Price Control for Northern Ireland's Gas Distribution Networks GD14

Update on Our Overall Approach

26 March 2013

Version 1.0 Final

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Acronyms and Glossary

Capex	Capital expenditure
CAPM	Capital Asset Pricing model - A model that describes the relationship between risk and expected return
European Gas Directive	Directive 2009/73/EC of the European Parliament of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC
GD14	This is the name given to the next price control for PNGL and firmus. It is to cover the period 2014 – 2016 (calendar years)
GD17	This is the name given to the price control for PNGL and firmus that will follow the GD14 price control and will commence in 2017.
GDN	Gas distribution network companies - firmus and PNGL
I&C	Industrial and commercial
firmus	firmus energy (Distribution) Ltd
OFGEM	Regulates the electricity and gas markets in Great Britain
Opex	Operating expenditure
PC01	This is the name given to the price control for firmus, which runs from 2006 to 2008 (calendar years)
PC02	This is the name given to the price control for firmus, which runs from 2009 to 2013 (calendar years)
PC03	This is the name given to the price control for PNGL, which runs from 2007 to 2011 (calendar years)
PNGL	Phoenix Natural Gas Limited
PNGL12	This is the name given to the price control for PNGL, covering calendar years 2012 and 2013
RPI	Retail Price Index
RIIO-GD1	This is the first gas distribution price control, by OFGEM under the new RIIO (Revenue = Incentives + Innovation + Outputs) model. The price control will be set for an eight-year period from 1 April 2013 to 31 March 2021
TRV	Total Regulatory Value
UR	Northern Ireland Authority for Utility Regulation

1 Introduction

Purpose of Document

1.1 The purpose of this document is to give an update on the Consultation[1] on "Our Overall Approach" to GD14 Gas Distribution Price controls for the two Gas Distribution Networks in Northern Ireland, firmus energy (Distribution) Ltd ("firmus") and Phoenix Natural Gas Ltd ("PNGL"), which was published on the 3 December 2012.

1.2 This document sets out our update on the approach to GD14 as follows:

- Section 1 sets out the context and background;
- Section 2 provides a summary of the main consultation responses;
- Section 3 provides the update and approach of the GD14 Price Control process;
- Section 4 sets out the updated timetable for GD14.

Background

1.3 Our principal objective in carrying out our gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland, and to do so consistently with our fulfilment of the objectives set out in the European Gas Directive, and by having regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003.

1.4 As part of our role we set overall limits on how much companies which own the gas networks can charge for use of their pipelines, through a process called a price control.

1.5 Northern Ireland has two gas distribution network companies (GDNs).

1.6 Phoenix Natural Gas Limited (PNGL) own and operate the distribution network in the Greater Belfast and Larne areas. A map outlining the PNGL distribution licence area is shown in Appendix 1.

1.7 firmus energy (Distribution) Limited (firmus) own and operate the distribution network, normally called the ten towns. The ten towns licence area covers a greater geographical area including Londonderry, Limavady, Coleraine (inc. Portstewart, and Bushmills), Ballymoney, Ballymena (Broughshane), Antrim (inc. Ballyclare and Templepatrick), Craigavon (inc. Portadown and Lurgan), Banbridge, Newry (Warrenpoint) and Armagh (Tandragee). A map of the ten towns licence area is shown in Appendix 2.

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[1] http://www.uregni.gov.uk/uploads/publications/2012-12-03_GD14_Price_Control_Scope_v10.pdf

1.8 PNGL was awarded their conveyance licence in September 1996. Presently they have over 150,000 customers connected within the Greater Belfast and Larne licence area.

1.9 firmus was awarded their conveyance licence in March 2005 and have nearly 18,000 customers connected within the ten towns licence area.

1.10 The current price controls for both PNGL and firmus end in 2013 which requires a new price control process to be in place for the start of 2014.

1.11 The price control process starts with the business plans (including actual data for previous years), as submitted by license holders, setting out their proposals for costs going forward. The information submitted will be scrutinised by the UR. In doing so, we seek to ensure that Gas distribution license holders deliver best value for money for all consumers.

1.12 The GD14 Approach document which closed on the 14 January 2013, requested consultation responses on the approach of GD14 which covered such areas as duration, benchmarking and potential for using re-openers.

1.13 In total, four organisations responded to the consultation.

1.14 Appendix 1 contains the consultation responses received from the interested parties.

1.15 In Appendix 2, UR summarises and responds to the most important points of each consultation response.

2 Consultation Responses

Summary of Responses

2.1 The responses can be generalised as:

- Being broadly supportive of our approach in general;
- Concerned on the issue of re-openers;
- Highlighting that benchmarking should be used appropriately to ensure meaningful comparisons;
- Welcoming a transparent approach on engagement with all key stakeholders.

Reopeners

2.2 One area of concern was the issue on re-openers and the impact that it would have on transparency and stability. We had highlighted in our consultation the possibility that re-openers might be required given the delay in receiving GDN submissions and the restricted time to complete the price control. In particular we noted the need to focus at this point on the issues of opex, capex and volumes which would have left issues such as rate of return as possible re-openers.

2.3 We had also considered a one year roll over price control to allow additional time but no respondent supported this and one agreed that this would not be appropriate.

2.4 We are mindful that re-openers are not ideal and in certain circumstances can give rise to uncertainty, but on other occasions they could reduce uncertainty. For example, making the decision in 2016 on the rate of return to apply in 2017 would allow use of more up to date market information than making the decision in 2013.

2.5 However the responses on re-openers showed that there was a strong view they should be avoided if possible. They also highlighted the need to ensure such re-openers were consistent with the licence conditions which may bring further complexity to implementation. We set out in section 3 our updated thinking on the structure of the price control.

Benchmarking

2.6 Responses expressed some concern over the use of benchmarking questioning its efficacy and highlighting the difference between the Northern Ireland GDNs and between GB comparators.

2.7 We consider that benchmarking has an important role in GD14, to inform us of the efficiency of GDN's and hence to inform us of the allowances that we should set. We recognise the need for a consistent basis to make meaningful comparisons. We note and concur with the view of respondents that any benchmarking must be mindful of differences between benchmarked companies.

3 Update on Our Approach

Business Plan Submissions

3.1 We set out in our approach document our requirements on information submissions and the need to ensure they aligned with the cost reporting template and were transparently and comprehensively set out to provide full information. In particular GDNs were instructed to provide spreadsheets with inputs and drivers and avoid the use of hard coded numbers.

