

Licence Modification Decision on Firmus Energy GD17 Remedies

29 March 2018



About the Utility Regulator

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

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

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

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

This is the UR Licence Modification Decision on Firmus Energy GD17 Remedies.

The UR published a decision paper on the GD17 licence modifications for FE's gas conveyance licence on 28 October 2016.

FE appealed against elements of the GD17 Decision by submitting a Notice of Appeal (NOA) to the CMA on the 25 November 2016, and has commented on these costs as part of that appeal.

Our response to the FE submission was submitted on the 19 January 2017.

The CMA made its decision on 27 June 2017 following engagement and representations made by Firmus energy, CCNI and the UR.

On the 19 December 2017 the UR published its consultation pursuant to the CMA final decision for the UR to make a decision on Grounds 2A connection targets and Grounds 2B non-additionality. The consultation closed on the 2 February 2018 and we received 2 responses from FE and CCNI.

After careful consideration of all the responses we have not been persuaded to change our position, from the consultation. This paper therefore sets out our reasons and our final decision.

Audience

The licensee affected, other regulated companies in the energy industry, government, other statutory bodies and consumer groups with an interest in the energy industry.

Consumer Impact

The CMA decision will set a precedent for other regulated entities and price controls. The overall impact on consumers will be expected to be minimal; however the process will impact on future activities and price control allowances.

TABLE OF CONTENTS

1	Introduction	7
	Purpose of this Document	7
	Approach	8
	Legal and Regulatory Framework	8
	Document Structure	9
2	Ground 2A - Connection Target Consultation Review	11
	Background to owner occupied connection targets	11
	CMA Final Determination and Order	12
	Reconsideration and determination of Ground 2A – Connection Target	12
3	Ground 2B- Non-Additionality Consultation Review	14
	Background to non-additionality	14
	CMA Direction with further Areas considered as follows	15
	Review of evidence presented to the CMA during the appeal	16
	Further work undertaken to calculate a revised non-additionality rate	17
	Withdrawal of incentives for small I&C consumers in the PNGL area	18
	Survey of owner occupiers on their reasons for connecting to natural gas	18
	Rol gas market as a comparison	25
	Greater Belfast case study	26
	Reconsideration and determination of Ground 2B – Non-additionality	28
4	Ground 2A - Connection Target Consultation responses and Decision	31
	Consultation responses and the UR consideration of Responses	31
	Decision and determination of Ground 2A – Connection Target	31
5	Ground 2B- Non-Additionality Decision	33
	Consultation responses and the UR consideration of Responses	33
	Decision and determination of Ground 2B – Non-additionality	37
6	Effect on any other areas of the Price Control	38
	Effect of Decision	38
	Connection Target	38
	% Non Additionality Figure	39
	Summary of Decision - Outputs	40
7	Licence Modifications	42
	Determination Values	42
	Consultation responses and UR consideration of response	42
	Licence Modifications	42
	Reasons	46
	Effects	47

8	Next Steps and Annexes	48
	Next steps.....	48
	Annexes	49

ACRONYMS AND GLOSSARY

CCNI	Consumer Council for Northern Ireland
CMA	<p>Competition and Markets Authority.</p> <p>The Competition and Markets Authority (CMA) is a non-ministerial government department in the United Kingdom, responsible for strengthening business competition and preventing and reducing anti-competitive activities. The CMA began operating fully on 1 April 2014, when it assumed many of the functions of the previously existing Competition Commission and Office of Fair Trading, which were abolished.</p>
CRU	<p>Commission for Regulation of Utilities</p> <p>The CRU is Ireland's independent energy and water regulator and has a wide range of economic, customer protection and safety responsibilities.</p>
FD	Final Determination
FE	firmus energy (Distribution) Ltd
FOIA	Freedom of Information Act 2000
Gas Order	The Gas (Northern Ireland) Order 1996
GD14	This is the name given to the price control for PNGL and FE covering the period 2014 – 2016 (calendar years).
GD17	This is the name given to the next price control for the NI GDNs. It is proposed to cover the period 2017 – 2022 (calendar years).
GDN	Gas distribution network operator – FE, PNGL and SGN
i.e.	that is
NI	Northern Ireland
Opex	Operating expenditure
OO (Domestic)	<p>Owner Occupied Domestic Premises which do not fall into the definition of:</p> <ul style="list-style-type: none"> • Domestic New Build; • NIHE; • Housing Association

PC3	This price control sets the distribution revenues for gas distribution in Ireland for the period October 2012 to September 2017. These revenues are set to finance activities associated with owning and operating the gas distribution system in Ireland regulated by the CRU.
PC4	This price control sets the distribution revenues for gas distribution in Ireland for the period October 2017 to September 2022. These revenues are set to finance activities associated with owning and operating the gas distribution system in Ireland regulated by the CRU.
PNGL	Phoenix Natural Gas Limited
SGN	SGN Natural Gas Limited
Third Gas Directive	Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC

1 Introduction

Purpose of this Document

- 1.1 With this document we are publishing our decision on the licence modifications to Condition 4.7 of the gas conveyance licence for Firmus Energy (Distribution) Limited.
- 1.2 We (the Utility Regulator, the Authority) consider that the licence modifications proposed in the [consultation](#)¹ document of the 19 December 2017 are required to comply with our legal and regulatory obligations (summarised in below in 'Legal and Regulatory Framework'), to give effect to our conclusions on matters which were remitted back to us for reconsideration and determination by the Competition and Markets Authority (the CMA) following an appeal by Firmus Energy (Distribution) Limited (FE) in respect of a decision on licence modifications made by the Utility Regulator to implement the GD17 final determination.
- 1.3 GD17 is the price control period for Gas Distribution Networks: firmus energy (FE), Phoenix Natural Gas Limited and SGN which sets allowances for companies to run their businesses and invest in the gas network for the period 1 January 2017- 31 December 2022.
- 1.4 In September 2016 we published our [decision](#) on GD17 and our statutory consultation on licence modifications to enact the price control allowances into the respective licences of GDNs. Following careful consideration of consultation responses and other relevant factors, on 28 October 2016, the UR published its decision to modify the gas conveyance licences of the three GDNs in NI (the GD17 Decision).
- 1.5 On 25 November 2016, FE brought an appeal to the CMA against the Decision to modify the conditions of its licence. On 28 December 2016, the CMA granted FE permission to appeal to the CMA. The CMA reached its [final determination](#) on 28 June 2017.
- 1.6 FE's appeal had four grounds, further subdivided into 12 sub-grounds. The CMA upheld the Utility Regulator's price control decisions in respect of nine sub-grounds. For the remaining three sub-grounds, the Utility Regulator had already made a [decision](#) on one area (GIS costs). The Order of the CMA which gave effect to its final determination remitted two grounds of appeal back to the Utility Regulator for reconsideration and determination as follows:
 - Ground 2A – in respect of Connection Targets; and
 - Ground 2B – in respect of connection incentive Non-Additionality.

¹ <https://www.uregni.gov.uk/sites/uregni/files/media-files/Final%20Consultation%20Document%20for%20FE%20CMA%20referral%2019%20Dec%202017.pdf>

- 1.7 We have concluded our reconsideration of the matters remitted to us and we now publish our decision on licence modifications necessary to give effect to the conclusions we have reached.
- 1.8 The purpose of this document is to publish our decision on the licence modifications to bring them into effect.

Approach

- 1.9 We have reconsidered the two matters remitted back to us by the CMA.
- 1.10 In respect of Ground 2A - Connection Targets, we obtained additional information from FE on the processes it used to collect properties passed and properties connected data and how it determined property type. Based on this historical information we recalculated connection projections for owner occupied properties for GD17 to arrive at revised connection targets. More detailed information on our reconsideration of Ground 2A - Connection Targets is given in Chapters 2 and 4.
- 1.11 In respect of Ground 2B – Non-Additionality, we reconsidered three approaches which we had initially presented to the CMA in response to the FE appeal. In addition, we commissioned a consumer survey to allow consumers in the FE area to tell us:
- the reasons they connected to gas;
 - whether they could recall exposure to FE advertising/activities prior to connecting to natural gas; and,
 - whether being exposed to FE advertising/activities had, in any way, influenced their decision to connect to natural gas.
- 1.12 Based on a review of previous methodologies and the additional information provided by the consumer survey, we reached conclusions on a reasonable level of non-additionality. More detailed information on our reconsideration of Ground 2B – Non-Additionality is given in Chapters 3 and 5.
- 1.13 We then considered other consequential effects of our reconsideration and determination of connection targets and non-additionality. This included the impact of reducing connection projections on capital investment, operational costs and projected gas volumes. The revised values were used in our financial and tariff models for GD17 to calculate revised “determination values” which are included in Condition 4.7 of the licence.

Legal and Regulatory Framework

- 1.14 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 Directive², and by having regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003³.

- 1.15 In fulfilment of our duties, we may propose to make modifications to gas licences under Article 14 of the Gas (Northern Ireland) Order 1996⁴ (the Gas Order). Article 14 sets out, in particular, the process we need to follow when making licence modifications. We need to give notice of at least 28 days of the proposed modification. We must give due consideration to any representations made during this period and, if we decide to proceed to modify the licence, publish our decision together with the licence modifications, stating the effect of the modifications and the reasons for any changes made from the consultation version. The effective date for the licence modification must be at least 56 days after the publication of the licence modification decision.
- 1.16 Since the coming into effect of the Gas and Electricity Licence Modifications and Appeals Regulations (Northern Ireland) 2015⁵ on 6 February 2015, the consent of the licence holder is not required for a modification to their licence. However, any licence modification decision made under Article 14 of the Gas Order may be appealed to the CMA by:
- the licence holder concerned;
 - any other licence holder materially affected by the decision;
 - a qualifying body or association representing a licence holder concerned or a licence holder materially affected by the decision; or
 - the Consumer Council for Northern Ireland.
- 1.17 If an appeal is brought to the CMA, the CMA will as a first step decide whether or not to give permission for the appeal to proceed. If permission is granted, the CMA has a period of 4 months, or in the case of licence modifications relating to price controls- 6 months, in which to determine the appeal. These timelines can be extended to 5 months and 7 months respectively, if required.

Document Structure

- 1.18 This decision document is structured as follows:

Chapter 2 Outlines our Connection Target Consultation Review.

Chapter 3 Outlines our Non- Additionality Consultation Review.

² Directive 2009/73/EC of the European Parliament and the Council of 13 July concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC.

