GD14 Price Control for Northern Ireland's Gas Distribution Networks for 2014-2016

APPENDIX 5
Overview of Responses to Draft Determination

20 December 2013

Consultation Responses

1.1 Our draft determination[1] consulted on our proposals for the price control for Northern Ireland's Gas Distribution Networks for the period 2014-2016. The consultation period closed on 20 September 2013.

1.2 We received responses from the following organisations:

- Phoenix Natural Gas Limited (PNGL)
- firmus energy (FE)
- Major Energy Users' Council
- Energy Saving Trust
- The Consumer Council (CCNI)
- National Energy Action NI (NEA NI)
- Airtricity Gas Supply Northern Ireland Ltd (Airtricity)

1.3 Two of the responses received were partly confidential.

1.4 In the pages overleaf we have summarised the principal points made in each of the responses, and our response in turn to each of these

[1] Price Control for Northern Ireland's Gas Distribution Networks Consultation Paper: 16 July 2013
http://www.uregni.gov.uk/news/regulator_publishes_gas_distribution_price_control_proposals

PNGL response

The response from PNGL was 104 pages long, and divided into ten sections (plus introduction). For ease of reference, in the table below we have set out where in the PNGL document each comment has been made.

Ref	Comment	Our Response
1.	**Introduction** Note that we have not included all the introductory comments as these are dealt with in the more detailed sections that follow. **(Page 4)** PNGL had the following concerns • Lack of engagement with us during submission of the Business Plan to publication of the GD14 draft determination document • We have made significant reductions from PNGL forecasts in allowed opex (23%) and capex (8%) and even more reductions taking into account activity levels. This is on top of a 1% Efficiency factor challenge • We have set challenging connection targets along with a reduction in the Connection Incentive • We used a flawed economic test to reduce allowances further • The proposed connections and infill mechanisms are asymmetric in terms of risk, which is contrary to established incentive based regulation • WACC set in the financial model from 2017 is unreasonably low, which defers revenue and increases charges for consumers in the future	A detailed response to these comments is provided in the sections that follow. We would note in particular: • Engagement with stakeholders has been extensive with a consultation in December 2012, draft determination on 16 July 2013, many meetings with GDNs, extensive correspondence and a public stakeholder workshop on 6 September 2013. • Detailed explanation of our revised opex, capex and efficiency assumptions as well as our connection targets and incentive mechanism, our economic test and infill allowances are contained in the following sections and in the main final determination document • We consider WACC from 2017 reasonable when considering recent regulatory outcomes. Hence we do not view that revenue has been deferred or that future consumers have been disadvantaged
2.	**Connections Incentive** **Section 1** **(Page 7)**	We have been open to PNGL's suggestions on how our proposal could meet our shared objectives, whilst being fair to consumers. We believe that our proposals provide strong incentives to connect customers with rewards for outperformance and penalties for underperformance. The PNGL concerns are dealt with specifically below in section 2 of the PNGL response.

Ref	Comment	Our Response
	PNGL welcomes a strong incentive mechanism to allow them to grow the gas network in NI providing this is 'well-designed and calibrated to achieve an appropriate risk and reward balance'. However, they feel our proposal does not achieve the objectives and they also state that concerns were raised as part of PNGL12.	
3.	**Economic Test for new connections Section 1** **(Page 8)** PNGL broadly agrees with the need to consider what an economic connection is and the methodology employed by us, however, PNGL feel it is incorrect to perform separate calculations for the value of infill and the value of A&M costs. PNGL feel the correct methodology is that employed in calculating infill, which should also be used to assess A&M/connections incentive allowances.	We agree with PNGL that economic calculations are needed. We note that the A+M and infill calculations, although linked, are separate. As set out in PNGL12 mains are still explicitly excluded from the A+M calculations. The calculation uses revenues of a domestic OO connection for 15 years so revenues after 15 years contribute towards the mains. Therefore we are content at the approach in the draft determination.
4.	**Section 1** **(Page 9)** PNGL has an issue with the intention to reduce connection incentives by 50% from 2017 as they feel this is 'arbitrary'.	We have been clear that the A+M allowance would be reduced in 2017 and stated this in previous price controls. A significant element of the allowance was to improve the awareness of gas which was a new product in NI. This goal will have been largely achieved by 2017. PNGL state on P5 of their consultation response that 'early engagement' is essential; this would be our intention during GD17. It is worth noting that CCNI have requested that, in future, we should consider a specific targeted connection incentive favouring fuel poor customers.
5.	**Section 1** **(Pages 12-14)** PNGL raises further concerns surrounding the following areas of connection incentives: • the deemed reduction in connection incentive allowance to cover a greater scale of works; • the risk-reward mechanism linked to connection incentive being asymmetric and uncapped;	The connection incentive of £480 per additional connection in the draft determination has been increased to £540 per additional connection in this final determination, based on economic assessment and assumptions, this compares to the £535 that we have assessed PNGL achieved in actual performance over PNGL12 to date. All connections above the 'non additional' target will receive an adjusted higher rate applicable to the level of outperformance as suggested in the draft determination, however, a 'cap' of +/- 50% will be implemented in relation to performance and minimum and maximum allowances that can be achieved. For example, if PNGL achieve 8,500 connections, the further 2,000 above target will be at a rate of c£762/connection,

Ref	Comment	Our Response
	- the connection target for OO being too high, and; - The 25% 'non additional' OO connection assumption basis – equating to 1,625 OO connections per annum getting nil allowance.	increasing the allowance by c£1.52m. . The 6,500 per annum target is based on current performance by PNGL and we believe it is reasonable to set the target in this way. This is the same percentage assumption as used in PNGL12, however, the increase is a result of the increased target above. PNGL outperformed significantly in PNGL12 so this assumption is reasonable based on actual performance.
6.	**Infill Incentive** **Section 1** **(Page 16)** PNGL has a number of concerns with the mechanism: - Length of Infill (Capped at 7.2m) is micro-management and removes any incentive for PNGL to identify those projects that are best value in terms of infill costs or to minimise the length of infill below the level of the cap. - Target for 3,000 properties at £507 (£70 per m x 7.2m) is high compared to the list of projects that have been identified by PNGL, which indicated that out of the 12,600 projects presented, they could achieve about 7,500 properties passed for an allowance of c£450. - The £1.5m per annum allowance granted for PNGL to pass 3,000 properties per annum is substantially below the request of £2.5m per annum from PNGL. - PNGL indicate that the incentive mechanism risk reward is asymmetric and it would be in customers' interests for it to be symmetric.	The cap of 7.2m is an average and any properties passed that are economic and bring the average per property passed to the 7.2m per property should be connected. We are not proscriptive on which projects must be done in GD14 but we have to be proscriptive on an economic approach and appropriate parameters. PNGL has presented a list of about 12,600 properties within designed projects, however, there are a further 17,500 that have to be designed therefore, the 7,500 PNGL say can be done for the allowance in the draft determination is an underestimate. Since the draft determination, allowances have increased to £515 per property passed and 7.7m per property passed. Thus, the original submitted properties passed target of 3,403 per annum is now accepted and subject to this allowance in the final determination, The allowance granted was based on the draft economic allowance of £507 per property passed (7.2m x £70/m) at 3,000 properties per annum. The PNGL submission was based on their analysis of £597 per property passed (11.61m x £70/m per the draft determination) at 3,403 properties per annum. This is not a true like for like comparison of PNGL's request. We are comfortable with this asymmetric mechanism as the outputs to be achieved are fully in the control of PNGL subject to the economic parameters set by us. PNGL can still outperform under the proposed connection incentive mechanism.

Ref	Comment	Our Response

7.	**A+M+PR and Business Development Cost Allowances**
	Section 2
	(Page 18-27)
	
	Overview of Business Development Department, costs assessed as replaceable by the connections incentive allowance and fixed allowances granted to PNGL
	PNGL have a number of concerns:
	• (P21) Reduced incentives and A+M+PR will reduce PNGL customer service and may encourage other fuel promotion.
	• (P22/25) Corporate overheads are reduced too much compared to the connections incentive allowance.
	• (P25/7) PNGL propose alternative allocations and adjustments to corporate overheads
		• We believe that the benefits of natural gas are now well established and it is the fuel of choice. Take up will not be materially affected by changes in our incentive mechanism.
		
		• The process of corporate overhead allocation follows, in the whole, PNGL12 and we believe that the treatment of these costs is appropriate. We have made some amendments to corporate overhead adjustments from the draft determination, in particular:
		  ○ We have fixed the percentage of PNGL's costs related to OO sales at 15%, in line with the approach adopted in PNGL12.
		  ○ OO headcount remains as a driver (Not turnover as PNGL suggested)
		  ○ The business development manager allocation has been reduced from 100% in the draft determination to 85% (rather than the 50% suggested by PNGL)
		  ○ The percentage allocation to OO activities have been set at: PR/Comms Manager (20%), Marketing Manager (50%) and Marketing Assistant (35%) in light of the further evidence presented by PNGL
		  ○ In line with PNGL12, corporate affairs allowance has been given for each year as evidenced by an increase of the Advertising & Marketing line in the final determination.

8.	**Emergencies and Network Maintenance** **Section 2** **(Page 27-47)** (P27) PNGL indicated that they have not been provided with a copy of the Rune report nor had a face to face meeting on this area.	We have informed both PNGL and FE that there was no standalone Rune report. The analysis models compiled by Rune were used to inform the proposals on emergency and maintenance costs as well as for capex allowances. The analysis models are based on the information provided by both companies. The detail contained within the draft determination was in effect the analysis and commentary provided to us by Rune. Since the consultation period ended, Rune and we have met with PNGL to discuss and clarify the analysis process for emergencies and maintenance and capex allowances in detail. Subsequently PNGL provided further information which has been considered in finalising the analysis and allowances for the final determination.

Ref	Comment	Our Response
9.	**Emergencies** **Section 2** **(Page 27)** PNGL noted that table 17 & 18 of the draft determination state incorrect call volumes, due to modelling assumptions of repair activities.	We acknowledge PNGL's comment and we have updated the call volumes in table 19 of the final determination paper; however the call volumes stated in table 17 of the draft determination were correct and these have not been amended.
10.	**Call Centre Costs** **Section 2** **(Page 28)** In response to our proposals to reduce the number of calls received by the emergency call centre, PNGL highlight that there is no general 24-hour contact number for enquiries or customers issues which results in increased general calls to the emergency number. PNGL suggest that suppliers should be tasked with developing initiatives for customers in the absence of providing a 24-hour contact number for enquiries. PNGL also highlight safety concerns with discouraging customers from ringing the emergency call centre.	We recognise that safety is a key priority and customers must contact the emergency call centre when a potential safety risk exists. However we welcome that PNGL details the changes that they have already made to educate customers and reduce the level of enquiry calls made to the emergency number and the initiatives introduced to mitigate the number of call outs from enquiry calls. PNGL also accepts that more could be done and additional initiatives could be introduced to further mitigate the level of enquiry calls made to the emergency number but state that this will be achieved by implementing phased initiatives. We note that PNGL has not previously highlighted its concern about no alternative 24-hour contact facilities from gas suppliers. Until July 2012, PNGL owned the largest gas supply company in NI and PNGL did not feel it was necessary at that stage for the supply company to put in place a 24-hour contact facility for customers. We expect industry participants to work together in order to educate customers to reduce the level of general calls being made to the emergency call centre. We would emphasise that industry forums (such as the Gas Market Opening Group (GMOG)) are currently in place to allow GDNs and suppliers to raise concerns and work together towards a resolution.
11.	**Section 2** **(Page 34)** PNGL raised some specific points in relation to the allowances proposed for call centre costs: • PNGL notes that the analysis model used 2010 and 2011 actual call volumes as a basis. PNGL suggest that a more appropriate basis would be to use call volumes for 2009 – 2012. • PNGL argues that the allowances proposed for call centre costs do not take account of the higher high number of PAYG meters installed in NI compared to GB. • PNGL also argues that the proposed allowances do not consider the high levels of calls resulting from the cold	The analysis model for call centre costs has been updated for the final determination to generate forecasts for the numbers of calls on the emergency line by reference to the actual volumes reported by PNGL & FE in the years 2010-2012. It is important to note that the model does not use GB levels to set these volumes. We have taken into account issues such as prepayment meters and new connections when comparing NI GDNs with GB. The model forecasts more calls than in GB indicating scope to reduce the number of calls. The approach of not making any allowances for exceptionally cold or warm weather is consistent with the GB GDN treatment by Ofgem.

Ref	Comment	Our Response
	winter conditions in 2010 and 2011.	
12.	**Call Centre Costs and First Call Costs** **Section 2** **(Page 37)** PNGL notes that in the draft determination, we applied the target reduction to emergency calls and first call response job from 2011 thereby imposing an immediate reduction. PNGL argue that it would be more appropriate to phase any reductions across the GD14 period.	We have considered the timing of the cost efficiencies and agree that a later implementation of these efficiencies is appropriate. For the final determination we have deferred the implementation of these reductions until 2015 in the analysis model. This change has been been included in the Final Determination document.
13.	**Emergency Call Centre – "better collaboration"** **Section 2** **(Page 38)** PNGL believes that savings of fixed costs for the emergency call centre have already been delivered as a result of PNGL and FE using the same call centre provider and therefore urge us to remove the proposed saving for the final determination.	In conjunction with Rune analysis we conclude that there is significant scope for reductions in operational costs. However we have deferred the implementation of this reduction until 2015 and have also adjusted the apportionment of this saving between PNGL and FE. This is detailed in the final determination.
14.	**Network Maintenance** **Section 2** **(Page 39)** PNGL notes that we have excluded the costs associated with "valve chamber covers – remedial maintenance" in the draft determination.	PNGL included costs associated with remedial works on valve chamber covers within their repair activity category. We have reviewed the assessment for repair activities and an allowance for this work has now been included in the final determination.
15.	**Analysis Model** **Section 2** **(Page 39)** PNGL state that their submitted base costs are derived from first principles and PNGL therefore do not agree with our approach of applying a statistical model informed by PNGL's actual costs in 2010 and 2011.	We remain content that our approach is robust. The detailed build up of the maintenance cost submission provides comprehensive understanding of the range of activities, maintenance frequencies and work load volumes; however this approach does not demonstrate that the resultant cost forecasts are efficient. Our analysis model is based on actual costs incurred in 2010 and 2011 which are rolled forward, using customer numbers as the driver, to determine the allowances (before application of future efficiency targets). Our original approach remains appropriate.
16.	**Efficiency Factor** **Section 2** **(Page 40)** PNGL asks us to provide justification of	As stated in the draft determination, we consider that PNGL would have been achieving efficiencies on its baseline maintenance costs if it had fully implemented an asset maintenance system. Therefore we consider that the actual costs in 2010 and 2011 (used in the maintenance analysis model) should have been lower

Ref	Comment	Our Response
	where it believes PNGL can achieve the proposed 10% efficiency without compromising the safety of the network.	due to the efficiencies that could have been gained if an asset management system had been implemented. It is pleasing to note that PNGL, have largely introduced a system which will more accurately record and capture the state of its assets.We have therefore decided to remove the 10% efficiency target for the GD14 final determination.
17.	**PSSR** **Section 2** **(Page 41)** PNGL state that they are required to carry out periodic inspections of pressure reduction equipment operating at above 2 bar. PNGL add that the inspection intervals are dictated by legislation and PNGL has no discretion to change these.	The Pressure Systems Safety Regulations (PSSR) stipulate that a written Scheme of Examination (SoE) is required for all gas network assets with an operating pressure above 2 bar. The SoE will include the routine maintenance activities necessary, and the frequencies, to ensure asset fitness for purpose. PSSR do not specify the maintenance policy for particular assets; the network operator is accountable for compliance with the process outlined. The SoE is subject to periodic review to confirm ongoing maintenance requirements which may be influenced by Reliability Centred Maintenance (RCM) considerations.
18.	**Maintenance** **Section 2** **(Page 41)** PNGL state that their maintenance intervals are in line with manufacturers' instruction and any change in this before the Reliability Centred Maintenance (RCM) project is completed, would require PNGL to update its Safety Case and get HSENI to accept the revised Safety Case.	It is accepted practice to adopt manufacturers' recommendations regarding maintenance frequencies initially, unless there is robust asset performance information available within industry to justify variation. Application of RCM principles facilitates review of maintenance policy based on operational experience of asset performance. This philosophy is adopted by the GB GDNs and we are not aware that the HSE has any objection in principle.
19.	**Asset Management** **Section 2** **(Page 42)** PNGL states that they embrace the principles of asset management and they are working in line with the main terms of PAS55 with the aim to implement ISO55000 when it is launched but state that they can find no evidence of direct savings by other GDNs using such systems.	It is not our suggestion that PAS55 or equivalent asset management system compliance alone drives cost benefit directly. PAS55 compliant systems establish asset performance information that can be used to facilitate RCM review of maintenance policy, which may drive incremental cost benefits over time. This provides evidenced based data, to make better and more informed decsions. This approach has been adopted by all GDNs in GB, with no additional allowances from OFGEM. It is reasonable to expect year on year improvements in cost effectiveness due to efficiency measures. Such improvements in maintenance effectiveness will be achieved by companies that have knowledge of their assets, their health and their performance.
20.	**Meter Battery Replacement** **Section 2** **(Page 43)** PNGL states that through operational experience they have extended the battery replacement interval from 8 to 10 years.	Following discussion with PNGL and further evidence we are allowing the full requested costs as detailed in the maintence section of the final determination paper.

