

Responder	No.	Para or Page of Responder	Summary of Responded Comment	UR response
FE		General		
	1	FE Energy Response General p1	FE state that the Survey "does not encompass all aspects of the connection incentive and does not provide statistically robust data to support the calculation of the non additionality rate."	<p>UR have been directed by the CMA to only consider what is an appropriate non additionally rate and its consequential effects on the GD17 price control.</p> <p>UR note that FE's response does not engage with or address the detailed interpretation and analysis of the survey results presented in the consultation paper to any degree. This 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%. FE have not provided us with any reasoning as to why that analysis is wrong. 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.</p> <p>UR undertook a review of the issues and sought the most appropriate evidence and information available. This evidence was used to formulate a judgement, which led to a range of values, before a single point estimate of non-additionality % was decided upon. UR is of the opinion that data used in the analysis undertaken is 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. UR 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.</p>
	2	FE Energy Response General p2	FE indicate that the four work streams do not provide a robust conclusion regarding the calculation of the non additionality rate and conclude that non additionality is not based on sufficient evidence, substantiation or calculation to satisfy the CMA direction.	<p>UR have considered four work streams, namely, the PNGL IC market for small meters; a case study of the greater Belfast area; a case study of the ROI market and a survey.</p> <p>UR consider the four work streams selected represent the best available evidence in exploring what an appropriate non additionality rate is. FE have not provided any additional evidence or suggested anything else that could be considered further.</p> <p>UR concluded that 3 out of the 4 work streams are inconclusive. However these 3 work streams do suggest that many factors influence consumer behaviours on why they connect to natural gas, including factors which are not as a result of direct advertising and marketing.</p> <p>UR used the survey as its primary evidence source to inform its analysis and produce a range of values for non additionality. UR did not attach any weight to the ROI data.</p> <p>As explained in Chapter 3 of the Final decision document , UR used this evidence to formulate a judgement to calculate an appropriate non additionality figure, which is fully in line with the CMA direction on the matter.</p>
FE		Ground 2A - Connections		
	3	FE Connection Target p3	FE have indicated that they have assisted UR with providing information in relation to properties passed, up to the 31 December 2016. FE have indicated that the revised connection numbers as presented in the consultation, have changed due to the issues raised on the classification of Housing Association. FE have indicated that the Business Plan submission as submitted in GD17, had Housing Association separated for the first time, which was not reflected in the GD17 FD. FE welcomes the recalculation of owner occupied for the target over the GD17 period, using the connection model, that now exclude Housing Association numbers.	UR note the comments of FE, who agree with the revised connection target figure for OO connections for the GD17 period of 19,400, after excluding the Housing Association connections.
FE		Ground 2B - Non Additionality		
	4	Strategic Purpose of the Connection Incentive p4	FE consider the purpose of the connection incentive in general. They make reference to the term "Non-Additional" and indicate that it is critical for UR to ascertain that FE has not incurred any cost in relation to these connections.	The UR supports the efficient, economic and co-ordinated development of the gas industry within Northern Ireland. The connection incentive is an allowance to incentivise all network operators to attract as many gas connections as possible, which are economic. UR is not prescriptive on how this allowance is used, but it is offered to maximise connections, which the network operator has control to decide what is the most effective way of attracting customers. The non -additionality concept is premised on the idea that some gas connections will occur over time, without any direct influence of advertising or marketing activity and deducts an amount from the overall allowance to reflect this. The purpose of this review is to establish what an appropriate non additionality rate is. The CMA in its FD paragraph 8.39, said " Therefore , whilst we have allowed for the possibility of consequential effects within our directions, our expectation is that any changes would be limited to a change to the non additionality rate and the direct effect on revenues associated with the connection incentive". UR consider this statement to be clear to focus solely on the non additionality rate.