³ <http://www.legislation.gov.uk/nisi/2003/419/contents>.

⁴ <http://www.legislation.gov.uk/nisi/1996/275/contents>.

⁵ <http://www.legislation.gov.uk/nisr/2015/1/contents/made>.

- Chapter 4 Sets out our reconsideration and determination of Ground 2A – Connection Targets.
- Chapter 5 Sets out our reconsideration and determination of Ground 2B – Non-Additionality.
- Chapter 6 Considers any other consequential effects on other areas of the price control as a result of any changes in regards to Ground 2A & Ground 2B.
- Chapter 7 Deals with our final decision on licence modifications with reasons and effects.
- Chapter 8 Deals with Next Steps.

This decision document is complemented by a number of Annexes.

2 Ground 2A - Connection Target Consultation Review

- 2.1 This chapter repeats the proposals in respect of the connection target which were contained in chapter 2 of the consultation document published on 19 December 2017.

Background to owner occupied connection targets

- 2.2 The GD17 final determination includes a mechanism which incentivises the company to deliver and exceed owner occupied connection targets:
- A connection incentive allowance is provided for each owner occupied connection made over and above a Non-Additionality limit. The Non-Additionality limit is fixed as a percentage of the ex-ante connection target and is not recalculated on the basis of actual connections delivered. In the GD17 final determination, the Non-Additionality limit was set at 25%.
 - The connection incentive is subject to a 'collar' whereby a GDN which underperforms the ex-ante annual connection target by more than 50%, it would receive only 25% of the per connection allowance for any OO property connected.
- 2.3 In both parts of the mechanism described above, the connection incentive allowance realised by FE in GD17 is dependent on the ex-ante connection target determined by the Utility Regulator.
- 2.4 For the GD17 final determination the Utility Regulator used a connection model where the number of connections made in a particular year is a fixed percentage of the number of properties which are available to connect in that year. For these purposes, the number of properties which are available to connect is a fixed percentage of the number of properties passed at the end of the year, less the number of properties connected by the start of the year. The equation underpinning the conceptual model is set out below:

$$c_n = a\% \times \left(* (100 - b)\% \times \sum_1^n pp - \sum_1^{n-1} c \right)$$

Where	c_n	is the number of properties connected in year n.
	a	is the connection rate of properties available to connect.
	b	is the percentage of properties passed which will always resist connection and (100%-b) is the percentage of properties passed that will connect at some point in the future (assumed to be 15% for GD17).
	pp	is the number of properties passed in any year.
	c	is the number of properties connected in any year.

- 2.5 Using historical information on properties passed and properties connected provided by FE, the Utility Regulator determined a connection rate of 5% per annum and an owner occupied connection target of 20,450 for GD17.
- 2.6 In its Notice of Appeal, FE submitted that the Utility Regulator had made an error when it determined the owner occupied connection target because the owner occupied property target for GD17 explicitly excluded Housing Association properties while the historical data on which the targets were set included Housing Association properties. FE provided the CMA with new information on owner occupied properties passed and properties connected excluding Housing Association properties.

CMA Final Determination and Order

- 2.7 In its determination, the CMA concluded that “*the GD17 Decision in relation to the connection incentive was wrong to the extent that the UR had used incorrect Housing Association data to set the connection target.*” The CMA decided to remit the matter back to the UR for reconsideration and determination with directions that the UR:
- Recalculate the connection target from 20,450 to the figure which would result from the UR’s connection model, having corrected for the error in respect of Housing Association data.
 - Calculate the consequential effects of the amendment above on those elements of the GD17 price control which are directly linked to the GD17 connection target.

Reconsideration and determination of Ground 2A – Connection Target

- 2.8 In July 2017 we asked FE to provide information on its processes for collecting, storing and processing properties passed and connection information and supporting data necessary to conduct our review.

- 2.9 Following receipt of information from FE, we met the company to review its methodology for recording properties connected, including the work it undertook in January 2017 to identify Housing Association properties.
- 2.10 Based on this review we have concluded that the properties passed and property connected data provided by FE to the CMA should be used to recalculate the owner occupied connection targets for GD17.
- 2.11 In line with the CMA direction we have recalculated the connection target using the connection model we used in the GD17 final determination. Having corrected Housing Association data we have determined a revised connection rate of 5% and a revised GD17 owner occupied connection target of 19,400. The revised connection target is shown in Table 1: Proposed connection targets for GD17 compared to GD17 FD values
- 2.12 This is equivalent to the CMA Final Determination of 19,403 with 3 properties deleted from the 2022 year for rounding purposes, to result in a connection target over GD17 of 19,400.

Connections (p.a.) - Owner Occupied	2017	2018	2019	2020	2021	2022	Total
GD17 FD	2,600	2,950	3,300	3,600	3,900	4,100	20,450
Proposed Connection targets	2,468	2,808	3,134	3,401	3,655	3,934	19,400

Table 1: Proposed connection targets for GD17 compared to GD17 FD values

- 2.13 The impact of the revised connection target on GD17 revenue is dependent on the non-additionality applied to connection incentive which is a remitted matter (see below). If the 25% non-additionality used in the UR's final determination for GD17 is used, the revised target would reduce the capex allowances by circa £1.2m.

3 Ground 2B- Non-Additionality Consultation Review

- 3.1 This chapter repeats the proposals in respect of non-additionality which were contained in chapter 3 of the consultation document published on 19 December 2017.

Background to non-additionality

- 3.2 The GD17 final determination includes a mechanism which incentivises the company to deliver and exceed owner occupied connection targets. This mechanism was outlined in paragraph 2.2 above. A connection incentive allowance is provided for each owner occupied connection made over and above a non-additionality limit.
- 3.3 In the GD17 final determination, as in GD14, we used a concept of non– additionality in respect of connection incentives allowances, as we consider that there will be a certain number of OO connections that would occur anyway without any direct marketing or selling to these customers. We describe these connections as “non-additional.” Since FE could in theory avoid any sales-related costs to connect such customers, no allowance will be applicable for these customers.
- 3.4 At a practical level, this concept is underpinned by a wide range of activities (in addition to firmus energy activities) which support and promote the gas industry and will raise awareness and influence people’s choice to convert to gas. For example:
- i) A number of commercial and other organisations have now been advertising gas for a period of 20 years. Familiarity with gas as a fuel has built up over that period.
 - ii) Gas suppliers are now competing for customers in the area and will be conducting sales and marketing activities in relation to the services they offer.
 - iii) Consumer bodies such as Which and the CCNI provide readily accessible information about gas.
 - iv) Press coverage on the development of the gas network in Northern Ireland has been considerable in recent years.
 - v) The government substantially supports gas as a fuel. The Department for the Economy's website includes information indicating the benefits of gas.
 - vi) When one household converts to gas they are likely to tell family, friends and neighbours about their experience, influencing local groups and wider networks.

- vii) Persons resident in the Licence Area commute or otherwise travel to the Greater Belfast area on a regular basis and will notice the marketing of gas in that area.
 - viii) Even within the Licence Area, PNGL's marketing activities that get national coverage are likely to have an impact on persons residing in the area. For example, PNGL have previously conducted television advertising on national television and are currently undertaking a radio advertising campaign on Cool FM, which is a national radio station. This advertising will promote gas in FE's area.
 - ix) Boiler replacement, change of ownership and renovation will each mean that the property owner in question is incentivised to proactively seek out information about potential options for switching to gas, rather than relying on receiving sales and marketing materials. Assuming a uniform distribution of boiler replacements over time, 5% of properties which use oil fuel will need to replace their boiler every year and it may be cheaper to switch to gas (in addition to the other benefits).
- 3.5 The non-additionality limit is fixed as a percentage of the ex-ante connection target and is not recalculated on the basis of actual connections delivered. As a result, the revenue which consumers pay for gas distribution is dependent on both the ex-ante connection target (see Chapter 2) and the level of non-additionality applied.
- 3.6 In the GD17 final determination, the Non-Additionality limit was set at 25%. If the limit was higher the consumers would pay less and if the limit was lower consumers would pay more. The impact of varying the non-additionality limit on the value of connections incentive realised in GD17 is shown in Table 2. This assumes that the number of connections made equals the connection target set as per the GD17 FD.

Non-additionality limit	Connection incentive value realised	Variance from 25% baseline
15%	£10.36m	£1.22m
20%	£9.75m	£0.61m
25%	£9.14m	£0m
30%	£8.53m	-£0.61m
35%	£7.92m	-£1.22m

Note 1 £m stated in December 2014 prices

Table 2: Impact of non-additionality limit on the value of connection incentives realised

CMA Direction with further Areas considered as follows

- 3.7 In its determination, the CMA concluded that:

- i) setting a non-additionality rate on a basis that has been so fundamentally undermined that it cannot stand falls short of the UR's principal objective, its statutory duties and the stated effect in the GD17 Decision;
 - ii) that the non-additionality rate is a major driver of FE's connection allowance revenue. As a result, setting the non-additionality rate on a basis that has been so fundamentally undermined that it cannot stand risks FE receiving less revenue than it should. In our view, this falls short of the UR's statutory duty to have regard to the need to secure that licence holders are able to finance their licensed activities.
- 3.8 In the Order of the CMA, the CMA decided to remit the matter back to the UR for reconsideration and determination with directions that the UR:
- i) *undertake further analysis to calculate a revised non-additionality rate, consult publicly on the proposed revised non-additionality rate, and determine the revised non-additionality rate;*
 - ii) *calculate the consequential effects of the amendment under sub-paragraph i) above on those elements of the GD17 price control which are directly linked to the non-additionality rate and invite and consider representations from the FE on any proposed changes to the GD17 price control.*

Review of evidence presented to the CMA during the appeal

FE evidence to support its view on non-additional rate

- 3.9 In its Notice of Appeal to the CMA, FE stated that UR had failed to provide evidence to justify the 25% non-additionality, which was not substantiated with evidence and suggested that 5% was a more appropriate figure.
- 3.10 FE cited 2 pieces of evidence it considered supported its claim that the 25% non-additionality was wrong:
- i) It did a trial of 200 properties, in Loughgall, of which it did not undertake any advertising activity for a period of 5 months, of which during that time no connections were made.
 - ii) It submitted a survey of customers in the FE area which indicated that over 24% after seeing the FE advertising would be interested in switching.
- 3.11 The CMA concluded for the trial, the sample size was too small and of insufficient duration. The survey did not ask appropriate questions and the sample size was limited, which therefore could not provide robust evidence to the correct level of non-additionality.
- 3.12 The CMA concluded that although the evidence was not sufficient, it did demonstrate that it was possible to conduct a natural experiment and undertake market research to obtain evidence.