Ref	Comment	Our Response
	PNGL claims this delivers the optimum battery replacement cycle. PNGL therefore argue that they cannot operate with the proposed reduction.	
21.	**Reliability Centred Maintenance (RCM)** **Section 2** **(Page 44)** PNGL states that a number of cost items requested under RCM Upgrades are not actually RCM related; the work is required to ensure compliance with other legislation, e.g. PSSR or due to items such as ladders no longer being fit for purpose. PNGL adds that, a RCM review may identify previously unknown or unsuspected failure modes that will then require upgrade work. PNGL argue that these issues need to be addressed to ensure previously unidentified failure modes will not have safety consequences. PNGL also argues that RCM ensures the correct maintenance is carried out at the correct time; costs may increase in the short term with the implementation of RCM with reductions in costs in the longer term. PNGL indicates that we are cherry-picking the benefits of RCM while ignoring the increased workload required for implementation	PNGL identified these issues during 2012 and included them in forecasts for 2014-2016. This suggests that the network can be successfully managed without some of these costs. We also note that in 2012 PNGL's actual maintenance costs incurred were £113k less than the determined allowance for that year, of which we have not taken a detailed review. Given this we do not view these costs of such an exceptional nature that they should be allowed outside of normal costs in GD14. We have not ignored the workload required for implementation. In PNGL12, we granted an allowance for 2 additional FTE, as requested, in order to commence implementation of an asset management system. We continue to allow these FTE in the GD14 period and have granted another FTE, as requested in 2014 and 2015 to complete the RCM implementation process
22.	**Domestic Site Works** **Section 2** **(Page 47)** PNGL asked us to consider a lead time to phase in the implementation of the change of policy for meter exchanges.	We agree that it would not be appropriate to implement the change of policy from the start of GD14 and we will delay implementation of the change of policy until 1 April 2014 to allow PNGL and suppliers time to amend processes and train staff. We have therefore adjusted the allowance for 2014 to grant an allowance for prepay to credit meter exchanges during quarter 1 of 2014. In addition, for the final determination we are no longer granting any allowance to PNGL to cover prepay to credit meter exchanges for vulnerable customers. We believe it is more appropriate that gas suppliers are responsible for vulnerable customer meter exchanges. We will update the industry via appropriate forums. The adjustments to domestic site works are detailed in the final determination paper.

Ref	Comment	Our Response
23.	**Insurance** **Section 2** **(Page 47-48)** PNGL state that it is not appropriate to grant allowances for business insurance based on the 2009-2011 average as these costs are driven by turnover which is rising. PNGL believes we have not accounted for the car insurance PNGL will incur during GD14 and has ignored that NI consumers pay more for car insurance then the rest of the UK.	We have reviewed PNGL's actual business insurance costs from 2006 to 2012 and there does not appear to be an increasing trend year on year. Business insurance costs peaked in 2006 and were lowest in 2011. We are therefore content with the approach of granting an allowance based on the historic average and have continued with this approach for the final determination. We have reviewed PNGL's car insurance and we consider, based on equivalent benchmarks for fleet car insurance, PNGL not to be efficient in this area. We will therefore continue with the proposal of an allowance of £750 per vehicle as we expect PNGL to be able to negotiate more competitive rates and to gain efficiencies from insuring a fleet of vehicles.
24.	**Manpower** **Section 2** **(Page 48-52)** PNGL put forward a number of arguments to support the case for a higher allowance, arguing that the proposed allowances were entirely inconsistent with actual costs incurred. PNGL provided justification for the additional staff requested for the customer services and transportation services departments during the GD14 period but questioned our proposal to grant no allowance for agency staff.	As stated in the draft determination, we consider that the remuneration packages proposed by PNGL for the senior management team exceed the typical packages in similar industries and businesses and therefore we have rolled forward the packages that were determined in PNGL12 following a review by remuneration consultants. Other than this the allowances are consistent with current actual costs. The number of FTE granted in the final determination is in line with the 2012 levels with some additional staff included where justified. We have accepted the justification provided by PNGL for additional customer service staff and have adjusted the manpower determination accordingly. As stated in the draft determination, if PNGL wishes to employ agency or permanent staff this is an issue for PNGL.
25.	**Rates** **Section 2** **(Page 52-53)** PNGL asked for full justification for the proposal to treat rates differently for PNGL and FE.	In its submission, PNGL requested that rates allowance should be pass-through. Our draft determination continued the approach of setting PNGL's rates allowance using a formula based on PNGL's determined revenues. Our approach for the final determination is updated to reflect this position. The Competition Commission's provisional determination of the NIE RP5 price determination concurs with the approach taken that rates should not be treated as pass-through without good reason.
26.	**Licence Fee** **Section 2** **(Page 53)** PNGL welcomes the proposal to treat	We welcome PNGL's response and acceptance.

Ref	Comment	Our Response
	licence fees as pass through subject to retrospective adjustment for actual fees levied.	
27.	**Office Costs** **Section 2** **(Page 53 – 54)** PNGL outline that we have failed to justify the proposed allowance within its consultation document.	We take the view that paragraphs 5.130 to 5.133 in the draft determination justify the allowances. Consumers should not bear the cost for PNGL's running a larger office than required.
28.	**Information Technology** **Section 2** **(Page 54-55)** PNGL outline the following issues: • PNGL has not been provided with a copy of the Gemserv report in relation to IT. • PNGL disagrees with a £100k materiality threshold given the average allowance is only c£239k per annum. • PNGL considers that the IT allowance is inadequate.	We considered each issue raised by PNGL and make the following observations: • The Gemserv report was formulated from a questionnaire, sent to, and completed by, both GDNs, along with follow up meeting involving GDNs and Gemserv representatives. This report was integrated for both GDNs and was deemed commercially sensitive. • The current level of £100k ensures that small additional costs are not assessed outside a price control. The £100k threshold will not change for the final determination. • The allowances proposed are based on full engagement with PNGL where they were given ample opportunity to meet and discuss IT with our expert consultants. The allowances relate to specific IT needs as presented by PNGL across GD14 and assessed by our experts. Additional IT proposals would be subject to the materiality threshold for significant projects. Therefore, the allowance in respect of IT will remain unchanged for the final determination.
29.	**Professional & Legal Fees** **Section 2** **(Page 55-57)** PNGL argues that the the decision to roll forward the PNGL12 allowances is not appropriate. PNGL asked why we have disregarded the historical average for the last three years. PNGL asked for justification for why we disallowed PNGL's requested one-off allowance in 2014 to deal with the new automatic enrolment requirement for pensions.	PNGL's historic actual costs do not indicate an upwards trend. The 2012 actual cost incurred (less the costs associated with the competition commission referral) are substantially lower than the actual costs incurred in both 2010 and 2011. We are therefore content with our approach as set out in the draft determination. Our opinion is that PNGL has incurred one-off costs each year historically e.g. market opening. We therefore do not see any justification for granting new one-off costs going forward and we are content that no specific allowance will be granted to deal with the new requirements of automatic pension enrolment. We consider that the allowance proposed in the draft determination remains appropriate and no change has been made for the final determination.
30.	**Smaller Items**	We consider all costs important, however, we have prioritised our review time and effort based on the size

Ref	Comment	Our Response
	Section 2 **(Page 57-63)** In summary PNGL request that we consider another approach for the assessment of the following smaller items, namely: • Billing; • Entertainment; • Fleet Costs; • Human Resources (HR); • Own Use Gas • Telephone, Postage and Stationary; • Travel and subsistence This is on the basis that a 5 year average of historic costs is unrepresentative of future costs.	and proportion of the particular area under consideration. We believe that our overall cost allowance based on averages is appropriate.
31.	**Section 2** **(Page 57-63)** PNGL accept the own use gas allowance and staff entertainment. PNGL request additional allowance for CSR within Entertainment	We welcome PNGL's acceptance in respect of the allowances set for Own Use Gas and Entertainment, however, the CSR activities are not entertainment and our use of HMRC guidelines in GD14 is consistent with that of PNGL12.
32.	**Section 2** **(Page 57-63)** PNGL outline an error in their submitted actual costs for Fleet costs that inflate these due to an incorrect cost allocation, they urge us to reassess these costs.	We considered this error in resetting the fleet costs small item through the same calculation method. This gives an upward allowance for the final determination.
33.	**Capex** **Section 3** **(Page 64)** PNGL notes that analysis of capex unit costs indicates that FE is around 25% more expensive than PNGL. PNGL adds that the analysis shows that PNGL was, on a like-for-like basis, around 30% more efficient than GB GDNs. PNGL therefore does not understand the rationale for targeting this	We have never stated that PNGL is 30% more efficient than GB GDNs. We believe that PNGL's misunderstanding, relates to the difference between the "Synthetic" rates we use and the "Assessed" rates based upon the 2011 performance. Synthetic rates are only used as a ratio tool for the benchmarking to allow comparison of different baskets of work. The synthetic rates are not an expression of "efficient" GB rates. The rates are based upon rates used by Ofgem in benchmarking. However, the work undertaken since the draft determination has shown that in NI the use of different pipe sizes has a material impact on the assessment of efficiency. This means that to assess efficiency against GB, we would require more detailed information from the GB networks to undertake the same detailed benchmarking that has been carried out in NI. As a result of this efficiency we have not applied any catch up efficiency targets for PNGL. However it is

Ref	Comment	Our Response
	area of cost. In addition, PNGL argues that the further 1% efficiency target is inappropriate and unjust.	standard regulatory practice to expect even the most efficient companies to continue improving, as do companies in the wider economy. Hence we have applied an efficiency factor. In the draft determination this was set at a 1% reduction in the allowances. We have reviewed the efficiency target for the final determination and this is detailed in section 14 of the final determination.
34.	**Capex** **Section 3** **(Page 64)** PNGL questions the approach of using synthetic unit rates to determine allowances for the GD14 period. PNGL argue that the synthetic unit rates result in an allocation of costs across the individual capex cost lines which are not comparable to PNGL's submission, nor to PNGL's historical cost base. PNGL adds that benchmarking should consider factors which drive uncontrollable differences between comparators.	The 'basket of works' approach with synthetic unit rates was used as the basis for determining capex allowances and facilitating cost comparisons between PNGL, FE and GB GDNs. The principle of using the synthetic unit rates is to ensure a consistent basis to compare GDNs. Synthetic rates do not influence the analysis output but provide a ratio of activity costs to enable comparison based on a 'basket of work' approach. GB synthetic rates have been adjusted to reflect the historical actual PNGL and FE cost performance balance and also to include rates for meter provision which is an activity not undertaken by GB GDNs. This analysis process has been used by Ofgem for the GDPCR1 and RIIO-GD1 reviews. For the final determination, we have carried out further work on the synthetic rates in narrower work activity categories to more closely align the process with the work carried out in NI as explained in the final determination document.
35.	**Capex** **Section 3** **(Page 65)** PNGL believes that, if considered on a like-for-like basis, the variance between PNGL's capex submission and the proposed capex allowance is about 17%.	We do not consider the 17% calculation from PNGL to be on a like for like basis and view the use of the basket of goods as good regulatory practice consistent with Ofgem. We have however updated the analysis for the final determination to provide more detailed banding of capex to account for differences in the diameter of pipe and meter sizes (and associated costs).
36.	**Capex** **Section 3** **(Page 65)** PNGL questions the decision to base the 5% fixed allowance on the average of the 2 NI GDNs costs in 2011 rather than basing it on the costs of each individual GDN.	The benchmarking process recognises that there are fixed costs associated with undertaking Capex work by a GDN. Both PNGL & FE have relatively common workloads (i.e. the scale of work is not significantly different between the two companies although the work mix does vary). Based on the overall alignment of the workloads, we have decided that the fixed costs used in the benchmarking analysis should be set at a common level for both companies and therefore our original approach has not changed.
37.	**Street Works Legislation (TMA)** **Section 3** **(Page 66)** PNGL welcomes the proposal that TMA costs will be subject to retrospective adjustment at the next price control.	We have continued this approach in the final determination.

Ref	Comment	Our Response
38.	**Management Fee** **Section 3** **(Page 66)** PNGL has concerns about our approach in apportioning the management fee across the various capex activities.	In order to carry out comparative benchmarking between PNGL, FE and other GB GDNs it is necessary to normalise the costs attributable to work activities. This apportionment was carried out by PNGL at our request. Whilst this apportionment informed the analysis Rune carried out, the accuracy of this apportionment does not have a material impact on the resulting conclusions as we have used a basket of work approach to the analysis rather than an item by item, unit rate comparison.
39.	**Infill Mains** **Section 3** **(Page 66)** PNGL notes that we have misquoted PNGL's GD14 submission for properties passed in Table.	We have updated this in the final determination paper.
40.	**Section 3** **(Page 67)** In addition to the comments on Infill Mains in Section 1 of the PNGL response, PNGL broadly support the methodology outlined in the draft determination but do not agree with some of our assumptions used to calculate the overall economic value of a connection, as follows: • Small IC consumption should be 2,500 therms, rather than the 2,000 therms we proposed. • The proposed properties passed split between domestic and IC tariff customers should be changed from 91%/9% to 90%/10%. • The proposed initial connection rates are understated and should be updated in line with historic penetration information provided separately by PNGL.	Having reviewed historic evidence in relation to small IC consumption the final determination retains the assumption of 2,000 tpa for a small IC connection. We confirm that paragraph 7.32 of the draft determination should have read 91:9 in relation to the Domestic:SIC split. However, further analysis using additional information sent by PNGL, has resulted in a revised split of 95:5 in the final determination, being the actual split of properties passed for 2012 constructed projects. PNGL supplied evidence as backup to their suggested connection rates. This analysis was then used with the above assumptions and updated capex unit rates to give an output of the allowance for infill (I&C/OO/NIHE) of £515 per property passed and an average length allowed of 7.7m per property passed. The impact of this can be seen in the final determination paper.
41.	**New Build Domestic** **Section 3** **(Page 68)** PNGL believes that the proposed distance per New Build Property passed (5.9m) is	We considered the comments by PNGL, but we have not seen robust evidence of a relationship between houses and apartments and metres per property passed and have not been persuaded to change this allowance.

Ref	Comment	Our Response
	too low. PNGL requested 11m per property passed and argue this is needed due to the change in mix to more new build houses rather than apartments.	
42.	**Domestic Meters** **Section 3** **(Page 68)** PNGL advised that its original submission had a transposition error in relation to domestic meters. PNGL confirmed that they do not require any allowance for replacement domestic meters (i.e. replacing a meter at the end of its normal operating life) during the GD14 period. However they have requested an allowance for domestic meters that fail before they reach the end of their normal operational life (to be included in the domestic meter cost line). PNGL suggest that this allowance should be 1.38% of installed meters in line with the PNGL12 determination.	In the draft determination, we used the requested costs stated for replacement meters in the PNGL original submission to estimate the number of replacement meters associated with that amount for each year. We note PNGL's clarification that replacement meters in the submission relate to meters that need replacing at the end of the meter's normal operational life and there is no requirement for these during the GD14 price control period. For the final determination, we have therefore updated the PNGL requested costs for domestic meter replacements and removed the allowance that was proposed in the draft determination. In relation to domestic meter failures (meters that fail before the end of their normal operating life), we asked PNGL, to provide information on the actual numbers and costs in previous years. PNGL has advised that they are unable to provide this information and as a result, we have decided that no allowance will be granted for GD14. We note that within the emergency and maintenance cost line PNGL has been granted an allowance relating to meter exchanges for meters that have failed. The final determination paper reflects the corrected PNGL's figures and our decision on final allowances granted.
43.	**Domestic Services** **Section 3** **(Page 69)** PNGL understands that in order to compare PNGL and FE, we needed to consider how costs are allocated between activities (e.g. between services and meters) and the assessment results in the meter box being included as part of the service cost line. PNGL believes that we have removed the cost of the meter box from the domestic meter cost line and not included it in the domestic service cost line.	At a meeting with PNGL after the consultation period closed, we discussed the benchmarking process and assured PNGL that our analysis has always included the costs of the meter box. As explained in the draft determination, the activity rates for both companies have been normalised and this is one case where the cost of meter boxes may have influenced the unit rates of either meters or services. This adjustment coincidentally appeared to be the amount relating to the cost of meterbox provision. The approach fully takes into account the costs of meter box provision.
44.	**I&C Meters** **Section 3** **(Page 70)** PNGL states that its requested costs for replacement I&C meters reflected the costs of replacing meters at the end of their	We have considered the point raised by PNGL along with similar points raised by FE. As a result, we have changed our approach to use more specific categories of meter size. This approach is more reflective of the actual costs incurred based on the type of meter installed or replaced. The impact of this change can be seen in the final determination paper.