	5	Activities funded by the Connection Incentive p5	FE indicates the importance of the connection incentive and cites the components that are covered under this activity.	UR notes the wide ranging purpose of the connection incentive, but notes that the components are an indication and not exhaustive, on the type of activities that may be related to connection activity and the allowance is not prescriptive in how or what it pays for. The overall allowance considers the type of activity that would normally be associated with sales related activity. It should be noted that other functions of the connection process would be covered under more general cost categories, such as call centre support staff, engineers' time of design and implementing a connection, scheduling work activity and the contractor who lays the service and installs the meter, which is covered in a combination of opex and capital investment programme.
	6	Withdrawal of Incentive for Small I&C consumers in the PNGL area p5	FE note that the UR analysis is based on an assumption of U6 meters, but then directs the reader to the statement made by the CMA on this area, stating that no new evidence has been provided and welcomes the fact that UR do not draw any conclusions from this.	UR did review the I&C connections profile from the PNGL area and sought further information on the size of meters that were connected between 2011- 2016. UR made the assumption that U6 I&C meters were identical to U6 domestic meters, so that the decision to convert to gas would have been of a similar nature due to size and scale. We note that from 2014 onwards, when the connection incentive was dropped, we did not observe any noticeable reduction in connection numbers. In the final decision UR has placed no weight on this work stream.

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	7	Survey of Owner Occupiers p6	<p>FE welcomed UR adoption of undertaking a survey, as suggested by the CMA.</p> <p>FE indicate that they were not involved directly in the survey methodology, they shared suggestion questions for the survey and provided assistance from social research specialists Millward Brown.</p> <p>FE highlight the difference in scope between the GD17 FD definition of non-additionality and what was used in the survey which they argue was critical.</p> <p>FE consider that UR has not considered the other sales related costs, such as Energy advisor assistance, incentive payments and or customer support in the survey.</p> <p>FE say that our 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.</p>	<p>UR welcomes FE's comments in this regard and also FE's engagement during the survey design.</p> <p>We consider that the survey process was done in conjunction with FE. UR shared with FE the initial questions and asked for feedback on the approach and style. FE provided a critique on these questions, along with additional questions and responses which UR discussed at meetings on 4 October 2017, 19 October 2017, 24 October 2017 and 14 December 2017. FE also provided an overview from its Survey Consultants (Millward Brown), along with a number of documents on what is considered best practise on conducting a survey. When UR had appointed a Survey company (SMR), they provided them with all the relevant correspondence to consider all issues arising. SMR issued its 1st version of the survey to UR, which then had a joint meeting with SMR and FE to discuss issues surrounding the survey. FE, in conjunction with its Survey Consultants made suggested changes to opening/ closing dialogues with amendments made to the questions, which UR took on board. FE requested UR provide a methodology for the survey and an aim and objective for each question, which UR provided. UR had a further meeting with FE to discuss its points and changed the survey to reflect these points. After this, a 2nd updated questionnaire was circulated to FE for comment. Some minor changes were made before the 3rd and final survey was finalised, to go into the field. UR provided a programme to FE for the duration and towns that the survey field work would take place in and kept in touch advising them on progress of the survey.</p> <p>The issues on the definition of non-additionality (Used in Tender of Survey documentation compared to GD17 FD) is not significant, as the tender was to set the context of the connection incentive (10 components) and then clarify the non-additionality component (1 component). When SMR was appointed, UR 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.</p> <p>The scope of the CMA direction was limiting in terms of what could be investigated. UR consider that the connection incentive is based on an economic test that sets an efficient allowance, which is not prescriptive on the type of activities that it is used for.</p> <p>UR disagrees on this assertion, as it believes that the survey provided a wide range of possible answers to what made customers connect and responders had an opportunity to consider the whole range of relevant factors in how they reached a decision to connect to the network, from prompted and unprompted questions.</p> <p>As way of an example, the survey asked "why did you connect to natural gas" (Unprompted) and "Of the reason you mentioned for connecting to natural gas, which was the most important". The results demonstrated that advertising/marketing was not an important factor for customers to connect.</p>
