



An Coimisiún  
um Rialáil Fónais  
**Commission for  
Regulation of Utilities**

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**Commission for Regulation of Utilities**

# CRU Decision on the PC5 Regulatory Framework

## Decision Paper

### Decision Paper

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# CRU Strategic Plan 2022-24

<h2>Our Mission</h2> <ul style="list-style-type: none"><li>• Protecting the public interest in water, energy and energy safety.</li></ul>	<h2>Our Strategic Priorities</h2> <ul style="list-style-type: none"><li>• Ensure security of supply</li><li>• Drive a low carbon future</li><li>• Empower and protect customers</li><li>• Enable our people and organisational capacity</li></ul>
<h2>Our Vision</h2> <ul style="list-style-type: none"><li>• Safe, secure and sustainable supplies of energy and water, for the benefit of customers now and in the future.</li></ul>	

## Executive Summary

The Irish energy system is entering a crucial period in its development, tasked with achieving world-leading decarbonisation targets and bolstering security of supply, whilst facilitating significant new energy demands. Ireland is committed to fulfilling the European Unions (EU's) renewable energy directive (RED III) and energy efficiency directive (EED), setting ambitions for achieving carbon neutrality by 2050, and a 51% reduction of emissions (against 2018) by 2030. This includes a 75% reduction in the power sector by 2030 (also against 2018 levels) and is in addition to the significant reductions already made. To underpin those objectives significant work has been undertaken, including the delivery by the Irish government of climate action plans, targets for renewable gases, a hydrogen strategy and recent publication of the government's energy security package. The development of a biomethane strategy is also well advanced by the Irish government.

These policy efforts will drive change and future work. They will aid in the development of markets for decarbonised energy and, as they are progressed, help further define the decarbonisation pathways for Ireland. As part of our role in this quickly evolving space, and in line with our responsibilities under the climate act and to meet the requirements of the climate action plan 2023 (CAP23), the Commission for Regulation of Utilities (CRU) is currently developing an ambitious national energy demand strategy (NEDS). The key objectives of the NEDS includes increasing energy system flexibility and reducing the carbon intensity of energy demand. The CRU is progressing this at pace to maximise the impact on the carbon budget and is coordinating with key relevant government departments and agencies. As the asset owner and system operator of the Irish gas network, Gas Networks Ireland (GNI) will be instrumental in the success or failure in meeting Ireland's energy policy objectives. In this regard, the conclusions of the 2023 Madrid Forum<sup>1</sup> emphasised the importance of flexibility in how gas network assets are reinvested in, repurposed, and if necessary, potentially decommissioned in future, and the need for integrated network planning from gas network operators to ensure:

- security of supply;
- system integration;
- avoidance of stranded assets; and
- achievement of national decarbonisation objectives.

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<sup>1</sup> See May 2023: 'Conclusions of the European Gas Regulatory Forum,' available [here](#).

Ireland is an outlier in its gas demand trends when compared to other EU states. As of 2021, we source 31.6% of our energy demand<sup>2</sup> from natural gas. In the short term there is a need for additional new gas-fired power generators, to connect to the network to meet demand and to provide flexible generation. This is important to ensure demand is met while the amount of renewables grow and is acknowledged in the 2021 climate action plan, which requires circa 2 GW of flexible gas-fired generation by 2030. Forecasts indicate that future natural gas demand will peak in 2025 / 26. Overall reductions in natural gas demand will continue as Ireland progresses towards its net zero targets for 2050. In this overarching context, there is a responsibility on the CRU to provide GNI with a regulatory framework which is matched to these challenges, providing the requisite flexibility and incentives that will allow GNI to respond to the dynamic and fast-moving energy landscape expected over the coming decades. This will enable GNI to adapt as the pathway of decarbonisation continues to be further defined through market developments and national policies.

PC5 sets the revenues that GNI can collect from its customers from October 2022 to September 2027, together with the set of incentives and obligations placed upon GNI. High level proposals for changes to the regulatory framework were presented in a consultation on the regulatory framework<sup>3</sup> published in December 2021. Following a review of responses, the proposals were further developed while considering significant market and policy developments. The updated proposals were published in the CRU's regulatory framework consultation published in July 2023<sup>4</sup>. The proposals were structured around the following three core pillars.

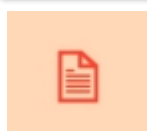
Figure 1: Pillars of the PC5 Regulatory Framework

### **Pillar 1: Planning and governance**



Enhancements to GNI's planning requirements and associated governance. These require GNI to display planning and strategy for future uncertainties and provide assurance that they will deliver a gas network flexible to change, that meets the needs of customer while complying with carbon emission ceilings, decarbonisation policies and reflects low regrets investments for customers.