3.2 The quality of the submissions has been mixed. Some of the information we have received is at odds with the principles and the requirements we have set out in our public consultation document. For example, some of the PNGL allowances requested have no drivers/inputs explaining how they have been built up, but simply hard coded numbers, with no explanation.

3.3 PNGL has noted in its response to the approach that it does not believe it appropriate to pursue cost reporting and thus have not submitted their price control information in this format. While we accept that cost reporting is a process that requires continuous improvement its development is critical to ensuring transparent information sharing and a smooth price control process.

3.4 At this stage of the price control we had hoped to have been more advanced in the quality of information we had received. The work we need to do now to collect further information will impact on the price control process and timelines. It would also increase the likelihood of needing reopeners in areas where we do not have adequate information or the time required to fully analyse the GDNs proposals. For example we now do not consider it likely to fully deal with the rate of return issue in 2013.

Duration

3.5 Our initial proposals for the price control approach document were shaped by our statutory duties, and we have carefully considered all of the consultation responses by reference to them.

3.6 In response to the consultation comments we have adjusted our initial thinking on the duration of GD14.

3.7 It is clear from the responses that the issue of re-openers is creating a level of uncertainty and concern amongst respondents. For example we note PNGL' s comment that there is 'little point in implementing a five year price control were there to be a substantial number of re-openers." The quality of the GD14 submissions has increased the possibility that re-openers will be required if a five year price control is implemented.

3.8 To effectively deal with re-openers and the concerns set out in the responses, we are minded to shorten the duration of GD14, to a 3 year control period. This would mean that GD14 would run from 2014 – 2016.

3.9 The benefits of a three year control would include:

- Minimisation of the need for re-openers. It would also allow the rate of return to be set under normal price control conditions from the start of the GD17 price control;
- Facilitation of a more strategic approach in 2017 to ensure the GDN's are incentivised to deliver policy objectives. The additional time will also allow us the time to address the issues of data submission and cost reporting;
- Given the planned Gas to the West licences and the potential sales of firmus and PNGL, a 2017 price control will allow us to consider developments in the NI gas distribution industry.

3.10 The downside is that opex and capex would be set for only three years when we would ideally prefer five. This would mean additional work for the companies and us. However given the need to address the data quality issues much of this work will be required under any option.

3.11 Overall we believe the weight of evidence points towards a three year price control being more in line with the need to reduce uncertainty and deliver a quality price control.

3.12 It would be our intention that the following price control, GD17, would set prices for 5 years from 2017-2021 and that there would then be more time for a more comprehensive review for GD17. The duration and form of control, for GD17 will be consulted on in the future.

3.13 The final decision on this will be made as part of the final determination and any comments will be considered before then. In the meantime we intend to progress with improving the information provided by the GDNs and progressing the price control as set out below.

Recap on Main areas of Approach

3.14 Opex

In relation to opex and volumes of gas, we are minded to:

- To review in detail the cost make up of the significant cost categories in opex and benchmark where appropriate;
- All other opex allowances will be reviewed at a summary level;
- To set allowances which are clearly linked to outputs.

3.15 Capex

In relation to capex, we are minded to:

- To review the tendered contracted rates of the construction company that is responsible for installing all gas services in relation to network activities;
- To review and benchmark all capex unit rates that are proposed in the business plans;
- To review the current approach on properties passed allowances;
- To keep to the principle that allowances granted must deliver certain outputs e.g. km pipe laid, meter and service connections etc;
- To ensure that any future developments are taken into consideration if appropriate e.g. Traffic Management Act.

3.16 Efficiency Review

In relation to efficiency, we are minded to :

- Set a challenging efficiency target for the GDNs. This is to ensure that the GDN's have an incentive to be more innovate in their approach. In doing so, we will take account of the duration of GD14 and the scope this presents to plan for and achieve operational efficiencies within the certainty of a price control;
- To consider local regional variations for all allowances granted.
- To ensure that any benchmarking data will be applied in a consistent manner.

3.17 Volumes

In relation to volumes of gas and connections, we are minded to:

- To carry out analysis of the volumes of gas, by customer category;
- To review the target number of connections and associated volumes.

3.18 Connection Incentives

- We are minded to develop the existing advertising, marketing and PR incentive mechanism and consider its appropriateness for the future.

3.19 Rate of Return

In relation to Rate of Return, we are minded to:

- Set the rate of return for both firmus and PNGL until the end of 2016, at 7.5% pre tax real.
- For both PNGL and firmus, the allowed rates of return are specified in the licences through to the end of 2016. This coincides with the end of the proposed period for

GD14, and so the allowed rates of return are likely to be more critical issues in the subsequent price review covering the period from 2017. Nevertheless, it would be appropriate for us to set our early thoughts on how we anticipate approaching the issues at that time.

- We would expect to make extensive reference to other regulatory decisions. We anticipate that we will have the benefit of analysis carried out by Ofgem for its RIIO-ED1 review and by Ofwat for its PR14 review. We expect our assessments will be informed by current thinking on relative risk, and note the kind of analysis carried out and the issues raised in Ofgem's final proposals for RIIO-T1 & GD1. We are aware that the cost structures for both PNGL and firmus, specifically the relationships between regulatory asset values and activity levels, are more likely to be outliers in relation to other UK regulated networks and that this may have a significant bearing on the assessment of relative risk. We note also the analysis on the effects of operational gearing in recent Competition Commission determinations, notably in its 2010 report on Bristol Water. We will give due weight to the conclusions of the Competition Commission in its 2012 determination for PNGL;
- We will consider and consult on some of these issues as part of GD14.

3.20 Retrospective Adjustments and Models

- We will develop the retrospective mechanism[2] for PNGL and firmus, which is currently part of the existing price control process, to deal with the setting of efficient allowances which are either based on outputs or pass through costs;
- We will apply opex sharing in line with capex sharing;
- We intend to publish the Financial Models, to ensure a fair and equal level of transparency to all, with any appropriate redactions..

3.21 Financeability

- We will consider the Financeability of the Licence holders, using established Financial Metrics, to ensure each GDN can finance its activities

3.22 Designated Parameters

- Both licences have a number of 'designated parameters' which set out how various aspects of the price control formulae will operate and we will review these in line with our statutory duties.