	8	Survey No Affordability Considerations p6	<p>FE indicate that the survey should have focused on "Government Incentives" and the questions suggested by FE would have exposed the significance of this area, as apparently 75% of FE owner occupied customers at the end of 2016, have received some form of "government funded grant assistance".</p> <p>The narrow definition used in the survey (Advertising and marketing) ignores the legitimate costs required to attract customers.</p>	<p>The CMA's Final Determination (para 5.71& 5.72) indicated that in regard to the availability of government subsidies, the CMA considers it likely that there is a link between the availability of Government subsidies and the number of connections, but FE have not made the case that this is less likely to occur during the GD17 period. UR agree with this view. Consequently the survey asked respondents in terms of affordability, to mention whether financial incentives either from FE in terms of cashback or other Government Incentives was an important reason to switch to gas. The survey asked (unprompted) for reasons why connecting to gas (Multiple reasons) and then the most important reason. UR note that the survey results in relation to government assistance, indicated that around 2% cited that this was an important reason. (Annex 2, page 11- Financial Incentive- Other government))</p> <p>In terms of FE's view that 75% of OO customers received government assistance, the UR sought to verify this statement by means of an information request to FE on the 28 July and 27 October 2017, requesting specific details on Government grants for OO. FE responded on both occasions- "FE does not hold details relating to 3rd party support Government schemes other than NISEP." Therefore UR consider that we cannot rely with confidence on the 75% figure.</p> <p>The comment made by FE regarding survey ignores the legitimate costs to attract customers is dealt with in number 4.</p>
	9	Survey Survey Analysis p7	<p>FE note that SMR undertook the survey, but UR undertook the analysis and made a decision, which they argue is flawed and not in line with best practise, and that SMR expertise should have been used to make a decision.</p>	<p>UR disagree that SMR views were not taken into account. UR consider, that due to the complexity of the issue, there are many factors to consider before we would have reached a decision. If SMR expertise was used exclusively, as per FE suggestion, they would have been of the opinion, as per the survey results, that the non-additionality figure would have been around 58% (page 14 Annex 2: SMR Survey Results)</p>
	10	Survey Specialist Assessment p7	<p>FE suggest that by not using SMR expertise on interpretation of the survey, this has introduced 2 risks as follows:</p> <p>1.) Interpretation of the results is undertaken inappropriately</p> <p>2.) Interpretation is compromised by confirmation basis</p> <p>FE state that the UR consultation produced analysis of a range of Non Additionality of between 21%-95%, but concluded that a range of between 30%-50% was appropriate without providing a statistically robust justification of the range within the survey results.</p> <p>FE conclude that UR ranges in the survey does not provide sufficient quality in the analysis to enable a calculation of an exact non-additionality figure.</p>	<p>As indicated above, we disagree, that the survey results have not been interpreted appropriately. If SMR was the ultimate decision maker, they would have been of the opinion, as per the survey results, that the non-additionality figure would have been around 58%. The overall survey presented just one picture and we note that there are many factors to consider before UR reached a decision, on an appropriate non additionality figure.</p> <p>UR sought expertise from a Survey company, to undertake a piece of work to understand what made customers connect to gas. SMR took the initial brief and developed survey questions into which FE had input, in which it sampled over 1,000 customers to generate new evidence. The Interpretation of evidence would suggest that non additionality is not lower than 25%.</p> <p>FE suggest that the evidence points to a wide range of values for non-additionality. We agree as- the evidence would suggest a wide range of value is possible, anywhere between 20-95% but disagree that we cannot derive a percentage figure for non-additionality using the evidence available by applying judgement to the evidence available.