

Appendix 5

UR Response to Discussion on Approach

- 1.1 On 19 December 2014, we published a discussion document on our overall approach to the GD17 price control. We invited responses to the document, to be received no later than 10 February 2015.
- 1.2 We received responses from the following organisations:
 - Phoenix Natural Gas Limited (PNGL)
 - firmus energy (Distribution) Limited (firmus)
 - Scotia Gas Networks Northern Ireland Limited (SGN NI)
 - Major Energy Users' Council (MEUC)
 - Manufacturing Northern Ireland (Manufacturing NI)
 - The Consumer Council (CCNI)
- 1.3 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

PNGL Response

In the section below we address all responses to the comments received from PNGL. Page numbers indicated refer to the response paper provided.

Ref	Comment	Our Response
1.	<p>Early Engagement (p. 1) PNGL considers early engagement on all aspects of the price control imperative, particularly in areas which have yet to be determined as part of previous price control reviews e.g. determining the rate of return to be applied post 2016.</p>	<p>We plan to have a programme of engagement laid out in the approach document and prioritise areas which have not been previously reviewed in detail as part of price controls to ensure an appropriate level of understanding is developed.</p>
2.	<p>Business Plan Submission (p. 1, 2) PNGL considers the proposed business plan submission deadline of 30 June 2015 inadequate for the following reasons:</p> <ul style="list-style-type: none"> We require that PNGL's regulatory accounts are submitted by the end of quarter 2 of 2015, its business plan by the end of quarter 3 of 2015. The three-months period between the two is (i) logical, in that it follows actualisation of data for 2014 and would therefore be reflected in PNGL's GD17 business plan submission; and (ii) more efficient, as it enables more effective management of internal 	<p>Considering the lessons learnt from GD14, we plan to develop the following approach:</p> <ul style="list-style-type: none"> Provide a timetable well in advance to permit proper timing by all parties Have workshops and meetings well in advance before deliverables are required Specify in advance how information should be received (i.e. comprehensive spreadsheets) which should eliminate a number of queries further on during the process Have robust justification along with appropriate commentary of all cost lines, necessary to run the business. <p>We initially published an initial timetable back on the 31 March 2014, indicating that the BPT information should be available by the 30 June 2015.</p> <p>We have considered the comments from the discussion document and have held workshops on the business plan submission templates on the 30 March 2015, which has delayed the publication of this document. We will consider feedback in finalising the template and modifying it where appropriate. The related Regulatory Instruction and Guidance document will be published at the same time as the template will be issued. The date for publication of both business plan submission template and related Regulatory Instructions and Guidance will be on the 14 May 2015.</p> <p>The GDNs have expressed concern on providing all the BPT information to be available by the 30 June 2015. To ease the burdens on GDNs, we have decided to request information in 2 stages The information requirements are outlined in paragraphs 3.6 & 3.7 for the 30 June 2015 and the 30 September 2015.</p>

Ref	Comment	Our Response
	<p>resources to each element of the process. Aligning submission of the 2014 Regulatory Accounts and the GD17 business plan would defeat this purpose and place significant strain on PNGL's short-term resourcing requirements.</p> <ul style="list-style-type: none"> • A number of key work streams will, for the first time, be subject to detailed scrutiny during the GD17 price control review (e.g. establishing a rate of return using a standard regulatory approach and stakeholder engagement) and the preparation of the business plan submission will hence prove more resource intensive than previous price control submissions. • The proposed window of just three months between the planned dates for publication of the final approach document and GD17 business plan template and the proposed submission date would further increase the 	<p>We expect the completed business plan submission templates to be available from the GDNs at the end of September 2015, which allows for a period of four months for review and population of the information by the GDNs.</p>

Ref	Comment	Our Response
	<p>strain on resources.</p> <ul style="list-style-type: none"> • The proposed engagement between us and the NI GDNs regarding consistency of cost reporting across the NI GDNs is required to allow for comprehensive data analysis but is still outstanding to date. • The proposed GD17 business plan template does not correspond to the current PNGL cost reporting basis and completion will hence be more resource intensive than for previous price controls. <p>PNGL is willing to discuss aspects of the control which are independent of submission of the GD17 business plan template and which may therefore be submitted by 30 June 2015 so that these areas can be progressed in advance of the complete GD17 business plan submission by 30 September 2015.</p>	
3.	<p>Duration of Price Control Period (p. 2) PNGL agrees with any move to a longer price control period and welcomes the opportunity a six year control</p>	<p>We note the positive comments with respect to a 6 year duration of GD17 and will proceed on this basis.</p>

Ref	Comment	Our Response
	<p>would afford, provided it is ensured the GD17 determination is reflective of a longer duration (e.g. by determining the appropriate basis for reopeners, changes brought forward under EU legislation etc.).</p>	
4.	<p>TRV (p. 2, 3) PNGL does not agree with the proposed composition of the TRV into conventional RAB and RAB based on regulatory commitment which is neither consistent with the PNGL licence nor with the PNGL12 Competition Commission Final Determination.</p>	<p>In the discussion document, we noted the uniqueness of the PNGL TRV, relative to other regulated companies. We believe that it is important to have clarity in how the TRV has been composed, along with the level of risk that would be reasonably incurred.</p>
5.	<p>Rate of Return (p. 3, 5-9) PNGL does not consider there is any merit in a split cost of capital approach and does not consider it would be appropriate for UR to consider applying such an approach at the GD17 review as any such approach would be:</p> <ul style="list-style-type: none"> • conceptually flawed and practically difficult to implement since without significant changes to the regulatory framework it is not possible to genuinely attach different levels of guarantee or risk profile 	<p>Following on from GD14, this concept of a split cost of capital was considered and was mentioned as part of the GD17 discussion document.</p> <p>On further reflection, and considering the implication that a dual pot TRV may have on the wider regulatory environment, we do not plan to consider a split cost of capital at this stage.</p>