### **Pillar 2: Periodic reporting**



Clearer reporting, both within and between price controls, with consistent categories for both costs and key performance indicators (KPI's). In general, the CRU expects annual reporting with the objective to improve transparency and accountability of

<sup>2</sup> [Energy Use Overview | Energy Statistics In Ireland | SEAI](#)

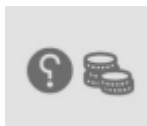
<sup>3</sup> Available [here](#).

<sup>4</sup> Available [here](#).

GNI's performance across different areas of its business and display the value that has been delivered by it to the gas customer.

### **Pillar 3: Uncertainty mechanisms and incentives**

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Uncertainty mechanisms (UMs) and incentive mechanisms to manage future uncertainty of gas production and demand, by providing flexible funding streams and financial (or reputational) incentives to drive positive or new behaviours from GNI while keeping pace with the evolution of market and policy needs.

In reaching its final decision on the PC5 regulatory framework, CRU has carefully considered the feedback that it received from stakeholders on its earlier consultation proposals, and also the implications of energy policy developments. Responses to the CRU's July 2023 consultation were generally supportive of the proposed changes to the PC5 regulatory framework, though noted that the proposals represented a significant change and welcomed further detail that could be provided to ensure that the regulatory framework operates as intended. The responses also emphasised the importance of:

- GNI's actions and delivery during PC5 aligning with Ireland's decarbonisation targets, policies and carbon emission ceilings;
- GNI's effective management and governance of the interactions between its gas network and other energy vectors; and
- the clarity and predictability of the regulatory framework to allow GNI to invest with confidence and deliver on the actions that support consumers' interests.

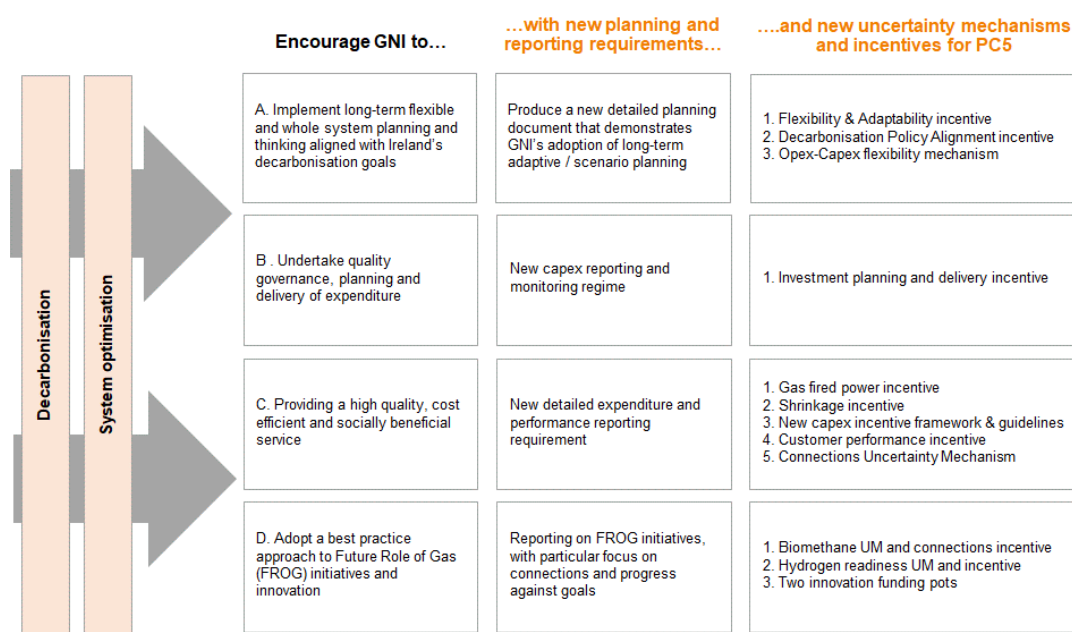
Some respondents to the July 2023 consultation also highlighted concerns with the continued use of (and investment in) GNI's regulatory asset base (RAB) model in PC5 with potential for decreasing volumes of gas and customers connected to the gas network, given how this could affect:

- the future affordability of gas; and
- GNI's incentives to invest its gas network in alignment with national and international decarbonisation policies and objectives.