Ref	Comment	Our Response
	normal operating life, and PNGL highlights that the meters reaching the end of their life during GD14 are typically larger meters than were connected in the early years. PNGL adds that its requested allowance for new I&C meters is typically for smaller meters and therefore we should differentiate between the average unit rates for new and replacement meters as large meters are significantly more expensive than small meters.	
45.	**Other Capex Items** **Section 3** **(Page 71)** PNGL requests that we grant an allowance for Other Capex Items using the average of 2007 – 2011 actual costs.	We note that PNGL has not provided detailed justification for the costs requested under other opex. Therefore we have retained the approach in the draft determination, however an additional allowance of £10k per annum has been granted under the cost line 'Network Code'. This is set out in more detail in the final determination paper. In addition, we would consider any submissions for additional costs for material network code projects.
46.	**Adjusting Previous Price control, PNGL12** **Section 4** **(Page 72)** **Total Regulatory Value** • PNGL agrees with the total TRV figure of £437.1m at end 2011 but does not agree with the composition of our breakdown into component parts **Deferred Capex** • PNGL are of the opinion that if future projects become relevant to the business, they can apply for funding again **Current total Regulatory value** • PNGL welcomes our confirmation of the opening TRV for 2014 to be £503.9m (2012 prices) which reflects outturn data for 2011	**Total Regulatory Value** We welcome PNGL's agreement with the TRV figure provided in the consultation and we will be rolling this figure forwards in line with the licence. It is helpful for consumers and other stakeholders to understand the components of the TRV and how they have arisen. **Deferred capex** We have reviewed all responses to this historic issue and have concluded that we will review applications for funding for projects regardless as to whether PNGL has received reward for them. **Current total Regulatory value** The TRV has been updated for 2012 actuals as discussed in the GD14 draft determination.
47.	**Recommendation of the Competition**	

Ref	Comment	Our Response
	Commission Determination on PNGL12 **Section 5** **(Page 74)** **Cash Flow Timing** • The current PNGL model assumes that cash flows occur at the end of the calendar year. The CC observed that mid-year cash flows would be more realistic. PNGL noted that (due to how the TRV has been calculated since 1996) this would require an adjustment to the opening TRV of approximately £18m, to enable PNGL to recover the full allowed value of costs incurred. However, PNGL also noted that the position would correct itself and be NPV neutral by the end of the licence period. Neither the policy for achieving this nor the required licence modifications have been set out. **TRV Adjustments for Prepayment Meters** • The CC considered that an adjustment should be made to correct an error on Prepayment Meters. PNGL is of the opinion that the error is not material at 0.1% of TRV and we should consider whether it should make the appropriate adjustments. No error has been made and even if there was one, it was very small in scale.	**Cash Flow Timing** We note PNGL's comments. In particular PNGL stated "UR would need to recalculate the opening asset value agreed in 2006 and recalculate each subsequent price control .The necessary licence redrafting and spreadsheet adjustments are likely to be complex." In view of this and that retaining the current end year assumption will overall be NPV neutral, we have decided not to amend the calculation from the assumption of year end cash flows. **TRV Adjustment for Prepayment Meters** We consider that £147k (2006 prices) is sufficiently material. Accordingly we have adjusted down PNGL's TRV by this amount in the final determination. In 2010 prices after allowing for 7 years rate of return, this equates to an adjustment of £275k
48.	**Financial Issues** **Section 6** **(Page 77)** **GD14 WACC** • PNGL welcomes the continued allowed rate of return of 7.5% (pre –tax) for GD14 which provides	**GD14 WACC** We will allow a return of 7.5% pre-tax for GD14 with a full review of rate of return in GD17 to apply from 1 January 2017

Ref	Comment	Our Response
	transparency and predictability for investors **Depreciation** • PNGL notes the difference between itself and FE. It disagrees that any change is necessary currently and recommends that FE adopts its depreciation policy **Initial GD14 Financeability Analysis** • We have not provided a full and transparent financeability analysis in its draft determination. PNGL notes that no scenario analysis had been undertaken to stress test the business. PNGL is unhappy that clear direction has not been made on dividend policy PNGL disagrees that we and the Credit Agencies in the broader context have similar views **GD17 WACC** • PNGL welcomes the commitment to use the CAPM approach and the use of GB Regulatory practice, but considers that this still does not address the issues that face PNGL. PNGL appointed Professor Ian Cooper to provide evidence on the existence of a premium in PNGL's cost of debt relative to that of GB comparators and to recommend a suitable premium. PNGL indicated as part of the CC PNGL12 that an appropriate WACC would be in the range of 6.6% - 7.7% **Assessment of the relative risk of PNGL** • PNGL has indicated that the	**Depreciation** We note PNGL's comments on depreciation. We have decided not to change the depreciation policy for either PNGL or FE but we will review in GD17. **Initial GD14 Financeability Analysis** In the draft determination, we made our intent clear to undertake financeability analysis (including downside risk scenarios) during the final determination. A full financeability analysis has been undertaken as part of the final determination including stress testing and this demonstrates that PNGL (as well as FE) are fully able to finance their functions. It is not for us to determine dividend policy but we have assumed dividends at the allowed cost of equity in our financeability modelling. We note the credit rating notes published by each of Moody's and Fitch both in June following the refinancing and in August following the sale of PNGL and the issuing of the draft determination. We can confirm that the financeability indicators that we have used and the minimum assumptions for those indicators are in line with those of Moody's and Fitch **GD17 WACC** The appropriate WACC for GD17 will be assessed and consulted on during 2016. During that process we will undertake a full assessment of the absolute and relative risk of PNGL and FE including issues such as volume risk and TRV ratios. We will set an overall level of WACC consistent with risk. As part of that process we will assess and consult on appropriate approaches for determining the cost of debt. Furthermore in the context of regulatory precedent we would note that the make-up of PNGL's TRV is very different to that of other UK energy infrastructure companies, for example with the inclusion of historic outperformance. Consequently there is limited regulatory precedent in GB energy regulation for dealing with this issue. We note the CC provisional determination on NIE which has proposed a vanilla cost of capital of 4.1%. We also note that the CC will have considered many of PNGL's arguments and we will take its final determination into account in GD17. **Assessment of relative risk** • We would note that Ofgem does indeed look at totex to RAV ratios in assessing risk. See for

Ref	Comment	Our Response

	analysis as set out in the draft determination is flawed and incomplete. It cities that we used the ratio of totex to RAV, which is incorrect as OFGEM assesses the ratio capex:RAB and these ratios potentially capture different type of risks
	• The analysis of stranding risk is partial as PNGL's regulatory model with a longer duration of cashflows increases the probability of stranding, over the revenue recovery period.
	• PNGL citied 3 other main areas of risk (but not necessarily limited to) that had to be taken into consideration as follows:
	  ○ Revenue Risk
	  ○ Financial Risk
	  ○ Regulatory Risk
	• PNGL indicated that estimating the magnitude of the impact of each driver was likely to be challenging, but it was possible to capture investors overall perception of relative risk by using market data.
	
	Approach to determining business maturity
	• PNGL disagree with us in that it is a mature business and fail to take in a broad range of factors as follows, which demonstrates the immaturity of the business
	  ○ Challenge to still connect existing customers which are readily connectable from the current penetration of just over 50% to nearer GB average
	  ○ The Profile Adjustment
		example https://www.ofgem.gov.uk/ofgem-publications/48160/gd1financeabilitystudydec12.pdf which discusses the relative risk across sectors due to differing totex. There is nothing in the PNGL reply which convinces us that the totex:RAB ratios should not be considered in GD17. We would note that current levels point to a lower level of risk than GB GDNs.
		
		• We see no reason why stranding risk is materially greater in NI with a profiling adjustment than in GB without a profiling adjustment. However we would be keen to engage further on this issue and carry out more analysis before a final decision is made in GD17
		
		• We confirm that we will review all areas of risk during GD14. This will include the use of market data and consideration of GB regulatory practice including the CC final determination on NIE RP5.
		
		Determining business maturity
		
		We note PNGL comments in relation to maturity but the key issue is the question of risk and nothing in the responses has challenged this fundamental point. We answer specific points raised below. However, we also reiterate that we will take all factors into account when setting the WACC for GD17.
		
		After 17 years connecting additional customers should now be business as usual for PNGL. We presented initial analysis in the draft determination that the risk PNGL faces from failing to make future connections was immaterial. This is further emphasised in our financeability sensitivity that assumed connections at 50% of target – PNGL's financial indicators did not materially deteriorate. This is because the impact of future connections is minimal in net terms with additional revenues being largely matched by additional costs.

Ref	Comment	Our Response
	which defers current revenue to the future is still forecast to grow until 2028 o PNGL has issues on the predictability and stability of the Regulatory regime as evidenced by 2 recent CC referrals and the doubts that the credit agencies have over us o PNGL indicates that it has substantial stranding risk as the number of additional connections is vital to move to a more mature business. **Proposed cost of capital approach** • PNGL fundamentally disagrees with the breakdown of the PNGL TRV which we proposed in the consultation, which is inconsistent with the licence and the PNGL12 CC decision • PNGL considers that splitting the WACC for different notional parts of the TRV is o conceptually flawed and difficult to implement o out of line with regulatory precedent o inconsistent with the CC **Approach for cost of debt** • PNGL considers an appropriate method would be to set an ex-ante allowance for the cost of debt for the whole of GD17 on the basis of suitable market data benchmarked, with any appropriate factors taken into consideration. • Consider the effect of transactions costs and future uncertainty	We do not see why the profile adjustment would have a significant negative impact on risk. However we will explore this in more detail as it is one area where we recognise that there is currently a difference with GB GDNs. We do not view there being any additional risk attached to the NI regime. We note PNGL's claim that credit rating agencies have doubts over us and we quote from Moody's research notes on PNGL in both June and August this year "the regulatory framework for GDNs in NI which, while having a shorter track record for consistent decision making, broadly follows that of GB". We are unclear why the requirement to make additional connections leads to a risk of stranding. **Cost of capital approach** We note PNGL comments and we welcome continuing engagement during GD17. GB utilities do not have such an unusual TRV and so it is unsurprising that there is no GB precedent for separating the TRV into component parts. The reason we suggested the approach was for transparency reasons and we continue to view that there may be merit in this. We will continue discussions with all parties before any final decision is made. **Cost of debt** We will be consulting on an appropriate approach for setting the cost of debt and we note the differing approaches of GB regulators. Our consideration will include an ex-ante approach as well as index-linking debt. We will also consider whether transaction costs should be included.

<table>
<tr><th>Ref</th><th>Comment</th><th>Our Response</th></tr>
<tr><td></td><td>factors as used by OFGEM on recent price controls</td><td></td></tr>
<tr><td>49.</td><td>Draft GD14 Outputs
Section 7
(Page 95)
Pi's Model Issues and Revenue Profiling
• PNGL welcomes engagement on removing the Profile Adjustment at some point in the future
• PNGL considers that the low projected WACC of 4.83% from 2017 is unrealistic for future long term forecasting
• This low WACC of 4.83% will impact at the time of the next Price Controls for both future and current customers, when say a 1% increase in the WACC, would result in a c9% increase in prices.
• PNGL does not believe that using OFGEM RIIO GD1 rate of return as appropriate ,as it is fundamentally incompatible with PNGL's regulatory framework

Profile of Opex and Capex post 2016 – 2046
• PNGL recognises the uncertainty surrounding long term forecasts and its accuracy
• PNGL disagrees with using the trending as set in the PNGL12 CC decision as appropriate and has provided a model to us which better reflects a more accurate position of forecasting and the business plan.
Designated Parameters
• PNGL has proposed a table to provide comparison of designated parameters between both recent and future price controls</td><td>Pi's Model Issues and Revenue Profiling
We look forward to engaging on the future of the Profile Adjustment.

We reiterate that the use of 4.83% is for modelling purposes only. PNGL highlights a number of differences between it and GB but we confirm that we have made no decision yet on GD17. As we have stated previously we will compare the risk profile of PNGL with GB GDNs when assessing the WACC. We have discussed the main issues and have highlighted some reasons why the WACC could be lower than GB. We welcome further debate on the issue in GD17.

Profile of Opex and Capex post 2016-2046

We are comfortable with PNGL's trending approach and have adopted this in our profile of opex and capex post 2016 for the final determination.

Designated Parameters
We have adopted PNGL's proposed table showing designated parameters in our Final Determination</td></tr>
</table>

Ref	Comment	Our Response
	Rolling Incentives • PNGL welcomes our proposal to keep the 5 year capex rolling incentive and notes the intention to switch on the opex roller in GD17 **Indexation and Efficiency Target** • PNGL believe the blanket 1% efficiency target for both capex and opex is entirely inappropriate and results in double accounting of efficiency • The 10% efficiency factor applied to engineering allowances is at odds with PNGL being more efficient than established mature GDN's and the most efficient GDN in Northern Ireland.	**Rolling Incentives** No comment. **Indexation and Efficiency Target** Considering the consultation responses received as well as best regulatory practice on setting efficiency targets, we have refined our efficiency analysis and looked at efficiency effects resulting from both the move of the economic frontier and from catch-up to the economic frontier. As detailed in our final determination, and in line with other regulators, we have assumed an annual productivity increase of 1% for both Opex and Capex. This led, with consideration of real price effects, to an average annual frontier shift of -0.8% for opex and -0.7% for capex. With respect to catch-up with the economic frontier, we have performed comparative analysis for selected elements of the GDN cost base, and the findings of that analysis are reflected in our proposed allowances. These efficiencies are different from efficiencies resulting from the frontier shift and therefore do not constitute double-counting. In the draft determination, we proposed a 10% efficiency factor on baseline maintenance costs. Considering the evidence provided to us we have decided not to apply this efficiency factor during the GD14 price control in our final determination.
50.	**Materiality Thresholds** **Section 8** **(Page 101)** • PNGL believes the threshold is misguided and is not appropriate to the size of PNGL's operations and should be removed	See response to point 159 below.
51.	**Further Issues** **Section 9** **(Page 102)** **Cost Reporting** • PNGL believes that this is not fit for purpose and should be developed to be more reflective of current price controls. Cost reporting must be developed in conjunction with the GDNs **Meter Reading** • PNGL considers that further time is required by PNGL and other stakeholders to fully consider all	**Cost reporting** We agree that cost reporting needs further development and that this should be undertaken by us working with the GDNs. We agree with the CC provisional determination on NIE that "a step change in data reporting would bring significant benefits". **Meter Reading** We intend to consult on this issue and allow all stakeholders time to consider the implications and submit responses so that we can determine the appropriate way forwards.

Ref	Comment	Our Response
	implications if this function was passed from the Supply companies to the distribution companies	
52.	**Implementation of Price Control Section 10 (Page 104)** PNGL asks for clarifications on any licence modifications other than the timing of cash flow that we consider appropriate to implement in the GD14 determination.	We do not anticipate that any licence modifications will be required to implement the GD14 determination.

FE - Other Issues

The response from FE was 142 pages long, and divided into twelve sections. For ease of reference, in the table below we have set out where in the FE document each comment has been made. For ease of reference, we have followed the FE layout; note also that to simplify this document we have deleted a number of points that are repetitive.

Ref	Comment	Our Response
53.	**GD14 Process** **Section B** **(Page 11)** • FE is concerned that the process has not been transparent and deadlines have been unreasonable. • There has been insufficient time to submit submissions and FE states that it has provided information on time, over and above its licence requirements. • We have been inconsistent with previous price controls which is at odds with the CC's comments that revisions to regulatory determinations should be well reasoned and regulatory certainty is important. • FE is concerned that the price review is for 3 years not the 5 years signalled on 3 December 2012 • FE has been requested to produce data in PNGL format which suggests that it is the junior partner.	• The price control process has included a number of consultations, workshops and numerous meetings with the GDNs. It has always been transparent and offered many opportunities for the GDNs to justify their requests. The timetable has been mainly driven by the timing of the GDNs submissions. We had previously suggested to both GDNs that earlier submissions would allow for a better price control process. We will now consider licence modifications to ensure future submissions are in a timely manner. • The reason for many information requests was that the original business submissions lacked the detail and sufficient drivers to justify the proposed expenditure in some areas. • We have a regulatory duty to review costs and incentive mechanisms at each price control and we develop a control which provides the appropriate balance against our duties. This necessitates change as companies evolve and we have more data to project trends and to understand areas of outperformance and underperformance. • Our view on the timing of the price control has evolved as a result of responses to our December consultation and we have explained the rationale. The end of the three year control coincides with the end of the period of fixed WACC in GDNs' licences and the shorter control will minimise the need for reopeners. • We have not used a "PNGL format" but have developed the format framework to provide information in a robust, complete and consistent manner. We have tried to base the framework on GB precedent as much as reasonable.
54.	**Regulatory Certainty** **Section C** **(Page 16)** • FE is concerned that it needs	We have set out our high level thinking on WACC in 2017 in order to provide a degree of certainty to the GDNs. The risks for a company that will be nearly 12 years old and with all significant loads connected when GD17 is implemented are demonstrably lower than the risks for a start-up company. We have maintained the WACC at a level substantially higher than in GB and have given a full three years' notice of our initial thinking on how we will review this rate.

Ref	Comment	Our Response
	regulatory certainty on rate of return and opex. It believes that the risks are the same as at licence award In 2005 • FE highlights a number of risks to its business	The operating cost allowances set out in the Final Determination give certainty on opex allowances and provide an achievable target for FE. We reiterate that we will consider in detail the risks to GDNs as well as comparative risk to GB when determining WACC in GD17
55.	**Operating Expenditure** **Section D** **(Page 20)** FE notes that in the PCR02 period they increased connections by over 49% above the determined level while at the same time managed to spend 8% less than the determined allowance in relation to opex costs. FE has proposed increased connections for the GD14 period compared to the connections planned for the PCR02 period however FE state that they proposed these connections on the basis that we would provide support in terms of receiving an investment rate of return and a fair level of operating expenditure. FE argues that our proposal does not provide FE with a reasonable level of expenditure for opex costs to achieve the connections proposed and therefore FE states that it will be unable to consider further significant investment during the GD14 period.	See Connection Incentive Response as below.
56.	**Section D** **(Page 21)** FE highlights that in section 9.3 of the draft determination, we increased domestic connections by 200 in 2016 despite stating elsewhere in the draft determination that FE's proposed connections have been accepted.	See Volumes Section Response as below.