</p> <p>As explained in the consultation paper there is evidence from the survey for a very specific range of 55-61%. When asked a prompted question, on the impact of exposure to FE's Advertising/Activities a higher number of consumers confirmed that they had seen or heard of FE energy advertising/activities, and that this in some way had influenced their decision to connect to gas. From the survey results we can also see that a larger number of consumers gave environmental, lifestyle and financial benefits which are actively promoted by FE 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 FE advertising and activities then this indicates that the level of non-additionally is in the range 30% to 40%. We therefore conclude that a range of 30-40% is the most reliable from which to draw a percentage point estimate. However we recognise that a margin of error may exist in all the work streams and are of the opinion that taking a conservative position is in the best interest of all consumers throughout Northern Ireland, to maximise the most connections possible during GD17. Consequently, we believe that a low point estimate of 25% is reasonable.</p> <p>In terms of FE comments on the statistical robustness of the range within the survey results - section 2.3 of annex 10 sets out the sampling approach adopted by SMR and indicates that the achieved sample is representative of the overall customer population. Also section 2.4 of the same annex indicates that on an achieved sample of 1002 completed interviews the margin of error is + / - 3.1% (at most) at the 95% confidence level.</p>
	11	ROI Gas market as a comparison of Appropriate Benchmarking p8	<p>FE refer to benchmarking and the use of this analysis. FE state that UR did not investigate the market differences between the FE area and ROI and what a "mature" network is.</p>	<p>The UR disagrees that it did not take into account market differences between the FE area and the ROI. UR in the consultation document consider that the ROI gas market given its current development phase and relative maturity, close proximity to NI and uptake of gas connections to be an appropriate and valid comparator for NI GDNs. UR notes that GNI intends to continue its growth strategy which commenced in PC3 and intends to deliver over 100,000 additional domestic and commercial customers over the period of PC4, which is a similar objective to FE over GD17 and therefore a suitable comparator.</p> <p>UR have previously considered the similarities and differences of GNI and FE networks, recognising the duration that gas has been available in the GNI area, compared to FE. UR do not consider that the maturity of a network in of itself to be a key driver of the decision making process of a domestic owner occupied property owner in deciding whether or not to connect to the gas network.</p>
	12	ROI Gas market as a comparison Regulatory Incentives p9	<p>FE say that UR has not accounted for the large opex allowances provided by GNI for growth promotion activities and this has flawed the analysis.</p>	<p>UR consider that FE have incorrectly interpreted CRU price control documents and ignored that the spend and allowances discussed by CRU covers all connection types (customer groups) rather than only domestic OO connections. UR also note that the "growth promotion activities" relate to a change by the CRU in PC4, in offering incentives to maximise connections, along with reorganisation of the parent company which has resulted in a reallocation of costs to commercial activities. UR have confirmed this view with the CRU.</p>

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	13	Calculation Undertaken from the UR's ROI assumptions p9	FE say that UR has assumed 50% of GNI's new connections occur as a result of limited marketing activities and then make reference to Frontier Economics paper that GNI growth promotion allowances are actually 5 times larger in PC4.	UR consider that the GNI allowances cover all customer groups whereas the allowances that UR provide are only concerned with domestic OO connections. With regard to the promotion allowances, in regard to "growth promotion activities" see number 11. The UR provides FE with a separate allowance for other customer groups.
	14	Conclusion from ROI Benchmarking p10	FE agree with UR that due to the uncertainties of all the data collected, that we should not place any weight on its assessment.	UR have considered the representations as presented and consider that further work in this area could produce further analysis. However, in light of this we have not placed any weight on this evidence at this time.
	15	Greater Belfast Case Study p10	FE acknowledge the use of the PNGL area to benchmark. FE suggest that the PNGL area between 2010 to 2016 had significant differences e.g. Retail Competition, Oil prices, Housing Market and wider economic facts and welcome that UR do not use this as part of their decision FE welcomes that UR do not give any weight to this case study.	The Greater Belfast case study evidence suggests that a number of factors, both directly and indirectly have a role in influencing consumers deciding to connect to natural gas. Considering the evidence from the case study, UR acknowledged the difficulty in attempting to quantify a precise non-additionality figure (%). In regard to this area, FE argue and we agree no definitive conclusions can be drawn from this analysis.
