Price Control for Northern Ireland’s Gas Transmission Networks GT22

Our Approach to GT22

March 2021

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, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.

Our vision

To ensure value and sustainability in energy and water.

Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

This paper sets out our approach to GT22, the price control review for the four gas conveyance licence holders in Northern Ireland which operate high pressure pipeline networks. This price control period will commence on 1 October 2022. This approach document sets out a package of measures that will facilitate the continued operation of an efficient gas industry in Northern Ireland.

The key decision for the price control will be determining an efficient level of costs for the gas transmission companies to fund their licensed activities.

This document incorporates amendments following responses to our Approach consultation, published in December 2020.

Audience

Industry, consumers & statutory bodies.

Consumer impact

Transmission charges make up around 10% of a typical customer's final bill. The price control approach detailed in this document will set out the basis on which we propose to determine the efficient level of expenditure that the transmission companies will recover through the Northern Ireland Postalised Transmission Tariff.

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1. Introduction

Purpose of the Document

1.1 The purpose of this document is to detail our high level approach to the next price control review for the four high pressure gas networks in Northern Ireland, GT22. The four gas conveyance licence holders covered by this price control are:

- GNI (UK) is a subsidiary of Ervia, a utility infrastructure company owned by the government of the Republic of Ireland. GNI (UK) is subject to a traditional 'revenue cap' incentive framework;

- Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and West Transmission Limited (WTL) are all part of Mutual Energy Limited (MEL). These companies are all subject to a 'mutualised' model in which Northern Ireland gas consumers absorb deviations between forecast and actual operating costs in return for an absence of equity funding / returns from the business.

1.2 Our proposed approach is detailed in the following chapters:

- Chapter 1 – this chapter, provides an introduction to the Approach Document

- Chapter 2 – provides information on key elements relevant to this price control

- Chapter 3 – sets out the approach we intend to adopt in assessing the constituent parts of TSOs' business plans.

- Chapter 4 – discusses how we plan to engage with stakeholders throughout the determination process.

- Chapter 5 – details the milestones for delivery of this price control.

2. Background and Context

Operating Expenditure

2.1 This price control review will determine an efficient level of operating cost for the review period commencing on 1 October 2022. However the potential impact of these allowances on the licence holder will vary depending on whether they operate a ‘revenue cap’ or a ‘mutualised’ model.

2.2 In the case of the Mutual Energy Limited licence holders the allowance only represents a forecast of future outcomes. Actual allowances that the licence holder will recover from consumers will vary with actual expenditure. The licence holders, in this case PTL, BGTL and WTL, are exposed to no operating expenditure risk; instead this risk is borne entirely by the Northern Ireland gas consumer. However, we continue to determine an efficient level of operating costs as if a ‘revenue cap’ was in place during what has previously been described as a ‘shadow’ price control. The licence holder then has a reputational incentive to manage costs effectively in line with the determined ‘shadow’ allowance. In addition we expect management incentives may be set to align with these allowances again as a means of effective operating cost control. Performance against the ‘shadow’ allowances also provides the Utility Regulator (UR) with a metric to judge whether existing licence conditions continue to facilitate our statutory duties.

Capital Expenditure

2.3 The price control process does not set allowances for capital expenditure. Two of the licence holders (PTL and BGTL), purchased existing assets, the Scotland Northern Ireland Pipeline and Belfast Gas Transmission Pipeline respectively, and are therefore not required to fund capital formation. In the case of the other two licence holders; GNI (UK) which built both the North West and South North Pipelines along with their associated spurs, and WTL which is nearing completion of the Gas to the West network; capital allowances are set in accordance with a completely separate methodology outside the price control process.

Rate of Return

2.4 As with operating and capital expenditure the cost of capital has a different treatment depending on the particular licence holder. In the case of GNI (UK) we are required to review the rate of return on capital at each review.