Ref	Comment	Our Response
57.	**Connections Incentive** **Section D** **(Page 21-33)** FE is unable to accept the proposed Connection Incentive approach for the following reasons: • (Page 21/2) – PCR02 MDR of fixed marketing and a per connection allowance has been very successful and has allowed communications to the ten towns over gas benefits; • (Page 22) – The Competition Commission (CC) PNGL determination stated that prior decisions should be maintained, unless it is at odds with an appropriate balance of statutory objectives; • (Page 23) – FE questions our overall commitment to DETI's Strategic Energy Framework (SEF) given the proposed changes to connection incentives;	The MDR mechanism of PCR02 evolved into the connection mechanism used in PNGL12, which has, in turn, been evolved into the current mechanism proposed for GD14, accounting also for a risk/reward element. Both NI GDNs performed well under each connection mechanism and we have not received any persuasive evidence to suggest that FE could not achieve similar performance across GD14 with a focused connections approach. We note that FE also requested a simpler approach in their business plan submission of Dec 2012. At each price control, all mechanisms and assumptions are subject to review given actual performance of GDNs. As noted above, the connection mechanism has improved and evolved at each price control. As previously described, the use of this mechanism has proven a success delivering significant increases in connections. Our duty is to review and refine such mechanisms where necessary. The continuation of a connection incentive, which is exclusive to NI, shows a commitment to our statutory duties.
58.	**Section D** **(Page 23-25)** FE states that there were errors or fundamental oversights within the connection incentive mechanism proposed for GD14 as follows: • (Page 23) – FE has a different licence to PNGL's: they are 'thin' and 'fat' respectively so cannot have the same incentives; • (Page 24) – FE outlines that its research shows that gas is extremely new in their areas and Millward Brown's survey show how unfamiliar potential	Irrespective of licence type, both gas distribution network operators face similar risks and rewards in carrying out operations in connecting customers. We are not prescriptive on how connection incentive mechanism monies are spent, so the business has flexibility. This is at odds with the point that FE makes elsewhere that communication has been successful and FE has received significant allowances in the past to familiarise potential customers.

Ref	Comment	Our Response
	customers are with natural gas; • (P25) – The proposals don't consider regional variations in regards to the FE and PNGL connection incentives.	The connections incentive is based on an economic analysis and the costs and revenues that are used are very similar for PNGL and FE. Therefore it is not clear how regional variations would factor in to the analysis.
59.	**Section D** **(Page 25-26)** FE fundamentally disagrees with the 25% assumption around 'non-additional' connections and suggests about 2% of connections would be 'non-additional'. FE urges us to accept this 2% or the PCR02 approach.	The 25% figure is consistent with PCR02 and we do not plan to change it. The 2% is based on a limited statistical sample with subjective assumptions and comparing PCR02 outperformance against the 25% non-additional 100 connections shows that this is an unrealistic assumption.
60.	**Section D** **(Page 26-27)** FE outlines some modelling errors in the analysis resulting in an underestimation of connection incentive due to: • The infill costs economic analysis being performed over 40 years; • Connection incentive, including the capex element is performed over 15 years; • Both models need to be consistent.	We believe our modelling is correct. It assumes a domestic customer will pay a contribution towards the mains element of their connection after 15 years. (i.e. this will be to the benefit of the early adopters of natural gas such as I&Cs who should not be expected to pay for all such mains over the life of the licence and future connections). If both infill and connections are 40 years then mains would need to be explicitly considered and further estimates required in their valuation. We are happy with their approach and it is unchanged.
61.	**Section D** **(Page 27-28)** FE states that it never requested any infill mains in relation to OO GD14 connections, thus, the inclusion in the economic test is incorrect arithmetically and logically. FE reiterated that the 'thin' model run by FE is a disadvantage as it is more I&C focused.	Infill is used for all types of property including OO. Indeed it is not possible to have OO properties without infill. Each connection should pay its contribution in respect of infill and mains. We are comfortable that our approach is correct as the benefit of each additional contribution goes towards the existing gas customers via future tariffs.
62.	**Section D** **(Page 28)** FE states that the manpower assumptions used in ascertaining costs replaced and corporate overheads are incorrect and cause a knock on effect due to us using the 2008 model for manpower.	Having received more detailed manpower information from FE, we have now been able to update the manpower analysis to use 2012 actuals as a basis and we have updated the manpower costs to be replaced by the connections incentive mechanism accordingly.

Ref	Comment	Our Response
63.	**Section D** **(Page 29)** FE outlines a number of 'further observations' in relation to connections incentive mechanism as follows: • The £19k fixed allowance for marketing I&Cs is calculated on the proportion of I&Cs to other connections but mistakenly includes NB and NIHE domestics; • GD14 mechanism allows zero for I&Cs, seen as inequitable due to continued growth. FE requests an allowance as in the GD14 submission. FE noted that at the meeting of 12th September 2013 we suggested that some allowance may be given for I&Cs; • The proposals remove £100k per annum for FE but do not explain why this has occurred and this runs counter to 'netback'. • Average burn of 410tpa proposed is higher than the 393 submitted by FE and since have revised the figure to be about 350tpa for OO households;	For our final determination we have a fixed allowance to cover 'corporate affairs' activities. We propose to allow £100 per connection in line with the connection numbers submitted. As with PNGL we plan to phase out incentives for I&C and will remove this entirely in GD17 We have explained to FE that the deduction of the sum of £100k per annum from the Distribution business is to reflect the value bestowed on its related company Firmus Energy Supply Limited (FES), of marketing the "Firmus" brand. Since this response, FE have further reduced this estimate to 291tpa – the evidence supplied by FE includes unusually low burning averages that adversely affect the overall average burn (see Volumes section for further detail), We have not altered this assumption in setting the connection incentive allowance for the final determination.
64.	**Section D** **(Page 30 – 31)** FE suggests that the current levels of incentive and opex proposed will prevent FE from undertaking continued levels of investment.	We believe that the target set for FE in respect of OO connections is fair and achievable.
65.	**Section D** **(Page 33)** FE presents its own analysis on the different recovery periods and connection allowances and states that we have given the lowest possible figure. FE suggests that the higher value of about 2,142 therms and is more applicable.	We have taken on board the calculations supplied by FE, however, we believe the approach does not consider appropriately the point when each additional customer starts to make their contribution to the wider network nor other associated costs.

Ref	Comment	Our Response
66.	**Emergency and Network Maintenance Section D (Page 33 – 47)** FE indicates that it cannot accept the proposals as safety is their key priority. FE is also concerned that the proposals will require a change in its modus operandi for emergencies and maintenance. FE also states that it is surprised that the proposals do not give proper weight to their excellent and efficient performance with regards to PRE's.	We do not consider that safety would be compromised by the proposals. The analysis models are based on actual costs incurred in 2010, 2011 and 2012 which are then rolled forward, using customer numbers as the driver, to determine the allowances. The historical actual cost base reflects overall safe operation of the network assets and, therefore, this is inherent in the allowance determined. The targets to reduce emergency call costs have been proposed to encourage FE to actively try to reduce the 'general enquiry' calls which are incorrectly made to the emergency call centre. Arguably this would benefit safety in the FE network as it would reduce the engineer time spent dealing with non-emergency situations and free up these staff to deal with real or potential emergencies when they do arise. We have considered the allowances for emergency and network maintenance and our view is that these are adequate to undertake the operational activities in compliance with all relevant performance standards and regulations.
67.	**Section D (Page 35)** FE questions whether we have considered 'local regional variations' in setting the proposed allowances.	As stated above, the emergency analysis model is based on actual costs incurred in 2010, 2011 and 2012 which are rolled forward, using customer numbers as the driver, to determine the allowances. The historical actual cost base reflects the regional characteristics that may affect operational costs and, therefore this is also implicit in the allowances determined.
68.	**Section D (page 36)** FE states that the CC's determination on the PNGL12 price control comments that a regulator should adhere to prior decisions unless it is at odds with an appropriate balance of its statutory objectives. On this basis, FE questions why the existing PCR02 emergency and maintenance costs and procedures are now "at odds" with GD14 proposals.	When we made our decision on PCR02, FE had been in operation for less than two years. At the time of every price control all areas will be considered to reflect current trends, actual performance and how the business will be challenged in the future. This is normal regulatory practice. We use our experience and judgment to set allowances which we believe are appropriate or the future.
69.	**Call Centre Costs Section D (Page 37)** FE indicated that it already works in partnership with PNGL in relation to gas safety and response activities and are concerned about the proposal for a 50% saving on the fixed modelled emergency call centre costs.	Call Centre costs and contractual arrangements have been discussed with both PNGL and FE. Consideration of the information provided and the combined total cost has led Rune, and us, to the conclusion that there is significant scope for reductions in operational costs. The final determination allowances reflect this view. For the final determination, we have deferred the implementation of this reduction until 2015 and have also adjusted the apportionment of this saving between PNGL and FE. This is detailed in the final determination paper.

Ref	Comment	Our Response
70.	**Section D** **(Page 38)** FE suggests that an increase in customer numbers will create an increase in emergency calls and FE adds that their historical data shows a rise in number of response calls and a consistent correlation between customer numbers and number of response jobs.	As detailed in the draft determination, we confirm that the degree to which call handling and emergency activity costs are affected by growth in customer numbers is recognised in the analysis process which incorporates customer numbers as the underlying driver of cost.
71.	**Section D** **(Page 37)** FE indicates that it cannot accept the proposal for the level of emergency first call-outs to reduce as the customer base increases due to more customers in NI being able to distinguish the difference in smell of natural gas and other odours. FE adds that it has a responsibility under legislation to respond to every smell of gas and gas alarm calls reported in the licenced area. FE believes the number of calls received is outside its control.	Our emergency analysis is based on the number of customer connections and the workload assessment takes into account a higher level of activity associated with new connections. As set out in the draft determination, our proposals for call centre costs are based on the principle that new customers generate more calls to the emergency call centre than existing customers. Therefore, as the customer base grows the ratio of new customers to existing customers will reduce resulting in reducing numbers of calls per 10,000 customers. Not all calls which lead to an engineer attending a call-out are “emergency” related. Some calls are related to meter problems, or lack of credit, and others relate to appliance problems. It is essential that FE implements a programme to work towards reducing unnecessary calls. The allowance therefore incoporates a target for a reduction in calls per 10,000 customers to the emergency call centre and it is expected that the reductions will be associated with ‘general enquiry’ calls incorrectly made to the emergency call centre and not genuine emergencies. We do not view this cost as being outside FE’s control and it is not considered as such in GB.
72.	**Section D** **(Page 39)** FE advises that it has an out-of-hours (evening & weekends) call centre (MessagePad). Part of their service is to reroute emergency calls to the emergency call centre. FE requests that the costs provided by FE in their submission are included in the the allowances.	We have discussed the costs associated with the MessagePad call centre. We understand that this call centre is predominantly in place to facilitate call handling for the FE supply businesses. We note that suppliers also have responsibilities to ensure that emergency calls are rerouted to the emergency call centre line and therefore we consider that the costs of these calls should be attributed to the supply businesses as the MessagePad call centre was set up to facilitate the supply businesses. Following discussions with FE on this, FE has accepted that these costs should be removed from the distribution price control.
73.	**Section D** **(Page 39)** FE questioned the approach and rationale for the proposals allowing PNGL c.980 emergency jobs per 10,000 customer in 2014, whereas FE were allowed c.720 emergency jobs per 10,000 customers in	The issue of proposing different numbers of emergency jobs per 10,000 customers for PNGL and FE is in part was due to FE reporting warranty calls whereby their contractor covered the cost of the call-out. For the final determination, we have amended our approach to these calls by removing the warranty calls from our modelling. In this way we have ensured that the modelling carried out reflects the same levels of calls per 10,000 customers for PNGL and FE. The effect of this change is to increase the allowed number of

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	2014. FE adds that the model does not reflect the relative percentage increase in customer base for FE and PNGL.	emergencies for FE in the period 2014-2016. This change has ensured both FE and PNGL are allowed the same number of emergency jobs per 10,000 customers (with higher rates allowed for newly connected customers). The impact of this approach can be seen in the final determination.
74.	**Section D** **(Page 41)** FE has raised some specific issues in relation to the costs modelled for emergency first call costs in the draft determination. In particular, FE states that we have not considered the uplift in costs for the retendering of the engineering contract and cost of materials used.	As stated in the draft determination, we had some difficulty in interpreting how FE costs are allocated under the four emergency and maintenance cost headings and therefore some assumptions were made in order to arrive at the proposals presented in the draft determination. We have worked with FE to resolve the allocation issues and have now agreed the allocations between the four headings with FE. As a result the allocations have changed for the final determination. Our emergency analysis model is based on actual costs incurred in 2011 which are rolled forward, using customer numbers as the driver, to determine the allowances. We have incorporated all relevant emergency costs and operational activities, including response to 'no trace' reports, in the allowances. FE's submission included a 15% uplift on costs. We have dealt with all real price effect issues in section 14.
75.	**Section D** **(Page 43)** FE claims that Pressure Reduction Station (PRS) maintenance costs have been excluded from the proposals and FE argues these costs are required to ensure compliance with PSSR legislation.	The Pressure Systems Safety Regulations (PSSR) stipulate that a writen Scheme of Examination (SoE) is required for all gas network assets with an operating pressure above 2 bar. The SoE will include the routine maintenance activities necessary, and the frequencies, to ensure asset fitness for purpose. PSSR do not specify the maintenance policy for particular assets; the network operator is accountable for compliance with the process outlined. All PSSR related activity is covered by the historical actual costs for 2010 and 2011 which provide the basis for analysis to determine the allowances.
76.	**Section D** **(Page 43)** FE argues that as it is a relatively young company, it has not required significant maintenance on assets to date. FE adds that as its assets age greater maintenance will be required and therefore it is inappropriate to reduce FE's submitted costs to the historic low level. FE also claims that additional maintenance will be required during GD14 as assets begin to reach a stage in their life expectancy where more detailed inspections are required, (e.g. bridge surveys and inspections).	We have reviewed our modeling of FE's base maintenance cost in the light of the revised reconcilation of the costs between the activties of Call Centre, Emergency, Repair and Maintenance.In addition we have considered the allowances for exceptional items such as PRS overhauls and bridge surveys where FE have provided additional information to justify the allowances. We have taken their comments on board to update the allowances for the final determination. We have also taken the decision to remove the 10% efficiency target from the maintenance costs in the GD14 period. The impact of these changes can be seen in the final determination paper.

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77.	**Section D** **(Page 44)** FE does not agree with the modelling for maintenance costs which uses the ratio of PNGL's I&C customers to PNGL's domestic customers to calculate FE's cost allowances. FE argues that the ratio of its I&C customers to domestic customers is substantially different to PNGL's ratio.	We asked FE to provide details of the split in maintenance between I&C & Domestic customers however they are unable to provide the information at this level. We have therefore continued to use PNGL's ratio for the final determination. Despite this, the revised modelling as stated above now provides allowances for the base maintenance costs around the level which FE requested. We propose to work with FE during cost reporting to ensure the additional information is gathered for the future
78.	**Section D** **(Page 45)** FE indicates that we have misunderstood FE's submission in relation to personal protective equipment (PPE). FE provided detail on what their requested allowances would cover.	We do not accept FE's justification in relation to the exceptional costs relating to PPE requested in 2014. We consider that the allowance granted in the draft determination remains appropriate and will continue to include PPE costs within the maintenance base costs and the exceptional costs requested in 2014 continues to be disallowed in the final determination. We consider that the allowances as granted are sufficient to cover all costs necessary for the PPE, as we believe this equipment should be treated as a business as usual rather than exceptional cost basis.
79.	**Section D** **(Page 46)** FE considers the 10% efficiency adjustment to be inappropriate, especially given that we have also used the most favourable industry costs for modelling. FE claims this approach is unsustainable as FE has a modern network system which is already extremely efficient.	We have decided not to apply this efficiency factor during the GD14 price control in our final determination. We will monitor progress and reserve the right for reductions in allowances as part of future price controls should we believe that inefficiencies in asset management become apparent.
80.	**Asset Management System** **Section D** **(Page 46)** FE states that at a meeting on 16 April 2013, Rune agreed that FE's current asset management system was "fit for purpose and appropriate for the size and age of firmus energy's business". FE argue this is inconsistent with the proposals which indicate that we will not grant any allowance for implementing a PAS55 type asset management system given that such a system should have been part of how FE set up its business.	We believe this comment related to a statement in the meeting that FE hold their asset data in detailed speadsheets rather than an appropriate asset management system. In the context of the "size and age of firmus energy's business" this is potentially an adequate approach. A PAS55 approach is not about a computer system, it is about the process a company operates to inform itself of the performance of its assets. FE has a perfect opportunity to capture and collect the raw data that is necessary, to have a robust and fit for purpose asset mangement system. As the FE network continunes to age, this will allow a more strategic approach in how asset maintaince work scheduling can be priortistied . This solid foundation would enable FE to schedule work appropriately and ensure the resources are utilised efficiently.