Ref	Comment	Our Response
	<p>to the different TRV component parts, nor is it in the interest of consumers for regulators to assume that the TRV (or any notional component of it) is entirely debt funded;</p> <ul style="list-style-type: none"> • out of line with regulatory precedent; • inconsistent with the findings of the PNGL12 Competition Commission Final Determination which stated that earning a return at the WACC on capitalised outperformance does not over-compensate PNGL, and an alternative (lower) return would distort incentives since it would result in changing the value of the capitalized outperformance; • be likely to increase the perception of regulatory risk in Northern Ireland and add to the risk profile of the company. 	
6.	<p>Benchmarking (p. 4) PNGL welcomes the opportunity to engage with us on our benchmarking proposals so as to ensure that meaningful comparisons can be made and the</p>	<p>The approach document opens discussion on the range of issues relating to benchmarking .The finer detail of benchmarking as part of the price control will be addressed through further engagement with stakeholders as the process advances. This will include, among other things: applicable methodologies that may be drawn upon; the specifics of inputs such as special factors, transparency, data and comparability considerations.</p>

Ref	Comment	Our Response
	<p>following matters are addressed:</p> <ul style="list-style-type: none"> • the benchmarking methodology is unclear; • consideration is given to specific factors, both when comparing PNGL to firmus, and when comparing the NI GDNs to those in GB or other “relevant” regimes; • PNGL has no sight of the dataset used in benchmarking GB GDNs, resulting in benchmarking results (e.g. cost allocations based on synthetic unit rate) which are not comparable to PNGL’s cost lines, in inability to test or verify the analysis undertaken and inability to proactively demonstrate the own efficiency level; • a balance is found between transparency and the need to ensure data protection and confidentiality, e.g. by anonymising data; aggregating confidential information; or using confidentiality rings or data rooms. 	<p>Any process, methodology or practice should be viewed in the light of relevant precedent, good practice, comparable data availability and fine tuning to account for local and/or atypical circumstances. This will assist in ensuring any solution is both theoretically and practically workable with account taken of any necessary adjustments for consideration.</p>

Ref	Comment	Our Response
7.	<p>Innovation (p. 4) PNGL welcomes our indication that we will encourage any plan of the GDNs to provide innovations as part of their GD17 business plan submissions.</p> <p>PNGL considers there would be a variety of options where further innovation and testing could deliver improved outcomes for consumers, (e.g. a smart metering trial during the GD17 price control period), intends to review developments and innovations elsewhere and to include a case outlining the benefits of any proposed funding in its GD17 business plan submission.</p>	<p>We welcome PNGL's commitment to continual review of ways that may make their business more efficient or offer enhanced service to consumers. We aim to work constructively with the company during the price control process to help realise this.</p> <p>We believe that all innovations need to be backed up by a robust and verifiable business case, providing in a clear and concise manner the value add that would be provided. It should also detail how any risks envisaged would be dealt with.</p>

firmus Response

In the section below we address all responses to the comments received from firmus. Page numbers indicated refer to the response paper provided.

Ref	Comment	Our Response
8.	<p>Comprehensiveness of Discussion Document (p.1) A material number of items, such as the potential incentives regime, were only mentioned briefly in the Discussion Document and not yet fully developed. As a result, firmus did not have the opportunity to consider these.</p>	<p>We welcome further discussion with Firmus and would welcome views on how we can further elaborate our approach to make for a better price control process.</p>
9.	<p>Business Plan Submission Timeline (p. 1, 3) The Business Plan submission deadline of 30 June 2015 is six months ahead of the current licence requirement and inappropriate given the huge amount of data to be submitted. A deadline of 30 September 2015 is proposed.</p>	<p>Please refer to our response to point 2 above.</p>
10.	<p>Business Plan Template (p.1, 5) The level of detail of information requested is not proportionate to the scale of the firmus business.</p> <p>A further workshop should be organised to develop and agree a more appropriate Business Plan spreadsheet to ensure a full understanding of the required inputs, and to receive guidance on</p>	<p>The business plan submission template is based on the Annual/Cost Reporting Pack for the 2013 reporting year that was issued and populated by the GDNs in 2014. We are not of the opinion that the information is disproportionate but perfectly reasonable for the size and scale of potential allowances to be granted.</p> <p>We held a workshop on the 30 Mar 2015 to discuss any concerns that the GDNs may have in populating the template. We then plan to issue Regulatory Instruction Guidance of how this should be filled in, along with a revised template to reflect any minor amendments if necessary. The date for publication of both business plan submission template and related Regulatory Instructions and Guidance by the 14 May 2015.</p>

Ref	Comment	Our Response
	<p>completion.</p> <p>Detailed guidance on how the GD17 Business Plan spreadsheet operates would be extremely helpful to avoid future ambiguity and re-working. It is vital for the success of GD17 that the NI GDNs have sufficient time to provide full feedback on the Business Plan/spreadsheet guidance to us and that we have sufficient time to implement any necessary amendments to the Business Plan/spreadsheet and guidance before the GDNs are asked to populate the model. Firmus will provide full commentary on the Business Plan/spreadsheet guidance, along with commentary on the final spreadsheet version upon its release.</p>	
11.	<p>Differences in Scale of GDN Businesses (p.3)</p> <p>Firmus requests that we take full account of the differences in scale of the firmus business and the other UK GDNs, including PNGL. This includes in particular recognising the material differences in the resources of both ourselves and the NI GDNs versus the GB GDNs to support such a</p>	<p>Please refer to our response to point 6 above.</p>

Ref	Comment	Our Response
	<p>detailed approach. Firmus asks that we develop a price control process that is proportionate to our resources and those of the NI GDNs to meet the our information requests and deadlines.</p>	
12.	<p>Benchmarking (p. 4) It is important that we are mindful of current licence differences between the NI GDNs and of differences in scale and size between the firmus, PNGL and the GB GDNs when developing benchmarking techniques such as Frontier Shift as there is a distinct possibility of unreasonable results if rigid comparisons are made with companies who are significantly different.</p>	Please refer to our response to point 6 above.
13.	<p>Licence Changes (p. 1, 4) Any licence amendments required should be fully consulted on, necessary, proportionate, not go beyond a normal price control process and fully respect the economic principles upon which the licence was granted.</p> <p>With regard to changes aiming at alignment of the GDN's licences, the balance of risk and value associated with the full package of licence changes should be recognised</p>	Any licences modification to bring into effect the Price Control will follow due process and appropriate consultation periods.