2.5 For the Mutual Energy Limited licence holders (PTL, BGTL and WTL), rate of return on capital is excluded from the price control review process. These licence holders are entirely funded by debt finance in the form of a long term bond. The repayments on this bond including principle and interest will be made in accordance with a predetermined schedule that has been previously agreed by the Utility Regulator. There is therefore no provision in either of these licences to review the rate of return.

Single System Operation

2.6 Establishment of a single system operator during GT17 has facilitated efficiencies in operational expenditure over the course of the current price control. GMO NI is not a separate legal entity from the TSOs and its operations are financed through the existing licences. GT22 will require licence holders to provide a joint submission for the allowances necessary to fund this activity. Our proposed approach to establishing an allowance for activities related to single system operation is set out in Chapter 3.

Regulatory Instructions and Guidance

2.7 Use of Regulatory Instructions and Guidance as a means of standardising information submissions through the business planning process and for ongoing monitoring was adopted at GT17. Subsequent modifications to TSO licences were made to formalise the RIGs approach and establish licensees' obligations with respect to maintaining adequate systems for reporting of information specified within the RIGs. To facilitate the GT22 determination process Business Plan Reporting Templates will be developed based on the format and content of the most recent RIGs, with additional information requirements as necessary.

2.8 We consider that it is appropriate at GT22 to ask that Mutual Energy Limited licence holders provide separately completed returns of the business plan template. This is a departure from our approach at GT17 which permitted a group return.

2.9 In response to consultation feedback we would like to clarify that commentary on the GMO NI's business plan is not required in the submissions of GNI (UK) or Mutual Energy Limited group companies, and that the GMO NI business plan will undergo a business plan assessment.as detailed separately.

2.10 We can also confirm that business plan narrative accompanying completed reporting templates for Mutual Energy Limited group companies can be provided at group level.

Summary

2.11 The table below summarises the above discussion and sets out for each licence holder the cost categories that will and will not be determined at this price control review as set out in the individual licenses.

Price Control Item	GNI (UK)	Premier Transmission	Belfast Gas Transmission	West Transmission
Controllable operating expenditure (non-GMO)	Allowance fixed at review	Allowance forecast at review but actual allowance matches actual costs		
Controllable operating expenditure (GMO)	Allowance fixed at review	Allowance forecast at review but actual allowance matches actual costs		
Uncontrollable operating expenditure	Allowance forecast at price control review but actual allowance matches actual costs			
Weighted average cost of capital	Allowance fixed at review	Not applicable	Not applicable	Not applicable

Table 2.1: Price Control Output by Licence Holder

3. Our Approach

General Approach

3.1 In addressing the key areas of this price control, we are mindful of the need to keep the regulatory burden to a minimum while addressing the information asymmetry that exists between us and the companies. We will adopt and apply a number of principles to ensure that our approach is proportionate. These principles are:

- A business plan reporting template along with the accompanying instructions will be developed with the assistance of the licence holders. The agreed template will be available from early April and licence holders will have until early July to populate the template (precise dates TBD). Any atypical costs and special factors should be identified separately in individual submissions.

- Areas of high expenditure will receive substantially more scrutiny and analysis than low value items, along with new additional operating expenditure where we shall expect to have presented the net impacts from such increases and any decrements.

- Benchmarking will be used where appropriate and a triangulated approach may be adopted to ensure that allowances are efficient and that efficiency targets are reasonable but challenging.

- Where possible, any allowances set shall be closely aligned to clearly defined outputs and relevant drivers.

- The price control will be based on a standard RPI-X framework, which will incentivise the licence holders to control their costs through the setting of efficiency targets and adjustment of allowances at subsequent price controls.

- Allowances will not be given for profit margins to any affiliated business to which contracts have been awarded.

- Allowances will not be given for contingency elements within budgets.

3.2 We will adopt a light touch approach if:

- There is evidence to show that the licence holder is comparatively efficient.

- Past costs are a strong indicator of future costs.