	16	Non Additionality Evidence Threshold p11	FE suggest that as only 1 area (The Survey) was used to formulate a range of values of the non additionality range. The other 3 areas do not provide any evidence to formulate or calculate a non -additionality figure. As the survey was flawed, it is difficult to conclude that sufficient evidence is available to substantiate or calculate a non- additionality figure.	UR is of the opinion that we have undertaken a review of the issues and sought the most appropriate evidence and information available to consider a range which has led to 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. UR consider that the survey, provides robust evidence on the factors that influenced the decision of existing customers to connect to gas and therefore allows UR to formulate a range of values for non additionality. UR note that FE have not provided any additional evidence or suggested what they think is an appropriate non-additionality figure.

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FE		Proposed Licence Modifications		
	17	Proposed Licence Modifications p12	FE notes the need to change to the Determination values in condition 4.7 of the licence, but required clarification on the alternation of connection target numbers, will be communicated.	UR have considered this clarification and will now provide a table, in the consequential effects to the price control, which will include the connection targets for OO customers. The targets will be used in the PI model and be updated, in line with the Uncertainty Mechanism, at the time of the next price control.
FE		Appendix 2 - Comments on Draft Survey- by FE		
	18	FE comment re Survey Definition of Non-Additionality P1	FE indicate that the definition as used in the GD17 FD was different compared to the definition that was used in the tender document for SMR, which resulted in narrowing the scope of the survey and does not consider other sales related costs, such as Energy Advisors, incentive payments and/or customers support and therefore the survey cannot be relied on to substantiate non-additionality.	UR consider that the definition of non additionality and cost recovery by FE is irrelevant from the point of view from the respondent to the survey. The purpose of the survey was to understand what made customers connect to gas. The questions used in the survey were appropriate for its purpose as SMR was fully briefed and aware of the definition of non additionality.
	19	Application of Non Additionality p2	FE note that 58% of respondents claim not to be influenced by FE advertising , but FE state that this is not a proxy for non-additionality. FE believe that Non-Additionality is not a test of advertising but a test of how many OO customers would connect without any action from FE	The survey noted that 58% of respondents claimed not to be influenced by FE advertising, but in the final decision, we considered a range of possible factors that could influence the non additionality range, before deciding on a low single point estimate of 25%. The UR considers that the survey provided a wide range of possible answers to what made customers connect and responders had an opportunity to consider the whole range of relevant factors in how they reached a decision to connect to the network, from prompted and unprompted questions.
	20	Design of the Survey p3	FE do not believe, after repeated requests to be appropriately engaged throughout the process, or that their views have been adequately considered, in terms of the design and the questions asked. FE consider that the questions as asked, cannot directly contribute to any consideration for non-additionality or that the scope of the questions consider all legitimate costs incurred by FE to connect OO customers.	See number 7 above for a response. UR designed the survey to ensure responders could provide a wide range of feedback of the circumstance(s) that made them connect to gas, which included direct advertising and marketing activities of FE. It offered choices in terms of prompted and unprompted questions, to establish what was a reason and the most important reason on there decision to connect to natural gas. The responses to the questions, provided an analysis and a strong indicator to determine a range of non additionality.
	21	Economic Consideration p3	FE believe that affordability was not given proper consideration in the survey design, in terms of Government Incentives/subsidisation and cite that 75% of OO connections at the end of 2016 required some form of government assistance.	See number 8 above for a response.
	22	Analysis of the Survey p4	FE indicate that during meetings, UR indicated that SMR would not be responsible for the final analysis of the results. FE believe that this is against best practise of survey design and not utilising the expertise of SMR. This approach will negatively impact on the ability to undertake robust analysis.	SMR have provided a view that based on its analysis, that a range of between 55-61% would be an appropriate range of values for non additionality. This has been taken account of by UR.
	23	Confirmation Bias p4	FE indicate that as UR has undertaken the analysis of the survey results and not used the expertise of SMR, the interpretation becomes compromised by confirmation basis and is further compounded by the definition of non additionality and the design of the survey.	See number 10 above for a response.