3.23 Post Commission Considerations (PNGL Only)

[2] We will consider using the term "Output Driven Adjustment" instead of "Retrospective Mechanism" in the future.

- We will review the treatment of the Total Regulatory Value (TRV) including how historic outperformance should be treated from 2014. We have also highlighted this in our PNGL paper on licence modifications to bring a conclusion of the Competition Commission decision of PNGL12[3], as published on the 15 February 2013.

Areas that will not be considered during GD14

3.24 We are minded that the following areas will not be reviewed as part of this price control process but may be considered in GD17.

- Opex costs to be treated as per standard regulatory model and no longer capitalised into the TRV;
- Meter Reading, that is located in the Supply business, and consideration for moving to the distribution business; and
- Review the Revenue Cap (PNGL) and the Volume Cap (firmus) to consider their appropriateness.

3.25 This is not an exhaustive list, but highlights the main areas that could have been considered.

[3] http://www.uregni.gov.uk/uploads/publications/2013-2-15_Licence_Modifications_-_Final.pdf

4 Updated Timetable

4.1 As a result of delays of information and the level of work required to deliver a robust price control, it has been decided to extend the timeline, compared to the original approach document.

4.2 We have set out the key milestones to GD14 below.

Key Milestones of GD14	
Key Points	**Proposed Date**
Stakeholder Engagement	April - June 2013
Publication of Draft Price Control Determination for Consultation	July 2013
Stakeholder Engagement during consultation period	July – September 2013
Closure of Public Consultation	September 2013
Price Control Final Determination Published	November/ December 2013

4.3 We will be hosting a public workshop on the GD14 price control. Further details on the workshop will be published on the Utility Regulator website.

Appendix 1:
Consultation Responses for the Approach to Price Control for Northern Ireland’s Gas Distribution Networks GD14

Phoenix Natural Gas Limited response to the Utility Regulator Consultation on its Overall Approach to Price Controls for Northern Ireland's Gas Distribution Networks (GD14)

Introduction

Phoenix Natural Gas Limited ("**PNGL**") welcomes the opportunity to respond to the Utility Regulator's (**UR**) consultation on its overall approach to the GD14 price control. Following the referral of the previous PNGL12 price control to the Competition Commission ("**the Commission**"), PNGL believes that this GD14 price control will be vital in reinforcing the recommendations of the Commission, and restoring stability, transparency and predictability to the regulatory process.

The Commission's Inquiry involved extremely challenging timescales and required substantial resources of both PNGL and UR. It is noteworthy that the GD14 price control review has commenced within a few weeks of the Commission issuing its final determination. PNGL is therefore disappointed that UR has attempted to hold PNGL responsible for the challenging timing of the GD14 price control review (see paragraph 6.1). UR called upon the Commission to re-determine PNGL's PNGL12 price control and it is this process that has ultimately "delayed" commencement of the GD14 price control review. In the absence of a price control determination for PNGL12, there was no licence requirement for PNGL to provide UR with a detailed submission in September 2012 when its resources were already fully committed to the Commission's Inquiry. PNGL has been very timely in making its GD14 price control submission given the Commission's eight-month Inquiry which was only presented to UR at the end of November 2012.

At the time of writing, UR has yet to provide PNGL with the appropriate licence modifications to implement the Commission's findings. It is imperative that PNGL12 is fully implemented and prioritised by UR ahead of its detailed scrutiny of the GD14 submissions.

PNGL understands it will have the opportunity to fully engage with UR on an ongoing basis as part of the GD14 review. This response raises our high level concerns with the initial consultation.

Form of control

UR has suggested implementing a roll over and delaying the full price controls for a period of time in paragraph 3.11. PNGL agrees with UR that this is not appropriate. PNGL believes it is now imperative that longer-term stability and predictability is bedded in to the regulatory process as soon as possible. This is reflected in remarks made by Chairman of the Phoenix Inquiry Group and Commission Deputy Chairman, Professor Martin Cave:

> '*We think that the long-term public interest is best served by a stable environment that encourages confidence and investment*.'[1]

PNGL believes that the timely completion of the GD14 review in line with the principles of the Commission's determination will help the development of the natural gas network in Northern Ireland and the move to a period of longer term regulatory stability. A one-year roll over would be counterproductive to this primary objective. This is reinforced by the fact that PNGL12 was a two-year "mini" price control, and that PNGL has already operated without a price control determination for almost half of the PNGL12 review period. There has therefore already been an extended period of regulatory uncertainty which would only be exacerbated in the event of a rollover.

The need for greater stability and predictability also applies to the use of "*re-openers*" referred to in paragraphs 4.5, 4.8, 4.20 and 6.3. In line with the principles of the Commission's determination, PNGL understands that these re-openers will only apply on a forward-looking basis and they will not have a retrospective effect. Similarly, given the principles established by the Commission, re-openers should only be introduced where a delay to implementation can reasonably be expected to have a material net benefit (given the costs of introducing re-openers in increased uncertainty), and the number of re-openers should be limited. If substantial elements of the price control are subject to re-openers (as suggested in paragraph 6.3), this is likely to undermine any efforts to ensure long-term stability and predictability, and to reduce regulatory uncertainty. Put another way, there would be little point in implementing a 5 year control were there to be a substantial number of re-openers.

Annual Cost Reporting

PNGL must be able to communicate its cost forecasts to UR in a clear and effective manner which accurately reflects the operation of its business. This will facilitate transparent discussion with UR and its consultants throughout the GD14 review and ultimately facilitate its timely completion.

UR's statement in paragraph 4.5 that price control submissions "*should be in line with cost reporting templates previously set out*" is therefore concerning. As UR is aware, PNGL and UR have not discussed the cost reporting template submitted by PNGL to UR almost two years ago. In PNGL's opinion the cost reporting template is not fit-for-purpose; it does not reflect the operation of PNGL's business, it does not allow PNGL to communicate its cost forecasts to UR in a clear and effective manner and it does not provide UR with the level of detail and transparency which PNGL has provided to UR as part of the PNGL12 and GD14 price control submissions. If UR wishes to maintain continuity and simplicity, UR must consider the role of the annual cost reporting template in price control reviews. PNGL would suggest that the annual cost reporting template is reviewed by UR following completion of the GD14 review when UR will have a better understanding of the operational differences between GB and NI GDNs and indeed between the two GDNs in NI. The current annual cost reporting template does not allow UR to undertake any meaningful analysis and does not provide sufficient detail to allow UR to make an informed determination.