3.3 We will adopt a more detailed approach if:

- The licence holder is comparatively inefficient.
- Past costs are a weak indicator of future costs.
- Cost lines are increasing and are of a material nature.
- Data is available for more detailed statistical analysis i.e. benchmarking.

3.4 We expect licence holders to provide the data necessary to support a robust assessment of expenditure and outputs. Where there is insufficient data, we will adopt an approach to funding which is prudent but conservative until the company can develop a robust approach based on sound data. We also propose to consider as part of our price control, where relevant and appropriate, best practice relating to other price controls and the adoption of cross-utility approaches, principles and standards of regulation.

3.5 We will continue to ensure that the information we require from the licence holders is proportionate but sufficient to:

- Allow licence holders to communicate their business plans to us in a clear and effective manner.
- Ensure that we can submit the plans to effective and focused scrutiny.

3.6 For GT22 we will:

- Require the licence holders to submit their business plans in the format requested, with sufficient historic information included. We will ask that submissions also include an explanation of the impact of these business plans presented in a way that can be understood by network users.
- Promote the collaborative working already present within the gas industry and seek further alignment between price control submissions and other processes.
- Consider whether further amendments to the format of our price control determination or other regulatory submissions are necessary to ensure clarity and reconciliation between them.
- Use appropriate methods to check and verify key information.

3.7 In support of the drive towards the provision of high quality robust submissions, we expect the licence holders to:

- Demonstrate that responsibility for the assurance of the data and plans submitted resides at board level.
- Provide reliable driver-based cost information with appropriate explanations of any changes in numbers or circumstances.
- Provide any information requested within the timelines specified.
- Be able to demonstrate that all costs are necessary to run an efficient, well-managed business.
- Demonstrate the basis of apportionment of costs shared between group and related parties.

Duration of the Price Control

3.8 The necessary licence modifications were made at the outset of GT17 to align review dates of Mutual Energy Limited licence holders with the schedule applicable to GNI (UK). We are therefore considering GT22 applying from 1 October 2022 until 30 September 2027.

Single System Operator – GMO NI

3.9 The Northern Ireland Single System Operator is not a legal entity and it does not have a separate licence granted by the UR. Consequently, the funding for the activities of system operation must be provided by those licence holders which are a party to the Contractual Joint Venture (CJV).

3.10 In setting allowances for GT22 we will review the operation of the GMO NI during the GT17 price control period to ensure it has met its objectives, and assess the extent of benefits provided to market participants. The suite of KPIs developed during GT17 will form part of this assessment.

3.11 We propose to continue with the approach utilised at GT17, provided a review of historic cost information specific to the CJV operation does not uncover significant deviations from allowances granted. That is, to treat the GMO NI as a single entity and to split the associated costs between licence holders.

3.12 Parties to the CJV will submit a jointly agreed business plan for the activity of single system operation. However, it is recognised that as the CJV is not a legal entity it is unable to enter into a contract with the supplier of any of the resources necessary to deliver single system operation. Only a licence holder, being a legal entity, can enter into such contracts. The business plan will therefore need to identify which of these contracts / costs each licence holder is responsible for. We would expect that the licence holders would allocate contracts in the most efficient and cost effective manner.

3.13 We will make our determination on the basis of this jointly agreed business plan. Each licence holder being allocated a price control allowance in accordance with the pattern of resource contracts set out in the business plan. Each licence holder would then be exposed to the same cost risk mechanism that applies to other categories of controllable operating cost. For GNI (UK) this would be a 'revenue cap' mechanism while for the other three licence holders an 'operating cost pass-through' mechanism would apply.