This decision paper summarises the CRU's review of the feedback received through the consultation process and sets out the CRU's decisions on the PC5 regulatory framework and how these take account of this feedback, as illustrated in figure 2. Overall, the CRU has sought to put in place a regulatory framework for PC5 that will:

- support delivery of Ireland’s decarbonisation objectives, in terms of actions and behaviours sought from GNI<sup>5</sup> and facilitation of new future role of gas (FROG) initiatives (biomethane and hydrogen readiness);
- deliver on the CRU’s other objectives for PC5, namely provision of a safe, high-quality service for all gas customers, a safe and resilient gas network and a retained focus by GNI on efficient spend; and
- act as a stepping stone to a longer-term strategy and framework for the economic regulation of the gas network looking forward to PC6 and beyond, as Ireland’s energy landscape continues to evolve.

Figure 2: PC5 Regulatory Framework Overview Decision



Although the changes to the regulatory framework can be considered as evolutionary, there are still a range of new measures being introduced. In addition, PC5 is already in its second year (of five). In light of this, the CRU will strategically work with GNI during the transition period to prioritise the delivery of certain incentives and reporting. These prioritised incentives will include the decarbonisation policy alignment incentive, shrinkage incentive and gas-fired generation connections incentive as part of an adaptive approach to align with changing policy dynamics. This prioritisation exercise will be conducted during the transition period set to run until the end of 2024 however, substantial guidance has been provided in this paper and GNI is expected to begin the development of their reports in early 2024. Revenues have been provided to GNI to

<sup>5</sup> In particular, the importance of flexibility in GNI’s decision making and actions in alignment with decarbonisation policies and objectives, and the importance that its ongoing capital programme reflects a set of low regrets investments for Irish gas customers.

support this and the onus will be on them to demonstrate that they put forward a plan to deliver the required reports / data within stated timelines. Where challenges present themselves, GNI will have to clearly demonstrate that they have sought to overcome them in an effective and timely manner.

During the course of PC5, the CRU will undertake a further review of elements of its gas network price control policies, including depreciation policy and connection charges, to inform the future evolutions of the regulatory framework as it is adapted to meet the requirements of the changing energy system.<sup>6</sup> This, will include a review of depreciation. The subsections below provide further detail on key aspects of the PC5 regulatory framework and how the CRU has accounted for the feedback it received in consultation responses.

➤ **Implementing long-term flexible whole system thinking and adaptive planning aligned with decarbonisation goals**

As discussed above, a key area of focus of the responses to the CRU's July 2023 regulatory framework consultation was the importance of supporting Ireland's decarbonisation goals and flexible decision making from GNI. The PC5 regulatory framework will encourage GNI to be flexible and responsive to changing energy system needs in a way consistent with decarbonisation objectives and emission ceilings by introducing two new incentives. These are:

- a flexibility and adaptability (FA) incentive, and
- a decarbonisation policy alignment incentive.<sup>7</sup>

Under the new **FA incentive**, GNI will be required to produce a detailed planning document in alternating years with the network development plan (NDP), the core flexibility report (CFR), which demonstrates GNI's adoption of long-term adaptive / scenario planning<sup>8</sup>. As part of the close out process for PC5, the CRU will:

- assess the quality of GNI's CFR and how GNI has reflected the findings and conclusions of the CFR in the delivery of its investment programme for PC5 and the development of its business plan for PC6; and

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<sup>6</sup> For the avoidance of doubt, any findings and conclusions from the CRU's policy reviews in these areas will not take effect until PC6.

<sup>7</sup> The two incentives have been developed from the single 'strategic thinking incentive' that was proposed as part of the regulatory framework package in the CRU's July 2023 regulatory framework consultation.

<sup>8</sup> A supplemental flexibility report (SFR) will be required to be produced in alternating years. The split into two incentives reflects the feedback from respondents wishing to see even greater focus on decarbonisation policy alignment during PC5.

- determine financial rewards that are awarded to GNI based on the conclusions of this assessment.

It is expected that the CFR should acknowledge and respond to the key policy / sector changes that GNI expect in the medium to long-term (covering at least the next 10-year period) and should describe a central plan / pathway for the development of the gas network. This should include a series of actions which must be taken given known policy goals, along with trigger points, which when met will require GNI to adapt its approach, for example, meeting the requirements set out by sectoral carbon ceilings<sup>9</sup>. The CRU expects GNI to take a collaborative approach to develop the CFR, to engage with relevant stakeholders<sup>10</sup>, with an emphasis on whole system thinking. The assessment of GNI's performance under the FA incentive will also take into account how GNI use flexibility funding, a pot of €10m across PC5, for GNI to draw upon to seek alternative options to balance demand and supply.