[1] Competition Commission, News Release, 19 December 2012

Recommendations by the Commission

PNGL notes UR's comment in paragraph 4.19 that it is proposing "t*o consider the implications of the Competition Commission Final Decision of PNGL12 including how historic outperformance should be treated beyond 2013"*. PNGL agrees that the Commission made some recommendations in Section 10 of its report and accepts that these will be given due consideration as part of the GD14 review. However, the consultation fails to reference a number of the Commission's most important findings. For example, the treatment of historic outperformance is an issue that must now be considered closed (see paragraph 9.109 of the Commission's report).

Another example relates to UR's Statutory Duties. PNGL notes UR's interpretation of its statutory duties in paragraphs 1.3 and 1.4 and trusts that UR will conduct its GD14 review in the manner which gives proper weight to its principal objective, that being the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.

PNGL trusts that UR will not elevate its duty to protect the interests of consumers of gas above all other duties to which it is subject. PNGL would highlight that the Energy (Northern Ireland) Order 2003 defines consumers as "*including both existing consumers and future consumers*". In Northern Ireland, a significant proportion of future consumers are outside PNGL's and firmus's licensed areas. The interests of such consumers must be considered by UR as part of the GD14 review to ensure that prices/costs are as low as possible over longer time horizons than the GD14 price control period.

Another important omission is the reference to PNGL's rate of return being fixed until 2016 in paragraph 4.15.

PNGL trusts that UR will implement each of the Commission's findings as set out in its November 2012 determination.

Benchmarking

UR makes a number of statements about its intentions to use benchmarks as part of the GD14 review e.g. external benchmarking of cost and rate of return. If done properly, such comparisons may be useful: PNGL believes it runs a lean and efficient business in line with industry-leading standards. Consideration must however be given to relevant specific factors, both for comparing PNGL to firmus, and when comparing the NI GDNs to those in GB or other "relevant" regimes. Regarding the latter, as the Commission noted: "*making meaningful comparisons is not easy. Direct comparisons of distribution prices between Northern Ireland and, for example, Great Britain are likely to be misleading because PNGL's network is newly developed, its customers are only gradually switching to gas, the costs of its initial investments are still being repaid, and its revenues have been deferred. In addition, the geography, density of the network and so on will vary between PNGL's Licensed Area and comparator areas. Given that there are so many differences that need to be controlled for (but where measures of these differences may be difficult or uncertain), we did not* *think that direct comparisons of prices would be meaningful."*[2] Given these challenges, PNGL will welcome the opportunity to engage with UR on its benchmarking proposals so as to ensure that meaningful comparisons can be made.

Regarding the former, PNGL and firmus are still very different companies at different stages in development and this must be taken into account in any decisions to further align the controls. The regulatory models may be different for good reason, and UR should continue to ensure that the regulatory framework applied is relevant for the circumstances in which the companies operate.

Publication

PNGL notes UR's proposal to publish PNGL's financial models in paragraph 4.16. PNGL is happy to discuss publication of data with UR during the GD14 review to ensure that this is presented in an appropriate format and any confidentiality issues are considered e.g. PNGL's price control submission and supporting data must not be disclosed however it may be appropriate to publish a condensed version of the "Pis model" based on high level total opex and total capex cost lines.

Outputs

PNGL notes UR's proposal to keep to the principle that capex allowances must deliver certain outputs in paragraph 4.11. PNGL understands that this comment means that such outputs will continue to form part of the retrospective mechanism and that PNGL will only receive an allowance if, for example, the pipe is laid or a connection made. PNGL believes that this aspect of its regulatory framework currently functions effectively, and should not require significant alteration at GD14.

Designated Parameters

UR's intentions in paragraph 4.18 are unclear. UR may simply intend updating PNGL's designated parameters in line with current licence conditions. However it may be that UR intends reviewing the form of PNGL's control. UR should therefore clarify its intentions and allow PNGL to engage with UR at the earliest opportunity.

Profile Adjustment

PNGL would clarify that PNGL's regulatory model does not specifically capitalise opex, however the profile adjustment does work in a way whereby unrecovered allowed costs are capitalised, at least until the profile adjustment has peaked. PNGL understands that this is what is meant by UR in paragraph 4.21. PNGL has indicated as part of the Commission's Inquiry that it is happy to consider mechanisms to accelerate the recovery of the profile adjustment and is happy to engage with UR at the earliest opportunity if this is UR's concern.

[2] Competition Commission, Phoenix Natural Gas Limited price determination, paragraph 9.88

14th January 2013

Paul Harland
Gas Distribution
Utility Regulator
Queens House
14 Queen Street
BELFAST
BT1 6ER

Dear Paul

Re: Consultation into Overall Approach for Price Controls of NI's Gas Distribution Networks

Thank-you for providing firmus energy with this opportunity to respond to the above consultation.

Since 2005, firmus energy has brought the benefits of natural gas to over 17,000 homes and businesses in its network area, and in doing so we are;

- Currently providing consumers with the lowest gas price in the United Kingdom;
- Maintaining the highest level of customer service of any regulated energy company in Northern Ireland[1];
- Developing a safe and robust gas distribution network; and
- Maximising the development of our network, whilst seeking additional regulatory permission to extend our network to areas and customers that were not included within our original business plan assumptions

Since our licence was awarded, we have:

- Invested over £70 million building our network in Northern Ireland, and we continue to invest around £10m per annum locally on network development and circa £5m per annum into the local Northern Ireland economy through our business operations ;

[1] Enquires and Complaints Report 2011-12, July 2012, Consumer Council.

- Looked to increase the number of consumers who can benefit from natural gas. Our business model projected that we would be undertaking 2,000 connections per year, however, currently we are at a run rate of circa 4,000 connections per year;

- Grown our business in an economically viable and responsible manner by initially targeting large industrial and commercial loads, new housing estates and public housing where refurbishment was planned;

- Maintained competitive pricing to encourage conversion to natural gas – rather than increasing our costs to ensure we receive payback on our investment;

- Looked to extend the benefits of natural gas to as many consumers as possible. In addition to our original licence area we have negotiated with the Utility Regulator seven additional extensions (Portstewart, Ballyclare, Warrenpoint, Craigadoo, Coleraine Quarries, Bushmills, and Bessbrook) over and above our original "Ten Towns" business plan; and

- Undertaken our network development against a backdrop of falling house prices and reduced economic confidence.

firmus energy is committed to working with the Utility Regulator, DETI, the Consumer Council and other stakeholders throughout the GD14 process in order to maximise the benefits of natural gas to consumers and the local economy in Northern Ireland, in a socially responsible and consumer focused manner. To that end, we welcome the opportunity to respond to this consultation.

firmus energy operates its bundled distribution and supply businesses pursuant to an established regulatory framework, made up of the terms of the licences granted in March 2005, further to which there have been three price controls to date, and the legislative regime set down, inter alia, in the Gas (Northern Ireland) Order 1996 (as amended).