3.14 Figure 3.1 sets out the steps in the price control process as they relate to the activities of the GMO NI.

Price Control Process
Step 1 – UR will issue a business plan cost template. This will cover all Transmission System Operation (TSO) activities with a separate return for CJV costs.
↓
Step 2 – TSOs will discuss what CJV activities are required and the estimated cost of each e.g. rent, staff, IT cost, General Manager (GM) cost etc.
↓
Step 3 – TSOs to decide the split of activities and cost between themselves.
↓
Step 4 – Companies will submit a joint CJV cost submission in early July 2021. This will include a five year forecast of total CJV costs split by TSO.
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Step 5 – UR will consider the joint cost submission and the efficiency factor (if any) to be applied to the CJV. This may differ from efficiency targets for the rest of the business.
↓
Step 6 – UR will decide the global allowance for the term of the price control. Revenue for the CJV will be allocated to licensees based on the determined method.
↓
Step 7 – The GM and TSO governing committee will manage the annual CJV budget
↓
Step 8 – The TSOs will be required to submit a report of actual expenditure incurred during the previous gas year in annual Regulatory Instructions and Guidance returns.

Figure 3.1: GMO NI Price Control Process

3.15 Only the direct costs of delivering the activity of system operation, such as staff and IT systems, will be treated in this way. General overheads /

allocated costs, such as corporate functions, will be included within the licence holders non system operation cost category. This approach is being adopted in order to facilitate the creation of a clear and transparent distinction between GMO NI system operation and other cost categories. This approach was adopted at GT17 to assist in mitigating the risk of cost shifting within and between licence holders.

3.16 In the normal course of events there are unlikely to be many unforeseen developments that would impose significant costs on the parties to the Contractual Joint Venture. However there may be unknown factors (relevant items) which could facilitate special consideration. Any such factors must be unforeseen, outside management control, and will be subject to a materiality threshold. We are of the view that existing licence conditions are sufficient to accommodate these situations.[1]

3.17 We recognise that during the price control period changing circumstances may require that the allocation of activities and costs between licence holders is realigned. We do not propose to revisit our determination as a consequence of any realignment. Our initial view would be that any realignment should result in increased cost efficiency, however we recognise that in exceptional cases there may be other valid justifications. We intend to monitor this flexibility closely for inappropriate behaviour and if necessary take remedial action.

3.18 We acknowledge GMO NI's consultation response concerning the relative immaturity of its operations and the cyclical nature of project and IT costs. However, we have not been presented with specific details supporting the anticipated outturn cost profile towards the end of the GT17 period. We also note that allowances for GMO NI operation granted for GT17 were relatively flat for years four and five of the price control.

3.19 We maintain that the GMO NI business plan should fully evidence all claims for costs, and highlight that particular scrutiny can be expected in areas of increasing expenditure. We will continue to utilise the historic costs of the GMO NI's own operations (and appropriate industry benchmarking, where available) as the best indicators of future costs, in lieu of evidence to the contrary.

3.20 The use of benchmarking was also addressed in other consultation responses received. We impress that the onus is on TSOs to evidence the nature of forecast expenditure, including any rationale as to why it is bespoke and unsuitable for comparison to standardised or benchmarked costs, whilst noting that our primary approach will remain a bottom-up

[1] GNI (UK) Gas Conveyance Licence Condition 2.2.4 (i) and (j)

assessment of projects.

Controllable Operating Expenditure

3.21 The price control seeks to determine an efficient level of costs for controllable operating expenditure. No allowances for capital expenditure will be granted as part of this price control as these are determined by a separate process as set out in the licences of both GNI (UK) and WTL[2]. There is no provision for setting capital expenditure allowances in either the PTL or the BGTL licences. For the purposes of this price control capital expenditure is any expenditure that results in an increase in the overall capacity of the network to convey gas.

3.22 Much of what in accounting terms might be classified as capital expenditure we consider as being asset replacement, in that it does not increase the capacity of the network but simply replaces obsolete or worn out assets. We have made specific provision in the business plan and cost reporting templates for such expenditure. Licence holders will be required to identify individual projects under this heading, providing a justification for the project, alternatives considered and, amongst other things, quantify the benefits to consumers relative to the expenditure proposed. As these tend to be periodic bespoke projects we may seek specialist advice on the validity and cost effectiveness of the projects proposed. We will also be guided by our determinations on such projects from previous price controls.