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	FE added that, prior to GD14 consultation we made no mention of the need for FE to have PAS55. The PCR02 Determination makes no mention of PAS55 and therefore FE argues that the GD14 proposal is inconsistent with previous discussions as previous decisions on allowed maintenance costs were not related to PAS55. FE requests that the 10% efficiency is removed as it penalises FE for not having a system that they were not required to introduce and for which FE could not have recovered the costs. FE argues this goes beyond the bounds of normal regulatory practice.	Compliance with the principles of PAS55 demonstrates a responsible approach to monitoring asset performance and asset risk management. PAS55 compliant processes/systems drive information systems to support RCM review of operational practice to optimise maintenance policies and costs. It is our intention to encourage FE to adopt best practice in these matters in the intertest of consumers. See section above for a response.
81.	**Manpower** **Section D** **(Page 47-52)** FE challenges the proposal to use 2008 as the base point for setting FE's manpower proposals. FE adds that the proposals are inconsistent with the PCR02 determination which provided FE with an average of 56 FTE.	Our rationale for using 2008 as a base point for setting the GD14 allowances was clearly set out in our draft determination paper. However, since the draft determination FE have provided a more detailed breakdown of their historic actual costs and the forecast manpower costs. This has allowed us to re-base the manpower analysis using the 2012 actual costs. We note that the PCR02 determination average of 56 FTE quoted by FE includes those staff allocated to the supply company. It is inappropriate for FE to compare this against the GD14 proposals which do not include supply staff. However we note that the actual FTE employed by the FE Distribution business during the PCR02 period was less than the PCR02 determined allowance.
82.	**Section D** **(Page 52)** FE also argues that they have not inflated their forecast manpower costs for the GD14 period compared to costs over the last 5 years.	We note that FE has included salary increases above RPI in their requested allowances for 2014-2016. It has also included other costs associated with employing staff in their 2014-2016 forecast that have not been incurred in the historic actual costs. In response to additional information received from FE after the consultation period, we have identified apportionment issues between the distribution and supply businesses in FE's actual costs incurred and forecast costs for 2014-2016. It is therefore clear to us that the distribution manpower costs submitted by FE for 2014-2016 have been overstated. The FE manpower section in the final determination provides additional information on this. For the final determination we have used the 2012 actuals as a base point and then allowed additional staff where appropriate to ensure that FE has sufficient resource to run the business.

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83.	**Office Costs** **Section D** **(Page 52 – 54)** **(Page 53)** IT Support – FE confirms that their Parent company no longer use FELIVE as they have moved onto Oracle CC&B.	We welcome this confirmation. We will allow the £61k per annum as agreed on this basis for all IT. To ensure costs are not given twice, the parental recharge for IT will be zero per annum.
84.	**Section D** **(Page 53 – 54)** Heat & Light, Postage, Courier and Cleaning Costs – FE indicate a number of drivers suggesting justification that these costs have increased significantly as follows: • Renewed cleaning contracts; • Increased site security; • Building maintenance; • Energy costs; • Direct mailing increase to increase connections.	We have considered the evidence as presented by FE, however, the arguments and principles of how FE has derived its numbers was not persuasive. It should be noted that many of these costs are attributable to supply and have been allocated on an appropriate basis for the final determination document.
85.	**Section D** **(Page 54)** Other Items – FE suggests that no justified rationale has been given to back up the office cost reduction to allowances.	Paragraph 6.92 of the draft determination explained our position on 'other items'. To aid transparency we have provided all the associated spreadsheets with drivers. We consider that the allowances have been justified. Also, an adjustment to the aforementioned cost lines was deemed necessary to correct allocation issues between the Distribution and Supply businesses.
86.	**Parental Recharges** **Section D** **(Pages 55 to 57)** **(Page 55)** FE welcomes the allowances set in the consultation in respect of Grid Control, GIS and Meter Reading.	We welcome this acceptance as it related to FE's request and we were comfortable that these were exclusively Distribution costs. However, it is noted that meter reading has been considered under network maintenance and emergencies for the final determination.
87.	**Section D** **(Page 56)**	On reviewing the increases as proposed in the business plan submissions and the arguments put forward by FE, we fail to see how the increases have been justified, based on a general increase in the business.

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	FE suggests we have 'fundamentally misunderstood' the reason behind why BGE provide services to the business and that central service costs have been set for GD14 at those 'granted' in PCR01, which is unreasonable due to company growth.	Also, a subsequent clarification from FE allowed us to recalculate drivers on which recharges are based, this showed that the recharges included supply business costs – we have remained with the original basis of determination over central services costs as this is deemed most appropriate
88.	**Section D** **(Page 56)** FE doesn't understand how CER can agree an apportionment basis and drivers for BGE to recharge costs to group companies that do not align with our view, showing differences in Regulatory approach across Ireland.	BGE and the CER operate in a different regional jurisdiction to that of FE and us and our allowances are focused on what we view as the needs of FE to operate its business.
89.	**Section D** **(Page 56)** FE states that *'no IT costs were attributed to FE for 2012'* and that *'Going forward this cost will be a direct charge from a new IT provider and not a recharge from Group'.*	It appears to us that this IT cost is included in both the IT opex and Parental recharges opex lines in the FE submission. Based on the FE comment in their consultation response, we have excluded any allowance from parental recharges, but given this within the IT opex allowance to avoid any double counting.
90.	**Section D** **(Page 57)** FE states that their request of £100k for GTMS system upgrade is to allow an interface with transmission and it challenges our assessment that a Distribution business is paying a transmission cost.	We remain of the opinion that the cost as described by FE is a cost that should be met by the transmission business allowing them to fulfil their legal obligation for third party access.
91.	**Section D** **(Page 57)** FE outlines that the additional £180k per annum requested is necessary to *'take account of extra services provided by BGE Networks due to market opening'.*	We have not been furnished with sufficient information as to how this cost is made up apart from a value quoted in the submission, nor are we convinced that the 'extra services' increase at a marginal rate i.e. these services should be provided at present and increase in magnitude and not volume terms. Further clarification also failed to convince us otherwise. Therefore, no allowance has been given for such a recharge in our final determination.
92.	**Rates** **Section D** **(Pages 57-58)** (P 58) FE states that it agrees with the proposals both in terms of Network and	We are content with our approach for network rates and have retained this approach for the final determination. In response to additional information received from FE after the consultation period, we identified apportionment issues between the distribution and supply businesses in relation to FE's office rates. FE

Ref	Comment	Our Response
	Office rates, however FE argues that we should not reduce the TRV because cash payments for office rates are lower than the accounting charge.	overstated the distribution costs by allocating all office rates costs to distribution. For the final determination, we have therefore adjusted the office rates by allocating the total cost between businesses based on staff headcount.
93.	**Fees & Consulting** **Section 2** **(Page 58-61)** FE disagrees with the position to reduce the allowance granted for audit fees compared to the requested amount as FE's auditors will increase fees based on increasing revenues and customers.	FE's consultation response is inconsistent with its GD14 submission as the GD14 submission forecast audit fees to be flat from 2012 to 2018. We are content with the approach in the draft determination and this remains unchanged for the final determination.
94.	**Section D** **(Page 60)** FE requested an additional £100k in 2014 which was disallowed in the draft determination. FE argue that this is required in relation to ongoing IME3 and other unforeseen legislative licence compliance issues. FE argue that the remainder of the £100k relates to the need for a domestic and small IC NDM (Non Daily Metered) Model which will be paramount to FE opening its market fully to suppliers from April 2015.	Most of IME3 requirements for distribution companies have already been introduced and therefore FE already has obligations under their licence to be fully compliant. We therefore consider that no additional allowance should be granted in relation to IME3. In relation to the need for an NDM model, FE provided no detail in their original submission and made no indication during ongoing meetings with us that they were proposing such a model. FE's first mention of this model was in the consultation response in September 2013 where they stated that consultancy work would be required in addition to capex expenditure to develop the model. As outlined within the Fees & Consulting wording in section 6 and the Other Capex wording in section 8 of the final determination paper, we are not granting any allowance in GD14 for the NDM model. At the Gas Market Opening Group (GMOG) forum we have confirmed that it is expected PNGL and FE will work together to develop a cost effective solution. Our original proposals remain appropriate.
95.	**Licence Fee** **Section D** **(Page 61)** FE agrees with our approach in relation to the licence fee being treated as pass-through.	We have retained this approach for the final determination.
96.	**Insurance** **Section D** **(Page 61-62)** FE highlights that as part of the IME2 and IME3 network separation process, the BGE Networks and Energy (including FE) was placed under separate standalone insurance programmes. FE states that it retendered and procured	In response to information received from FE after the consultation period, we have identified apportionment issues between the FE distribution and supply businesses as FE has not apportioned any insurance costs to the supply businesses. We haves therefore removed some costs from the distribution forecast and allocated these to supply. For the final determination we have changed our approach to FE's network insurance. Rather than using an

Ref	Comment	Our Response
	new insurance costs during September 2013 which included some new insurance policies and also results in increased forecasts for 2014-2016. FE claim that their insurance costs are extremely competitive.	average of historic costs. We have now calculated an allowance for network insurance based on the benchmark of 1.04% of turnover used by Ofgem in their GDPCR price control. An allowance for car insurance and office insurance is then granted based on the submitted costs minus allocations to the supply businesses.
97.	**Smaller Items** **FE look at the items classed as smaller items individually with the following comments made:** **Section D** **(Pages 62 – 65)** • (P62 – 63) – Bank Charges – FE outlines that we have provided no explanation as to why it has disallowed 52% from the submitted charges as the costs included here do not relate to borrowings. FE requests reinstatement of submitted values. • (P63) – Professional Subscriptions – FE outlines that we have not explained why c£10k has been taken from the submitted costs, as the amount was based on FE actual charges during PCR02. FE refers to our PCR02 analysis where an average of £400 per FTE was allowed. FE requests reinstatement of submitted values. • (P63 – 64) – Training – FE states that we have not explained why £164k of training costs has been disallowed from the submitted costs. FE states HSENI statutory duties mean that in 2013 (explaining the 'hike' in costs) and every 3 years subsequent, £28.5k is required to train engineers in 24hr emergency contact and response. Also FE outlines a table of training required covering one off, 3 year and 5 year costs	Smaller Items total less than 5% of submitted allowances and we clearly set out the approach to such items in our draft determination document of 16th July 2013 – paragraphs 6.126 to 6.131. As outlined in the draft determination document of 16th July 2013, the allowances were based on an average of 5 years actual/forecast values which we remain comfortable with. The approach taken is consistent with the other NI GDN and PCR02 assessments do not set a precedent to how costs will be granted in the future, actual costs give a clearer indication of the costs faced by FE. FE has not provided any meaningful evidence to persuade us to reinstate submitted costs, thus, we are comfortable with our allowances and submitted costs will not be reinstated. In addition, allowances for Professional Subscriptions, Training and Travel and Transport have been adjusted for activities within the supply businesses, giving a reduction against the draft allowances.

Ref	Comment	Our Response
	applicable to the business totalling £120,430. FE requests reinstatement of submitted values. • (P65) – Travel and Transport – FE outlines that we have not explained why £124k of costs were disallowed from those submitted. FE outlines a per employee cost of £3.7k per annum with 1% annual increases across GD14 due to network growth. FE quotes the analysis from PCR02 that average costs allowed were c£3.7k per FTE. FE requests reinstatement of submitted values.	
98.	**firmus energy Price Control Section D (Page 66 – 67)** FE make reference to the "Netback" arrangements that were set out in 2005 to exist during supply exclusivity. FE state that our lack of adherence to the spirit and intention of the "no profit no loss" principle is concerning. FE questions why the GD14 draft determination did not explicitly mention the netback arrangement and also questions the decision to undertake a supply price control. FE claims that the continuing lack of transparency around important issues such as the "no profit no loss" arrangement adds to the perception of instability and regulatory risk in NI and within the FE business and will bring into question FE's view on the viability of future investment in NI.	FE's supply exclusivity is set out transparently in the licence, as is the need to allocate costs between businesses appropriately. As with the early years of the PNGL licence the principle of "Netback" is that during exclusivity net revenues from the supply business (after efficient supply costs) will contribute to the distribution business as conveyance charges. This does not provide for consumers to pay for inefficient supply costs, particularly through allocating costs from other businesses to the Ten Towns supply business. Clearly such action would be a licence breach. Supply exclusivity has already partly ended and will completely end in 2015 which will require a supply price control. As a result of analysing supply costs we have identified a number of areas where costs have not been properly allocated and this has resulted in changes in the final determination. Our review of supply costs allows FE transparency on what we view as efficient and properly allocated supply costs for Ten Towns. We view this as a superior approach to the alternative of taking enforcement action after a licence breach has occurred.
99.	**Capital Expenditure Section E**	

Ref	Comment	Our Response
	(Page 68-86) **Overview** (P68) FE argues that their expectation at the start of the GD14 process was that we would follow the precedent set by the PCR02 process for capital expenditure.	See earlier answers on process
100.	**Section E** **(Page 69)** FE states that at a meeting on 12 September 2013, we advised that Rune's analysis was based on Ofgem's analysis of the Northern Gas Networks as this network was comparable to FE as it contained both urban and rural areas. FE believe this is a misleading comparison.	We believe FE has misunderstood the comparison made to GB at this meeting. We used Northern Gas Networks as an example to indicate the geography of its area, which includes rural areas. Ofgem considered geographical differences between distribution networks and concluded that no uplift should be granted for working in a rural or urban area. The only exception to this was the London area which is treated differently due to the higher cost of working in a very populated area.
101.	**Section E** **(Page 70)** FE suggests that the FE and PNGL networks are not comparable based on the size of the area and density of housing in each area and on the network design in each area. FE also suggests that it is not appropriate to use PNGL rates for the basket of works analysis in order to determine allowances for FE. FE adds that it believes that the basket of work approach fundamentally misrepresents the differences between FE's rural network, PNGL's urban network and GB GDN's mature networks.	Benchmarking is an essential tool for any regulator to provide an assessment of the performance of regulated companies. Ofgem has similar issues in relation to size and scale of GDNs and has used benchmarking in GB to good effect. The CC's provisional determination of the NIE RP5 price control emplasised that benchmarking should be used where available. It was specifically intended that the opportunity to review both PNGL and FE in GD14 would enable comparisions between PNGL and FE. When comparing the capex unit rates for PNGL and FE (who use the same contractor for constructing the mains and services), the costs given in the business plan submissions for similar activities are very different. Faced with these differences in how the costs are reported led us to use synthetic rates in the benchmarking analysis. This allows a more meaningful comparison between FE and PNGL. We recognise that care must be taken to ensure that comparisions are done on a reasonable basis. Since the draft determination we have asked Rune to review the benchmarking to identify if any improvements in the comparitors can be established and both FE and PNGL have assisted in providing additional information to this end. The most significant change has been to move to narrower more specific work activities which has made a difference in the performance assessment of the two companies in 2011. Our assessment now shows that the two companies are close enough in their actual performance in 2011 that we have used their own levels of performance to roll-forward our recommendation for the period 2014 - 2016. The allowances granted in the final determination are also based on more specific work activities (i.e. pipe sizes and meter sizes).
102.	**Section E** **(Page 71)** FE argues that we ignored their anticipated 15% uplift in unit rates. FE are currently in the final stages of its period contract tender process and FE believe that the rates will increase when the new period contract is finalised.	We would highlight that the 15% uplift is a simple estimate provided by FE, with insufficient evidence to substantiate such an increase. The issue of real price effects is dealt with in section 14.

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103.	**Section E** **(Page 72)** FE argues that it should be treated differently to PNGL in setting capex unit rates due to the following reasons: • PNGL, being larger, has greater opportunities for economies of scale; • FE has a sparse rural network compared to PNGL's concentrated urban network; • PNGL's licence is based on maximising the number of existing domestic supply points targeted for connection, while FE's model reflects that they are still developing the gas network as well as connecting customers; FE therefore argues that the basket of works approach will suit PNGL as it is based on a connections model; rather than FE's volume based model.	We are clear that PNGL & FE should be benchmarked as comparitors. We acknowledge that in undertaking comparisions, valid conditions outside of the control of each company should be taken into account where they have a demonstrated material impact on the costs of delivering a service. In benchmarking companies FE, PNGL and GB GDNs, no two companies will have the same characteristics and therefore judgements will be required to provide reasonable comparisions. For the final determination, we have concluded that FE and PNGL are both operating at comparable levels of performance in 2011 and we are therefore using each companies own performance in 2011 to roll forward to determine allowances in GD14. Hence, we believe FE's concerns are not an issue for this review.
104.	**Section E** **(Page 72)** FE believes that the proposed unit rates have been based on PNGL restated works and FE requested that we would amend its analysis to base determined allowances on FE rates rather than PNGL rates. (Page 73) FE adds that no justification was given for the significant differences between allowances for PNGL and FE in relation to I&C service and meter costs. (Page 76) In addition, FE does not consider it appropriate to combine pipe sizes that are greater than 180mm with pipe sizes that are less than 180mm as it does not allow a change in work type and it may result in the consumer paying more than necessary.	At the time of publishing the draft determination, the benchmarking analysis carried out by Rune set blended rates which covered a number of different pipe and meter sizes. The analysis resulted in FE appearing to be inefficient in comparison to PNGL. For this reason we used PNGL's 2011 workloads and actual costs to set efficient unit rates for FE for the GD14 period. Since the draft determination, we asked Rune to carry out additional benchmarking analysis and both FE and PNGL assisted in providing additional, more detailed information on pipe and meter sizes, costs and activity workloads to allow further assessment of the costs and workloads. This additional work identified that the main reason for FE's inefficiency was that FE was laying larger diameter pipes and larger size meters which are more expensive. This therefore meant that the allowances proposed in the draft determination were insufficient to cover the costs actually incurred by FE in its future workload. The differences in service and meter allowances for PNGL and FE in the draft determination are also explained by the fact that the two companies have been fitting different size meters historically and have forecast different mixes of meter sizes in the GD14 period. We have taken this additional analysis on board and as stated above, for the final determination we have updated our allowances to use FE's own 2011 performance rolled forward to determine allowances for the GD14 period. The impact of this approach can be seen in the final determination paper.