Ref	Comment	Our Response
	and changes should be consistently made across the licences of all GDNs.	
14.	<p>Engagement with GDNs (p. 1)</p> <p>It is unfortunate that we did not engage with the NI GDNs on the overall approach to GD17 prior to publication of the discussion document. It is proposed that going forward, full engagement takes place at all levels of our respective organisations at the earliest possible stage, so that there is a clear understanding of our information requirements and objectives.</p>	<p>We plan to hold bi- and multi-lateral workshops and meetings with the GDNs throughout the price control process to ensure clarity and transparency. The meeting and workshop schedules will be agreed with the GDNs; frequency may vary throughout the different stages of the price control process.</p> <p>We have planned workshops with all GDNs, DETI and CCNI to consider an appropriate consumer engagement process for GD17 and to carry forward the development of consumer and stakeholder engagement, new consumer service and satisfaction measures, including development of the guaranteed and/or overall standards of service. Our aspiration is to introduce a consumer engagement oversight grouping between principal stakeholders, who then will develop an optimal approach to consumer engagement through a partnership working arrangement.</p>
15.	<p>Best Practice Regulation (p. 2)</p> <p>Firmus welcomes our approach to best practice regulation and the GD17 process being conducted in line with the UK principles of Better Regulation of transparency, accountability, proportionality and consistency.</p> <p>Firmus would welcome a similar approach to the Ofgem one with regard to the following and consider it a key element to a transparent process:</p> <ul style="list-style-type: none"> • Best practice in relation to full engagement with 	<p>We plan to have a clearly defined timetable, which will detail workshops, meetings and clear deliverables. We have already commenced setting out information requirements and plan to develop this further over the coming months.</p>

Ref	Comment	Our Response
	<p>GDNs;</p> <ul style="list-style-type: none"> Clearly and transparently setting out of the process to all stakeholders at earliest possible stage; Provision of supporting documentation and spreadsheets which clearly illustrate how the process will operate and the format in which the data should be provided. 	
16.	<p>Duration of Price Control Period (p. 2, 5) Firmus is supportive of a six year price control period, provided the outcome of GD17 balances our, firmus' and the customers' objectives and supports the efficient long term financing of the business.</p>	<p>Please refer to our response to point 3 above.</p>
17.	<p>Rate of Return (p. 2, 7) A suitable rate of return consistent with the risk profile of the business and cost of equity and debt needs to be applied to the GD17 term.</p> <p>Firmus believes that our market testing of cost of capital in the NI undertaken as part of the Gas to the West competitive tender provides the best and most appropriate point of reference for the cost of capital for NI gas networks.</p> <p>Firmus disagrees that the GB</p>	<p>We plan to use the standard CAPM methodology for determining the rate of return and will take into account any factors that are appropriate for GD17.</p> <p>The Gas to the West Project, which relates to a greenfield site, was an open market competition that took a number of factors into consideration to deliver best value for money to consumers. The rate of return, in terms of the competitive tender is not a suitable comparator for setting an appropriate rate of return for established GDNs.</p>

Ref	Comment	Our Response
	<p>headline WACC is an appropriate benchmark for the Firmus business. Firmus is not a low risk business as it continues to develop its network area, and appropriate adjustments need to be made for the maturity, size and scale of the firmus business when compared to GB utilities.</p> <p>The significant differences between GB and NI networks in relation to the price control need to be taken into account.</p>	
18.	<p>Economic Regulation and Properties Passed (p. 2, 4) Firmus fully supports the objective of developing the gas industry in NI, with GDNs investing efficiently and effectively, and is committed to the development of the gas network through the economic connection of customers.</p> <p>Firmus believes that some of the GD14 decisions had the unfortunate effect of suppressing network development within its licence area and is committed to working closely with us to avoid such an outcome.</p> <p>Firmus believes in particular that the properties passed model utilised within GD14</p>	<p>Any further development of the natural gas network, must be completed in an economic manner. That is to say that new areas developed must over time to pay for itself. It is important that a balance is found between the benefits of extending the natural gas network and the associated risks for the existing customer base, and between the costs for existing and future consumers of gas.</p> <p>The GD14 properties passed mechanism provided a simple economic test to incentive the GDNs to lay new gas mains in the most densely populated areas. . It made a number of assumptions. For GD17 we plan to review the appropriateness of these assumptions and consider if changes should be made to account for other or additional factors as appropriate.</p>

Ref	Comment	Our Response
	<p>should be re-visited in order that it enables all NI GDNs to economically develop the gas network to the benefit of customers and in a manner which is cognisant of the geographical/physical conditions on the ground within the licensee's network area.</p>	
19.	<p>Outstanding GD14 Issues (p.2, 7) Firmus requests that we apply resources to close out the remaining GD14 issues in the immediate future.</p>	<p>We have engaged with FE on this issue and await explanation of their final position.</p>
20.	<p>Reopeners (p. 5) Firmus considers the concept of re-openers to be inconsistent with a stable regulatory platform required for investment unless exceptional and unforeseen circumstances develop. Firmus is therefore very concerned about the proposed application of reopeners in GD17 and would welcome a positive and constructive dialogue with us to avoid relying upon reopeners as standard practice.</p>	<p>The issue of re-openers had been considered as part of GD14. We plan to review this as part of the GD17 price control process with consideration of the comments made by Firmus.</p>
21.	<p>Stakeholder Engagement (p. 5) It is correct and vital that consumer and other stakeholder input forms a central part to the GD17 process. Firmus would</p>	<p>Please refer to our response to point 14 above.</p>