UR evidence to support its view on the non-additionality rate

- 3.13 The CMA was critical on the lack of quantitative analysis that could have been undertaken to demonstrate its assumption of 25%, (e.g. a Survey) although it did point to the information already provided and indicated that it could be used to indicate a wide range of values.
- 3.14 The CMA did not put much weight on the PNGL I&C customers experience, that when the connection incentive was dropped the effect it had on overall connections, as in its opinion the evidence as presented did not provide any direct linkage to the relationship to OO customers.
- 3.15 The CMA had a number of concerns with the evidence presented with regard to the Republic of Ireland (ROI) market as follows:
- That the ROI market had advertising (see Annex 3) undertaken by the Network company to target customers not connected to natural gas.
 - The effect of Supply competition on the ROI market and the impact Gas supply company advertising would have on raising awareness of Gas and therefore an increase in the level of connections.
 - Clarification on the calculation of properties and properties passed in the ROI market, to identify the connection rate.
- 3.16 The CMA therefore did not consider, that the evidence as presented, in terms of the ROI market, could be used to compare a market with no sales and advertising on connections.

Further work undertaken to calculate a revised non-additionality rate

- 3.17 In response to the CMA's direction we have under taken four pieces of analysis to calculate a revised non-additionality rate:
- i) An assessment of how connection rates for small I&C consumers in the PNGL area changed when a connection incentive was withdrawn in 2014.
 - ii) A survey of consumers to assess the reasons and influencing factors which caused them to connect to gas.
 - iii) An assessment of connection rates in ROI taking account of the differences in incentives and marketing regimes.
 - iv) A case study focusing on a peak in connections in the Greater Belfast area which occurred over the period 2010 to 2016.
- 3.18 We have considered the results of this work including the analysis undertaken to calculate a revised non-additionality rate in turn in the subsequent sections.

Withdrawal of incentives for small I&C consumers in the PNGL area

- 3.19 In the PNGL12 price control (covering 2012 and 2013), PNGL was granted and incentives for I&C connections of £60k over 2 years, based on projected connections. This I&C incentive was not continued for GD14, nor for GD17.
- 3.20 In this assessment we considered the impact of the withdrawal of the connection allowance on the smallest meter size (U6 meters), which typically serve small shops, offices or other commercial premises. Most domestic properties are served by U6 meters. Our analysis and the comparisons drawn is predicated on the assumption that gas consumption and economic drivers for I&C which would be served by a U6 meters to connect to gas are similar to those of domestic properties.
- 3.21 Information provided by PNGL on U6 I&C connections over the period 2011 to 2016 is shown in Table 3.

Meter Size	New I&C Connection						Total
	2011	2012	2013	2014	2015	2016	
U6/G4	144	143	156	140	170	150	903

Table 3: Customer connections for U6 meters from 2011-2016

- 3.22 From the above data it is apparent that I&C new connections remained relatively stable over the 2011-16 period and there was no obvious amendment to customer numbers as a consequence of removing the Connection Incentive. From the above data it could be concluded that the Connection Incentive has no direct impact on customer connections. This would indicate that non-additionality is high.
- 3.23 However, this is a small group of connections in an area which Advertising, Marketing and promotional material was still present and may have had an influence on choices made by I&C consumers. In light of this, we have drawn no conclusions about non-additionality from this part of our analysis.

Survey of owner occupiers on their reasons for connecting to natural gas

Introduction to the survey of owner occupiers

- 3.24 In its [final determination](#), the CMA suggested that a survey may provide useful information (refer to paragraph 5.147) that could provide evidence for the basis of the non-additionality figure.
- 3.25 We commissioned a survey of owner occupiers on their reasons for connecting to natural gas which was carried out in October and November 2017. The survey covered customers who had connected to Natural Gas in the FE area from 2013 - 2016, who were Owner Occupied and had made the decision to connect to gas. Responses were obtained from a 1,002 customers that was spread in proportion to the numbers of

connections in the main towns served by firmus energy, selected from a total number of 7,000 owner occupied properties connected in the FE area.

- 3.26 Our aims and objectives when commissioning the survey were to undertake research to clarify the reasons why domestic owner occupied customers switched to natural gas. This research was carried out to assist our understanding on whether the fixed % assumption for non-additionality is appropriate. The survey focused on:
- the reasons consumers connected to natural gas; and,
 - whether consumers had been exposed to advertising and/or activities carried out by firmus energy and whether they had in any way been influenced by in their decision to connect to natural gas by this exposure.
- 3.27 We developed an initial set of survey questions with our survey contractor. We then shared this with firmus energy. We received representations from the company and considered these and engaged with firmus energy before deciding on the final form of the survey.
- 3.28 The survey was carried out as a face to face interview, with a set questions, that were unprompted (ask customers openly) or prompted (directed customers based on selection of responses). The survey explored four issues:
- i) Respondents were asked (unprompted) how they became aware that natural gas was available in their area. Respondents could provide multiple reasons.
 - ii) Respondents were invited (unprompted) to say why they had connected to natural gas. Having listed their reasons for connecting to natural gas, respondents were then asked (unprompted) to identify their most important reason for connecting.
 - iii) Respondents were then asked if, prior to connecting to natural gas, they had seen or heard any firmus energy advertising or activities prior to connecting to gas. This was a prompted question which offered respondents a list of 19 advertising and other activities carried out by firmus energy which are specifically designed to or could prompt awareness of gas, the advantages of gas, and support for gas connections and how to go about making a gas connection.
 - iv) Finally, respondents were invited to say whether being exposed to firmus energy activities had in any way influenced their decision to connect to natural gas.
- 3.29 The survey report produced by the survey contractor is included as Annex 2 of this decision. Our analysis of the survey and the conclusions drawn from the results are given in the subsequent sub sections.

Awareness that natural gas was available

- 3.30 Respondents were asked (unprompted) how they became aware that natural gas was available in their area. Respondents could give more than one reason.

- 3.31 When asked how they became aware that natural gas was available in their area, the most common response was roadworks/ construction activities/laying gas mains with 36% identifying this as a reason they became aware of gas mains in their area. Word of mouth, friends/family and neighbours/acquaintance were the other main reasons identified.
- 3.32 13% of respondents identified firmus energy advertising/activities as a reason, with 6% saying that they had seen advertising/activities by suppliers other than firmus energy.
- 3.33 These results suggest that awareness of natural gas amongst owner occupiers who have connected to the gas network was initially prompted by construction activities and person-to-person communication. It also suggests an awareness of advertising by suppliers other than firmus energy through advertising/activities which is about half that of awareness prompted by advertising/activities of firmus energy. While we have not drawn any specific conclusions on non-additionality from these results, they point to the influence of the types of activities by others which we identify in paragraph [3.4](#) above which underpin the concept of non-additionality.

Reasons for connecting to natural gas

- 3.34 Respondents were asked (unprompted) why they had connected to natural gas. Respondents could give more than one reason. Having listed their reasons for connecting to natural gas, respondents were then asked to identify their most important reason for connecting.
- 3.35 Only 8% identified firmus energy advertising/activities or financial incentives as one of the reasons they connected to natural gas and 5% of respondents identified these as the main reason.
- 3.36 The main reasons for connecting, provided a range of results as follows (unprompted), ranked in the highest order : Convenience 20%, Friend family recommendation 17%, Cheaper than alternatives 15%, Problems with existing heating system 12%, Neighbour/Acquaintance recommendation 9%, Environmentally friendly 8%. These results represent 80% of all responses. FE marketing and financial incentives were less than 5% of responses.
- 3.37 These unprompted questions suggest that very few consumers could recall being influenced in their decision to connect by firmus energy advertising activities and financial incentives. This indicates that the level of non-additionality could be very high and up to 95%, say in the range 75% to 95%.
- 3.38 However, there is a risk that advertising activities could be under represented as a reason for making a connection because respondents did not recall it, did not consider it significant enough to report or did not wish to admit being influenced by advertising. As a result we place little weight on this result in our determination. The survey included further prompted questions on advertising and activities and whether these in any way

influenced respondents' decision to connect to natural gas. The outcome of this work is discussed below starting at paragraph 3.43.

- 3.39 It is also clear from the survey that many of the reasons given by consumers for connecting to natural gas are environmental, lifestyle and financial benefits which are actively promoted by firmus energy in its advertising and activities as set out in Figure 1 which shows information abstracted from a firmus energy web page in November 2016.
- 3.40 Table 4 provides a mapping of the reasons given by consumers for connecting to gas between those linked to firmus energy advertising and activities, including the benefits of gas promoted by firmus energy in its advertising. All responses categorised as 'other' have been included in this category. Reasons which are not linked to firmus energy advertising and activities is then limited to recommendations from friends/ family/ neighbours/ acquaintances, problems with existing heating systems and house renovation.

Constant supply and peace of mind
By switching to natural gas, you'll never run out of fuel again.

More ways to save
If your property uses energy efficient appliances, you'll burn even less fuel, and that means more money for the things you really want.

Efficient
Cooking with natural gas means efficient precision cooking for restaurants.

Cleaner
Natural gas burns 30% more cleanly than oil or coal. It's easier on the environment, less wasteful and reduces boiler maintenance costs.

Easy to budget
With a pay as you go meter you simply pay for what you use. If you prefer to pay by monthly direct debit we can install a credit meter.

Secure
No concerns about fuel theft, spillages or cleaning up.

Best use of your space
No need for an oil tank; there is also the potential to remove the hot and cold water tank, allowing you to make the best use of the space in your home.

Quotes taken from firmus energy web page on 30 Nov 2016

Figure 1: Some benefits of Natural Gas promoted by firmus energy.

Reasons not linked to FE advertising/activities	Reasons linked to FE advertising/activities
Recommendation from friend or family	Give more space in garden / outside (e.g. with removal of oil tank)
Recommendation from a neighbour / acquaintance	Financial incentive – Other government (e.g. boiler scrappage scheme)
Problems with existing heating system	Convenience (never run out, instant hot water, hot shower etc.)
House renovation	Thought it would be cleaner
	Financial incentive – Firmus Energy
	Thought it would be cheaper than alternatives
	Get rid of the hotpress
	Pay-As-You-Go / pre-payment card allows budgeting / no big bills
	More energy efficient
	Seen or heard Firmus Energy advertising / activities
	Other

Table 4: Mapping reasons for connecting to natural gas to benefits promoted by firmus energy

- 3.41 Mapping the reasons for connecting to gas to the two categories in Table 4 allowed us to identify respondents who gave reasons exclusively in one or other of these categories and respondents which gave reasons in both. The results of this allocation is set out in Table 5.