3.23 In determining allowances for the GMO NI we will be guided by the principle that we are determining allowances for a single Contractual Joint Venture and not four separate licence holders.

3.24 Departing from the methodology used in GT17, when determining non-GMO NI allowances for the MEL gas companies we will determine allowances for each licence holder separately, rather than as a single company as had previously been the case.

3.25 For other categories of controllable operating expenditure one of the objectives of the Regulatory Instructions and Guidance is to identify robust cost drivers for broad categories of expenditure. This will allow us to make comparisons between licence holders, against industry standards and over the course of time. We will take the efficient level of costs determined in the previous price control period together with actual costs from earlier periods as the starting point for future allowances. We will also seek specialist advice where necessary.

3.26 We again assert our belief that engagement between licence holders

[2] GNII (UK) Gas Conveyance Licence Condition 2.2.2 and 2.2.3, WTL Gas Conveyance Licence Condition 4.2

(specifically between Mutual Energy Limited licence holders and GNI (UK)) can deliver additional cost savings – for example, in joint procurement exercises. We will use evidence presented in business plan submissions to investigate whether TSOs have exploited these opportunities to the fullest extent possible. However, we remain of the view that allowances will not be given for profit margins to any affiliated business to which contracts have been awarded.

3.27 We consider that re-opening our determination during the price control period should only be considered in exceptional circumstances which can be demonstrated to be unforeseen, outside management control, and of a material financial impact. We are of the view that existing GNI (UK) licence conditions are sufficient to accommodate these situations[3].

3.28 For the Mutual Energy Limited licence holders we are minded to introduce a licence modification to provide some alignment between MEL and GNI (UK) in terms of price control re-openers.

3.29 Our intention would be to provide for a materiality threshold below which the budgeted or determined controllable opex would not be subject to review. The threshold is yet to be decided upon, but a proposal is expected to be included in the draft determination.

3.30 With reference to consultation responses querying the setting of materiality thresholds we will consult further with TSOs to assess the risk attached to system operation of 'de minimis' projects going unfunded, primarily based on experiences at GT17. We aim to set materiality at a level which provides comfort, from a regulatory standpoint, over consequential items and which reduces the resource burden on TSOs to evidence low value expenditure to the same degree.

Uncontrollable Operating Expenditure

3.31 These costs are considered as being outside the control of the licence holder and so are not subject to any incentive mechanism. That is, no allowance is determined for them at the time of the price control, and consumers, rather than the licence holder, bear all cost risk. These are often described as 'cost pass-through' items.

3.32 Following licence modifications prior to the start of the GT17 price control period all four transmission licence holders are now required to submit estimates of uncontrollable operating expenditure[4].

[3] GNI (UK) Gas Conveyance Licence Condition 2.2.4 (i) and (j)
[4] GNI (UK) Gas Conveyance Licence Condition 2.2.4 (f), PTL Gas Conveyance Licence Condition 3.1.6 (b)(i)(bb), WTL Gas Conveyance Licence Condition 4.7.2 (a)(ii), BGTL Gas Conveyance Licence Condition 3.1.6

3.33 In response to comments received from TSOs concerning advance notice of regulatory licence fees for business planning purposes we confirm that licence fees will continue to be treated as 'pass-through' items and will be calculated in-year for recovery through tariffs during the following gas year. Therefore we advise licence holders to prepare their business plans using best available information and forecasts per the licence modifications made at GT17, with subsequent tariff-setting processes making the necessary corrections to revenue.

Efficiency Targets

3.34 When setting an efficiency target, two effects need to be considered; catch-up to frontier performance and continued movement of the frontier over time.

- Frontier shift describes the efficiency gains resulting from companies in the economy becoming more efficient over time.
- The move towards the frontier describes the efficiency gains an individual company can achieve through catching-up with the economic frontier.