Ref	Comment	Our Response
	reiterate its request that the architecture regarding this input is agreed at the earliest stage in the process and that there is a clear understanding of how this will be applied to the outputs of the GD17 determination.	
22.	<p>Price Cap/ Revenue Cap (p. 5) Firmus asks that any change to its current Price Cap regime should take account of the maturity of the network and be considered along with any wider licence amendments/alignment of the licences of GDNs.</p>	We propose to consider moving the existing Price Cap regime to a Revenue Cap. This we believe is appropriate based on the maturity of the network. We plan to hold further discussions with Firmus on this area.
23.	<p>Customer Connection Incentive (p. 6) Firmus is concerned that we have pre-determined that the current customer connection incentive should be removed for GD17 and believes there is robust evidence for a continued importance for consumer connection incentives in growing the gas network in our licence area.</p>	<p>This area is unique to NI, in that an allowance is made to the GDNs for every new owner occupied domestic connection, to promote the continued development of the gas network in an economic and efficient manner.</p> <p>GD14 reduced the level of the connection incentive and we will consider, based on the available evidence, if changes should be made to the connection incentive structure and level and the impact that this would have on new connections.</p>
24.	<p>Capital Expenditure (p. 6) It is important that a balance is achieved in relation to capital allowances and the key objective of growing the gas network and providing economically robust natural gas connections to NI</p>	<p>The basket of works approach and concept of synthetic unit rates unit rates established as part of the GD14 price control will continue to be adopted for GD17. The same principles will apply as for GD14, but details will be reviewed and amended as appropriate.</p> <p>We expect that any plans to lay additional gas pipes in new areas will be backed up by a robust business case, which will provide justification that all projects put forward will making a positive contribution to the network, using suitable assumptions.</p>

Ref	Comment	Our Response
	<p>customers. Firmus would propose to work closely with us to develop an economic model/approach to customer connections and capital allowances. Firmus will utilise expert consultants to assist with this analysis through GD17 and would propose working with us on an open book basis in relation to such analysis.</p>	
25.	<p>Operating Expenditure (p. 6) Firmus recognises that it is important that both a top-down and bottom up approach to analysing operating expenditure is undertaken. It needs to recognise:</p> <ul style="list-style-type: none"> • the requirement for a suitable level of operating expenditure to allow firmus to develop and maintain its network and customer base; • that in benchmarking such operating expenditure the respective scale of a business cannot be simply pro-rata to operating expenditure and that issues such as a minimum level of fixed cost and nature of the business, including factors such as geography need to be 	<p>We propose to consider a “Top Down” and “Bottom Up Approach” for most cost lines. These allowances will be considered and benchmarked, accounting where appropriate for size and scale.</p> <p>We expect all costs to be fully justified in the business plan submission template and accompanying commentary and any additional allowances requested to be fully explained.</p>

Ref	Comment	Our Response
	considered.	
26.	<p>Volumes (p. 6) The GD14 assumption that there should be no volume allowance for factory closures should be re-visited in the light of Firmus' strong reliance on IC customers and recent developments (potential loss of the Gallaher's Ballymena plant).</p> <p>With such volume uncertainty, a transparent evidence based bottom-up approach is needed in GD17.</p>	<p>We will consider volumes assumptions, taking account of the maturity of the business and the proposed move of the existing Price Cap regime to a Revenue Cap.</p>
27.	<p>Under-Recoveries (p. 7) Firmus considers that, whilst its licence contains a designated parameter that allows for adjustment of the rate of return below the allowed cost of capital, the licence does not provide for such an adjustment until 2034.</p> <p>Firmus is keen to see under-recoveries reduced as fast as is practically possible, but does not consider setting deadlines for the removal of the current accumulated under-recovery to be a robust approach in the current period of price uncertainty with competing fuels. Gas Distribution charges</p>	<p>In GD14, we considered that the Underrecoveries rate of return was not be commensurate with the level of risk incurred and did not create the right incentives.</p> <p>We will review the rate of return as part of the GD17 price control and will make any changes, as appropriate, based on the policy and size of the amount to be recovered.</p> <p>We recognize the importance of minimising the need for sudden spikes and a high volatility of distribution charges, but consider that this needs to be balanced with the need to establish a fair distribution charging regime in which new customers are not unduly burdened with paying for under-recoveries built up in early years.</p>

Ref	Comment	Our Response
	<p>should not suddenly spike significantly in the short term (over-recovering) and then be followed by lower long term charges; a steady recovery profile is more beneficial.</p>	
28.	<p>Netback Mechanism (p. 8) Firmus is concerned that we intend to replace the conveyance revenue under the agreed netback arrangement with notional revenue calculated on the basis of assumptions used in deriving the published conveyance charges. This would have serious consequences for firmus. Any change to the agreed TRV calculation and any potential disregard of the agreed netback arrangement during GD17 could endanger the ability of firmus to finance the further development of the network.</p>	<p>We intend to follow the conditions as per the licence in this area and as previously set out in GD14.</p>
29.	<p>Total Regulatory Value (p. 8) In a developing an immature network, appropriate future operating costs should continue to be capitalised.</p>	<p>We wish to see a policy and principles of how Firmus propose to allocate costs from capex to opex and vice versa on a consistent basis, based on clear drivers. We will then consider this as part of our determination.</p>
30.	<p>Examiner (p. 8) Firmus believes that the appointment of an auditor to examine the recording of relevant information by the GDNs is not necessary to ensure a successful outcome of the GD17 process and is</p>	<p>This concept of an examiner is one of the cost reporting principles.</p> <p>We plan to consider using examiners at some point in the future, to ensure independent verification that an accurate representation of all relevant information has been supplied and to increase the confidence grading of the information submitted.</p>

Ref	Comment	Our Response
	concerned that it might cause significant delays. Rather, greater transparency should be achieved by focusing on the amount of useful and comparable data which the company produces.	
31.	<p>Audit of Specified Information (p. 8)</p> <p>Firmus believes that the use of audits of specified information relating to the GD17 price control is unnecessary, given our proposal that the Board of the GDN takes “responsibility for and sign-off the assurance of the data and plans submitted for the GD17 price control.”</p>	<p>Different methods for data assurance can be applied in regulatory regimes. Whilst sign-off of data submissions by the Board is one of them, use of information audits is another.</p> <p>We plan to fully utilise the concept of information audits, as appropriate, to ensure independent verification that an accurate representation of all relevant information has been supplied and to increase the confidence grading of the information submitted.</p>
32.	<p>Smart Meters (p. 9)</p> <p>Firmus would welcome further engagement with us and the other NI GDNs in relation to developing a joined up and cost effective approach to the roll-out of smart metering in NI.</p>	<p>We will consider the implications of the ongoing smart meter roll-out in GB and a potential future smart meter roll-out in NI on GD17, with the best available information at the time. In doing so, we will give due regard to any relevant representations made by the GDNs.</p> <p>We note, however, that decisions on and development of an approach for a potential smart meter roll-out in NI will not form part of the GD17 price control process and that any such initiative would be consulted on separately.</p>
33.	<p>Incentives and Innovation (p. 8)</p> <p>Firmus would request further clarity from us on this subject and how it will operate in the GD17 process. It would also be beneficial to understand if mechanisms as utilised within Ofgem’s RIIO model will be applied.</p>	<p>We welcome all innovations by GDNs. We believe that all innovations need to be backed up by a robust and verifiable business case, providing in a clear and concise manner the value added that would be provided. It should also detail how any risks envisaged would be dealt with.</p>

SGN NI Response

In the section below we address all responses to the comments received from SGN NI. Page numbers indicated refer to the response paper provided.