	Number	%
Reasons not linked to FE advertising/activities only	319	32%
Reasons linked to FE advertising/activities only	517	52%
Reasons given in both categories	166	17%
All respondents	1002	100%

Note 1

Figures may not add due to rounding

Table 5: Reasons for connecting linked to firmus energy advertising and activities

- 3.42 32% of respondents did not give a reason linked to firmus energy advertising and activities. 17% of respondents gave reasons for connecting to gas in both categories. This indicates that the level of non-additionally is in the range 30% to 40%. In this assessment we have assumed that the benefits of gas given by respondents as a reason for connecting to gas have been communicated solely by firmus energy. However, firmus energy is not the sole source of information on the benefits of gas, nor is it the sole source of incentives to connect to gas. To allow for this we consider there is

an indication in this analysis that non-additionality will be greater than 30%. There is no indication in this analysis that non-additionality is less than 30%.

Exposure to Fe Advertising/ Activities prior to Connections

- 3.43 The design of the survey included a question on exposure to firmus energy advertising/activities prior to connecting and whether this exposure had influenced the decision to connect. This was included to address the possibility that when asked their reasons for connecting, respondents would not recall firmus advertising/activities unprompted or that they would not recognise this as a reason for their decision.
- 3.44 In part, the treatment of the benefits of gas as a reason for connecting which is described above also seeks to address this point.
- 3.45 Respondents were provided with an extensive list of activities/advertising carried out by firmus energy (19 in total) and were asked whether they had been exposed to them. Those who could recall being exposed to these activities (after being prompted) were asked whether this exposure had, in any way, influenced their decision to connect to natural gas. The survey elicited the following response:

	Exposure to firmus energy advertising/activities	Exposure in any way influenced the decision to connect (of those exposed).
Yes	70%	60%
No	7%	30%
Don't know/ can't remember	23%	10%

Table 6: Survey results showing effect of exposure to FE activities in influencing gas connections

- 3.46 The main areas that the responder recalled were as follows: TV - 30%, Letters/Leaflets, Post/ – 25%, Construction activity 20%, Vehicle Branding 20%. Other areas were mentioned, however, were relatively small in overall scale.
- 3.47 To draw conclusions from the results of the survey, it is necessary to consider how those who responded don't know/can't remember are considered and what weight the influence of firmus energy advertising and activities had in the decision to connect to gas compared to the other activities. In the conclusions below we have assumed as a starting point that the influence reported by respondents was the sole reason they decided to connect to gas. However we recognise that, because of the wide range of other influences that this assumption is conservative and likely to under estimate non-additionality.
- i) At one extreme, the survey results show that only 21% (70% multiplied by 30%) of respondents could confirm that they had both been exposed firmus energy advertising

and activities and had not been influenced by it. This would indicate a lower limit on non-additionality of 21%. However this takes no account of those who responded don't know/can't remember and does not take account of other influences and both would indicate non-additionality higher than 21%.

- ii) At another extreme, the survey results show that 42% (70% multiplied by 60%) of respondents confirmed that they were both exposed to firmus energy advertising and were influenced in their decision to convert to gas. This might indicate a level of non-additionality of 58%. However, this takes no account of those reporting don't know/can't remember. Assuming that some of these were influenced in their decision, the level of non-additionality might be lower than 58%. However, we must recognise that firmus energy advertising and activities is not the sole influence on the decision to connect to gas and non-additionality could be higher.
- iii) The survey shows that only 7% of respondents expressly said that they had not been exposed to firmus energy advertising and activities before making the decision to connect to gas. If we discount this and assume that all respondents had been exposed in some way, then the number of respondents reporting that firmus energy advertising and activities had in anyway influenced their decision to connect is in the range 30% to 40% as a minimum (those responding 'no' or don't know/ can't remember').
- iv) An alternative would be to make some decision on those who responded 'don't know can't remember'. Taking a balanced assumption that 50% of should be positive and 50% negative, then 54% (83.5% multiplied by 65%) of respondents were both exposed to firmus energy advertising and were influenced in their decision to convert to gas. This might indicate a level of non-additionality of 46%.
- v) If we made a more cautious assumption that 75% of those responding don't know can't remember are positive and 25% negative, then 58% (87.3% multiplied by 67%) of respondents were both exposed to firmus energy advertising and were influenced in their decision to convert to gas. This might indicate a level of non-additionality of 42%.
- vi) Finally, if we assume that 75% of those reporting 'don't know can't remember' were positive and 50% of those reporting 'no' were in fact positive, then 75% (90.8% multiplied by 82.3%) of respondents were both exposed to firmus energy advertising and were influenced in their decision to convert to gas. This might indicate a level of non-additionality of 25%.

3.48 A low level of non-additionality (say 19%) can only be supported by an unrealistic interpretation of the data. Specifically, that we assume that 67% of those who could not identify that they had been influenced by firmus energy advertising/activities in a major decision in the last three years had been influenced, and that for those influenced by firmus energy advertising/activities, that this was the main reason of sole reason for making a connection. This seems wholly unreasonable in light of the response to unprompted questions on how respondents became aware that gas was available and the reasons for making connections.

- 3.49 The assessment of respondents' awareness of firmus energy advertising and activities above provides evidence of non-additionality on the range 30% to 50% with weaker support for values below 30%. In assuming in this section of the analysis that the influence of firmus energy advertising and activities was the sole influence in the decision to connect to gas, non-additionality above this range is plausible.

Rol gas market as a comparison

- 3.50 To provide further evidence of non-additionality, we analysed the development of the gas market in the Republic of Ireland and compared recent rates of connections and differences in the advertising and activities which support owner occupier connections.
- 3.51 Gas Network Ireland (GNI) is the gas distribution network operator in the Republic of Ireland and the company is subject to regulation by the Commission for Regulation of Utilities (CRU).
- 3.52 GNI previously entitled Bord Gais or BGE, introduced Natural Gas when the Kinsale gas field came on-line in 1978. The natural gas network expanded from that point and homes in Cork and Dublin started to get connected from the early 1980s. The inter-connectors with UK were built in 1993 and 2001. Prior to BGE there were several local "Town Gas" gas companies. The few remaining gas companies in the early 80s were merged into BGE as the Natural gas network expanded.
- 3.53 The full analysis of this section is included in Annex 3.
- 3.54 We believe that the Rol market provides useful analysis, in terms of how a network develops over time. Leaving aside the different regulatory regime that it operates under, the principles of developing a network and getting customers to connect is fundamentally the same. Also the Rol market has had the effect of supply competition and the effect it has had on customers connecting to gas.
- 3.55 We have taken data that is publicly available from GNI and the CRU, to draw parallels with the FE data in terms of connections and properties passed for similar OO connections. To replicate a comparable connection rate for ROI data, we have used the FE model assumptions, in that 15% of customers will never connect, with a constant connection rate for the remaining properties. This assessment gave a connection rate for Rol of 2.8%, compared to an equivalent connection rate in the firmus energy area of 5%.
- 3.56 We estimate the effect of supply competition on gas connections to be in the region of 22% during the period, when this activity was most prominent, however, this factor appears to have a short time effect and diminishes when supplier promotional activities drops off. This experience would be similar from the observations that have been made in the PNGL area, when retail competition and customer switching commenced. Adjusting the Rol connection rate for supply competition gives a connection rate of 2.3% compared to an equivalent connection rate in the firmus energy area of 5%. This suggests that non-additionality could be as high as 46%.

3.57 GNI does not have the same incentive based funding for advertising and marketing available to FE, the effect of connection charges payable by consumers in RoI will act as a disincentive to connections, for example:

- GNI has not had the same incentive based funding for advertising and marketing available to firmus energy. The CRU introduced an incentive for GNI for connections it attains over and above its projected Business as Usual connections as part of its PC4 determination which began in October 2017, however this connection incentive is much more limited than that which is available to firmus in the GD17 period.
- The general level of advertising and marketing activity by GNI is not of the same type and scale as that experienced by firmus energy.
- GNI consumers have to contribute €250 for connections whereas firmus are funded to provide these free of charge with the cost recovered over time through consumer bills. This is likely to act as a disincentive which will depress connection rates.
- Unlike the situation in NI there is no dedicated government incentives in RoI to target connections to the gas network, rather there are grants in RoI for installing heating controls as well as a new boiler but the grant does not favour gas over oil.

3.58 It is reasonable to assume that some part of the connection rate in RoI will be attributable to GNI activities but that this will not be high. Assuming that up to 50% of connections would not be made without GNI's limited marketing activities, we arrive at a range for non-additionality of 20% to 45%. However, due to the lack of directly comparable data and the need to allow for some impact of GNI activities, we do not place a strong weight on this assessment.

Greater Belfast case study

3.59 We undertook a case study of connection performance by PNGL in the greater Belfast area to determine whether any information would inform decisions on non-additionality in the firmus energy area.

3.60 In particular, the case study focused on the rapid increase and decrease in the rate of connections which occurred in the period 2010 to 2016.