We set out our comments below, tracking (for your ease of reference) the numbering used in your consultation.

Overview of our price controls

We are content that there is a value with the timing of the price controls for both gas distribution companies to be aligned so that the Utility Regulator can take a co-ordinated approach. We agree with the Utility Regulator's proposal that at the GDN price control should set price limits for the next five year period, as it is essential that there is a stable and predictable policy and regulatory regime within Northern Ireland. This will help to provide the certainty that is needed to encourage investment and enhance the competitiveness of the Northern Ireland economy and brings confidence and benefits to consumers.

However, we also note your comment, with which we agree, that there are key differences between how the PNGL and firmus licences operate, including the fact that PNGL operates under a revenue control whereas firmus operates under a volume incentive control.

It is also noted that while PNGL has been in business, and licensed to convey and supply gas, since 1996, the firmus business is naturally less mature, being only seven years into our agreed thirty years licence period and therefore firmus energy is an immature business when compared to other gas distribution companies in the UK or indeed Northern Ireland.

firmus energy supports the Utility Regulator's overall stated aims within the consultation for the GD14 process of:

- Providing a strong foundation for the long term funding of gas, delivering long term improvement in the service to consumers;

- Challenging the GDN's to improve their efficiency and performance at an achievable and sustainable rate; and

- Promoting long term planning of the Business Plan which will secure continuity of investment between years and between price control periods.

<u>Our Approach to Key Areas</u>

We note the comment that you are mindful of the need to keep the regulatory burden to a minimum "*while addressing the information asymmetry that exists between us and the companies*".

In our case, as agreed with the Utility Regulator, we have submitted our Price Control Submission for the GD14 period on the 17th December 2012. In addition, in the interests of improved regulatory transparency, firmus energy has worked with and provided the Utility Regulator with detailed annual cost reports to help provide enhanced transparency and regulatory understanding of our business. This has been in addition to our licence requirements to provide standards of performance, an annual development plan and to respond to reasonable ad hoc information requests. Therefore, in the case of firmus energy, no such "*information asymmetry*" exists.

Within GD14 we are keen to maximise the benefits of natural gas to as many customers as possible and our parent company (Bord Gáis Éireann) is committed to investing in the firmus energy network over this price control period in order to bring the benefits of natural gas to even more business and domestic customers than was initially envisaged when our licence was awarded in 2005. In order to achieve this extra growth in terms of connections and volumes, we will need support from the Utility Regulator in terms of receiving a sensible rate of return and a fair level of operating expenditure, in each case in accordance (at a minimum) with the terms agreed in that regard in our licences.

Given that the natural gas has only been available for customers in the firmus energy licence area for the last seven years, and with many towns only receiving natural gas in the last few years (Armagh, Portstewart, Ballyclare and Warrenpoint), or in the coming year (Bushmills, Beesbrook, Coleraine and Ballymena Quarries), there still remains huge opportunities to bring the benefits natural gas brings (lower costs and increasing business competitiveness; a cleaner fuel which produces less CO_2 than oil or coal; greater consumer choice and convenience; and greater security of supply) to more areas and consumers.

firmus energy has invested over £70m building our distribution gas network, laid over 750km of mains pipes across Northern Ireland and has connected over 17,000 domestic and commercial customers including hundreds of Northern Ireland’s largest manufacturers, private housing, Housing Executive properties, schools, hospitals and small businesses.

As noted above, we are prepared to invest significantly more capital across our licence area over and above our original business plan, but in order to do this it is essential that there is a clear and stable regulatory regime which respects existing investors’ interests.

Benchmarking

From the consultation document we understand the Utility Regulator’s wish to use benchmarking within the price control process. However we iterate our belief that it is important to recognise the differences between the firmus energy’s network, and the other gas distribution network in Northern Ireland. firmus energy’s network is more dispersed and provincial in nature; the North-West and South-North Pipeline in the firmus energy licence area covers a distance of 271 km between Derry and Warrenpoint, This compares to a distance of around 75 km from one end to the other end of the Greater Belfast licence area. In addition, the towns within firmus energy’s network area have only had on average gas available to them for the last four years.

In addition, firmus energy’s licence is very different in nature to other gas distribution network in Northern Ireland. Our licence is based on a volume driver, rather than a connections driver.

Regulatory certainty

Regarding the proposed GD14 timetable firmus energy has worked with the Utility

Regulator, in providing detailed annual cost reports to help provide enhanced transparency and increase the regulatory understanding of our business. In addition, we have submitted our Price Control Submission as per the Utility Regulator's agreed deadline of 17th December 2012, which is in fact a little early of our original licence condition. In addition, we have submitted our Price Control Submission as per the Utility Regulator's agreed deadline, and therefore we are concerned that the consultation document states at this late stage that;

> "*if sufficient information is available to make an informed determination, some areas may be subject to re openers*";
>
> *"However, given the timeline for the Price Control and complexity of some areas to be considered, it may be necessary to make re-openers for some areas during the price control period. If this is necessary, this will be set out fully in the final determination";*
>
> *"Given the timeline of the Price Control, it is likely that we will not have the time to fully address all issues. We thought it prudent to highlight areas that may be considered as either future re-openers or at the next PC";*
>
> *"We would highlight that if a full price control is to take place, the time constraints will mean we will be focusing our efforts on capex, opex and volumes and this may lead to a number of re-openers being included in the price control."*

With such an immature market and with the potential to develop the gas network and market further in Northern Ireland, it is essential, as we have previously mentioned in this response, that there is a stable and predictable policy and regulatory regime for the gas industry within Northern Ireland. Regulatory certainty is essential in encouraging the necessary investment that is needed to further develop the gas network in Northern Ireland which in turn will enhance the competitiveness of the Northern Ireland economy and bring confidence and benefits to consumers. Therefore we are extremely concerned as to how and when "*re-openers*" will be used within this price control period, and their overall materiality to any price control determination, which in turn could increase the investment uncertainty relating to any future development and expansion of the gas network in Northern Ireland.