Ref	Comment	Our Response
34.	General Approach (p. 1, 2, 5) SGN NI is supportive of proposals to build on learning elsewhere (such as the GB gas and electricity markets), where relevant, in relation to benchmarking, customer service, innovation, output based regulation and incentives while remaining focused on the priorities in NI.	We welcome the support expressed by SGN for our proposals.
35.	Proportionality (p. 1) SGN NI believes proposals for GD17 should be proportionate and cost effective given the relatively small consumer base and developing market.	We note the comments made by SGN and will consider them as part of the price control process.
36.	Financeability (p. 1) SGN NI is keen to ensure any proposed changes relating to financeability remain appropriate for the NI market and retain the key elements on which the G2W bid was based.	One of our primary statutory duties is to ensure the GDN can finance its activities. We will consider any deviation from the applicant pack as submitted in the business plan, in light of our previous statements.
37.	GD17 Objectives (p.1) SGN NI fully supports the principal GD17 objective of promoting the development of an efficient, economic and coordinated gas industry across all licensed areas, but particularly in the G2W area.	We note the comments made by SGN.
38.	Long Term View (p. 2) SGN NI supports proposals to	We note the positive comments for a longer price control period. The existing licence arrangements , encourages a longer time frame for conveyance charges, to ensure a

Ref	Comment	Our Response
	<p>take a longer term and more holistic view when developing business plans. In particular, the focus should be on long term efficiency and ensuring allowances are set to recover costs within an appropriate timeframe with a reasonable return, while ensuring charges remain affordable for consumers.</p>	<p>balance between existing and future consumers</p>
39.	<p>Duration of Price Control Period (p. 2) SGN NI supports proposals to move to a 5 or 6 year price control as this will provide a more stable and predictable framework for GDNs, consumers and other stakeholders and a reasonable balance between certainty for planning and investment to drive greater efficiency and the need for a disproportionate number of re-openers and uncertainty mechanisms.</p> <p>SGN NI supports proposals to align the NI price control periods to make greater use of learning emerging in GB from the RIIO frameworks to the extent it may be relevant for NI, particularly in relation to benchmarking.</p> <p>Pursuant to the SGN NI LP licence, the first G2W price control takes effect on 1</p>	<p>We note the comments in support of duration and future NI price controls following after RIIO GD2.</p> <p>We consider it appropriate that GD17 comes into effect from the 1 January 2018, to coincide with the operation commencement of the High Pressure pipeline in the Gas to the West area.</p>

Ref	Comment	Our Response
	<p>January 2018, a year after other GDNs. As such, SGN NI expects the first price control period for GttW to last 5 years, while other GDNs would last 6 years.</p>	
40.	<p>Benchmarking (p. 2, 3) SGN NI is generally supportive of proposals to benchmark costs, services and performance.</p> <p>However, the benchmarking approach needs to account for the following:</p> <ul style="list-style-type: none"> • Appropriate adjustments to reflect the differences in maturity, markets and customer bases in the three NI networks; • Difficulties of making sound statistical comparisons given the limited number of data points and different underlying conditions and the expected need for a number of atypical events, special regional and company specific factors will make the top-down approach extremely challenging if not unreliable; • When widening the benchmarking to include GB GDNs and other utilities, consideration 	<p>We welcome SGN NI's support as part of this constructive engagement process.</p> <p>The importance of recognising and applying necessary adjustments for relevant NI GDNs and NI market circumstances features throughout the responses we have received to our discussion document. These factors form part of the finer detail of the price control and will be addressed through further engagement with stakeholders as the process advances. We note SGN NI's preference for a bottom-up approach to benchmarking.</p> <p>For further details, please also refer to our response to point 6 above.</p>

Ref	Comment	Our Response
	<p>needs to be give to specific adjustments that need to be made, e.g. to account for differences in customer numbers and investment strategies, differences in market maturity, differences in key focus of network activity, impact of market differences on aspects such as customer service, stakeholder engagement and incentives;</p> <ul style="list-style-type: none"> • Wider socio economic considerations (e.g. different contractor rates, wage scales, etc.) <p>SGN NI believes a bottom-up approach is likely to be more robust as this gives greater opportunity to consider market and company specific factors.</p>	
41.	<p>Cost and Performance Reporting and Benchmarking (p. 3) SGN NI believes robust and consistent cost reporting is an essential element of benchmarking.</p> <p>However, seeing the limited historic cost and performance reporting data for NI, forward looking forecasts and supporting evidence should be given greater consideration for</p>	Please refer to our response to point 40 above.

Ref	Comment	Our Response
	<p>benchmarking, particularly for G2W as this new project will be completely tendered.</p>	
42.	<p>Cost and Performance Reporting for GD17 Price Control Period (p. 3)</p> <p>There is a need to agree GD17 financial models and reporting templates early in the GD17 process and to ensure they mirror GD17 priorities, the output and incentive regime.</p> <p>In particular, SGN NI is keen to ensure costs and associated allowances are recorded against relevant conveyance categories to facilitate cost effective charging arrangements and help drive efficient outcomes.</p>	<p>We will work closely with SGN NI to ensure all the necessary information is available to provide robust annual/cost reporting submissions.</p> <p>We will need to consider how conveyance categories are dealt with, before the 1st price control comes into effect and how costs as set in the applicant pack for Gas to the West are carried over into GD17. When changes have occurred from the applicant pack to the actual network design, a pragmatic view would need to be adopted on certain cost categories to reflect the balance and allocation of actual costs. We propose to engage on these matters with SGN NI as part of the price control process.</p>
43.	<p>Output Based Regulation (p. 3)</p> <p>SGN NI is fully supportive of output based regulation.</p> <p>SGN NI indicated that when setting the outputs, careful consideration needs to be given to company specific factors such as different stage of network development, degree of market maturity and characteristics of each licensed area.</p> <p>For SGN NI, primary outputs should be those set in the licence (i.e. focused on the</p>	<p>As part of GD14, we applied the principle of outputs being linked to the uncertainty mechanism. We propose to also apply this principle as part of the GD17 price control.</p> <p>Consideration will be given to company specific factors detailed in the business plan submission.</p>

