 Similarly to the comments on the K-factor interest rate, FES' request to treat network maintenance costs as pass-through was not included in its SPC27 business plan. Again, we have not had an opportunity to assess this proposal through the full price control review and consultation process, and it would be inappropriate to consider FES' new position at this stage.
- 10.14 It is an established feature of incentive regulation that companies retain exposure to movements in individual cost categories that differ from general inflation. The application of CPIH across all allowances provides a simple, transparent and proportionate method of maintaining allowances in real terms while preserving incentives for efficient cost management and procurement.
- 10.15 We apply pass-through treatment to certain costs in the gas supply price controls such as the wholesale gas purchasing costs. Pass-through treatment is generally reserved for costs that are largely outside management control and are sufficiently volatile, material or uncertain

that exposing the company to the risk could result in significant gains or losses. Based on the evidence provided we do not consider that network maintenance activities meet this threshold.

### **Final determination**

- 10.16 Following assessment of the consultation responses we remain satisfied that our proposals for the reconciliation process are appropriate.

## 11. Next Steps

### Subsequent decisions and key milestones

- 11.1 In parallel with the publication of this final determination, we have published a consultation on the licence modifications necessary to give effect to our decisions. in line with the requirements of Article 14 of the Gas (Northern Ireland) Order 1996. Once we have considered the responses to the consultation, we intend to publish our final decision on licence modifications in November 2026.
- 11.2 Subject to any appeal to our final decision, the licence modifications will come into effect in January 2027 (56 days after the licence modification decision notice is expected to be published). However, once the licence modifications are made, they will apply in respect of the whole of the first year of the new control period (i.e. on and from 1 January 2027). In practical terms, therefore, the timing of the licence modifications coming into force will be designed to ensure that all the licence formalities are fully satisfied, but the application of the new price control once the modifications are made will be such as to ensure that the price control allowances and outputs will apply with effect from the 1 January 2027.
- 11.3 Any licence modification decision made under Article 14 of the Gas (Northern Ireland) Order may be appealed to the Competition and Markets Authority (CMA) by:
- the licence holder concerned;
  - any other licence holder materially affected by the decision;
  - a qualifying body or association representing a licence holder concerned or a licence holder materially affected by the decision; or
  - the Consumer Council for Northern Ireland.
- 11.4 As set out in Schedule 3A, paragraph 1(3) of the Gas Order, any application to the CMA for permission to appeal is not to be made after the end of 20 working days after the day on which the decision is published.
- 11.5 If an appeal is brought to the CMA, the CMA will, as a first step, decide whether to give permission for the appeal to proceed or not. If permission is granted, the CMA has a period of 4 months, or in the case of licence modifications relating to Price Controls 6 months, in which to determine the appeal. These timelines can be extended to 5 months or 7 months for licence modifications relating to Price Controls, if required.
- 11.6 The key milestones described above are summarised in Table 11.1 below.

**Table 11.1: FES SPC27 key milestones**

| Date              | Milestone                                                            |
|-------------------|----------------------------------------------------------------------|
| 30 September 2026 | UR publishes final determination and proposed licence modifications. |
| 29 October 2026   | Consultation on licence modifications closes.                        |
| November 2026     | Decision on licence modifications published.                         |
| January 2027      | Licence modifications become effective (56-days after decision)      |
| 1 January 2027    | Licence modifications applied.                                       |

## Annex 1 - Apportionment Cost Drivers

The below apportionment methodology is used when setting and forecasting costs for the price control period. Some cost lines are subject to retrospective adjustment, with the methodology for this provided in Chapter 0.

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