Ref	Comment	Our Response
105.	**4 Bar and Feeder Mains** **Section E** **(Page 76)** FE adds that due to its stage in the development cycle, it is still installing substantial amounts of large diameter 4 bar feeder mains to get gas to areas where infill mains will be laid (e.g. NIHE and New Build sites). FE also argues that we have imposed PNGL's reporting procedures onto FE in order to make benchmarking comparisons and FE feel that this is inequitable.	On asking FE to substantiate the rationale of laying further 4 Bar and Feeder Mains, they identified 4 separate type of projects as follows which they plan to target: • New build • NIHE Projects • IC Projects • Security of Supply In principle, FE states that all projects are NPV positive (that is to say, when all costs of constructing the gas mains, including the service and meter cost are considered against the likely revenues, over a suitable time frame and rate of return, this calculation is positive) On reviewing FE's analysis for these projects we could not identify the detail of how many properties would be passed, what type of property and the likely revenues from future connections. We have decided to ring fence this area of cost allowance, subject to a further review of the qualitative benefits that will be derived from these projects. If these projects are NPV positive, they will be approved and allowed. In the final determination we have treated this area of cost in the same way as infill mains, as until FE provides evidence to the contrary, we consider that the fundamental purpose of these projects is to connect customers.
106.	**Infill Mains– Existing Housing Domestic and I&C** **Section E** **(Page 77)** FE indicates that the majority of the requested infill mains for the GD14 period will be used to connect NIHE properties (of which about 51% is government owned, with the remainder being privately owned). FE advises the requested lengths of infill are based on PCR02 actual lengths per connection as follows: • NB - 18.1 metres per connection • NIHE – 26.0 metres per connection • I&C – 52.0 metres per connection • OO – N/A	The mechanism for allowing infill applies to NIHE, OO and small IC and so is relevant for FE. For the draft determination, we used the same analysis as for PNGL in this area, as FE was unable to produce a sufficient level of detail. As with mains above we require clear evidence from FE on how many properties would be passed, what type of property and the likely revenues from future connections. After discussion with FE we still do not have this information. We have therefore decided to ring fence this cost area, subject to a further review of the qualitative benefits that will be derived from these projects. We consider that if all these projects are evidenced by FE as being NPV positive then they will be approved and allowed. The allowance for infill is to incentivise the GDNs to lay gas pipes in the most densely populated streets to

Ref	Comment	Our Response
	FE has not included any infill mains for OO properties as they assume these properties will be “readily connectable” from the existing network. FE states that they would have to revisit this assumption if we are interested in increasing the infill beyond FE’s existing network. FE disagrees with our proposal to combine exiting domestic and I&C into one rate as FE argues this is not cost reflective due to the different pipe sizes used in connecting the different customers.	ensure the maximum number of potential customers have the opportunity to switch to natural gas. While it is accepted that the GDNs should build in the most densely populated area we need a mechanism for determining where the boundary lies between economic and uneconomic infill mains. We do not accept that FE does not have any such areas in its network and we would be concerned if FE is not serving these customers in its licence area. If a GDN is not servicing economic areas within its exclusive licence we would need to take action. We understand that FE will now consider how to meet this demand in its area. The issue raised by FE regarding pipe sizes has now been addressed in our revised approach to benchmarking and allowance setting whereby these are now carried out at the specifc pipe size level. This has been detailed in the responses above.
107.	**Infill Mains – New Build** **Section E** **(Page 79)** FE states that the proposed 5.9 metres per property passed/connected (as the actual figure experienced by PNGL) does not reflect the number of metres per new build property in the FE licence area. FE has cited NI 2011/12 housing statistics stating that the density of housing in the FE area differs to that in the PNGL area. FE argues that the lower proportion of terraced houses and apartments in their area indicates that the distance between properties will be significantly higher for FE compared to PNGL. FE requested 18.1 metres per connection for New Build properties (the 2009-2011 average).	We note that the proposal in the draft determination was 5.9 metres per property passed. It was not related to metres per connection as FE indicates in its response. FE was unable to provide a breakdown of properties passed by tenure (i.e. NIHE, New Build, OO and I&C). As with all other mains we will ring fence this area and await further evidence from FE to justify expenditure.
108.	**Pressure Reduction Stations** **Section E** **(Page 79)** FE accept the proposed allowances.	We welcome FE acceptance.
109.	**Services and Meters** **Section E** **(Page 81)**	The issues raised by FE regarding domestic service types, and I&C service and meter types has now been addressed in our revised approach to benchmarking and allowance setting for the final determination whereby these are now carried out at the specifc domestic service types and I&C service and meter sizes.

Ref	Comment	Our Response
	FE feels that combining all categories of domestic service (i.e. NIHE, Existing and New Build) into one blended rate may be inaccurate. Similarly FE does not agree with the approach of combining all I&C meter and services when determining allowances.	The impact of this change in approach can be seen in the final determination paper.
110.	**Section E** **(Page 81)** FE notes that their submission for domestic meters was based on the current allocation of credit and prepay meters in the FE licence area. FE does not understand how we calculated the value of domestic meters in the "restated submission". FE asked for transparency on how this allowance was calculated and asks that the allowance reflects the current meter split. FE makes the same comment in relation to I&C services, that they do not understand how we calculated the "restated submission".	The approach to the majority of the capex works, including domestic meters is to assess the workload in terms of a basket of work. In order to establish the basket approach we used the relative costs of each work type on a common basis. In terms of domestic meters the same assumptions have been used for all meter types (prepayment or credit) as although there is a small differential in the capital cost, it is not considered material in the context of the complete installation cost. We have explained this process to FE and have shared the calculations for all capex items including meters, domestic and I&C.
111.	**Telemetry** **Section E** **(Page 83)** FE indicates that it is experiencing increasing numbers of faults with its current telemetry system and the requested allowance (£100k for 2014-16) is required to extend and upgrade the current telemetry system. FE argues that as competition in the FE licence area increases following full market opening in 2015, the need for a telemetry system providing reliable data in a timely manner will become more important. FE believes that it will need to implement a more comprehensive monitoring system in	In the draft determination, we stated that FE must provide detail on the extensions and upgrades that FE is proposing during the GD14 period in relation to requested allowances for telemetry. FE has provided some detail on this in relation to an information request from us after the consultation period ended. We accept that the accuracy of telemetry equipment may have a greater importance when the market fully opens to competition from April 2015 and we have therefore increased the allowance in relation to telemetry to £60k over the three year period of the price control. We expect FE to produce a detailed report at the end of 2015 which details the improvements and upgrades that FE has carried out, along with the benefits and the costs incurred. We will consider this carefully at the next price control. We note that PNGL is also seeking to upgrade its telemetry systems and we therefore expect FE and PNGL to work together to find the most efficient and effective solution possible.

Ref	Comment	Our Response
	the future and are currently investigating such systems but has not requested any allowance for this in GD14.	
112.	**IT and Office** **Section E** **(Page 84)** FE indicates that in order to facilitate full market opening, it needs to develop a Non Daily Metered (NDM) Model for non-contract customers. FE plans to install 180 telemetry readers across the ten towns area to collect data. It also intends to employ TPA Solutions to develop the model. FE has forecast £500k for this work over 2014 and 2015. Through a separate information request, FE informed us that the additional expenditure forecast for 2014-2016 related to a request of £50k per annum for fixtures and fitting and computer hardware.	We note that in the draft determination we misquoted the requested allowances under IT and Office as £239k, £239k and £40k in 2014-2016 respectively. The correct amounts requested by FE were £300k, £300k and £50k in each year from 2014 – 2016. In its original submission, FE states that £125k of the total amount requested was required to develop an automated switching system to facilitate full market opening in 2015. FE provided no justification for the remaining £475k over the three year period. In the draft determination, we granted a ring fenced allowance of £100k in 2014 for the switching system. We note that FE's consultation response does not mention the requirement for an allowance to develop an automated switching system. FE now argues that the requested £650k is mainly required to develop and implement a NDM model with the remainder for an annual allowance in relation to fixtures and fitting and computer hardware. For the final determination, we are therefore not granting any allowance in relation to FE's proposed NDM model. We will however continue to allow £100k ring fenced in 2014 for an automated switching system, but as stated in the draft determination, FE will be required to provide a detailed business plan to justify the costs. For the final determination, we have also granted £35k over the three year period in relation to fixtures and fittings.
113.	**Traffic Management Act** **Section E** **(Page 85)** FE agrees with the proposal to allow a10% uplift on the mains program of work, and to deal with variations against actual costs via the retrospective mechanism.	We welcome FE's acceptance of our proposals in relation to the Traffic Management Act.
114.	**FE Volumes** **Section F** **(Pages 87 – 104)** **(Page 87)** FE disagrees with the consultation that volumes would not be affected by closures as we are "in the midst of the most significant recession in a generation".	We have taken the view that general closures will be replaced by general openings in their place. No specific indications were given about customers at risk of closure in GD14. Also, in the volume model populated by FE, there is no indication of customer losses other than a 'general' reduction being applied and compounded annually.
115.	**Section F** **(Pages 90-91)** FE notes that we accepted the P1 to P3 connections in GD14 with the exception of	We accepted the most recent FE submission model, which appeared to have 4,000 P1 additions in it compared to 3,800 in the original submission. FE has clarified this as an error and we have updated to 3,800 for our final determination. This had added c37k therms to the volumes target in 2016 or less than 0.1% of

Ref	Comment	Our Response
	2016 P1 (Dom), in direct conflict to what is stated in the consultation document.	total 2016 target.
116.	**Section F** **(Page 91)** FE expresses concern about the model that was populated and presented to FE in the GD14 original submission.	We sent a revised volume model to provide enhanced transparency and gain greater clarity over customer additions/losses and usages. This was to ensure a better understanding and more accurate calculation based on drivers for volumes. We are of the opinion that this model delivers the desired objectives.
117.	**Section F** **Reassessment of Volumes** **(Page 92 – 96)** FE opinions on the assessed volumes are: • (P92) – FE acknowledges that we have broadly allowed the requested P1 consumption, however, FE notes that its submission was incorrect as it estimates 291tpa to be more appropriate and a table on the volumes impact suggests an overall reduction of about 5.8m therms. • (P94) – FE outlines its opposition to the volume model on the basis that it calculates a higher annual average value over GD14 resulting in P2 (SIC) volumes 1.5m tpa higher. FE then states that it supports the rationale of the average falling over the period as larger customers become less available in this category over time with volume diluted. • (P94 – 95) – FE reassesses the data on average burn and requests that this be reduced by c580tpa (12%) per customer, an overall reduction of c3.3m therms. • (P96) – FE has reassessed the data on outturn burn for P3 customers and requests that its original submission be revised	We find it surprising that such a reduction of the average domestic gas burn from about 390 to about 291 therms per annum (tpa) would occur within 9 months of the original submission. This suggested level of gas burn would have significant implications on the economics of marginal connections and, in turn, allowances for FE We welcome FE's support of the rationale employed. The model allowed a reassessment of burns on a more transparent basis being driven on monthly additions and losses to customer base with applicable burn assumptions being employed. FE had the opportunity to assess and suggest amendments to the model provided to them and chose to remain silent. FE has now supplied evidence and the data indicated that c174 customers have annual usages < 394tpa (i.e. lower than that of a P1 domestic), the exclusion of such customers from the calculation results in an average P2 usage similar to that in our detailed volume analysis model. Thus, our original assumption is retained in this category. Additional information presented by FE was based on a declined outturn estimated for 2013, however, we have used quarterly actual exit figures to back up retention of the original volumes (see below for further detail).

Ref	Comment	Our Response
	down by c715 therms per annum to reflect this. This leads to about a 3m therm reduction against the proposal (2.1m therms lower than FE's own original submission).	
118.	**Section F** **(Pages 97 – 103)** FE outlines a concern over P4 to P6 declining volumes through their own analysis and in relation to Government data on the Economic outlook in NI, they present the following:	FE has since presented a revised estimate of 2013 total outturn where FE suggests a reduction of the total volumes (P1 to P6) from c54.9m to c52.5m therms. However, from the Q1 to Q3 exit data using the average quarterly profile from 2009 to 2012 we calculate the likely outturn for 2013 to be c55.2m therms (this equates also to our original analysis).
	• (P98) – That NI should not be based on GB models as FE's graph and research suggests NI is a different market and there is evidence of downward trends in all P categories.	FE has provided limited information for customer closures apart from a paragraph on NI Composite Economic Index and GB GDP, comparison to 2007 NI CEI and indication of a similar pattern in the private sector. All this information was considered as part of the original business plan submission where individual contract customers were assessed on an individual basis for annual volumes, which we have not adjusted. We have disallowed the 'general' reduction for closures given the lack of evidence provided as well as adjusting the volumes to reflect agreed Additional Development Areas (ADAs) volumes and exclusion of any interruption for the P6 (interruptible) category.
	• (P98) – Table 57 presents totals for customer closures in the contract sector (about 0.9m tpa).	FE presents a total PCR02 closure table of 0.9m tpa, which equates to c1.4% of the GD14 volumes assessed by us (which did not take into account actual replacement volumes) further evidence that the 2.5% annual reduction is inappropriate.
	• (P98) – As well as closures there is a general reduction in volumes for contract customers and FE provided an example of a large customer failing to meet usage by about 0.8m tpa from 2008.	We note that the customer in question has had their annual volume reduced to reflect this known underperformance within the detailed volume model already by FE, so any further reduction would be double counting; no adjustment has been made.
	• (P103) – An example of one customer closure in 2007, replaced with a lower burning customer, who subsequently closes, leaving a 500k tpa gap in the annual volumes.	This is a single example in PCR01 (that will have been set at zero in determining PCR02 and also GD14 volumes), however, 2007 was the start of recession. FE were challenged to provide further analysis and evidence for consideration and to date, have failed to provide sufficient arguments to convince us that our assumptions are incorrect.
119.	**Section F** **(Page 104)** FE quotes the PCR02 determination on the basis for allowance of 22.5 days	FE was given a reduced interruption allowance as part of PCR02 as no events of interruption occurred in PCR01. Now we are into the 3rd price control and FE have still had no significant interruptions to P6 (Interruptible) customers. Thus, the actual evidence across the previous price controls suggests that in

Ref	Comment	Our Response
	interruption for P6 (Interruptible) customers. FE would like to know what has substantially changed to justify the GD14 approach.	respect of interruption zero days are appropriate allowance for GD14.
120.	**Adjustments from Previous Price Controls** **Section G** **(Pages 105 – 108)** **Retrospective adjustments** • TMA – agreed • Connections, meters, A+M+PR – volumes could be updated • Rates – no basis in licence to use cash accounting instead of expenditure • NIHE – FE is "disappointed" that its request for additional capex has been rejected • Felive – FE believes the expenditure should be allowed • Banbridge – FE requests these costs to be allowed once licence modifications are made • Additional areas – FE requires confirmation that additional volumes have been taken into account in calculating under-recoveries and also gamma **(Pages 107 – 108)** **TRV** • FE requests confirmation that the depreciation adjustment of £2.8m only corrects a PCR02 error. • Additionally a similar error where assets are not removed from the depreciation calculation may be in the current model. **Under-recoveries**	**Retrospective Adjustments** • TMA – we have left as in the draft determination • Connections, meters etc have been updated for 2012 actuals in the final determination. • Rates – This will be treated as Pass Through, subject to FE demonstrating that it has taken appropriate actions to minimise the valuations • NIHE – We would note that FE did not request permission to be allowed additional expenditure in advance of its request as required by its licence and has not provided adequate information in response to queries. We have included a figure of £1.5m in the retrospective mechanism for 2013. We will be updating all 2013 retrospective figures in GD17 and are minded to allow up to £1.5m if the relevant information is provided. • Felive – FE has provided no justification for allowing the expenditure in its response and the expenditure will not be allowed. • Banbridge – our decision not to allow these costs is based on previous correspondence as advised to FE • We confirm that additional volumes have been taken into account in calculating under-recoveries and also in calculating the gamma term in the licence **TRV** • This adjustment has now been calculated to be about £3.1m. This adjusts for the difference in the Opening Asset Value (OAV) and depreciation calculation error between the PCR02 determined model and the correct OAV and depreciation calculation. • We confirm that we have reviewed the depreciation calculation in the TRV model and that it now working correctly **Under-recoveries**