The new **decarbonisation policy alignment incentive** which was introduced following consultation responses requires GNI to provide more information on its performance on relevant decarbonisation indicators, such as emissions. GNI will need to demonstrate how it is ensuring its investments remain compliant and aligned with relevant legislation and policy, e.g., the climate act, the climate action plan, the carbon budget and the CRU's NEDS. GNI will be required to produce an annual FROG initiatives and decarbonisation report. An unweighted financial scorecard will be used to assess GNI's performance on this incentive.

### ➤ **Undertake quality governance, planning, and delivery of expenditure**

Responses to the CRU's July 2023 consultation agreed with the importance of effective governance, planning and delivery of GNI's investment programme in the gas network. Some respondents also provided a series of suggestions of how new expenditure reporting and monitoring requirements should be structured and what should be the key areas of focus for a new investment planning and delivery (IPD) incentive in PC5.

Consistent with the CRU's consultation proposals, GNI will be required to produce more detailed capex reporting and monitoring within PC5, including reporting on expenditure, outputs and timings associated with investment delivery. Reporting will align with the project-level allowances set out in the main distribution and transmission decisions.<sup>11</sup> Additionally, GNI will be required to

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<sup>9</sup> gov.ie - Government announces sectoral emissions ceilings, setting Ireland on a pathway to turn the tide on climate change ([www.gov.ie](http://www.gov.ie))

<sup>10</sup> The CRU expects that the CFR will be consulted on with stakeholders.

<sup>11</sup> [Gas Networks Ireland Price Control 5 | CRU.ie](https://www.cru.ie/publications/gas-networks-ireland-price-control-5)



update technical justification papers (TJPs) for projects that had not been envisioned, had not reached an investment decision when submitting their business plan questionnaire (BPQ) submission, or had been changed / deferred.

Enhanced capex reporting requirements will be supported by a new proposed IPD incentive, intended to encourage best practice from GNI in bottom-up investment planning and decision-making practices. In this decision paper, the CRU has sought to reflect stakeholders' comments on the IPD incentive, for example, in the structure and the weighting given to the focus areas of the balance scorecard for this new incentive.

➤ **Providing a high quality, cost efficient and socially beneficial service**

The responses to the 2023 July consultation generally supported the focus areas of performance incentives to encourage GNI to provide a high quality and socially beneficial service, including incentives for shrinkage, gas-fired generation connections (GFGC), stakeholder engagement and satisfactory achievement of key customer performance indicators. The responses to the July consultation also generally supported CRU's proposed new expenditure and performance reports and changes to the capex guidelines and incentive framework, although GNI disagreed or sought clarification on aspects of the proposed framework changes.

The CRU has decided to adopt its consultation proposal to require GNI to produce detailed expenditure and performance reports using an annual reporting template, similar to the format as the data that GNI provides in its price review submissions. This will improve ongoing reporting consistency and transparency of GNI's outturn costs and performance. The final PC5 regulatory framework also includes a refresh of the capex guidelines and incentive framework. The most significant modification is to introduce a tiered system for capex projects. There will be separate incentives in place for those two tiers.<sup>12</sup> Other modifications include clearer and more transparent monitoring, together with aligning incentive strength for unfinanced overspend and efficient savings (i.e., underspend). This decision paper provides further clarification on aspects of these changes following stakeholder feedback.

➤ **Adopt a best practice approach to FROG initiatives and innovation**

Responses to the CRU's 2023 July consultation were generally supportive of proposals across PC5 to support new FROG initiatives and continued investment in innovation. Several responses, however, commented on whether the proposals in the consultation were suitably

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<sup>12</sup> We have proposed that an efficient deferral, efficient savings and financed / unfinanced overspends would not apply to what are termed 'tier 2' projects in the proposed capex framework for PC5, given the uncertainty and absence of a sufficiently robust baseline against which to assess costs and outputs.

aligned with broader government policies, strategies, and commented on the specific focus areas and design of the regulatory framework proposals.

The CRU has decided to largely retain its consultation proposals for the overall structure of the regulatory framework that will apply to FROG initiatives and innovation in PC5. This means that FROG initiatives have a core allowance under the PC5 decision, but the regulatory framework will facilitate further investment<sup>13</sup>, should the pace of decarbonisation exceed current expectations. GNI will also be subject to new financial and reputational incentives as well as uncertainty mechanisms related to the delivery of biomethane connections and hydrogen readiness.

As with prior price controls, innovation funding will continue to be provided in PC5 to allow GNI to invest in earlier maturity investments where clear benefits to gas customers exist. The CRU has decided to retain the two-funding pot system that was proposed in the consultation but has sought to further clarify the objectives of the arrangements following consultation feedback.