3.35 A number of broad approaches are available to any economic regulator to take account of both or either of these effects. Whenever possible regulators have tended to use both approaches in combination when setting allowances.

- A bottom-up approach to analyse each of the main cost categories to determine what might be considered as an efficient level of costs. In doing so, any atypical circumstances that might impact on costs need to be taken into account as appropriate.
- A top-down approach to analyse the efficiency gap with a comparator operating at a chosen performance. A variety of statistical approaches are available foremost amongst these is econometric analysis. Again, any atypical circumstances that might impact on costs need to be taken into account as appropriate.

3.36 The bottom-up approach is likely to be our principle tool in assessing business plans and setting allowances at GT22. A top-down approach is likely to be problematic due to a lack of effective comparators. The ownership of three of the four licence holders by Mutual Energy Limited raises issues over their independence and their use as independent comparators. In Great Britain there is only one gas transmission company, National Grid, but the size and scope of its operations may render

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(b)(i)(bb)

comparisons difficult. In the Republic of Ireland GNI is an integrated transmission and distribution business with a single licence, which again creates benchmarking problems.

3.37 As at GT17 we will not apply a catch-up efficiency challenge to business plan allowances due to the lack of comparable entities for benchmarking purposes. We will, however, use comparisons between the four licence holders to assess cost trends and the reasonableness of business plan forecasts.

3.38 We will make a global adjustment to allowances to take account of our assumptions about future frontier shifts. Frontier shift will be assessed at an aggregate level across the four licence holders and the GMO NI, providing consistency in our performance expectations.

3.39 We will consider the impact of real price effects – the deviation between the Retail Price Index measure of inflation and the rate by which licence holders' input prices increase. Adjustment will be made to allowances where our analysis indicates there is a non-zero impact.

Incentives and Innovation

3.40 One licence holder, GNI (UK), is subject to a standard and fairly straightforward incentive mechanism in the form of a 'revenue cap'. Under this mechanism the licence holder is given an allowed revenue to carry out its duties under the licence. The licence holder is exposed to the cash flow risk associated with deviations between allowed revenue and actual costs. In the case of GNI (UK) this risk is mitigated, to some extent, by two mechanisms:

- The ability to seek allowances for Unforeseen Operating Expenditure[5].
- The ability to seek a forecast expenditure review should actual expenditure be greater than 15% above the allowance in any gas year[6].

3.41 In contrast, the other three licence holders (PTL, BGTL and WTL) operate under an operating cost pass-through mechanism whereby gas consumers bear all cost risk in return for an absence of shareholder equity and returns. There are a number of specific governance arrangements in place to prevent inappropriate behaviour by management against the interests of gas consumers.

[5] GNII (UK) Gas Conveyance Licence Condition 2.2.4 (j)
[6] GNII (UK) Gas Conveyance Licence Condition 2.2.4 (i)

3.42 At present there is no specific mechanism to encourage innovation as there is within for example RIIO-T2. We have no plans at present to modify the licences and introduce a specific mechanism. However we would encourage licence holders to include innovations in their business plans that would lead to improved efficiency and/or improved customer service. These will be considered if a robust and appropriate business case has been submitted which sets out clearly the detailed costs and benefits as well as how risks will be allocated.

Weighted Average Cost of Capital

3.43 The treatment of this component of the price control determination is not consistent across the licence holders. In the case of Mutual Energy Limited licence holders it will be entirely absent from the determination. These entities financed the purchase and construction of their regulated assets through issuance of long maturity bonds. The schedule of bond payments has been previously accepted by the UR and these payments, known as the Fixed Amounts[7], are included in the calculation of annual allowed revenue without adjustment.

3.44 In setting a weighted average cost of capital for GNI (UK) we will:

- Use a standard CAPM (Capital Asset Pricing Model) methodology for assessing a suitable rate of return for the Gas Transmission Networks.
- Use all available similar regulatory settlements to benchmark appropriate rates.