Ref	Comment	Our Response
	FE believes that the risk to under-recoveries is the "risk to regulatory principles", that increasing under-recoveries encourages customers to convert to gas, that the current regime does not create a perverse incentive to increase under-recoveries and that it is inappropriate "to set an arbitrary date for the reduction of under-recoveries".	The economics of converting to gas have been very appealing over the last five years given the difference between the price of gas and that of other fuels and the amount of under recoveries FE has built up is surprising in this context. We continue to be concerned that the rate of return of 7.5% on under-recoveries is an incentive to build up under-recoveries and nothing in the FE response has changed our mind. Large under-recoveries can skew the economics of the industry and create risk, in particular as these will need to be unwound at some stage. We reiterate that we will consider future licence modifications to reduce the return on under-recoveries in GD17 and remove any incentive to build up under recoveries. We will take into account whether sufficient progress has not been made to reduce the under-recovery significantly.
121.	**Financial Issues** **Section H** **(Page 110)** **Rate of return** - FE states that it is unhelpful to use 4.83% as the post 2016 rate for modelling purposes as this sets expectations to stakeholders - Ofgem uses an indexed cost of debt which is not the case in NI - GB WACC is an inappropriate benchmark - Firmus is not low risk - RAV:totex should not be used to determine WACC - Separate returns should not be used on different components of TRV **Depreciation** - FE sees no reason to change depreciation policy	**Rate of return** The use of 4.83% for modelling purposes is not intended as a final decision and full consultation will be undertaken in GD17. We have highlighted in the draft determination that the risks of FE may be higher or lower than GB GDNs. We have noted the increased risk with a price cap although we plan to review this before 2017. We will undertake an analysis of the comparative and absolute risks faced by FE. The consideration of an appropriate WACC will include consideration of cost of debt and whether an indexed approach is appropriate. During GD17 we will review our methodological approach to setting the cost of capital and FE's helpful comments are noted. We also refer readers to the response given to the issues raised by PNGL in section 48. **Depreciation** We have concluded that depreciation policy will not be changed in GD14 but we will consider whether a consistent depreciation policy for GDNs should be implemented during GD17.
122.	**Draft GD14 Outputs** **Section I** **(Page 125)** **Designated parameters** The differences between FE and our proposals are: FE wants alpha, the parameter	**Designated parameters** - An alpha of 0.4 provides greater flexibility in tariffs for FE. - FE has not provided a strong or reasoned argument for not having a capex rolling incentive. It is an established, proven methodology in GB energy regulation and it provides stronger incentives on

Ref	Comment	Our Response
	that restricts the amount that actual revenue can exceed allowed revenue, to be 0.3 compared to 0.4 proposed • FE does not want the capex rolling incentive to be switched on until the business is more mature and stable **Under-recoveries** FE believes that our request for consultation responses on the appropriateness of FE under-recoveries receiving the full 7.5% cost of capital is unfairly loaded and inappropriate, and requires full consultation **Efficiency target** FE is concerned that the proposed efficiency target: • Double counts efficiency • Has insufficient evidence • Does not consider Real price Effects	licensees and enables customers to benefit from capex savings after 5 years. It also reduces the risk to licensees in the event that there are capex overspends. Accordingly the capex rolling incentive mechanism will be switched on in GD14 consistent with PNGL. **Under-recoveries** See section 120 above for further discussion. **Efficiency target** We have refined our efficiency analysis and looked at both efficiency effects resulting from the move of the economic frontier and those resulting from catch-up with the economic frontier. Our approach is detailed in the final determination document. We have determined the efficiency effects resulting from the move of the economic frontier and an annual productivity increase of 1% for both Opex and Capex. This led, with consideration of real price effects, to an average annual frontier shift of -0.8% for opex and -0.7% for capex. We consider that these figures are appropriate and in line with regulatory practice. With respect to catch-up with the economic frontier, we have performed comparative analysis for selected elements of the GDN cost base, and the findings of that analysis are reflected in our proposed allowances. These efficiencies are different from efficiencies resulting from the frontier shift and therefore do not constitute double-counting.
123.	**Uncertainty Mechanism** **Section J** **(Page 130)** **Rolling incentive mechanism** The draft determination position is to switch on the capex rolling incentive mechanism. FE would like to understand the rationale for this without a full and transparent consultation **Materiality threshold** FE believes that the existing licence conditions are adequate and no materiality threshold is required	**Rolling incentive mechanism** The interim determination was a transparent consultation. See answer to 122 for capex rolling incentive rationale. **Materiality threshold** It is not in customers' interests for us to consider requests for very small expenditures. Note that the proposed materiality threshold compares favourably with the materiality thresholds set as part of other price controls. E.g. RIIO-GD1 limits reopeners to specified cost areas subject to a materiality threshold of around 1% of revenue. Consequently we are not changing the materiality threshold of £100,000 for requests for additional costs as indicated in the draft determination.

Ref	Comment	Our Response
124.	**Further Issues** **Section K** **(Page 131)** **Cost reporting** FE considers that the 2010 guidelines for cost reporting are adequate and that our intent to evolve robust and consistent reporting templates to enable a better insight into costs and more effective cost comparison "is disingenuous" **Price cap v revenue cap** FE considers that, as it is only 8 years into its 30 years' licence, it is still an immature company and as such a price cap is more appropriate than a revenue cap **Profile of revenues** FE further reiterates that a date should not be set for elimination of under-recoveries **Consumer and stakeholder engagement** FE describes its consumer engagement and questions why there was not more stakeholder engagement during GD14 **Energy efficiency and shrinkage gas** FE outlined its contribution to energy efficiency and assisting vulnerable customers **Meter reading** FE agrees that responsibility for meter reading should be moved to GDNs providing there is full and transparent consultation.	**Cost reporting** Our intent is to develop more effective cost reporting to provide appropriate information for cost comparison. Consistent with the CC provisional determination for NIE we believe this will bring significant benefits for all parties. **Price cap v revenue cap** A price cap provides a strong incentive to make new connections and drive volumes but this reduces as significance of new connection volumes reduces. PNGL's control was changed to a revenue cap in 2007 11 years after its licence commenced to reduce this risk. We have made clear our intent to keep the price cap in place for GD14 and to review whether a revenue cap is more appropriate during GD17. **Profile of revenues** See earlier comments on under-recovery **Consumer and stakeholder engagement** We note FE's comments. We met regularly with CCNI during the price control process and set up a stakeholder workshop held in September. We intend to set out proposals for greater consumer engagement during GD17 **Energy efficiency and shrinkage gas** No comments **Meter reading** We will consider this in GD17.
125.	**Next Steps** **Section L** **(Page 140)** • FE is concerned that a nine week response time is inadequate • FE is concerned that the stakeholder event was just two weeks before consultation close	The nine week response time compares favourably with Ofgem's response time for RIIO-GD1 initial proposals for example which was eight weeks. We are unclear why FE regards nine weeks as inadequate. Similarly we do not understand why a stakeholder event two weeks before consultation close was inappropriate. We would welcome wider attendance at stakeholder events and look forward to dialogue with FE to ascertain how this might be achieved.

Ref	Comment	Our Response
	and that attendance does not reflect the NI energy landscape • FE notes that licence amendments must be dealt with by the licence modification process	We will use the licence modification process to implement any licence modifications.

Comments from respondents other than PNGL and FE

In the section below we address all responses excluding the ones from PNGL and FE.

Ref	Organisation	Comment	Our Response
126.	**Major Energy Users' Council**	**Savings (page 1-2)** The Major Energy Users' Council welcomes the proposals contained in the consultation document and the downward pressure they place on gas transportation prices. The Major Energy Users' Council notes that the worked examples related to savings are directed at the domestic market and expect that similar savings apply to Industrial and Commercial customers.	As the determined tariffs for 2014-2016 for both PNGL and FE are lower than the determined tariffs for previous years across all customer categories, savings will apply for Industrial and Commercial customers as well as domestic customers. The expected amount of the savings will depend on the annual burn and – especially for large Industrial and Commercial customers – can be expected to be higher (in absolute terms) than for domestic customers. Also we have noted above that the current level of under recoveries may impact on how the customers' actual tariffs will change.
127.	**Major Energy Users' Council**	**Length of Price Control Periods (page 2)** The Major Energy's Users Council understands the reasons for the current price control being three years, is pleased about the return of GD17 to a five year price control and suggests that longer price controls should not be ruled out in the future.	We will be consulting on the duration and form for the GD17 price control closer to the time. Whilst it is our view at this stage that five years would be a reasonable duration for the GD17 price control, we do not rule out a longer duration then or for future price controls.
128.	**Major Energy Users' Council**	**Consultation Timescales (page 3)** The Major Energy Users' Council expresses concern about the consultation timelines and suggests the GD17 price control process should be more timely, to allow for potential Competition Commission referrals and reduce the related delays and uncertainties for major energy users.	It is our plan to start the GD17 price control process with sufficient lead time to allow for a comprehensive review of the business plans submitted by the GDNs as well as for extensive consultation and engagement with all relevant stakeholders. We will also consider the introduction of enhanced templates for business case submission and cost reporting ahead of GD17 to improve consistency and comparability of the data provided.
129.	**Energy Saving Trust**	**Impact on Carbon Reductions (page 1)** The Energy Saving Trust highlights	As outlined in our final determination document, the new connections allowed for in the GD14 price control will entail a reduction of 47.8 ktCO_2e (43.8 ktCO_2) for PNGL new connections and of 22.2 ktCO_2e (19.5 ktCo2) for FE new connections. Out of these,

Ref	Organisation	Comment	Our Response
		that continuing investment in the gas network as a stimulus to lower carbon energy use cannot be overstated. In addition, the inbuilt obligation to install high efficiency boilers as part of the licence agreements ensures that energy efficiency is maximized when compared to oil – a further catalyst of lower carbon heating installations.	14.9 $ktCO_2e$ (14.5 $ktCO_2$) for PNGL and 6.6k tCO_2e (6.4 $ktCO_2$) for FE can be attributed to new owner occupier connections made under the new incentive scheme.
130.	**Consumer Council**	**Savings** **(pages 1, 5-6, 13)** The Consumer Council welcomes the proposed savings. It also states that the cost of natural gas needs to be balanced with the need to ensure the highest standards of safety, continuation of supply and customer service standards.	In line with our statutory duties, we have, as part of the GD14 price control, balanced the interests of consumers both current and future, with those of the GDNs, and we have ensured the GDNs can finance their activities. We recognise the importance of standards of performance in protecting the interests of gas consumers and have published, on 25 October 2013, a consultation on the drafting of the Gas (individual standards of performance) Regulations (NI) 2014[2].
131.	**Consumer Council**	**Robustness of Analysis** **(pages 1, 6, 13)** The Consumer Council is concerned whether the process of gathering and analysing information is sufficiently robust. In particular, the Consumer Council is concerned at the considerable difference between the requested and allowed costs for both companies, notably the 45 per cent gap in the FE opex allowance. The Consumer Council believes that this raises a concern about the regulatory process, and the accuracy/ extent of the information used by parties to arrive at the proposals. The Consumer Council states that for future Gas Distribution Price	We share some aspects of these concerns as we have not been content with the quality of some of the information we have received including numbers being pasted into spreadsheets with no explanation. However we have thoroughly analysed and assessed the information provided by the regulated companies and engaged extensively through a number of information requests and through regular meetings with the GDNs. We have also set out our analysis in an extensive draft determination to explain the GDN submissions and our draft proposals. We note that CCNI do not provide detailed views on many of the issues which explain the gap and are set out in the draft determination. If GDNs submit proposals for large increases in costs and do not justify them in their business case it is not surprising there are large gaps. It does not mean there is an issue with the regulatory process but is more likely to mean there are issues with the business case submissions. No regulatory process can prevent a GDN requesting large increases in allowances. Given the issues we have had in GD14 it is our intention to revise information structures and submission procedures in preparation for GD17 to ensure the GDNs can provide

[2] See Consultation on the drafting of the Gas (individual standards of performance) Regulations (NI) 2014 for further details.

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		Controls, engagement between the Regulator and the regulated company to agree and deliver the required information must be the key priority at the very outset of the price control process.	the required information in a transparent, high quality, consistent and timely manner. In particular, we intend to work closely with the GDNs in implementing an enhanced, robust and consistent system for cost reporting.
132.	**Consumer Council**	**Asset Management System (pages 6-7, 13)** The Consumer Council states that consumers can have no confidence in the arguments presented by either GDN or the Regulator on asset management where there is no agreed and verifiable data. It is the Consumer Council's view that a significant aspect of the information gap is the failure of PNGL and FE to introduce an asset management system. The Consumer Council requests the Regulator to instruct PNGL and FE to introduce an asset management system that satisfies the Regulator and consumers on the robustness of the data provided.	We have engaged specialist engineering consultants to perform detailed analysis with regards to maintenance and asset management, including benchmarking between the NI GDNs and with GB companies. Consumers can have confidence that best practice regulation and benchmarking has been applied in considering these issues. We agree that an Asset Risk Management system or reliability-centred maintenance system is an important pre-requisite for improving the efficiency of asset management operations, realising related cost savings for consumers and enhancing the robustness of reporting. Therefore, we have suggested to PNGL in the last three price controls (PC02, Phoenix Natural Gas Price Control 2007-2011, PNGL12) and to FE in its last price control (PC02) that they should implement such a system. PNGL has now commenced the development of a comprehensive asset management system based on the principles of reliability-centred maintenance, FE plans to implement such a system during GD14. We will monitor progress and reserve the right for reductions in allowances as part of future price controls should we believe that inefficiencies in asset management remain.
133.	**Consumer Council**	**Connection Incentive (page 7)** The Consumer Council supports proposals that raise awareness of the benefits of natural gas and provide an incentive to householders to convert to gas. However, the Consumer Council is also conscious that a Price Control must also deliver for existing gas customers and that therefore these proposals need to be considered in the round. The Consumer Council states that, in order to better understand the	We welcome the Consumer Council's plans to conduct further research and analysis in this area and would be keen to engage further to ensure such work fits in with GD17. We note that as part of our final determination, we have increased the allowance per owner occupier connection to £540 to help close the gap between the readily connectible properties (300k for PNGL and 60k for FE) and the connected properties (140k for PNGL and 20k for FE). We have also adjusted the average historic infill allowance to £310 (see final determination for further details). We consider that this provides a reasonable balance given our statutory duties to grow an economic gas industry.

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		efficacy of the proposed £480 per owner occupier property connection and the £507 figure for the economic test for properties passed, further research is required that tests the appetite for gas within the existing licence areas and in areas proposed as new areas for gas. The Consumer Council intends to include such research in its Forward Work Plan in 2014/15.	
134.	**Consumer Council**	**Meter Exchanges (pages 7-8)** The Consumer Council supports the proposal to remove the right of customers to have a free meter exchange regardless of the type of meter and instead limit free meter exchanges to those from credit to PAYG meters.	We plan to phase the implementation of this proposal in from Q1 2014 onwards.
135.	**Consumer Council**	**Impact on Conversion Barriers (pages 8-9)** The Consumer Council asks the Utility Regulator to consider to what extent the proposals will help address practical barriers to converting to natural gas by: • Minimising the overall cost of natural gas whilst ensuring the companies provide the highest standards of service; • Ensuring the companies increase the demand for natural gas by raising awareness of its benefits; • Creating incentives to infill the network, maximize connections and promote energy efficiency;	**Minimising the overall cost of natural gas whilst ensuring highest standards of service** Our principal objective is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI. In doing so, we have – in line with our statutory duties – regard to a number of other considerations including: • the need to ensure a high level of protection of the interests of consumers of gas; and • the need to ensure that licence holders are able to finance those activities which are subject to relevant obligations. This entails creating a framework – through the rates and allowances determined as part of the price control – in which the GDNs can deliver the highest standards of service at minimal cost when complying with their licence conditions. We published, on 25 October 2013, a consultation on the drafting of the Gas (individual standards of performance) Regulations (NI) 2014.[3] **Increase demand for natural gas by raising awareness of its benefits** Through having connection targets and connection allowances as part of the price control, GDNs are incentivised to maximise the number of connections, and thus to increase demand for natural gas by raising awareness of its benefits.

[3] See http://www.uregni.gov.uk/news/consultation_on_gas_individual_standards_of_performance_regulations_norther for further details.