It is noted that neither our licence terms nor the legislative framework pursuant to which the licence is granted provides for such "re-openers". Accordingly, we are unclear as to the basis on which this methodology is proposed.

We would make a similar observation in relation to other aspects of the Regulator's proposed proportionate approach at section 4.4 and section 4.5. It is unclear how the retrospective mechanism described in Section 4.4 for costs related to external factors that may not happen interacts with the existing Rolling Incentive model in our licence, and this would need further discussion. Equally, it is suggested that rules on how unforeseen costs and retrospective adjustments will operate will be clearly set out – again, we note that the impact of any such proposal on our existing licence and price control model would need to be considered. The same comment applies in relation to the use of a standard RPI-X framework suggestion. Lastly we note the suggestion that the Regulator will consider whether further amendments are necessary to ensure clarity and reconciliation between the price control determination and the statutory/regulatory accounts. Naturally, to the extent that any amendments are proposed to our licence in that regard, such would be dealt with in accordance with the usual modification process.

Main areas for Consideration

In relation to Capex and the Utility Regulator's proposal to review the tendered contract rates of the construction company that is responsible for installing all gas services in relation to network activities, we would like to highlight we have a different contract methodology to the other GDN in Northern Ireland. firmus energy contract has an all inclusive unit rate, and therefore we would request that the Utility Regulator is mindful of this in any benchmark comparisons it makes.

The latest Utility Regulator report[2] shows firmus energy having the cheapest natural gas price in the United Kingdom (and EU countries). We have been able to achieve this through responsible and prudent cost management during PCR02.

In light of these efforts, the Regulator's comments regarding setting challenging efficiency targets for the GDNs are noted, as again are the provisions of our licence.

On section 4.15 and the proposal to consider the rate of return for firmus based on a standard CAPM methodology, we note Condition 4.10.4 of our licence provides, inter alia, that that the rate of return shall be 0.075 until the end of formula year 2016.

On section 4.16 (Retrospective Adjustments and Models) again we note that our licence contains a Rolling Incentive mechanism for both opex and capex which it would seem address the concern which is the focus of this proposal.

Areas of Future Work

In regards to the remainder of the consultation, firmus energy agree that the Consumer Council (CCNI) may well have a role to play in this process, as per their statutory position, and we look forward to engaging with CCNI and indeed other stakeholders to enable them to understand and have confidence in the key components of GD14.

Please feel free to contact me direct on 028 9442 7835, should you wish to discuss

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[2] Utility Regulator, Quarterley Transparency Report, December 2012

further.

Yours sincerely

John

John French
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Gas Distribution
Utility Regulator
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BELFAST
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14 January 2013

Dear Paul

Re: Price Control form Northern Ireland's Gas Distribution Networks GD14- Consultation on overall approach

The Consumer Council welcomes the opportunity to respond to this consultation.

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests* of consumers in NI and we have specific functions in relation to energy, water, transport and food (the Consumer Council and the Food Standards Agency (FSA) have a memorandum of understanding and the Council's strategic focus on food is primarily in relation to food prices and customer experience). These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

The Consumer Council is also a designated body for the purposes of supercomplaints, which means that we can refer any consumer affairs goods and services issue to the Office of Fair Trading, where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

Introduction

The cost of the gas networks accounts for around 30 per cent of the final bill and therefore the network Price Controls of firmus and PNG are important consumer issues. Overall we approve of the approach and timetable proposed by the Regulator.

We are pleased that the Regulator is moving to an earlier and more transparent deliberation on its approach to the Price Controls and we particularly welcome the commitment by the Regulator to consumer engagement. We believe that the key to a successful network Price Control is that it reflects the needs and priorities of consumers within its outputs. We look forward to working with the Regulator and stakeholders during the period of this Price Control to ensure that the consumer voice is heard and reflected in the final decisions made.

Consumer engagement needs to be started as early as possible in the price control process. Ideally this would mean consumer engagement with stakeholders prior to and during the preparation of the companies' business plans. We would therefore welcome the opportunity to discuss with the Regulator how consumers can be engaged even earlier in future energy price controls.

We note that, at point 1.8 the consultation states that:

'Our task essentially consists of creating a framework within which, in return for providing monopoly services to an acceptable quality, the company receives a reasonable assurance of a revenue stream in future years that will cover its costs.'

Our view is that in defining the task of the Regulator in price controls the importance of reflecting and delivering consumer expectations must be made clear. Whilst the main duty of the Regulator in gas is to promote the development and maintenance of an economic, efficient and co-ordinated gas industry, it also has a duty to protect the interests of gas consumers with regard to price and quality of service.

Business Plan and outcomes

In our responses to previous Price Controls we have drawn attention to the work undertaken by the GB Regulator, Ofgem, in recent years to further develop its model for regulating Utilities with a specific focus on benefits to the consumer. The resulting RIIO model[1], has seen a greater emphasis on outputs and incentives that are aimed at achieving them, in order to facilitate the required investment at the lowest possible cost to the consumer. The framework mimics the competitive markets by rewarding companies that deliver on the outputs valued by consumers, and penalising those that don't.

The RIIO approach describes six main output categories:

- Environment;
- Reliability;

[1] http://www.ofgem.gov.uk/Networks/rpix20/ConsultDocs/Documents1/RIIO%20handbook.pdf

- Connections;
- Customer Satisfaction;
- Safety; and
- Social Obligations.

Under the RIIO model a heavy emphasis is placed on the Business Plan submitted by the network company. The Business Plan requires the company to demonstrate that its plans are designed to deliver outputs that are based on genuine and ongoing engagement with consumer representatives and other stakeholders. This consumer engagement is as much a responsibility of the company to undertake as it is of the Regulator.

We note that the current consultation raises the importance of Business Plans in the Price Control process. Whilst we welcome the opportunity the Regulator proposes to work with the it and the companies, the opportunity to influence the companies' Business Plans has been and gone.

We would propose that in future energy Price Controls consumer engagement is factored in at the very start of the process. This is the case in the regulation of water in NI where consumers have benefitted from engagement between the Regulator and the Consumer Council at the earliest possible opportunity. This has allowed consumer priorities to be reflected in NI Water's Price Control outputs.