Ref	Comment	Our Response
	<p>licensee installing and bringing into operation the low pressure pipe-line and meeting targets set against the Development Plan for the number of premises readily capable of being connected) and wider consideration should also be given to customer service, emergency services etc. which are also relevant and could be developed further.</p>	
44.	<p>Incentives (p. 3-4) SGN NI believes a strong incentive regime is a key part of output based regulation as it helps drive efficiency and delivery of outputs.</p> <p>SGN NI believes further consideration should be given to the following:</p> <ul style="list-style-type: none"> • Strong incentives to reward good delivery of outputs; • Fuel poor incentives similar to those introduced in GB; • Strong incentives to maintain focus on developing the network including incentives focused on the following areas of activities: <ul style="list-style-type: none"> • Providing a timely and accurate connections service; • Handling customer enquiries and complaints in a timely, 	<p>Please refer to our response to point 33.</p> <p>We also note that we welcome any suggestions and co-operation on how to increase the focus on fuel poor initiatives.</p>

Ref	Comment	Our Response
	<p>honest and professional manner;</p> <ul style="list-style-type: none"> • Maintaining a safe and reliable network; • Ensuring GDNS play their part in delivering a low carbon economy and wider environmental benefits e.g. minimising shrinkage and helping reduce consumer greenhouse gas emissions; • Developing robust stakeholder engagement programmes; and • Improving customer satisfaction. 	
45.	<p>Form of Price Control (p. 4) The SGN NI licence operates under a volume incentive control and states this would first be reviewed after 5 years of operation; therefore no changes should be considered for SGN NI until at least the next price control.</p>	<p>We plan to keep this as a price cap for at least GD17.</p>
46.	<p>Profile Adjustment (p. 4) SGN NI believes it is essential that profile adjustment is retained for G2W to ensure costs are recovered (with a reasonable rate of return) so that charges remain affordable to consumers and plans to set out further thoughts on this and</p>	<p>We will consider a review of profile adjustments, but will consider the maturity and size of the GDN, before any decision is made to either remove or replace this mechanism.</p>

Ref	Comment	Our Response
	the expected consumer impact in its Business Plan.	
47.	<p>Totex Approach (p. 3, 4) SGN NI is of the view that a totex approach, which works well in GB where it allows the licensees to make trade-offs between capex and opex, providing them with flexibility to deliver outputs in a cost effective way, is less relevant for NI where the focus is still on developing the network and where as a result capex, opex and repex cost categories are less balanced.</p>	<p>Our benchmarking will focus upon a separate consideration of opex and capex. Please also refer to our response to point 6 above.</p> <p>As continued development of the gas industry is of paramount importance, having a strong link to outputs in relation to new customers is a powerful incentive to ensure targeted growth.</p>
48.	<p>Uncertainties and Re-openers (p. 4) SGN NI plans to give careful consideration to key risks, uncertainties and associated requirements for uncertainty mechanisms and re-openers as part of their business plan submission but point out that they expect at least the following:</p> <ul style="list-style-type: none"> • Accounting for unforeseen and significant legislative, regulatory or government policy initiatives; • Setting of materiality thresholds relative to each individual licensee's costs in each individual area and allowances in each year; • Retaining of the provisions 	<p>As part of GD14, we applied the principles of using re-openers and an uncertainty mechanism. We propose to review this area as part of the GD17 price control and, in doing so, will give consideration to any representations made by the GDNs as part of their business plan submissions. Consideration will also be given to the applicant pack for Gas to the West.</p>

Ref	Comment	Our Response
	for material changes in volumes and operating costs already included in the licence.	
49.	<p>Smart Metering and Traffic Management (p. 4) SGN NI believes that further consideration should be give to metering changes such as smart metering and Traffic Management costs and proposes to set out further detail in its business plan.</p>	Please refer to our response to point 32 above.
50.	<p>Stakeholder Engagement (p. 5) SGN NI believes a stakeholder engagement framework should be developed for NI, focused on ensuring:</p> <ul style="list-style-type: none"> • Licensees consult their stakeholders at every stage of the planning and decision making progress and are able to demonstrate how stakeholder views have been taken into consideration; • Licensees keep stakeholders informed of key developments and decisions. 	<p>We have planned workshops with all GDNs, DETI and CCNI to consider an appropriate consumer engagement process for GD17 and to carry forward the development of consumer and stakeholder engagement, new consumer service and satisfaction measures, including further development of guaranteed and/or overall standards of service. Our aspiration is to introduce a consumer engagement oversight grouping between principal stakeholders, who then will develop an optimal approach to consumer engagement through a partnership working arrangement.</p> <p>We also plan to hold bi- and multi-lateral workshops and meetings with the GDNs throughout the price control process to ensure clarity and transparency. The meeting and workshop schedules will be agreed with the GDNs; frequency may vary throughout the different stages of the price control process.</p>
51.	<p>Innovation (p. 5) SGN NI believes that further consideration should be given to developing similar innovation arrangements (either directly through funding or through</p>	<p>Innovation forms an important part the of the network business over the price control period. It can drive efficiency and improve customer service experiences. We will consider all the elements of any business plan that is presented to us. And we will assess any business plan proposals both as individual measures and as an overall package.</p> <p>Please also refer to our response to point 33 above.</p>

Ref	Comment	Our Response
	incentive arrangements) for NI as those introduced in the electricity and gas markets in GB to help explore ways of improving efficiency, reducing cost and improving customer service.	
52.	<p>Rate of Return (p. 6) Whilst SGN NI supports the use of a CAPM model, they highlight the importance of it taking into account the full range of risks involved in a particular business which will in turn impact on the cost of equity and the cost of debt.</p> <p>SGN NI also notes that a WACC was set through the G2W application process, referenced in the recent licence application process and that they do not expect to see any departure from this under GD17.</p>	We will use the rate of return as disclosed in the applicants pack for the 1 st price control for SGN NI. There after, CAPM will be used, as appropriate.
53.	<p>General Financeability and Metrics(p, 5) SGN NI expects metrics to be meaningful to investors and reflect the market conditions and risk in NI as regulatory principles should not create financeability issues.</p>	We plan initially to use the GD14 financial metrics as an appropriate starting point and develop this further if appropriate.
54.	<p>TRV (p. 5) SGN NI is keen to establish under GD17 the setting of an annual TRV throughout the price control period.</p>	We will consider this as part of the review of the “Conveyance charge model”.