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		• Directing the focus of the companies' development activities towards tackling fuel poverty; • Providing data that will enable the NI Government to make informed decisions on interventions it can take to maximize the uptake of gas.	**Creating incentives to infill the network, maximize connections and promote energy efficiency** Through the incentive for infill mains as well as the proposed incentive mechanism for owner occupier connections, we have established a fair regime of incentives for the economical connection of domestic and I&C customers. **Directing the focus of the companies' development activities towards tackling fuel poverty** It is our view that GD14 will provide benefits for all natural gas customers in Northern Ireland, including the fuel poor. There are already a number of schemes in place in NI directed at tackling fuel-poverty (e.g. Warm Homes Plus scheme, Boiler Replacement Programme, Cosy Homes scheme, Snug Plus and Snug Plus Oil to Gas schemes, Toasty Homes and Toasty Homes Plus scheme), and we will consider in GD17 how the connections incentive should fit in with any such schemes. **Providing data that will enable the NI Government to make informed decisions on interventions it can take to maximize the uptake of gas.** We engage closely with relevant departments on a variety of issues and work closely with DETI on growth of the industry and on gas extensions. This will continue in GD17.
136.	**Consumer Council**	**Risk/ Reward Incentive (page 10)** The Consumer Council believes the introduction of a risk/ reward incentive for new connections and properties passed is a very positive development for consumers.	We welcome the CCNI's comment.
137.	**Consumer Council**	**WACC and Business Risks (page 11)** The Consumer Council welcomes the signal that a review of the WACC in 2016 will benchmark the companies with the risk in comparable industries. The Consumer council agrees with the Regulator that currently the NI GDNs have no greater risk in their business than their GB counterparts.	See response to point 48 above for detailed comments.
138.	**Consumer Council**	**TRV**	In its determination on PNGL12, the Competition Commission determined that, for

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		(pages 11-12) The Consumer Council is of the view that the current proposals allowing PNGL to retain within its TRV the benefit of outperformance provide PNGL with an inflated TRV, from which it will earn an increased return is detrimental to gas customers. The Consumer Council believes this should be given consideration when determining the WACC the company will receive, but can understand why the Utility Regulator is reluctant to deviate from the approach suggested by the CC for 2012-2013.	PNGL12, it was appropriate to retain the benefits of outperformance within the PNGL TRV. The CC stated, in paragraph 9.109 of its determination: "We should observe, however, that our decision covers only two years and we do not wish to trespass on to the territory of future regulatory reviews (where other issues or evidence may be relevant). This is especially the case in a decision such as this where the specific context has been highly important to our reasoning." Based on this, we have reassessed whether it is appropriate for outperformance to remain in TRV from 2014 onwards. It is our view that there were no new strong arguments – over and above the ones already considered as part of the PNGL12 CC review – to justify a different approach from the one determined by the CC for 2012 and 2013. In the interest of regulatory stability and certainty, we have therefore decided to continue to retain historic outperformance in the PNGL TRV. We will take this retention of historic outperformance into consideration when assessing WACC for GD17.
139.	Consumer Council	**Deferred Capex** **(page 12)** The Consumer Council notes that it supported the approach first proposed in the PNGL Price Control 2012-2013 that consumers should only pay for projects once and can see no reason why this should change. The Consumer Council seeks an explanation from the Utility Regulator for their suggested approach.	In its determination on the PNGL12 price control, the Competition Commission concluded that: "(a) For those 1999/2000 capex deferrals that were completed in PC03, no further adjustments are made. (b) For those 1999/2000 capex deferrals that were not completed in PC03, an adjustment equivalent to the retrospective adjustment mechanism that applies in PC03 should be made, ie the 1999/2000 capex deferrals that were not completed in PC03 are removed from the TRV including the capitalised financing benefit that accrued to PNGL since 2007, but that no further adjustments should be made." As part of the GD14 price control, we considered different options for dealing with deferred capex. We concluded that it is in the best interests of the industry and consumers to draw a line under the matter, i.e. if in future PNGL built some of its historic 'deferred capex' we will allow this in full and not take into account that consumers have already paid for more than 10 years of this.
140.	Consumer Council	**Stakeholder Engagement** **(pages 1, 12-13)** The Consumer Council states that the regulatory process appears to have been conducted in isolation from the key stakeholders of consumers and the NI government, both of which have a significant interest in the strategy and operational outcomes of GD14.	We are always looking to improve our processes but view that the GD14 price control process has been robust and engaged key stakeholders. For example, we have: • conducted public consultations on the price control approach (3 December 2012) and draft determination (16 July 2013); • conducted a Stakeholder Workshop held on 06 September 2013; • held regular meetings between the GDNs and us following publication of the draft determination; and • held regular meetings with CCNI. During the price control process we have been open for comments from and discussions with all key stakeholders.

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		The Consumer Council believes that, through two way engagement by the Regulator with DETI, the Executive, NI consumers and other stakeholders proposals could have been made as part of the Price Control that would have provided a wide range of cost options for the future of the industry. The Consumer Council is of the view that the opportunity still exists to modify the GD14 proposals to make them more beneficial for fuel poor households and to provide valuable information on the proposed natural gas extension to the west.	We believe that the costs and allowances determined as part of GD14 provide a strong foundation for the future development and operations of the NI natural gas industry in general, and the gas distribution businesses in particular. It is our view that the GD14 determination will entail benefits for all natural gas customers in Northern Ireland, including the fuel poor. There are also already a number of schemes in place in NI directed at tackling fuel-poverty (see our response above to point 135). It is not the objective of a price control process to provide information for unrelated network extension projects, outside the licensed area of the GDNs undergoing the price control. Therefore, the proposed natural gas extension to the west has not impacted on our GD14 determination.[4]
141.	**Consumer Council**	**Additional Items (page 13)** The Consumer Council asks the Utility Regulator to consider the following matters on its Final Determination and provide an explanation if it is deemed that the issues do not require action: • Incentives for the fuel poor to convert to gas; • Customer Service Standards; • Implementation costs of IME3; • Environmental and sustainability targets.	**Incentives for the fuel poor to convert to gas** We are of the view that through the determined allowances for infill mains as well as the proposed incentive mechanism for owner occupier connections, we have established a fair regime of incentives for the economical connection of domestic and I&C customers. Whilst these mechanisms are not targeted specifically at the fuel poor, fuel-poor customers will also be amongst those who benefit. See also comments above for point 135 about incentives specifically targeted at reducing fuel poverty. **Customer Service Standards** See response to point 135 above. We have also published, on 25 October 2013, a consultation on the drafting of the Gas (individual standards of performance) Regulations (NI) 2014.[5] **Implementation costs of IME3** Compliance with the new IME3 licence obligations was mandatory from December 2012 and the majority of the related work is complete at this stage. Whilst we recognise that some additional related licence modifications may still be required over the course of the next price control, we anticipate that any such changes will only be minor amendments and not entail significant cost. Therefore, we have deemed that no additional allowances for the GDNs are required.

[4] See http://www.uregni.gov.uk/publications/gas_to_the_west_initiative for further details on the Gas to the West project.
[5] See http://www.uregni.gov.uk/news/consultation_on_gas_individual_standards_of_performance_regulations_norther for further details.

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			Environmental and sustainability targets The final determination contains domestic and I&C connection targets for both GDNs. Achieving these connection targets will entail a reduction in greenhouse gas emissions, as typically customers switching to natural gas are doing so from fuels that are less environmentally friendly. We have added, in the final determination document, related analysis detailing the expected reduction of greenhouse gas emissions resulting from the total of the determined new connections for PNGL and FE during the price control period. As environmental and sustainability targets are already implicit in the connection assumptions, we have deemed that there is no need to set additional dedicated environmental and sustainability targets. That said, we have also noted in our final determination document the obligations arising from Directive 2012/27/EU on Energy Efficiency about provision of an assessment of energy efficiency potentials and development of a timetable for their implementation. We have clarified in our final determination that we will consider business cases submitted by the GDNs for energy efficiency improvements to be introduced in line with article 15(2) of the Directive before the end of the price control period and that any additional costs allowed based on such business cases will be accounted for as part of the retrospective mechanism.
142.	**National Energy Action Northern Ireland (NEA NI)**	**Harmonisation of FE and PNGL Price Controls** **(pages 3-4)** NEA NI welcomes the harmonization of the PNGL and FE price controls but notes that the companies operate different models and face different challenges due to the geographical nature of the respective market areas. NEA NI believes there needs to be a balance to ensure the gas networks grow while understanding the GDN's respective nuances and reflecting a fair price for the customer.	No comment.
143.	**National Energy Action Northern Ireland (NEA NI)**	**Savings** **(page 4)** NEA NI asks for clarification to be provided on the saving figures, quoted as £25 (PNGL) and £51 (FE)	The expected savings – based on the draft determination – were an average of £25 for PNGL and £51 for FE per annum. These are the figures detailed both in section 13 of the consultation document and in the presentation given at the Stakeholder Workshop on 6th September. In the Consumer impact box on page 2 of the consultation document, the figures of £49 for PNGL and £74 (FE) were shown. This was an error and has been

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		per annum in the 6th September presentation and £49 (PNGL) and £74 (FE) in the Consultation Paper.	corrected in the final determination document where we have updated the figures in both the Consumer impact box on page 2 and in section 13 to reflect the expected savings based on the final determination. The expected savings for a domestic consumer– based on the final determination – are an average of £25 for PNGL and £53 for FE p.a. The final determination document has been updated accordingly.
144.	**National Energy Action Northern Ireland (NEA NI)**	**Savings vs. Investment (pages 4-5)** NEA NI welcomes savings for existing customers but notes that to promote the development and maintenance of an Efficient, Economic and Co-ordinated Gas Industry in Northern Ireland, there will be a need for greater investment of customers. NEA NI welcomes early discussion on this issue to influence future price controls.	In line with best regulatory practice, any regulatory initiatives with a potential to impact on the increase of gas customer take-up in the licensed areas as well as in any areas with potential for licence extension will be subject to public consultation, be it as part of future price controls, licence extension initiatives or otherwise. We welcome any feedback from interested parties, including NEA NI, as this will help consideration of all relevant views and taking of balanced decisions.
145.	**National Energy Action Northern Ireland (NEA NI)**	**Opex (page 5)** NEA NI questions the 45% difference between NIAUR's and FE's Opex trending figures and notes that the disparity raises some concerns about the strength of the data used to produce these figures.	See response to point 131 above.
146.	**National Energy Action Northern Ireland (NEA NI)**	**Outperformance (page 5)** NEA NI is disappointed that outperformance will not be shared with PNGL customers. NEA NI notes that the issue, whilst historic, reinforces the need for strong and robust regulation from NIAUR.	See response to point 138 above.
147.	**National Energy Action Northern Ireland (NEA NI)**	**Rate of Return (page 5)** NEA NI notes that the rate of return is a fundamental aspect of customers' bills and that as such a fair and equitable rate should be set	We agree that the rate of return has a significant impact on customers' bills. Therefore, consultation and detailed analysis on an appropriate rate of the return beyond 2016 will form an important part of the GD17 price control.

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		at the next price control.	
148.	**National Energy Action Northern Ireland (NEA NI)**	**Meter Exchanges (pages 5-6)** NEA NI welcomes the harmonising in relation to meter exchanges. NEA asks for more information on how a customer qualifies as vulnerable and wants it to be clear that, when pay as you go is promoted and installed, older, frail or disabled customers are protected as they may come to revert to a credit meter.	A vulnerable customer is a customer who is entitled to special arrangements in line with section 2.8.4 of the PNGL Conveyance Licence and section 2.7.4 of the FE Conveyance Licence. That is, it is a customer who: (a) is a domestic consumer; (b) is chronically sick, disabled or of pensionable age; (c) does not share the occupancy of the premises with any person who is not chronically sick, disabled or of pensionable age or a minor; or (d) is included in the list of domestic consumers which has been provided to the Licensee by any gas supplier under the conditions of that party's licence or exemption. As detailed in the consultation and final determination document, the proposed change to the meter policy will allow for vulnerable customers to continue entitlement to a free meter exchange from credit to prepay.
149.	**National Energy Action Northern Ireland (NEA NI)**	**Incentives (page 6)** NEA NI recognises the incentive mechanisms and allowances for owner occupier domestic connections and asks if this means that customers in different tenures could be disadvantaged. NEA NI wants to ensure that fuel poor households, irrespective of tenure, are given every possible opportunity to access the gas network and believes this may require a more innovative approach to rewards and penalties.	In addition to the incentive for owner occupier domestic connections, we have also considered as part of our determination further incentives to promote new connections, namely an allowance for metres of infill per property passed as well as reward mechanism for any properties connected above the determined number of connections and a penalty for any property below the target. These additional incentives do not only apply to owner occupier connections, but also to NIHE and I&C connections. It is our view that the GD14 determination will provide benefits for all natural gas customers in Northern Ireland, irrespective of tenure and including the fuel poor. For further comments re: specific incentives for fuel-poor households, see point 135 above.
150.	**National Energy Action Northern Ireland (NEA NI)**	**Social Actions (page 6)** NEA NI states that there is scope within GD14 to direct GDNs to produce social action plans which will dovetail with NIAUR and NEA NI to tackle disadvantage and fuel poverty. These social action plans could highlight the importance of energy efficiency and behaviour change alongside the benefits of natural gas.	We are of the view that the current price control contains a range of incentives for GDNs to address social issues such as contributions to energy efficiency. See for example points 135 and 141 above. Consumer protection is a key focus for us and we work with stakeholders in industry, government and in the community and voluntary sector to deliver this. While social actions plans may ensure focus is maintained on related areas such as energy efficiency, fuel poverty and social disadvantage it is not part of our remit to direct a licence holder to develop a social action plan. We have therefore refrained in the final determination from putting related obligations upon the GDNs, however consumer protection will continue to be a priority for us.

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151.	**Airtricity**	**Level of Detail (page 2)** Relative to previous price control determinations, Airtricity welcomes the level of detail provided by the Utility Regulator in terms of: • Some breakdown of specific operating and capital expenditure items; • Detail regarding the reasoning behind decisions to disallow or adjust specific Opex and Capex items.	No comment.
152.	**Airtricity**	**Alignment of Price Controls (page 2)** Airtricity agrees that alignment of price controls for the two GDNs will facilitate benchmarking between the two companies in the future, once properly comparable costs have been established and understood by the Utility Regulator. Airtricity states that the age, business model and profile of both networks are more equally comparable to one another, rather than to GB GDNs.	No comment. Additionally, we would note that as PNGL and FE mature, there will be greater opportunity to compare them and their performance to GB GDNs.
153.	**Airtricity**	**Duration of Price Control and Outperformance (page 3)** Airtricity considers it unfortunate that some of the incentive to outperform the price control are dampened or entirely lost through a shorter price control duration. Airtricity hopes that NIAUR's focus on capturing financial rather than operational and construction outperformance will be reversed	As part of our consultation on the approach for the GD14 price control, we have assessed the advantages and disadvantages of different price control period durations. We have concluded that a three year price control offers the best balance in terms of regulatory uncertainty and price control quality. See "UR: Gas Distribution Networks GD14 0 Update on overall approach, 26 March 2013" for further details. We will consult on the length and duration of future price controls closer to the time and may decide on a longer price control period then. We do not agree with Airtricity's view that we focus on capturing financial rather than operational and construction outperformance. In setting our allowances, we consider the implications of our decisions on all areas of the GDNs business. As part of GD17, we intend to consult on the best approach.

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		once it has an opportunity to set a cost of capital through the CAPM model.	
154.	**Airtricity**	**Alignment of Supply and Distribution Price Controls (page 3)** Airtricity notes that the GD17 price control will align with the retail price control that applies to Airtricity Gas Northern Ireland Ltd and feels that benefits will be derived by clearly setting out and separating supply and distribution business functions and the costs associated with them. Airtricity asks to be involved in the discussions about information structures and submission procedures for the 2017 price controls.	We will be consulting on the approach and form for the 2017 supply and distribution price controls closer to the time and will appreciate engagement with all key stakeholders.
155.	**Airtricity**	**Regulated Asset Values as Multiples of Totex (pages 3-4)** Airtricity believes that an approach whereby the cost of capital in GD17 will take into account a reduced risk for PNGL compared to other networks (as indicated by a relatively higher Regulated Asset Value as Multiple of Totex ratio) would be likely to act as a disincentive to future network investment, as new investments would receive a WACC that is lower than the actual cost of capital for the GDN. Airtricity states that aspects of PNGL's TRV that relate to past outperformance are likely to have an atypical risk profile relative to typical capital expenditure and that any changes to the approach for	See response to point 48 above. This is the reason we discussed that separate rates of return may avoid this risk.

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		consideration of such risks should seek to ensure that the regulatory risk to recovery of past outperformance is minimised.	
156.	**Airtricity**	**Efficiency Factor (pages 4-5)** Airtricity does not think that NIAUR's macroeconomic forecasts provide substantial grounds for assuming that the GDNs in Northern Ireland will be immune from real price effects for the next price control period and asks for more detail on this judgment.	We have now included an adjustment for real price effects. See final determination document for detailed breakdown of our efficiency analysis, including consideration of real price effects.
157.	**Airtricity**	**Opex and Capex Allowances (pages 4-5)** Airtricity notes that the overall, cumulative effect of disallowances and adjustments leaves a substantial difference between the requested costs and the draft determination for Capex and Opex. Looking at the customer number and network expansion assumptions (particularly for Firmus Energy), Airtricity is concerned that it might be difficult for GDNs and NIAUR to reach agreement. Airtricity also notes that some assumed efficiency will be "captured" through imposed regulatory changes over the price control period, such as changes to the provision of Codes of Practice and Terms and Conditions for Gas Contracts (both suggested in consultation on measures for the purposes of the EU Third Internal Energy Package).	We recognise that in our draft determination, there have been significant differences between the requested allowances and the proposed allowances for Capex and Opex allowances. Based on additional clarification and evidence provided since, we have adjusted the allowances for our final determination. See final determination document for further details and for an explanation of the underlying causes for the remaining differences. For companies such as the GDNs operating in a regulated environment, responding and adapting to regulatory changes over the price control period is part of normal business and should be addressed through the resources covered by the opex allowances. We recognise that some changes may entail more complex and costly adjustments; we have addressed this as part of the retrospective mechanism, through the materiality threshold, and via the option for GDNs to submit business cases for costs relating to energy efficiency improvements to be introduced in line with article 15(2) of the Directive.
158.	**Airtricity**	**Responsibility for Meter Reading (page 5)**	

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		Airtricity believes that there is no reason for meter reading to become a GDN activity, as moving the activity to GDNs would mean that suppliers would be depending on distribution network price controls for the provision of a service fundamental to their business.	We note the reliance of suppliers on accurate and reliable meter reads. However, we also believe there may be potential for additional efficiencies to be achieved if meter reading became a GDN responsibility. This will require further analysis and discussions with stakeholders to ensure that the pros and cons of the different options are assessed fairly and thoroughly. We intend to consult on this issue ahead of GD17.
159.	**Airtricity**	**Materiality Threshold (page 5)** Airtricity believes that a materiality threshold of less than £100,000 would be more appropriate, particularly as many of the additional costs imposed on GDNs (and other energy companies) tend to be the result of regulatory or legislative changes involved.	See answer to point 123 re materiality threshold. We also wish to point out that we have included in our final determination a reopener for initiatives arising from the Directive 2012/27/EU on Energy Efficiency and due to be implemented during the price control period, which is not subject to any materiality threshold.