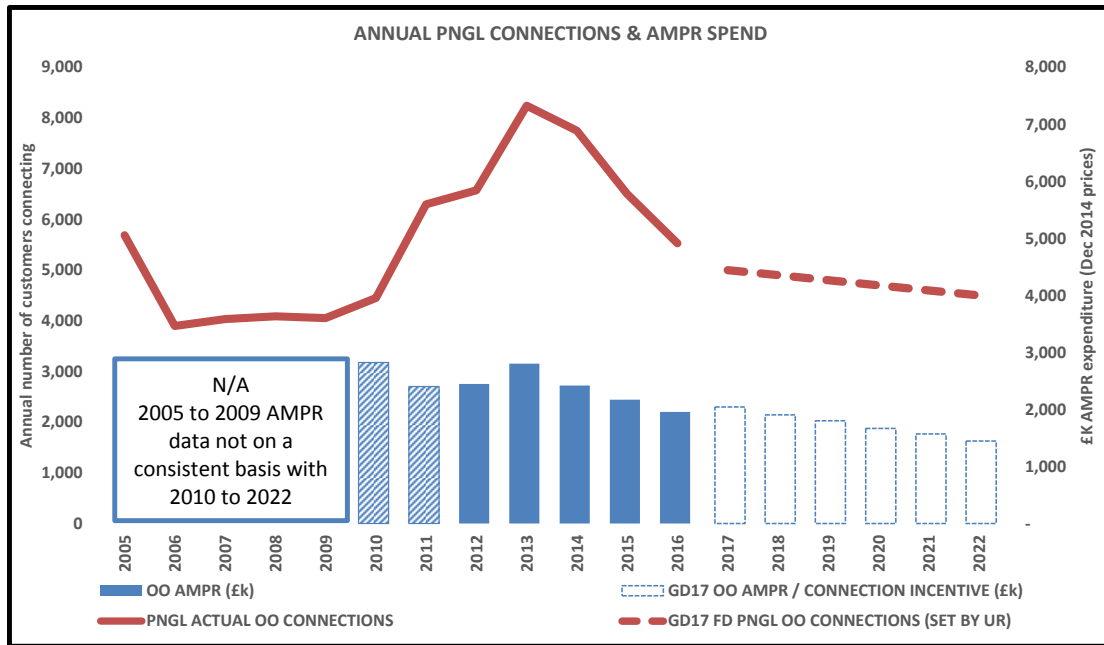


Figure 2: Annual PNGL connections and AMPR expenditure

- 3.61 The detail of the case study is reported in Annex 1. The case study identified a number of concurrent changes which might contribute to the change. However, there was insufficient data to undertake a statistically robust analysis capable of distinguishing between the impacts of different factors on connection rate reach specific conclusions on non-additionality.
- 3.62 The main findings from our case study are summarised below, the detail of the analysis and graphical presentation can be found in Annex 1.

Advertising, Marketing and Public Relations (AMPR)

- 3.63 Expenditure on Advertising, Marketing and Public Relations (AMPR) by PNGL remained broadly constant over the period 2010 to 2016 with a slightly downwards trend. The change in expenditure does not explain the initial increase or subsequent reduction in connections over the period from 2010 to 2016.

Boiler Replacement and other Government Schemes

- 3.64 The NI Executive provides funding for various 'social schemes' to assist customers in modernising their heating systems and insulate their homes throughout Northern Ireland. These include the Boiler Replacement Allowance open to households with income lower than £40,000 and who have an inefficient boiler of at least 15 years old. A grant of up to £1,000 is available. There are other schemes including the Northern Ireland Sustainable Energy Programme (NISEP) and the Warm Home Scheme / Affordable Warmth Scheme which provide similar schemes.

- 3.65 The introduction of the Boiler Replacement programme in 2012/2013 appears to coincide with the increase in gas connection numbers and the glide path that occurred from this peak downward in 2014 to 2016.

Oil prices

- 3.66 Households between 2011 and 2013, noticed a significant increase in heating oil costs and the evidence from PNGL suggested that households sought to research cheaper/stable alternatives, on heating which contributed to the overall peak connection period. The reduction in connection numbers from 2014 occurred at the same time as oil prices were falling.

Retail competition

- 3.67 In November 2010, the UR opened the Greater Belfast Area to gas supply competition amongst domestic customers. This encouraged a new entrant (Firmus Energy Supply) into the domestic customer market, which competed against the incumbent company on price and service.
- 3.68 The increase in connections in the PNGL area began at the time that supply competition was introduced and continued over an initial period which saw relatively high levels of switching. Connection numbers began to decline by the time levels of switching had reduced to low levels. The results suggest that the visible advertising and marketing campaign undertaken by Firmus Energy's supply business in Greater Belfast may have spilled over to encourage connections, but that the effect is short lived. This reinforces the indication that there was a material but short lived impact on connection numbers of the RoI gas market on the introduction of supply competition.

Housing Market

- 3.69 There has been an increase in house sales over the period 2010 to 2016 as the housing market recovered from the historic crash in 2007. Connection numbers declined from a peak in 2013 at a time house sales plateaued at the recent high levels. There are conflicting possibilities on how connection numbers relate to house sales. People might choose to connect to gas when they move to a new property. Alternatively, when house sales are low, people may decide to remain in existing properties and invest in renovation. Without specific data it has not been possible to conclude to what extent the rate of house sales has on the gas connections.

Reconsideration and determination of Ground 2B – Non-additionality

- 3.70 We have considered four lines of investigation and analysis to reconsider and determine the connection incentive non-additionality rate for firmus energy in GD17:

- i) An assessment of how connection rates for small I&C consumers in the PNGL area changed when a connection incentive was withdrawn in 2014.
- ii) A survey of consumers to assess the reasons and influencing factors which caused them to connect to gas.
- iii) An assessment of connection rates in Rol taking account of the differences in incentives and marketing regimes.
- iv) A case study focusing on a peak in connections in the Greater Belfast area which occurred over the period 2010 to 2016.

3.71 We have drawn no conclusions from how connection rates for small I&C consumers in the PNGL area changed when a connection incentive was withdrawn in 2014 because connection rates for this small category of properties could have continued to be influenced by the on-going advertising carried out by PNGL.

3.72 We have drawn three conclusions from a survey of consumers which assessed the reasons and influencing factors which caused them to connect to gas.

- i) When asked to give their reasons for connecting to gas, very few consumers could recall being influenced in their decision to connect by firmus energy advertising activities and financial incentives. This indicates that the level of non-additionality could be very high and up to 95%, say in the range 75% to 95% (see paragraph 3.37). However, there is a risk that advertising/activities could be under represented as a reason for making a connection because respondents did not recall it, did not consider it significant enough to report or did not wish to admit being influenced by advertising. As a result we place little weight on this result in our determination.
 - ii) A larger number of consumers gave environmental, lifestyle and financial benefits which are actively promoted by firmus energy in its advertising and activities as reasons for connecting to gas. If we assume that these connections were made solely as a result of firmus advertising and activities then this indicates that the level of non-additionality is in the range 30% to 40% (see paragraph 3.42). However, firmus energy is not the sole source of information on the benefits of gas, nor is it the sole source of incentives to connect to gas. To allow for this we consider there is an indication in this analysis that non-additionality will be greater than 30%. There is no indication in this analysis that non-additionality is less than 30%.
 - iii) The assessment of respondents' awareness of firmus energy advertising and activities provides evidence of non-additionality on the range 30% to 50% with weaker support for values below 30% (see paragraph 3.49). In assuming in this section of the analysis that the influence of firmus energy advertising and activities was the sole influence in the decision to connect to gas, non-additionality above this range is plausible.
- 3.73 From our analysis of owner occupied connections in Rol and taking account of the relatively limited funding and the activities undertaken by GNI to promote connections

compared to firmus energy we concluded that non-additionality is in the range 20% to 45% (see paragraph 3.58). However, due to the lack of directly comparable data and the need to allow for some impact of GNI activities, we do not place a strong weight on this assessment.

- 3.74 The Greater Belfast case study identified a number of concurrent changes which might contribute to the change. However, there was insufficient data to undertake a statistically robust analysis capable of distinguishing between the impacts of different factors on connection rate reach specific conclusions on non-additionality.
- 3.75 From the various work streams undertaken, we have charted a range of values that could be used (below), to come to a proposal of an appropriate % Non-additionality figure.

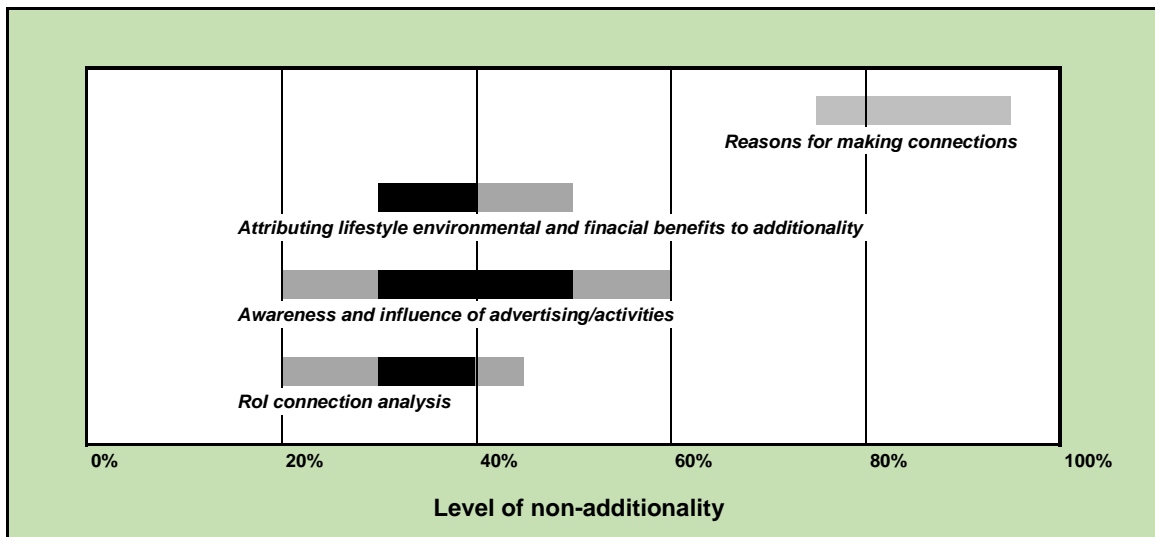


Figure 3: Level of non additionality from work streams undertaken by the UR

- 3.76 Taking the various strands of analysis in the round, the survey data and Rol connection analysis provides strong support for non-additionality at 40%. The non-additionality of 25% determined for firmus energy in the GD17 final determination is at the lower end of a range supported by the survey results. While the data would support an increase in non-additionality for GD17, we have concluded that this is not appropriate at this stage of the GD17 process. We are therefore minded to confirm the non-additionality rate of 25% for GD17 to support the development of the gas sector.
- 3.77 Adopting a non additionality value of 25% and a connections value of 19,400 would result in a connection incentive value of £9.14m as compared to the GD17 FD value of circa £9.64m.

4 Ground 2A - Connection Target

Consultation responses and Decision

Consultation responses and the UR consideration of Responses

- 4.1 In regard to Ground 2A – connection target, the proposals we consulted on in December are set out in full in chapter 2 above.
- 4.2 We received two responses from:
- [FE](#); and
 - [CCNI](#).
- 4.3 Both FE and CCNI accepted the UR conclusions in respect of Ground 2A that the connection target for owner occupier customers to be set at 19,400 for GD17. Neither responded on the consequential reduction in revenue of £79k per annum associated with this change.
- 4.4 FE noted that the connection target numbers are not specifically referenced in the FE licence and therefore asked for clarification of how the alteration of connection target numbers will be communicated. The communication of the connection target is included in chapter 6.