Ref	Comment	Our Response
55.	<p>Depreciation (p. 5) SGN NI states that further detail is required to understand the key differences that currently exist between the GDN's depreciation policies and the arguments for making any further changes.</p> <p>SGN NI expects that any changes will leave them in no worse a position than that assumed in the application process.</p>	<p>We will consider as part of the price control process an appropriate depreciation policy for each individual GDN, with coming to a policy on a common approach for certain cost categories, based on expected useful economic life.</p>

Other Responses

In the section below we address all responses excluding the ones from PNGL, firmus and SGN NI. Page numbers indicated refer to the response papers provided.

Ref	Organisation	Comment	Our Response
56.	Manufacturing NI	Overall Approach (p.1) Manufacturing NI is generally content with the proposed approach.	We welcome the comment on the overall approach.
57.	Manufacturing NI	Engagement with Gas Users (p. 1) It needs to be ensured that the price control process is informed as best possible by deep and sustained engagement with gas users so that there is a deep understanding of the impact of the price control on users of all scale.	We plan to continue to have open workshops to ensure all consumers can participate in discussions on the main areas of the price control.
58.	Manufacturing NI	Impact on Consumer Costs (p. 1) It needs to be ensured that there is clarity on how the draft and final decisions will impact on the cost which users, particularly larger users, will pay. Falling commodity prices must be felt and not consumed by excessive network costs.	All costs approved will follow established norms on the allocation between domestic and commercial customers. As part of our price control determination, we will consider the implication of price control decisions on consumers and will provide information on our findings.
59.	Manufacturing NI	Need for Long Term Certainty (p. 1) It needs to be ensured that there is there is long term certainty on how costs are passed on to customers to enable prudent business planning.	We plan to ensure that any price control decisions are reached, and that information on their implications is provided, in a transparent way to enable long term business planning.

Ref	Organisation	Comment	Our Response
60.	Manufacturing NI	<p>Duration of Price Control Period (p. 1) A 6 year price control is acceptable, provided there is flexibility built in to deal with unforeseen circumstances.</p>	We note the positive comments of a 6 year duration of GD17 and will proceed on this basis.
61.	Manufacturing NI	<p>Consistency of Approach and Policies Irrespective of Location (p. 1) It needs to be ensured that there is a consistent approach across all elements of the gas network regardless of the location of manufacturing plants. This includes policy on how connections are made and supported.</p>	GD17 will provide a consistent approach, across NI. Where differences arise, a full explanation will be given to provide clarity of why these have been made, i.e. different stages in the development of the gas network.
62.	Manufacturing NI	<p>Benchmarking (p. 1) Any benchmarking with GB should results in significant savings to consumers – the aim should be to not only meet, but beat other markets.</p>	As part of our benchmarking and efficiency challenge we will consider both, efficiency catch-up targets for GDNs operating at below the best in the industry and frontier shift targets for all GDNs to reflect efficiency gains resulting from companies becoming more efficient over time, e.g. through technological progress.
63.	Manufacturing NI	<p>Under Recoveries (p. 2) The actions around ‘under recovery’ should be looked at in the long-term cost of consumers – for instance, a larger cash sum achieved in the longer term can mean smaller bills for customers year on year.</p>	<p>In GD14, for firmus we considered that the Underrecoveries rate of return, to be high, commseraute with the level of risk.</p> <p>We will considering changing this return, in GD17, if appropairte, based on the policy and size of the amount to be recovered.</p>
64.	MEUC	<p>Timelines (p. 1) MEUC is pleased that this consultation process is</p>	We note the comments and wish to develop this timeline further.

Ref	Organisation	Comment	Our Response
		starting well in advance of the delivery date. Previous consultations appeared rushed and customers lost out in the process, resulting in aggravation and unbudgeted costs for business customers. Gas conveyance and associated costs involve complex issues and customers need time to understand the principles involved and the implication for their businesses. MEUC is keen to continue the existing dialogue on these matters.	
65.	MEUC	Under Recoveries (p. 1) MEUC wishes to continue the dialogue on key aspects of the firmus under recovery costs and their impact on costs.	Please refer to our response under point 27 above.
66.	MEUC	Duration of Price Control Period (p. 2) MEUC supports the concept of longer price control periods and would prefer the six year option. This should provide sufficient time for full customer involvement in the process and at the same time smooth our workload.	We note the positive comments of a 6 year duration of GD17 and will proceed on this basis.
67.	MEUC	Benchmarking (p. 2) MEUC is pleased to see that benchmarking is intended against gas	We welcome the stated support for our suggested approach. Please also refer to our response to point 62 above.