	24	Data Presentation p5	FE note the importance of ensuring the data is reported accurately following its analysis and interpretation.	UR, in the interests of transparency, shared all the survey information with FE, of over 1,000 customers surveyed , with the individual responses, for each question asked and how this was derived, with linkage into the survey results.
	25	Customer Recall P5	FE recognised the need to cover such a large survey sample, but questioned the quality of the evidence which it considers diminishes over time as people's recall of the reasons for switching to gas will be less reliable the longer ago they switched.	UR considered this issue, based on comments from FE and included a question to capture the timeframe when customers connected to gas. The survey results indicated that only 4% of customers said "Don't Know/can't remember", which is within the margin of error identified in the survey results of +/- 3%.
	26	Customer Preferences P5	FE indicated the importance of assessing customers revealed preferences (what do people actually do) as opposed to their stated preference (What do people say they do). FE suggest that the question in the survey of the most important reason why they connected to gas (58% of respondents claimed not affected by FE advertising), is the same messages that FE use in its advertising of why people connected. FE also suggest that some people may not wish to admit to, or be aware of, the influence of advertising on their decision to switch. FE state that non additionality is not a test of Fe advertising, but an assessment of customer connections that would occur without any activities of FE, such as marketing, advertising or sales expenditure.	UR can only consider the evidence as presented in the survey on responder responses of what influenced them to connect to gas. UR in considering all the evidence available, did use its judgement, to consider the factors and responses made, which was reflected in the range of values used to decided an approached range of non-additionality. See number 20 above for a response.

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FE		Appendix 1 - Comments on UR further analysis of the ROI case study by Frontier Economics as submitted by FE		
	27	The UR's findings p1	Frontier has suggested that UR has assumed that non additionality could be as high as 46%. In other words, the UR appears to be saying that all of the connections in ROI could be 'non additional' as the ROI rate 2.3% is 46% of the FE rate (5%).	The 46% referenced by Frontier takes account of the impact of retail competition and is the upper bound of the range and it assumes that retail competition does NOT diminish over time. If it was assumed that the effect of retail competition did diminish over time (similar to the experience in Belfast), then the non additional rate could have been in the region of circa 53%.
	28	Our comments on UR's findings p2	<p>The UR has compared GNI and FE network as if they were like for like networks.</p> <p>GNI network is larger than FE network and therefore benefits from economies of scale.</p> <p>GNI has had a significant promotion allowance for new connections since PC1.</p>	<p>The UR disagrees that it has compared the GNI and FE network as if they were like for like networks. UR in the consultation document considered that the ROI gas market, given its current development phase and relative maturity, close proximity to NI and uptake of gas connections to be an appropriate and valid comparator for NI GDNs. UR notes that GNI intends to continue its growth strategy which commenced in PC3 and intends to deliver over 100,000 additional domestic and commercial customers over the period of PC4, which is a similar objective to FE over GD17 and therefore a suitable comparator.</p> <p>UR have previously considered the similarities and differences of GNI and FE networks, recognising the duration that gas has been available in the GNI area, compared to FE. UR do not consider that the maturity of a network in of itself to be a key driver of the decision making process of a domestic owner occupied property owner in deciding whether or not to connect to the gas network.</p> <p>GNI is a larger network than FE network and may benefit to some degree from economies of scale. However, it is also the case that FE may benefit from the promotional activities undertaken by PNGL and SGN as we have referenced in our case study in the Belfast area i.e. potential customers in the FE area will travel to work / study in the PNGL area and will see their advertising.</p> <p>UR do not consider this statement is correct. The significant promotion allowance that Frontier refer to was included in the 'market development cost line' within the overall opex allowance. The cost line was used for a variety of purposes, but included support for New Build properties, IC connections and mature connections. There was no specific allowances for domestic OO connections.</p>