Decision and determination of Ground 2A – Connection Target

- 4.5 We welcome the acceptance of the proposed 19,400 Domestic OO connection targets, by both FE and CCNI.
- 4.6 In line with the CMA direction we have recalculated the connection target using the connection model we used in the GD17 final determination. Having corrected Housing Association data we have determined a revised connection rate of 5% and a revised GD17 owner occupied connection target of 19,400. The revised connection target is shown in Table 7. This is equivalent to the CMA Final Determination of 19,403 with 3 properties deleted from the 2022 year for rounding purposes, to result in a connection target over GD17 of 19,400.

Connections (p.a.) - Owner Occupied	2017	2018	2019	2020	2021	2022	Total
GD17 FD	2,600	2,950	3,300	3,600	3,900	4,100	20,450
Final Connection targets	2,468	2,808	3,134	3,401	3,655	3,934	19,400

Table 7: Proposed connection targets for GD17 compared to GD17 FD values

- 4.7 The impact of the revised connection target on GD17 revenue is dependent on the non-additionality applied to connection incentive which is a remitted matter (see below). If the 25% non-additionality used in the UR's final determination for GD17 was confirmed, the revised target would reduce the capex allowances by circa £1.2m.
- 4.8 We have now decided to set to set the target as outlined above at 19,400 OO domestic connections for the duration of GD17.

5 Ground 2B- Non-Additionality Decision

Consultation responses and the UR consideration of Responses

- 5.1 In regard to Ground 2B – non-additionality, the proposals consulted on in December are set out in full in chapter 3 above.
- 5.2 We received two responses (Annex 8 and Annex 9) to the consultation proposals from CCNI and FE respectively.

FE Response

- 5.3 FE have provided a response, including supplemental documents, (see Annex 9). We have considered this response in full and provided a detailed response to it in Annex 10.
- 5.4 The rest of this chapter and the section below summarises the main points of the FE response and our consideration of it. Both sections should be read in conjunction with Annex 10, to understand the full details of FE's response and our detailed consideration of it.
- 5.5 On Ground 2B FE consider, at a summary level, that the 4 work streams that we have undertaken, do not provide sufficient evidence or analysis to enable a calculation of non-additionality as per the CMA direction.
- 5.6 In regard to the data from the withdrawal of incentive for small I&C customers in the PNG area, FE welcome the UR's decision not to draw any conclusions from this analysis.
- 5.7 In regard to the case study of Greater Belfast, FE agree with the UR that no weight should be given to this case study.
- 5.8 In regard to the ROI case study, FE commissioned Frontier Economics to assess the evidence in Annex 3 of the consultation paper. FE argue that we have not considered the market differences between the ROI and FE network, have misinterpreted the opex allowances given by GNI, that the analysis is flawed and makes incorrect assumptions on new connections, and therefore that we should not place any weight on our assessment of the ROI gas market. FE's comments did not go so far as to indicate what conclusions they consider could be drawn from the ROI data, but confined themselves to stating that the UR should not place any weight on its assessment of the ROI gas market.
- 5.9 FE indicate that it is critical for us to ascertain they have not incurred any cost in relation to the non-additionality component and that we should fully establish all the cost components of the connection incentive.

5.10 FE have mainly focused their comments on the survey conducted by SMR and dispute the analysis that we have used from the survey, to formulate a position on a range for non –additionality. FE believe that the survey does not provide statistically robust data to support the calculation of a non-additionality rate.

5.11 In particular, FE have stated the following in terms of the survey:

- They have not had sufficient involvement in the survey design which therefore means that appropriate questions have not been asked.
- That the tender document definition (for non-additionality) is different to the GD17 FD and this impacted on the design of the survey.
- That the other sales related costs, such as energy advisor assistance, incentive payments and customer support have not been considered.
- Non-additionality is not a test of the effectiveness of FE advertising, but an assessment of customers who would connect without any advertising and that the survey failed to recognise this point.
- That a key question from the survey is missing, namely affordability in relation to financial assistance from either Government or FE. FE indicate that approximately 75% of FE OO connections (as at the end of 2016) required some form of government- funded grant assistance.
- SMR did not undertake the analysis and interpretation of the data, instead this was done by the UR and this is contrary to best practise, in respect of interpretation of the results and introduces confirmation bias.
- That the non- additionality ranges derived from the evidence which we have analysed, which produced a range of between 21% -95%, is simply not credible to be able to derive a single point estimate of the non-additionality figure.

UR Consideration of FE response

5.12 In Terms of Ground 2B, our full consideration of FE’s response is set out in Annex 10. We set out below some of our key points.

5.13 We disagree with FE that the survey is not statistically robust. The UR engaged a specialist social market research firm, SMR, to carry out the survey and it was developed with input from FE and used FE customer records. The methodology for the survey is set out in Annex 2 which indicates that the sample achieved is representative of the overall population. In addition, based on the achieved sample of 1002 complete interviews SMR have calculated that the margin of error is +/- 3.1% (at most) at the 95% confidence level.

5.14 In regard to FE’s view that we have not gathered sufficient evidence to enable us to make a calculation of non-additionality. We sought the most appropriate evidence and information available to consider a range to inform a judgement on a single point

- estimate of non-additionality %. We are not aware of any further evidence or work that could have been undertaken in the time available to provide more analysis on this issue.
- 5.15 We note that FE have not provided any additional evidence or suggested what they think is an appropriate non-additionality figure or even suggested what further work could be undertaken..
- 5.16 FE suggest we should fully understand all the cost components of the connection incentive, including costs not covered in terms of non-additionality. We consider that the direction of the CMA, was very specific on the work that we could undertake and limited the review of the connection incentive, to non-additionality. We also consider that the views expressed by FE on wider costs issues, go beyond the grounds of this referral.
- 5.17 In regard to the formulation of the survey process and design, we had extensive engagement with FE during the process. As a consequence of this engagement, from the initial scoping to the final version that went into the field, the survey was extensively changed, including to reflect the comments and representations made by FE. The level of engagement and involvement as evidenced, would not be typical, but we judged it necessary in this case, which included FE dealing directly with the Survey provider, SMR.
- 5.18 The issues on the definition of non-additionality (Used in Tender of Survey documentation compared to GD17 FD) is a moot point, as the tender was to set the context of the connection incentive (10 components) and then clarify the non-additionality component (1 component) to companies not even aware of what this was trying to achieve. When SMR was appointed, we sent them the GD17 FD and relevant CMA documentation for clarity. SMR was fully aware of the purpose of the survey in the context of non-additionality as FE directly questioned SMR directly on this point.
- 5.19 FE say that the UR survey failed to recognise that non-additionality is not about the effectiveness of their advertising, rather it is about the extent to which customers would connect without any marketing. Our survey proceeds on the assumption that people may connect for a variety of reasons. Therefore the survey approach did not wish to bias responses in favour of one reason or the other. The survey consequentially asked what made customers connect and respondents had an opportunity to consider the whole range of relevant factors in how they reached a decision to connect to the network.
- 5.20 FE raised the issue on affordability, in terms of financial incentives offered by FE or Government, noting this did not form part of a separate survey question. We note that this was included as part of the responses that could have been selected in terms of reasons and the most important reason why they connect to natural gas. UR consider that this form of assistance from government is separate to any advertising that FE would pay and therefore reinforces the concept of non-additionality.

- 5.21 FE say that 75% of customers receive some form of government assistance, but we understand from FE representations, that they do not record all the forms of government assistance, apart from the NISEP scheme.
- 5.22 FE has raised the fact that the UR undertook data analysis and interpretation and not SMR. We consider that there is a wide variety of factors to consider before making a decision and note that if we had relied exclusively on SMR analysis from the survey results that in their view the non-additionality figure should be around 58%.
- 5.23 FE's overall argument appears to be that the survey is not statistically robust and fails to appropriately calculate a revised non-additionality rate. We note that FE's response does not address the detailed interpretation and analysis of the survey results presented in the consultation paper to any degree. Our analysis considered the wide range of values for non-additionality from the survey and worked through the evidence to arrive at a figure of 25% (see paras 3.70-3.76). FE have not provided us with any reasoning as to why that analysis is wrong, such that we might be persuaded to draw a different conclusion. In addition, FE have not stated what they consider the non-additionality percentage should be, nor have they provided any further evidence to us or even suggested what further work could be undertaken.
- 5.24 In regard to the evidence on withdrawal of incentives for small I&C consumers in the PNGL area, we agree with FE and consequently have not drawn any conclusions from this analysis.
- 5.25 In regard to the Greater Belfast case study (evidence drawn from the PNGL area), we agree with FE that no definitive conclusions can be drawn from this analysis and consequently we have not drawn any conclusions from this analysis.
- 5.26 In regard to the evidence from the ROI gas market we have considered the analysis in FE's response in some detail in Annex 10 and have set out where we disagree. We also sought clarification from the CRU in how we interpreted its information, who confirmed that our understanding of the differences in relation to domestic owner occupied connections and allowances were correct. Nonetheless, given that the time available to assess the impact of the differences in the two regulatory regimes and incentives available has been limited we consider that no weight should be given to ROI evidence at this time and therefore it has not factored into our final decision.
- 5.27 We consider that we have fulfilled the directions made by the CMA by undertaking further analysis by means of case studies and through a survey, in order to calculate a non-additionality rate.
- 5.28 FE have requested clarification on communication of connection targets, of which we now include in chapters 2 & 4 of the decision document.

CCNI Response

- 5.29 The CCNI's response (Annex 8) states that there is strong support, from the UR's own evidence that 40% is an appropriate non-additionality figure and the UR should clearly demonstrate why it has chosen to keep 25%, as this adds an extra £1.83m to consumers' bills.

UR Consideration of CCNI response

- 5.30 We consider that the consultation paper did set out how we had narrowed the range of potential percentage figures for non-additionality down to 25%. The CCNI response does not provide us with any reasoning as to why that analysis is wrong, such that we might be persuaded to draw a different conclusion. CCNI are correct that our analysis recognises that a range of 30-40% is possible, but in regard to that we recognise that a margin of error may exist in all the work streams and we are of the opinion that taking a conservative position is in the best interest of all consumers throughout Northern Ireland. We consider that this will maximise the potential connections possible during GD17, which will ultimately be to the benefit of all gas customers.