3.45 The objective of an economic regulator is to set a rate of return that reflects the cost of capital, both debt and equity, that the markets will bear given the level of risk associated with the business. It is important that we properly assess the level of risk associated with the licensed activity.

3.46 We intend to publish the capital repayments proportion of the total required revenues for each licence holder during the price control period as part of our determination. This will assist network users in forecasting the future level of the Postalised Transmission Tariff.

Price Control Outputs

3.47 The principle objective of GT22 will be to determine, for each licence holder, a robust controllable operating expenditure allowance and, where applicable, a robust weighted average cost of capital. In addition, our objective is to

[7] PTL and BGTL Gas Conveyance Licence Condition 3.1.4, WTL Gas Conveyance Licence Condition 6.5.1

produce reliable forecasts of uncontrollable operating expenditure such that a forecast of total Postalised Required Revenues for each year of the price control period can be calculated.

3.48 Table 3.1 sets out how we might present the output from the price control process for each licence holder:

Price Control Item	Status	Real Value***
Controllable Operating Expenditure (non-GMO NI)	Determined / Fixed	£*X* m
Controllable Operating Expenditure (GMO NI)	Determined / Fixed	£*X* m
Controllable Operating Expenditure (Total)	Determined / Fixed	£*X* m
Efficiency Target	Determined / Fixed	*X* %
Efficient Controllable Operating Expenditure	Determined / Fixed	£*X* m
Uncontrollable Operating Expenditure	Forecast / Variable	£*X* m
Weighted Average Cost of Capital*	Determined / Fixed	*X* %
Capital Allowance	Determined / Fixed**	£*X* m
Total Allowed Revenue	Forecast / Variable	£*X* m

Table 3.1: Price Control Output Presentation

*GNI (UK) only
**GNI (UK) only – this value will vary from year to year due to the financial model adjusting for a number of factors including tax rates and under / over recoveries.
*** Anticipated price base of March 2021 for all allowances.

Introduction of Business Plan Assessments

3.49 One of our aims for the GT22 is that the TSOs should produce high quality, well evidenced business plans which can be accepted following limited scrutiny.

3.50 In our recent price control for SONI we introduced a process of Business Plan Assessment and we have also stated our intention to introduce an appropriate Business Plan assessment as part of our GD23 process for Gas Distribution Network Companies. These are structured around three key themes which are set out below:

- Service contribution to good outcomes
- Services and costs
- Trust in delivery

3.51 The themes will be discussed further with TSOs and then we will provide more detailed guidance on our expectations for the Business Plan submissions including a list of test questions aligned to these test areas. This will reflect the business context. We will consult with the TSOs on our information requirements, including guidance on the potential features of an exceptional plan, before finalising in line with the Business Plan Templates.

3.52 We will ask that TSO's complete a self-assessment of their Business Plan submissions. This should include:

- A statement setting out how the TSOs have approached delivering an exceptional Business Plan in line with the 3 key theme areas.
- A reference to the key documentation in the Business Plan which provides the supporting evidence to these statements.

3.53 When we receive the TSO's business plan we will assess how each has performed against each theme and provide feedback to the company of our assessment of its business plan. This categorisation will be built up from an assessment of each of the responses to the questions. It is not our intention to publish this detailed assessment but engage with each individual company on the areas where improvement can be made for future submissions.

3.54 TSO's business role, services and activities should be well aligned with the interests of customers, consumers, other stakeholders and the wider energy system. We feel that this assessment when coupled with our framework and other expectations/guidance on business plans:

- allows TSOs to take ownership of its plan. It should also be answerable to stakeholders for what follows from it.
- clarifies that lesser regulatory intervention can be expected in the TSO's business plan if it is of higher quality.
- gives TSOs greater opportunity to shape their role over the price control period, the activities and level of service that are funded through the price control, and aspects of the regulatory framework.

- clarifies that there will be a higher degree of trust in TSOs if its business plan is of higher quality.