It is not just consumers who need to be engaged at the outset of the Price Control process. The outcomes of the Price Control must also deliver the strategic, political and economic outcomes required by the NI Government and other stakeholders to address fuel poverty, energy efficiency, security of supply, etc.

Information

The quality and quantity of information available to the Regulator, both from the company and elsewhere is very important. In the recent NIE 'RP5' Price Control, the Regulator and NIE were unable to agree on material data central to the determination. This led to a divergence of £380m or 50 per cent in the estimation of the capex required. Uncertainty such as this should not exist in a Price Control process, especially with the model in NI so heavily concentrated on economic regulation at the expense of a focus on customer, environmental and safety aspects.

The consultation anticipates at 4.5 and 4.20 that an information gap may occur and that a lack of time may require some issues to not be addressed. The Consultation states that where there is insufficient information available to make an informed determination, some areas may be subject to 'reopeners'. This is extremely unsatisfactory as it creates uncertainty and a lack of confidence in the Price Control process for consumers, the company and investors alike. Therefore every effort must be made to ensure the availability of quality information, such as using a recognised asset management tool like PAS55.

Main areas for consideration

We note the list of main areas for consideration and consider that capex incentives and tendering processes, and connection incentives are particularly important.

We believe that utility price controls need to become more innovative and consumer oriented than they currently are. There are a number of innovative items that should feature in the list and we would be happy to discuss these further with the Regulator and the companies during the Price Control process. These are:

- Customer Service Standards, including Guaranteed Service Standards;
- Environmental and sustainability targets;
- The implementation costs of IME3;
- An infill strategy for existing licence areas;
- Incentives for the Fuel Poor to convert to gas; and
- The introduction of industry recognised asset and information management systems.

Conclusion

We welcome the recognition by the Regulator of the key role that the Consumer Council plays in the Price Control process. We look forward to discussing with the Regulator as soon as possible the material role we will play in representing consumers throughout these Price Controls.

If you wish to discuss the attached in more detail, please do not hesitate to contact Richard Williams, 028 9067 4895, rwilliams@consumercouncil.org.uk.

Yours sincerely

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14 January 2013

Dear Paul

Price Control for Northern Ireland's Gas Distribution Networks GD14. Consultation on Approach

While the above consultation is focussed on the Utility Regulator's (UR) price controlled regulation of Northern Ireland's gas distribution companies; Power NI although not a network owner is also subject to a UR retail electricity supply price control. The comments within this response are therefore positioned as a more general critique upon issues of process and methodology as they may be applied across the full range of the UR price control activity.

A price control review should be set against a backdrop of striking a balance between protecting customers and ensuring that companies are able to finance their activities in a sustainable way. Principles of best practice regulation should be observed i.e. regulatory certainty and giving due consideration to all aspects and effects of the market as well as changes in the operating environment. Of particular importance within recent price controls are the capital requirements to support the business's operations and the implications of risk.

To ensure that companies are able to finance their activities is critical to the UR's duties. This can only be achieved within the current (and foreseeable) economic climate by the detailed assessment of capital requirements to finance a regulated activity and the cost of that capital. Providing adequate returns on capital ensures ongoing financeability and maintains investment confidence. The UR therefore must ensure that it carries out robust analysis utilising industry best practice to deliver transparent reasonable decisions.

Through its recent experience Power NI believes that the UR should look to enshrine key procedural steps across all price controls it under takes. These steps should include –

- Provision of a clear timetable for the review
- Engagement to understand the key issues and to develop and finalise the strategy and outputs for the review
- Assessment of company performance during the current control period

- Issuing a "strategy for the review" document and request for data
- Provision of time for the company to develop its well-justified business plan
- Scrutinise business plans and send queries and comments to the company
- Publish confirmation of price control methodology and not change the methodology after that
- Apply methodology to determine price control
- Develop initial followed by final proposals which (a) providing transparency on how the control will be implemented; and (b) ensuring decision-making is open and transparent
- Consult on the initial and final proposals
- Take decisions based on robust and auditable evidence

Power NI considers these key process steps that would provide transparency and certainty to a business critical issue.

Within the consultation paper the UR acknowledges that a five year control is appropriate and is mindful of minimising the regulatory burden on licensees. Power NI welcomes these statements. Additionally the UR states an intention to use benchmarking. While benchmarking in this case can provide a general guide the UR must be mindful of particular circumstances, market conditions and circumstances which may be drivers of variations.

Power NI is concerned that the UR is considering a “Retrospective Mechanism”. Retrospective adjustments run contrary to the principles of regulatory certainty and predictability and therefore Power NI would caution against there use unless there are clearly defined and agreed special circumstances which would warrant such an adjustment.

As stated above, although Power NI is not a gas distribution company we are subject to a UR price control and have therefore sought to provide some constructive observations on price control process and methodology.

Yours sincerely

Will Steele

William Steele
Power NI

Appendix 2:
UR Responses to Consultation Responses

Consultation Responses

1.1 Our consultation on the Overall Approach to the Gas Distribution Networks GD14, Price Controls closed on the 14 January 2013. We received non confidential responses from the following organisations:

- Phoenix Natural Gas Ltd (PNGL)
- Power NI
- firmus energy
- The Consumer Council (CCNI)

1.2 In the pages overleaf we have summarised the principal points made in each of the non-confidential responses, and our response in turn to each of these.

Comments from respondents

In the section below we address the responses.

Ref	Organisation	Comment	Our response
1	**The Consumer Council**	The CCNI welcomed the transparent deliberation on the Regulator's approach to Price Control and the more active role on Consumer Engagement. The CCNI looks forward to working with the Regulator and stakeholders during the price control	We wish to be clear and transparent on the areas of focus in the Price Controls We wish to actively engage with all stakeholders to provide a better informed decision for all. We welcome the opportunity to work with CCNI during the price control
2		The CCNI drew our attention to Business Plans and outcomes that are being used by OGEM in the RIIO Price Controls and that consumer engagement should commence as early as possible.	We will keep abreast of all current regulatory regimes although have no plans at this point to copy RIIO. We are keen to engage with consumer representations, to ensure a better understanding on the issues that are important to gas consumers, over and above price and quality of service.
3		The CCNI mentioned that the quality and quantity of information available is very important to the Regulator and other groups. The CCNI questioned that it would be unsatisfactory to have multiple re-openers, if an information gap existed, that resulted in reviews during the Price Control. The CCNI noted that recognised asset management tools such as PAS55 are important to ensure the availability of quality information.	We consider quality information, received in a timely manner, along with updates during the duration of existing Price Controls, an important aspect of forming an opinion of how efficiently the GDN's are performing. We have addressed the concern over re-openers in the body of this paper. We concur that we would expect GDNs to adopt a recognised asset management system to provide validation of asset management costs.