	29	frontier economics GNI has had a growth allowance since PC01 p 2 & 3	<p>UR state that GNI had no specific allowances for 'growth promotion activities' but these have formed part of GNI's opex allowances since PC1.</p> <p>From PC1 to PC3, GNI has had an opex allowance for market development and business costs (which is now called 'growth promotion activities') GNI's allowed costs for these activities were a specific component of the CRU's bottom up assessment of GNI's opex. If GNI had not been able to justify these costs, then they would have been disallowed, and its allowance would have been commensurately lower.</p> <p>GNI have received this allowance in the form of a 'lump sum' rather than a per connection allowance. According to CRU, GNI spent about 1.5m euro on growth promotion activities in 2015/16 which is the last year of available data.</p> <p>Frontier state 'we note that the GNI's assesses GNI's spend on an ex ante basis to determine whether that spend was required to meet connection targets. Following this assessment, the CRU has allowed for growth promotion spend in the next price control, which presumably is because they found the previous spend to be effective in growing connections (i.e. led to additional connections).</p> <p>CRU welcomes GNI's proposals to grow connections further in PC4 as it 'recognises the benefit of increased utilisation of the existing gas network for gas customers' FE conclude from this that this means CRU found increased spending in growth activities resulted in additional connections compared to a situation without that spend.'</p>	<p>UR is not of the same opinion that the "growth promotion activities" are directly comparable to the UR review, in that it relates to all customer groups and therefore is not comparable to domestic owner occupied connections only.</p> <p>UR do not accept this argument as put forward by FE. In the PC04 decision by the CRU it states ' The review of PC3 Opex does not involve making a judgement on the efficiency of the incurred expenditure. GNI bear in full any differences from the allowance, either over - or under spends, for Opex that is not classified as pass through under the price control'. UR understand that the GNI costs associated with market development are NOT regarded by GNI as pass - through costs, but allowances that are within the control of the network operator to spend as they see fit. GNI bear in full any differences from the allowance, either over - or under spends, for Opex that is not classified as pass through under the price control.</p> <p>UR requested clarification on the term lump sum cited by Frontier, as the UR was unable to find this terminology in any of CRU documents referenced by Frontier. Frontier responded by saying the following "The term 'lump sum' is not used in the CRU report". The term 'lump sum' was used by Frontier Economics to describe their view that the growth promotion allowance is a singular amount provided to GNI for the price control period, rather than a per connection allowance." The UR welcomes this clarification, but as we have previously mentioned the allowance cited by Frontier Economics refers to all customer groups and therefore is not a valid comparison since Ground 2B refers only to domestic owner occupied properties.</p>
	30	frontier economics GNI has had a growth allowance since PC01 p3	<p>Frontier state 'we note that the CRU assesses GNI's spend on an ex ante basis to determine whether that spend was required to meet connection targets. Following this assessment, the CRU has allowed for growth promotion spend in the next price control, which presumably is because they found the previous spend to be effective in growing connections (i.e. led to additional connections).</p> <p>CRU welcomes GNI's proposals to grow connections further in PC4 as it 'recognises the benefit of increased utilisation of the existing gas network for gas customers' FE conclude from this that this means CRU found increased spending in growth activities resulted in additional connections compared to a situation without that spend'.</p>	<p>UR do not agree with this assertion in the context of the review that it undertook. The decision made by the CRU for PC4, which came into effect from Oct 2017 - Sept 2022, put in place a connection incentive to incentivise GNI to achieve connection numbers above its 'business as usual' target connection rate. In relation to the context of how this incentive came about, the CRU has stated that commercial opex and growth incentives would benefit from increased utilisation of the existing gas network for gas customers and welcomes GNI's proposals to grow the network. CRU have introduced a "Growth related incentives" to focus GNI to grow the network with more connections (specifically Domestic Housing), which is similar in principle to the Connective Incentive in GD14 & GD17. This incentive, as introduced by the CRU, is not guaranteed, but subject to actual number of connections.</p> <p>The large increase as referred to by Frontier (We believe to be "Commercial operations"), was as a result of a reorganisation of the GNI business and parent company, which resulted largely in the movement of staff . The costs at the end of PC3 for commercial Opex is more aligned with what the CRU would expect for PC4, with incremental opex required to support any new growth initiatives.</p>