Decision and determination of Ground 2B – Non-additionality

- 5.31 In arriving at a decision on non-additionality we have conducted survey research to address the CMA's criticism that our decision on non-additionality in GD17 was founded on a lack of quantitative evidence. We have also reviewed other sources of evidence and tested the strength of it. As a consequence we have discounted both sets of evidence from the PNGL area and the ROI evidence.
- 5.32 We have also tested our conclusions via a consultation process and have carefully considered the consultation responses as presented by FE and CCNI. FE have not provided any additional evidence, indicated what other work could be undertaken or suggested what they think is an appropriate non-additionality figure.
- 5.33 In the final analysis the most robust evidence available to us is the survey and for the reasons set out above and in Annex 10 we do not agree with FE's overall conclusion that the survey cannot be used to determine or calculate non-additionality.
- 5.34 We acknowledge that the survey points to a range of potential values for non-additionality. Consequently, some regulatory judgement must be exercised in arriving at a percentage figure. FE has not set out their view on what an appropriate level of non-additionality should be or provided any further evidence. CCNI's response suggests that they consider the range of 30-40% to be more appropriate. However, neither response engages with the detailed interpretation nor analysis of the survey results presented in the consultation paper or provided us with any reasoning as to why that analysis (i.e. 25%) is wrong, such that we might be persuaded to draw a different conclusion.
- 5.35 Therefore we conclude that a non-additionality figure of 25% figure is an appropriate figure.

6 Effect on any other areas of the Price Control

- 6.1 The CMA's direction requires the UR to calculate the consequential effects of any amended connection targets and the impact on any change to the % Non-Additionality figure.

Effect of Decision

- 6.2 We have carefully considered both consultation responses as referred to in chapter 4 and 5 in making our decision. The Determination Values will be backdated to 1 January 2017. We will maintain the connection target and non-additionality level as proposed in the consultation, the effect of which is outlined below.

Connection Target

- 6.3 In our submissions to the CMA, we identified the following consequential effects which are directly linked to the connection target that would occur if a change was made to the connection target:
- Emergency Call Centre and first response opex.
 - Asset maintenance opex and metering.
 - Economic level of mains laying and consequently infill levels.
 - Impact on Capital Investment.
- 6.4 In our response to the CMA, we estimated that a reduction in the GD17 connection target to 19,400 would reduce FE's revenues in relation to the Emergency Call Centre and First Response Opex allowance by approximately £79k. We did not estimate the impact of the other consequential effects identified, as they were so small as to not be material. FE have not made any recommendation or comment in relation to this adjustment and therefore we have decided to reflect this adjustment in the Determination Values.
- 6.5 This changes the total that was previously allowed in GD17 FD from £6.85m to the final figure of £6.77m.
- 6.6 We also considered the effects on the Economic level of mains laying and consequently infill levels, by a reduction in the connection target. Whilst reducing the target did have a small effect on the economic test and the level set of meters per property passed, the overall impact was so small, that on balance, no change was necessary.
- 6.7 By reducing that connection target by 1,000 domestic consumers, the associated capex in terms of domestic services for existing properties and meter costs, in conjunction with

applicable reduction to the Traffic Management Act (TMA) has also been removed from the capital investment programme.

- 6.8 Any areas will still be subject to the Uncertainty Mechanism⁶, based on actual outputs, as described in GD17 FD.

% Non Additionality Figure

- 6.9 UR considers the non-additionality mechanism as part of a component, of the overall package forming the Connection Incentive mechanism.
- 6.10 In reviewing the Connection Incentive, which is made up of a number of separate components that formulates into a simple economic test, with the principle that costs outlaid should be recovered over a suitable timeframe.
- 6.11 FE in its referral chose 1 component (the % Non-Additionality) out of over 10 components as an error. It is important to note that all these components are inter-related and provide a connection allowance value and should not be considered in isolation.
- 6.12 During GD17, we listened to the feedback from the DD consultation responses on the level of financial support in terms of the connection incentive, the connection targets and the appropriateness of further areas. It was identified by all GDN's that greater financial assistance was needed, to address market conditions and the effect of going into new areas, which required more awareness, to build on the momentum created when gas is first made available.
- 6.13 To that end, we reviewed various options of changing the individual components of the connection incentive available to us, which had been used in GD14, but were not persuaded to change any elements. However, we undertook a review and created a "New Areas Allowance" and considered it was important to incentivise GDNs to gain as many new connections as possible. This review resulted in FE being awarded an additional £2m of additional allowances, based on achieving actual connections, which, in overall terms, exceeds the level of allowance allocated during GD14. This allowance was available to any new connections, so as not to restrict this specifically to new areas.
- 6.14 On further review of this area, and considering the information now available, we feel that changing the New Areas component is not appropriate, as any changes would be relatively minor in terms of the overall effect.
- 6.15 All actual connections will still be subject to the Uncertainty Mechanism, based on actual outputs, as described in GD17 FD.

⁶ https://www.uregni.gov.uk/sites/uregni.gov.uk/files/media-files/2016-09-15_GD17_Final_Determination_-_final_0.pdf - Section 9

Summary of Decision - Outputs

Volumes Target

- 6.16 By adjusting the Connection target for OO customers down from 20,450 to 19,400, this has the effect of reducing the volumes of gas. The overall effect of this reduction, for the GD17 period is approx. 1.1 million therms of gas.

Volumes (therms '000) Total	2017	2018	2019	2020	2021	2022	Total
Superseded GD17 FD (Includes GIS)	61,980	60,443	62,623	64,913	67,306	69,782	387,047
Final Volumes	61,955	60,366	62,487	64,708	67,017	69,415	385,948

Table 8: Final FE Volume allowances

Overall impact on Opex allowances

- 6.17 The overall impact on Opex allowances is demonstrated in the table below. The total adjustment to price control allowances, as a result of the decision, is a reduction of approximately £0.6m over GD17.

FE Opex - Summary (£000 Dec 2014 prices)	2017	2018	2019	2020	2021	2022	Total
Superseded GD17 FD (Includes GIS)	6,512	6,470	6,622	6,833	7,107	7,383	40,928
Final Opex	6,438	6,392	6,532	6,729	6,982	7,297	40,369

Note1 Figures may not add due to rounding

Table 9: Final FE Opex allowances

Overall impact on Capex allowances

- 6.18 The table below illustrates the impact on Capex allowances due to the Final Decision. The total adjustment due to the proposals in this document is a reduction in allowances of approximately £1.2m.

FE Capital Investment Summary (£000 Dec 2014 prices)	2017	2018	2019	2020	2021	2022	Total
Superseded GD17 FD (Includes GIS)	17,121	14,300	14,496	14,778	15,129	15,353	91,177
Final Capex	16,969	14,137	14,308	14,554	14,855	15,169	89,992

Note1

Figures may not add due to rounding

Table 10: Final FE Capex allowances

Revenue

6.19 Table 11 below shows the impact on Revenue over GD17 as a consequence of our decision. The overall impact is a reduction in revenue of circa £0.5m.

Revenue (£000 in Dec 2014 prices)	2017	2018	2019	2020	2021	2022	Total
Superseded GD17 FD (Includes GIS)	18,020	18,015	18,906	19,847	20,835	21,860	117,484
Final Revenue	18,004	17,976	18,841	19,752	20,702	21,693	116,968

Table 11: Final Revenue allowances

Connection Target

6.20 Table 12 below shows the revised connection targets for domestic OO that we have set.

FE Domestic OO Connection Targets	2017	2018	2019	2020	2021	2022	Total
Superseded GD17 FD (Includes GIS)	2,600	2,950	3,300	3,600	3,900	4,100	20,450
Final OO Connection Targets	2,468	2,808	3,134	3,401	3,655	3,934	19,400

Table 12: Revised connection targets for domestic OO

7 Licence Modifications

Determination Values

- 7.1 In September 2016 we published our decision on GD17 and our statutory consultation on licence modifications to enact the price control allowances into the respective licences of GDNs. On 28 October 2016, the UR published its decision to modify the gas conveyance licences of the three GDNs in NI (the GD17 Decision).
- 7.2 On 25 November 2016, FE brought an appeal to the CMA against the Decision to modify the conditions of its licence. On 28 December 2016, the CMA granted FE permission to appeal to the CMA. The CMA reached its final determination on 28 June 2017.
- 7.3 The Order of the CMA which gave effect to its final determination remitted two grounds of appeal back to the Utility Regulator for reconsideration and determination as follows:
- Ground 2A – in respect of Connection Targets;
 - Ground 2B – in respect of connection incentive Non-Additionality.
- 7.4 We have concluded our reconsideration of the matters remitted to us. In Chapter 4 above we have set out our decision and determination of connection targets (Ground 2A). In Chapter 5 above, we have set out our decision and determination of non-additionality (Ground 2B). In Chapter 6 above, we have set out our determination of the consequential effects of our decision and determination of connection targets and non-additionality.
- 7.5 To give effect to our decision and determination of these issues, it is necessary to modify the licence by deleting the table of Determination Values from Condition 4.7 of the Licence and replacing it with a revised table of Determination Values which has been amended to reflect these changes. The Determination Values will be backdated to 1 January 2017.

Consultation responses and UR consideration of response

- 7.6 We note that neither FE, nor CCNI commented on how the licence modifications would be brought into effect. Therefore we will proceed with the proposals for modifying the licence as set out in the consultation document to finalise.

Licence Modifications

- 7.7 We will modify Condition 4.7: Current Designated Parameters and Determination Values of the Licence to include the additional values as set out below in Table 14 and Annex 6. These amendments have been made as a result of the following changes:

- Amendment of the connection numbers to 19,400 as explained in Chapters 2 and 4;
- Setting of the non-additionality value of 25% as explained in Chapters 3 and 5;
- Consequential amendments to opex and capex as a result of the changes outlined in Chapters 4 and 5 and as explained in Chapter 6.

- 7.8 The Determination Values below, are set on the Average 2014 price base of the FE licence, as opposed to the price base used in GD17 FD, which used December 2014 prices for all GDNs due to the fact that different licences have different price bases. Therefore the figures discussed in Chapters 2-6 above are in December 2014 prices and need to be adjusted to Average 2014 prices before they are included in the FE licence.
- 7.9 The Designated Parameters do not change, with regard to this licence modification.
- 7.10 We present below the current licence Designated Parameters and Determination values and also the values based on the above amendments.
- 7.11 Table 13 below represents the current Determination Values in Condition 4.7 of the Licence.