Ref	Organisation	Comment	Our response
4	**The Consumer Council**	The CCNI recognises that the Price Control process offers an opportunity to consider a more innovative approach in the following areas: • Customer Service Standards, including Guaranteed Service Standards; • Environmental and sustainability targets; • The implementation costs of IME3; • An infill strategy for existing licence areas; • Incentives for the Fuel Poor to convert to gas; • The introduction of industry recognised asset and information management systems.	While some of these areas may lie outside the price control process we look forward to engagement with the Consumer Council on its views of how these points can be developed.
5	**Phoenix Natural Gas Ltd**	PNGL have stated that the challenging timelines, of GD14, and the submission of data relating to the price control, is as a result of the Competition Commission reference on PNGL12, which has delayed commencement of the current price control process.	We recognise the additional work that was required from the CC process but it has always been evident that this price control would apply from 2014 and all the attendant requirements that brings. We expect all parties to engage in a professional manner which includes the provision of quality information with all submissions transparently set out with drivers and explanations to allow robust analysis.
6		PNGL agrees that a one year rollover is not appropriate in the circumstances. PNGL disagrees on the use of Re-openers of a Price control, as this creates more instability and concludes that a 5 year control may not be suitable if a substantial number of reopeners is included.	We have taken on board PNGL comments that a one year re-opener would be inappropriate and that there is little point implementing a five year control with a number of re-openers. We have addressed this issue in the body of the paper and adjusted our proposals accordingly.
7		PNGL does not believe that annual cost reporting is fit for purpose, does not reflect the operation of PNGL's businesses and is not reflective of the processes used to set allowances in Price Controls The annual cost reporting template should be reviewed by UR following completion of GD14.	We commenced Cost Reporting project in 2009, with the aim to have better benchmark data that was easily compared to GB GDN's. Both NI GDN's were part of the development process and were kept fully informed of its importance and the role that this would play in the future. We are disappointed that PNGL have chosen to ignore our approach and failed to provide submissions based on the cost reporting template and will consider the implications of this. We do agree that the template will evolve and should be updated in the light of GD14.

Ref	Organisation	Comment	Our response
8	**Phoenix Natural Gas Ltd**	PNGL requests that the recommendation of the Commission are fully considered during GD14	As stated in our consultation paper we will consider all recommendations made by the Commission. On the treatment of historic outperformance we have already commented on this in our consultation on PNGL licence modifications cited earlier in this paper.
9		PNGL recognises that benchmarking does serve a useful purpose, if done properly, but does caution that it can be a difficult exercise, as the separate GDN's are at different stages in the development cycle and furthermore there are differences between NI and GB.	Benchmarking is an accepted technique, used to access the level of efficiency for each individual company. This concept will play an important role in an informing view on setting efficient allowances, recognising that regional variations will need to be considered. We do not find the PNGL references to CC comments very relevant here as the CC did not examine opex and capex benchmarking.
10		PNGL is happy to discuss publication of the Final Financial Model, subject to commercial sensitivities of information.	We believe that it is appropriate to publish the final models of the individual GDN's for enhanced transparency for all stakeholders, subject to confidentiality issues.
11		PNGL had sought clarification on the outputs approach based on setting of capex allowances, which would form part of the retrospective mechanism	It is our intention to keep this principle in place. However, we will consider changes to the properties passed allowances
12		PNGL sought clarification on changes to the licence, with regard to Designated Parameters and Profile Adjustment	At this point we have no plans to review the form of the PNGL licence in GD14 but are happy to discuss with PNGL.
13	**firmus energy**	firmus understand that UR wishes to use benchmarking, but point out that firmus is at a different stage of its development cycle in terms of developing the Gas network.	We consider that benchmarking has an important role in GD14, to inform us of the efficiency of GDNS and hence to inform us of the allowances that should be set. Consideration will be made to ensure benchmarking takes into account relevant differences between comparators.
14		firmus is concerned on the issue of regulatory certainty, with regard to "potential re-openers", and would question how they would apply, in the current licence, which does not recognise this concept. firmus also question how the retrospective mechanism will interact with rolling incentives.	We have taken on board firmus' comments and adjusted our proposals on the duration of the price control to limit the use of re-openers. This is discussed more fully in the body of the paper. Our initial view is that the firmus retrospective mechanism will be similar to the PNGL mechanism but we are happy to engage with firmus on the detail.
16		firmus considers that the CCNI may have a role to play and firmus looks forward to engaging with CCNI	We welcome engagement with stakeholders by the GDNs

Ref	Organisation	Comment	Our response
17	**Power NI**	Power NI has made general comments about the process and methodology of the price control. Power NI made the following comments: • UR should be mindful that the Price Control process delivers sufficient revenue to enable the licence holder to finance its activities • UR should set out a clear description of the key steps of the Price Control Process and have a consistent approach across all Price controls • Supportive of the duration of the Price control , but mindful of the specific variations identified by benchmarking • Have concern on the "Retrospective Mechanism" and the implications that it has on Regulatory certainty	We will respond to the specific issues as follows: • We consider that the company should be able to finance its activities as one of our duties. We spend substantial time reviewing the models and the implications for key financial metrics • The GD14 approach document sets out how we plan to approach this price control. • We believe that benchmarking is a useful technique, that if applied appropriately has significant benefits for all stakeholders • The Retrospective Mechanism is a component of the Price Control which consists of a number of cost items that would be retrospectively adjusted at the time of the next price control, to correct for deviations between forecast and outturn events. The purpose of these adjustments is to ensure that any GDN is remunerated only for the activities and outputs that it actually undertakes and delivers. This we believe deals with items that are not certain to happen at the commencement of the next Price Control, appropriately incentivises GDNs and avoids the need for substantial re-openers. We will consider using the term "Output Driven Adjustment" instead of "Retrospective Mechanism" in the future.