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	30	frontier economics GNI's growth allowance increased significant in PC4 p4	<p>Frontier state that the CRU allowed GNI €15.3m euro or €3m p.a. for growth related activities, which is an increase over existing spend. Frontier cite measures that will be used to further this strategy.</p> <p>Frontier say that while UR discusses the additional allowance i.e. incentive regime for PC4 it does not discuss the 'primary connection allowance which is the lump sum allowance' and that the per connection allowance could account for 19% of GNI's growth promotion activities, and that the UR has underestimated the impact of the lump sum allowance</p>	<p>UR do not agree with this assertion in the context of the review that it undertook. The decision made by the CRU for PC4, which came into effect from Oct 2017 - Sept 2022, put in place a connection incentive to incentivise GNI to achieve connection numbers above its business as usual target connection rate. In relation to the context of how this incentive came about, the CRU has stated that commercial opex and growth incentives would benefit from increased utilisation of the existing gas network for gas customers and welcomes GNI's proposals to grow the network. CRU have introduced a "Growth related incentives" to focus GNI to grow the network with more connections (including Domestic Housing), which is similar in principle to the Connective Incentive in GD14 & GD17. This incentive as introduced by the CRU, is not guaranteed, but subject to actual number of connections.</p> <p>The large increase as referred to by Frontier which we believe relates to "Commercial operations", was as a result of a reorganisation of the GNI business and parent company, which resulted largely in the movement of staff (and associated costs). The costs at the end of PC3 for commercial Opex is more aligned with what the CER would expect for PC4, with incremental opex required to support any new growth initiatives.</p> <p>The examples given by Frontier also covers items not relevant to the domestic OO sector e.g. targeting new housing, supporting additional regulatory and commercial schemes and promoting heat pumps.</p> <p>The growth related allowances for the GNI cover all customer groups but this remitted area covers only domestic OO connections. FE is provided with separate allowances for other customer groups in GD17 and historically, so the comparison drawn by Frontier is not valid.</p>
	31	frontier economics - conclusion p4	<p>Frontier conclude the following :</p> <p>(1) UR analysis on non additionality hinges on its views on the impact of GNI's growth promotion activities on new connections and has failed to appropriately evidence this assumption.</p> <p>(2) the UR has not accurately portrayed the extent on GNI's growth promotion activities and misunderstands the significant lump sum that GNI is given for growth promotion activities.</p> <p>(3)Based on the factors above, no conclusion can be drawn from the ROI analysis.</p>	<p>UR disagrees with the Frontier conclusion as follows:</p> <p>(1) UR has considered the available evidence of the ROI market, with GNI pursuing a greater growth strategy and has evidenced the assumptions that it has made, based on available data, which concludes that a ranges of values exist for non-additionality.</p> <p>(2) JUR have considered 'in the round' all the promotional activity that GNI undertakes, which relates to both domestic and commercial opportunities, and which has not been disaggregated in the Frontier analysis. The 'lump sum' term is dealt with in number 29. With regard growth promotion activities, UR in its consultation considered the "New Areas Allowance", which was an extra allowance for GD17, over and above its existing allowance to deal with the associated costs in developing new areas. FE, nor Frontier, mention this additional allowance, which we think is important, in the context of promoting growth activities.</p> <p>(3) Frontier have stated that we did not place a strong weight on the ROI evidence due to the lack of directly comparable data and the need to allow for some impact of GNI activities. UR still consider that further work in this area would produce more robust analysis and at this stage have placed no weight on this analysis.</p>
CCNI		General		
	32	Ground 2A p1	CCNI welcome the revised connection target as provided to the CMA by FE.	UR welcome the CCNI's comments in this regard.
	33	Ground 2B p2	CCNI's position is that there is strong support, from 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 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 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 most potential connections possible during GD17, which will ultimately be to the benefit of all gas customers.