Ref	Organisation	Comment	Our Response
		transporters in GB and would expect that such benchmarking delivers cost savings to all customer categories under GD17.	
68.	MEUC	<p>Large Customer Focus Group (p. 2) MEUC supports the establishment of a Large Customer Focus Group. MEUC is of the view that such a group would also enhance the electricity programme in addition to gas and points out that in GB, similar groups already exist, meet in a quarterly basis with the Regulator and help to keep market and cost surprises at a minimum.</p>	<p>We have planned workshops with all GDNs, DETI and CCNI to consider an appropriate consumer engagement process for GD17 and to carry forward the development of consumer and stakeholder engagement, new consumer service and satisfaction measures, including further development of guaranteed and/or overall standards of service.</p> <p>Our aspiration is to introduce a consumer engagement oversight grouping between principal stakeholders, who then will develop an optimal approach to consumer engagement through a partnership working arrangement. This will likely include consideration of whether and how large and small, industrial and commercial plus domestic user interests might best be incorporated into the development of Business Plans by our GDNs and our consideration of draft and final determinations.</p>
69.	MEUC	<p>Overall Approach (p. 2) MEUC generally supports the proposed approach.</p>	We note the supportive comments.
70.	CCNI	<p>Price Control Objective (p. 1) The CCNI supports our overriding aim to continue the growth and development of the gas networks in Northern Ireland and considers this to be a stepping stone to transitioning to a carbon free renewable energy industry in Northern Ireland.</p>	We note the comments made on our main object to promote the development of gas within Northern Ireland and the positive contribution that gas make to reducing carbon emissions.
71.	CCNI	<p>Connection Incentives (p. 1, 2)</p>	This area will be given further consideration during the price control process when assessing and determining incentives.

Ref	Organisation	Comment	Our Response
		The Consumer Council recognises the need to incentivise growth in the natural gas networks and encourage new customers to connect, and to give GDNs appropriate incentives to grow their networks.	
72.	CCNI	<p>Connection Incentives for Fuel-Poor Customers (p. 2, 3)</p> <p>CCNI strongly encourages us to pursue this area of investigation and considers that allowances and incentives to increase connections targeted at the fuel poor should particularly focus on fuel poor private tenants.</p>	We note the comments made by the CCNI on this point and would welcome further dialogue of how the focus on fuel-poor connections can be increased.
73.	CCNI	<p>Information on Availability of Gas (p. 1, 2)</p> <p>The CCNI considers that more needs to be done to raise awareness of the availability of natural gas and the benefits of a natural gas conversion in areas where connections to the networks are currently possible.</p>	We are happy to consider any suggestions on how an additional awareness campaign can be formulated and developed.
74.	CCNI	<p>Efficiency and Performance (p. 2)</p> <p>The CCNI considers that requiring GDNs to improve their efficiency and performance to ensure</p>	<p>We acknowledge the weight placed on high standards of customer service and reliability of supply in addition to increasing the number of consumers connected to the network.</p> <p>We anticipate that important customer factors such as these will be drawn out during the consumer engagement process to inform GD17, either in the</p>

Ref	Organisation	Comment	Our Response
		existing customers receive high standards of service and reliability of supply is of equal importance to incentivising connections.	development of Business Plans by our GDNs or through consideration by ourselves at draft and final determinations. Please also refer to our response to point 62 above for further comments on benchmarking and efficiency challenges.
75.	CCNI	<p>Consumer Engagement (p. 2, 3) The CCNI welcomes that a higher level of engagement for all aspects of the price control is provided for.</p> <p>The CCNI welcomes in particular the proposal to incorporate consumer engagement in the price control process.</p> <p>The CCNI considers it important that consumers are able to express their opinions via survey, focus group discussions, or a combination of these regarding their willingness to contribute to service enhancements and the impact that such enhancements would have on their bills.</p> <p>The CCNI would be willing to cooperate with the GDNs and us to help facilitate the delivery of this research.</p>	We plan to continue to have open workshops to ensure all consumers can participate on the main areas of GD17 and we welcome further engagement with the CCNI on these matters.
76.	CCNI	Review of Guaranteed and Overall Standards of	We will consider details and timing for this work further, in line with our overall Consumer Protection Strategy.

Ref	Organisation	Comment	Our Response
		<p>Service (p. 3) The CCNI believes there would be merit in including the review of the appropriateness and relevance of the Guaranteed and Overall Standards of Service already in place as part of the consumer engagement and research process. The CCNI considers that it would be beneficial to undertake this review prior to the GD17 determination rather than during the price control period as explained in the discussion document because alternations to the Standards of Service may have an impact on the price control process and because this would provide certainty for consumers.</p>	
77.	CCNI	<p>Cot Reporting (p. 3) The CCNI welcomes that we have put more detailed cost reporting arrangements in place.</p>	We acknowledge CCNI's support and look forward to further constructive collaboration as the price control progresses.
78.	CCNI	<p>Holistic Approach (p. 3) The CCNI welcomes our acknowledgement that there is a 'growing need for a more holistic, more strategic approach to the management of all aspects of the gas industry'. The CCNI considers this point is</p>	We note the comments made.

Ref	Organisation	Comment	Our Response
		pertinent as GD17 covers both PNG, firmus and possibly the 'Gas to the West' project.	
79.	CCNI	<p>Asset Management (p. 3) The CCNI welcomes our plans to review the existing asset management systems in place and ensure that they are fit for purpose. CCNI considers this to be important as clear and verifiable data provides consumers and their representatives with a better understanding and increased confidence in the outcomes of the price control.</p>	We plan to issue a separate guidance note on this area for consideration by the GDNs. As the network ages, it is appropriate to have a system in place to monitor the state and health of the assets. This will have implications for the network maintenance regime in the future.
80.	CCNI	<p>User Commitment (p. 4) The CCNI welcomes our commitment to consider a range of views on how best to ensure user commitment in the G2W project.</p>	We note the support on this strategy.
81.	CCNI	<p>Stakeholder Engagement (p. 4) The CCNI welcomes our commitment to stakeholder engagement. The CCNI considers it important that stakeholder engagement is included as a milestone in the price control process, that it is driven by the GDNs with support from the CCNI and us and has already had initial discussions with the</p>	Our aspiration is to introduce a consumer engagement oversight grouping between principal stakeholders, who then will develop an optimal approach to consumer engagement through a partnership working arrangement. We look forward to further constructive collaboration with the CCNI in this area.

Ref	Organisation	Comment	Our Response
		GDNs on how the views and experiences of consumers could inform their business cases for GD17.	
82.	CCNI	<p>Focus on Consumer Interests (p. 4)</p> <p>The CCNI welcomes that we will 'consider revising during the GD17 price control period, the measures in place to ensure ongoing focus of the GDNs on consumer interests and needs'.</p>	We have planned workshops with all GDNs, DETI and CCNI to consider an appropriate consumer engagement process for GD17 and to carry forward the development of consumer and stakeholder engagement, new consumer service and satisfaction measures, including further development of guaranteed and/or overall standards of service.