Description (for Conveyance Categories <i>i</i> and Formula Years <i>t</i>)	Determination Values		t=2017	t=2018	t=2019	t=2020	t=2021	t=2022
Volume (therms)	$V_{E,t}$	$i = 1$	11,228	12,780	14,462	16,267	18,185	20,197
	$V_{E,t}$	$i = 2$	8,336	8,850	9,352	9,844	10,325	10,796
	$V_{E,t}$	$i = 3$	6,380	6,374	6,368	6,362	6,355	6,349
	$V_{E,t}$	$i = 4$	1,161	927	927	927	927	927
	$V_{E,t}$	$i = 5$	13,375	13,361	13,361	13,361	13,361	13,361
	$V_{E,t}$	$i = 6$	21,500	18,152	18,152	18,152	18,152	18,152
Capital Expenditure	$C_{E,t}$		17,021	14,216	14,412	14,692	15,041	15,264
Operating Expenditure	$O_{E,t}$		6,475	6,432	6,584	6,793	7,065	7,340
Annual Depreciation	$D_{E,t}$		4,378	4,797	5,209	5,650	6,069	6,356
Cash Flow (calculated in accordance with Condition 4.4.6)	$F_{E,t}$		-5,581	-2,738	-2,199	-1,753	-1,392	-871
Revenue Per Unit	$P_{E,t}$	$i = 1$	0.4359	0.4359	0.4359	0.4359	0.4359	0.4359
	$P_{E,t}$	$i = 2$	0.3062	0.3062	0.3062	0.3062	0.3062	0.3062
	$P_{E,t}$	$i = 3$	0.2745	0.2745	0.2745	0.2745	0.2745	0.2745
	$P_{E,t}$	$i = 4$	0.2180	0.2180	0.2180	0.2180	0.2180	0.2180
	$P_{E,t}$	$i = 5$	0.2572	0.2572	0.2572	0.2572	0.2572	0.2572
	$P_{E,t}$	$i = 6$	0.2336	0.2336	0.2336	0.2336	0.2336	0.2336
Total Conveyance Revenue	$R_{E,t}$		17,915	17,910	18,796	19,732	20,714	21,733
Depreciated Asset Value (calculated in accordance with Condition 4.4.7)	$DAV_{E,t}$		118,306	127,726	136,929	145,970	154,942	163,849
Regulatory Value (calculated in accordance	$TRV_{E,m}$							202,571

Table 13: Current FE Licence Determination Values

7.12 The FE Licence Determination values in Table 13 will be superseded by the values in Table 14 as a consequence of required licence modifications.

7.13 Table 14 below represents the effect of the licence modifications, in terms of the values changing for the GD17 price control period.

Description (for Conveyance Categories i and Formula Years t)	Determination Values		All Values in £(000's) and Indexed to RPI 2014					
			t=2017	t=2018	t=2019	t=2020	t=2021	t=2022
Volume (therms)	$V_{E,i,t}$	$i = 1$	11,203	12,702	14,327	16,062	17,896	19,830
	$V_{E,i,t}$	$i = 2$	8,336	8,850	9,352	9,844	10,325	10,796
	$V_{E,i,t}$	$i = 3$	6,380	6,374	6,368	6,362	6,355	6,349
	$V_{E,i,t}$	$i = 4$	1,161	927	927	927	927	927
	$V_{E,i,t}$	$i = 5$	13,375	13,361	13,361	13,361	13,361	13,361
	$V_{E,i,t}$	$i = 6$	21,500	18,152	18,152	18,152	18,152	18,152
Capital Expenditure	$C_{E,t}$		16,870	14,055	14,225	14,469	14,768	15,080
Operating Expenditure	$O_{E,t}$		6,400	6,354	6,494	6,690	6,941	7,255
Annual Depreciation	$D_{E,t}$		4,373	4,787	5,193	5,627	6,037	6,318
Cash Flow (calculated in accordance with Condition 4.4.6)	$F_{E,t}$		-5,371	-2,538	-1,987	-1,522	-1,128	-769
Revenue Per Unit	$P_{E,i,t}$	$i = 1$	0.4358	0.4358	0.4358	0.4358	0.4358	0.4358
	$P_{E,i,t}$	$i = 2$	0.3061	0.3061	0.3061	0.3061	0.3061	0.3061
	$P_{E,i,t}$	$i = 3$	0.2744	0.2744	0.2744	0.2744	0.2744	0.2744
	$P_{E,i,t}$	$i = 4$	0.2179	0.2179	0.2179	0.2179	0.2179	0.2179
	$P_{E,i,t}$	$i = 5$	0.2571	0.2571	0.2571	0.2571	0.2571	0.2571
	$P_{E,i,t}$	$i = 6$	0.2336	0.2336	0.2336	0.2336	0.2336	0.2336
Total Conveyance Revenue	$R_{E,t}$		17,899	17,871	18,731	19,637	20,581	21,566
Depreciated Asset Value (calculated in accordance with Condition 4.4.7)	$DAV_{E,t}$		118,159	127,428	136,460	145,302	154,033	162,795
Total Regulatory Value (calculated in accordance with Condition 4.4.8)	$TRV_{E,m}$							201,176

Table 14: New Determination Values

- 7.14 The licence (Annex 6) sets out the figures for the full revenue recovery period until 2045.
- 7.15 The Determination Values that are required to change as a consequence are detailed below.

Determination Values	Description (for Conveyance Categories i and Formula Years t)	Document Reference re: Reasons for Proposed Licence Modification
$V_{E,i,t}$	Volume	See chapter 6 on impact on Volumes and updated Connections.
$C_{E,t}$	Capital Expenditure	See chapters 2, 4 and 6 on capex.
$O_{E,t}$	Operating Expenditure	See chapters 3, 5 and 6 on opex.
$D_{E,t}$	Annual Depreciation	Changed to reflect updated capex numbers in chapters 2, 4 and 6.
$F_{E,t}$	Cash Flow (calculated in accordance with Condition 4.4.6)	Changed to reflect changes in opex, capex, volumes and allowed revenue, and calculated as a function of those.
$P_{E,i,t}$	Revenue Per Unit	Output of Final FE Pi model (published as Annex 5), in line with licence formulae.
$R_{E,t}$	Total Conveyance Revenue	Output of Final FE Pi model (published as Annex 5) in line with licence formulae.
$DAV_{E,t}$	Depreciated Asset Value (calculated in accordance with Condition 4.4.7)	Changed to reflect updated capex allowances and annual depreciation, and calculated as a function of those.
$TRV_{E,m}$	Total Regulatory Value (calculated in accordance with Condition 4.4.8)	The TRV has changed due to the updated values of the GD17 price control, in terms of costs, allowed revenue and rate of return, which must be returned to the licence holder via conveyance charges paid for by consumers.

Table 15: FE - References for Substantiation of Determination Values

Reasons

- 7.16 The reason for the licence modifications is to give effect to the reconsideration and determination of matters remitted to the Utility Regulator by the CMA in its final determination of the GD17 firmus energy appeal, specifically:
- The decision and determination of connection targets which is described in Chapters 2 and 4 above.
 - The decision and determination of non-additionality which is described in Chapters 3 and 5 above.

- The determination of the consequential effects of our reconsideration and determination of connection targets and non-additionality which is described in Chapters 6 above.
- 7.17 The reason for the licence modification is to ensure that FE receives an efficient set of allowances to operate its network functions, cognisant of the CMA recommendations and directions.
- 7.18 The reason for modifying the Determination Values is because they form an integral part of the licence formulae which in turn produces a set of revenues and prices which will drive the tariffs set by FE to operate its business.

Effects

- 7.19 The changes detailed above will result in a small decrease to conveyance charges and enable FE to recover all its allowable costs via tariffs.
- 7.20 This decrease can be added to the existing PI model to show the effect of this change.
- 7.21 It has the following effect on the existing domestic distribution network tariff:
- A 0.0001 p/therm, and
 - The impact on a final domestic bill will be 0.01% decrease or £0.05 less on an annual basis.

8 Next Steps and Annexes

Next steps

- 8.1 This paper represents the Utility Regulator's decision on modifications to the Firmus Energy licence and the modifications outlines in this decision paper will take effect from the 25 May 2018.
- 8.2 Table 16 summarises the next steps and associated timelines for the licence modification process.

Next Steps	Date
Decision on licence modification to the Firmus Energy Licence	29 March 2018
Effective date of the licence modification decision	25 May 2018

Table 16: Next Steps

- 8.3 We note that this timetable allows for the effective date of the licence modifications to be at least 56 days after the publication of the licence modification decision in line with the requirements of Article 14 of the Gas (Northern Ireland) order 1996. This period provides an opportunity for the licence holder subject to the price control, any other licence holder materially affect the decision, a qualifying body or association representing one of those licence holders, and/or the Consumer Council for Northern Ireland to appeal the decision on the licence modification the CMA (Competition and Markets Authority).
- 8.4 An application to the CMA for permission to appeal must be made within 20 working days.
- 8.5 This document is available in accessible formats. Please contact Paul Harland on 028 9031 1575 or email: Gas_networks_responses@uregni.gov.uk with cc to paul.harland@uregni.gov.uk to request this.

Annexes

Document	Document Link
Annex 1	Case Study on Owner Occupied Gas Connections in Greater Belfast
Annex 2	SMR Survey Results
Annex 3	Case Study of the Republic of Ireland Market
Annex 4	Examples of Gas Networks Ireland Marketing Material (2015-2017)
Annex 5	Final FE PI Model
Annex 6	FE Licence - Modifications with marked up amendments
Annex 7	Notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 – Modifications proposed to the gas conveyance licence held by firmus energy (Distribution) Limited.
Annex 8	CCNI Consultation Reponses
Annex 9	FE Consultation Response Appendix 1: Frontier Economics' comments on the Utility Regulator's analysis of the Republic of Ireland's gas market Appendix 2: firmus energy's commentary on the Utility Regulator's non-additionality survey, as previously submitted to the Utility Regulator on 15 December 2017
Annex 10	UR Consideration of responses - spreadsheet
Annex 11	Notice under Article 14(8) of the Gas (Northern Ireland) Order 1996 – Modifications proposed to the gas conveyance licence held by firmus energy (Distribution) Limited.