

Joanne Quinn
Director of Regulatory Affairs
Phoenix Natural Gas Ltd.
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26 June 2020

NET/G/JP/232

Dear Joanne

Proposed Development of Phoenix Natural Gas Limited (PNGL)'s Network to enable the conveyance of gas to specific areas in Greater Belfast not yet served by the gas distribution network.

I write in response to PNGL emails of 25 July 2019, 29 October 2019, 15 May 2020, 2 June 2020 and 26 June 2020 and the documents attached to those emails which, among other things, submits, in accordance with paragraph 7.51 of the Final Determination for Price Controls for Northern Ireland's Gas Distribution Networks GD17 (the **GD17 Final Determination**), a business case for an 'additional project', namely the proposed extension development of Phoenix Natural Gas Limited (PNGL)'s Network to enable the conveyance of gas to specific areas in the Greater Belfast area not yet served by the gas distribution network (the **Proposed Development**).

Having reviewed the business case the Utility Regulator (**UR**) is satisfied that the Proposed Development is not a scheme that either –

1. falls within the scope of the currently applicable price control (the GD17 price control as more fully explained in the GD17 Final Determination); or,
2. is adequately covered by the uncertainty mechanisms or the incentive mechanisms which may otherwise apply under the currently applicable price control (as also explained in the GD17 Final Determination).

The Proposed Development is for infill of certain areas identified in the spreadsheets provided by PNGL as attachments to its emails of 29 October 2019 and 2 June 2020 (together the **Project List**). We recognise that the Project List is an assessment carried out at a point in time and additional areas of a similar nature may be identified at a later

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date and may be added to an amended Project List. To allow additional areas of a similar nature to be served, we will consider amendments to the list on an annual basis. Areas of a similar nature will be: within the general areas of development already served by gas; adjacent to areas already served by gas; include a general mix of properties similar to the mix of properties in the current Project List; and, the lengths per property will be comparable with the current Project List and will not require feeder mains.

Neither the Project List nor any other part of this decision, makes any change to the Licensed area, the extent of exclusivity or any other part of the gas conveyance licence held by PNGL (the **PNGL Licence**). The company may undertake the Additional Project to the extent that is permitted under the PNGL Licence.

Recovery of Costs

The UR has assessed the scope and costs of the Proposed Development and confirms that it does not consider any adjustments are necessary to the currently applicable (GD17) price control for the purposes of the recovery of PNGL's costs in respect of the Proposed Development (which is hereafter referred to as the Additional Project).

However, the UR confirms that it will make provision within the GD23 price control with regard to the recovery of PNGL's costs of the Additional Project, as outlined below.

Capital Expenditure (Capex)

- **Traffic Management Act (TMA).** No additional capex allowance is proposed for this item at the present time. However, should the TMA come into force before the start of the GD23 period the UR will consider the actual level of expenditure due to the implementation of the applicable legislation and make provision for it accordingly.
- **Pressure reducing stations.** No additional capex allowance is to be provided for pressure reducing stations in respect of the Additional Project.
- **7bar and feeder mains.** No additional capex allowance is to be provided for 7bar and feeder mains in respect of the Additional Project.
- **Other mains – existing domestic and I&C.** A capex allowance will be assessed based on the actual number of properties passed, annual average number of metres of infill laid per property passed up to a cap of 14.30 metres assessed over

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the duration of this Additional Project and a determined unit rate of £52.18 in December 2014 prices post the application of the Frontier Shift which has been averaged over the remainder of the GD17 period (2020-22).. We acknowledge this project will span two price control periods. Additional incentive and penalties will apply as outlined in section 7.32 of the GD17 final determination.

The allowance for Other mains – existing domestic and I&C will apply from the 1 March 2020. The allowance for infill completed in GD17 up to the 28 February 2020 will be determined through the uncertainty mechanism set out in Table 182 of the GD17 Final Determination. The Other mains determination for areas not served by the Additional Project (i.e. the Other mains determinations for Greater Belfast, Whitehead and East Down) will continue to apply as set out in the GD17 Uncertainty Mechanism.

- **Infill mains – new build domestic.** The Additional Project covers the infill of existing development. No additional capex allowance is to be provided for other mains to pass new build domestic properties as part of the Additional Project. All infill mains for new build domestic in GD17 will be covered by the Uncertainty Mechanism Capex Adjustment provisions of Condition 2.3 (Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services Conditions) in the PNGL Licence, and will be based on the number of connections and determined unit rates as defined in the GD17 final determination.
- **Domestic / I&C meters.** A capex allowance for meters for connections to properties which are readily connectable from the proposed Other mains will be provided, through the Uncertainty Mechanism Capex Adjustment provisions of Condition 2.3 (Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services Conditions) in the PNGL Licence, and will be based on the number of connections and determined unit rates as defined in the GD17 final determination.
- **Domestic / I&C services.** Allowances for services for connections to properties which are readily connectable from the proposed Other mains will be made through the Uncertainty Mechanism Capex Adjustment provisions of Condition 2.3 (Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services Conditions) in the PNGL Licence, and will be based on the number of connections and determined unit rates as defined in the GD17 final determination.

Operational Expenditure (Opex)

- **Connections.** The GD17 connection incentive payment of "owner occupied connections" to the proposed infill mains will be made through the Uncertainty Mechanism Opex Adjustment provisions of Condition 2.3 (Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services Conditions) in the PNGL Licence based on the total number of connections made in GD17 subject to the application of a 33% non-additionality to the revised connection targets set out below, and subject to the deduction of a lump sum of £82,739 in December 2014 prices).

No other additional opex allowances will be made in GD17 in relation to this Additional Project.

Rate of Return

- The Uncertainty Mechanism Rate of Return Adjustment provisions of Condition 2.3 (Conveyance Charges, Other Terms for the Conveyance of Gas and the provision of Conveyance services Conditions) in the PNGL Licence (as described in the GD17 Final Determination) will apply to the allowances applicable to the Additional Project.

Other Matters

The UR also confirms that the following will apply in respect of certain targets, outputs, and reporting obligation of PNGL in relation to the Additional Project.

Adjustment of targets

- **Properties passed targets.** The properties passed targets will not be amended as a result of this additional project. As this Additional Project did not form part of the GD17 final determination and the basis on which the property passed target was set, properties passed as a result of this additional project will not be included in the implementation of the GD17 properties passed mechanism.
- **Owner occupied (OO) connection target.** The owner occupied connection targets will be adjusted as a result of this Additional Project as shown below.

	2017	2018	2019	2020	2021	2022	GD17
Belfast infill	0	0	0	54	182	283	519

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The 33% non-additionality set out in the GD17 final determination will apply to this target adjustment.

Reporting

The following additional reporting requirements will apply in respect of the Additional Project -

- A separate report of the length of mains laid and properties passed in respect of the Project List will be provided to the Utility Regulator annually as part of the Annual Cost Reporting. This report should be based on the current Project List and identify the length of infill and properties passed for each area.
- An annual statement of proposed changes to the Project List for the consideration of the Utility Regulator.

Treatment of the Additional Project List in GD23

Having concluded that the totality of the work in the Project List is economic, we do not plan to undertake a further economic test for the GD23 price control in respect of the completion of the total package of work, provided there is no material change in the estimated costs or consumption of the remaining schemes or changes in our statutory objective or broader energy policy.

Yours sincerely



Jenny Pyper
Chief Executive
Authorised on behalf of
The Northern Ireland Authority for Utility Regulation