3.55 Based upon learning through this process we expect to continue to extend this approach to other network sectors providing a consistent comparative assessment of all network companies.

3.56 A high-level view of our findings as part of this process will be provided within the draft determination.

4. Stakeholder Engagement and Social Impact

Approach to Stakeholder Engagement

4.1 During the GT22 price control process, we will engage with all key stakeholders. This will allow us to take full account of stakeholders' views in making a final determination. It will also assist stakeholders in achieving a better understanding of our determination and the rationale behind our decisions. We will do this primarily through public consultations and other existing mechanisms in which interested parties already participate, such as the Gas Market Opening Group.

4.2 In recognition of their statutory role we will engage with the Consumer Council of Northern Ireland. While this will be the principle means of engagement with gas consumers, we also intend to engage with representatives of major energy users through groups such as Manufacturing Northern Ireland.

Consumer Impact

4.3 Transmission network costs account for a relatively small component of the final consumer's gas bill. For larger consumers the importance of transmission network costs increases. The biggest component of any consumers bill, the wholesale gas price, is rightly set by market conditions rather than by regulation. Despite this however we feel it is important that we analyse the impact of our decisions on a range of indicative customer groups including domestic consumers and power generators.

Environmental Impact, Decarbonisation and Energy Efficiency

4.4 GT22 will be developed in parallel with the preparation of a new Energy Strategy for Northern Ireland. This new strategy will enable new and challenging decarbonisation targets, which move towards a net zero target by 2050.

4.5 While natural gas is a carbon fuel, it has and can continue to, make a contribution to carbon reduction by connecting properties which currently using oil to gas mains which have already been laid and are in service. Circumstances in Northern Ireland are such that many homes continue to use oil for heat. Gas continues to provide a lower carbon alternative to oil and the continued conversion from gas to oil will reduce carbon emissions. In the longer term, options to decarbonise gas such as biogas and hydrogen may become viable at scale. In the meantime the supply of natural gas will be necessary until alternatives supplies of bulk heat to homes and industry become available.

4.6 The outcome of the Energy Strategy is uncertain at the current time. For this reason we will develop GT22 within our current vires and practice with consideration being given to any possible impact of the Energy Strategy as this becomes clear.

4.7 We recognise the interest of TSOs in gaining greater certainty over the implications of the Energy Strategy on their operations, and in particular the availability of financing to implement changes to their networks that will be necessary to meet the Strategy's targets.

4.8 We acknowledge licence holders' representations in this regard but it is our view that as the Energy Strategy remains in development and the technological requirements of any subsequent network development are not sufficiently well known it would not be appropriate to establish a specific innovation fund

4.9 We will liaise with operators on developments in areas relevant to the Energy Strategy as we progress towards a Final Determination. We will reconsider the need to set a carbon budget. This stems from the UK Government's Net Zero target and we will include the introduction of emissions reporting as part of the RIGs.

5. Next steps

5.1 We have engaged with TSOs and the GMO NI to confirm our reporting requirements for business plan submissions, including the approach we will take to assessing the quality of submissions. This has allowed us to issue finalised reporting templates to TSOs and the GMO NI alongside publication of this Approach document thereby extending the period for licence holders to complete their business plans. Subsequent milestones remain unchanged from our earlier consultation.

GDT22 Milestone	Timeline
GT22 Approach Document consultation opens	21st December 2020
GT22 Approach Document consultation ends	15th February 2021
GT22 Approach Document finalised	w/c 8th March 2021
Business Plan Reporting Template published	w/c 8th March 2021
TSO Business Plan submission deadline	w/c 5th July 2021
GT22 Draft Determination published	w/c 8th November 2021
GT22 Draft Determination consultation ends	w/c 10th January 2022
GT22 Final Determination published	1st April 2022
Postalised tariff setting for 2022/23 gas year	July 2022
GT22 Price Control takes effect	1st October 2022

Table 4.1: Key Milestones of GT22