#### ➤ **Future evolution of the gas network economic regulatory framework**

As noted above, the CRU expects to keep under review the economic regulatory framework that applies to the gas network and how this may need to evolve at future price controls to support future changes in Ireland's energy system.

The CRU note the recent publication of the government's energy security package which includes a series of recommendations with regard to securing Ireland's gas supplies. While the impact of the energy security package recommendations on GNI's regulated gas network business are uncertain, the CRU considers the PC5 framework provides sufficient flexibility for GNI's revenue allowances to adapt should GNI reasonably justify the need to trigger a change in its operating and / or capital expenditure allowances for PC5. The CRU would expect GNI to bring forward any such proposals, with clear justification for the need, additionality and efficiency of the requested spend – similar to the requirements for the specific uncertainty mechanisms for hydrogen etc.

#### ➤ **Next steps and actions**

Implementation of the PC5 regulatory framework changes will take time for GNI and the CRU to implement. The need for a transition period from the final PC5 decision to the new reporting and incentive framework taking effect is, therefore, needed to ensure effective implementation of the

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<sup>13</sup> Via new FROG initiative uncertainty mechanisms.

CRU's decisions. New financial incentives for PC5 would not apply during this transition period and are only expected to apply to the final three years of the price control, unless otherwise stated. The CRU will also conduct a review of depreciation policy for the gas network in advance of PC6 and will keep the charges for biomethane connections under review (as described in the transmission and distribution papers, published alongside this paper, customer contributions for biomethane connections have initially been set at 30%).

## Public/Customer Impact Statement

GNI owns and operates the gas network which supplies all gas customers in Ireland. GNI charges gas customers an amount towards the cost of safely operating and maintaining the gas network through gas customers' bills. One of the CRU's roles is to protect gas customers by ensuring that GNI spends customers money appropriately and efficiently. A price control is an important process, as the CRU must carefully consider the level of revenue GNI needs to safely operate, maintain and invest in the gas network for the next 5 years. The PC5 period is from 01 October 2022 to 31 September 2027. The CRU has conducted a detailed review of GNI's business plan and financial proposals set out in this paper and the accompanying papers. The finalised revenues will deliver value to the customer and ensure that GNI can safely operate, maintain and invest in the gas network. The benefits to the gas customer will be:

- a safe, high-quality service for all gas customers;
- a continued focus on efficient spend;
- the efficient facilitation of the energy transition; and
- a safe and resilient gas network.

The changes in the PC5 regulatory framework are seen as an evolution of the framework currently in place and takes into account the key challenges that GNI is likely to face in PC5, including:

- adapting to the changing use of the natural gas network while maintaining a safe and resilient gas network, and;
- efficiently and safely facilitating the decarbonisation of the gas network and the economy generally.

The CRU has decided on an overall revenue allowance of €1.16 billion for transmission and €1.05 billion for distribution. This forms part of the overall revenue for PC5 of €2.21 billion. As a result of this decision document, the average annual residential customer's bill will rise by €10.54. This is less than a 1% increase on the CRU's average estimated annual (EAB)<sup>14</sup> bill of €1576.<sup>15</sup> It is important to note that there may be continued volatility in gas prices through PC5 and into the future.

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<sup>14</sup> EAB is calculated based on an estimates average household consumption of 11,000kWh of gas.

<sup>15</sup> The estimated annual bill is an average of standard and discounted gas EABs in November 2023 (see [CRU2023161](#))

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## Glossary of Terms and Abbreviations

<b>Abbreviation or Term</b>	<b>Definition or Meaning</b>
<b>BAU</b>	Business as Usual
<b>BGE</b>	Bord Gáis Energy
<b>BPQ</b>	Business Plan Questionnaire
<b>CAP</b>	Climate Action Plan
<b>CBA</b>	Cost Benefit Analysis
<b>CEPA</b>	Cambridge Economic Policy Associates
<b>CFR</b>	Core Flexibility Report
<b>CGI</b>	Centralised Grid Injection
<b>CNG</b>	Compressed Natural Gas
<b>CPI</b>	Customer Performance Indicators
<b>CRU</b>	Commission for Regulation of Utilities
<b>DECC</b>	Department of Environment, Climate and Communications
<b>DSM</b>	Demand Side Management
<b>EAB</b>	Estimated Annual Bill
<b>EC</b>	European Commission
<b>NEDS</b>	National Energy Demand Strategy
<b>EED</b>	Energy Efficiency Directive
<b>ESRI</b>	Economic and Social Research Institute
<b>EU</b>	European Union
<b>FA</b>	Flexibility and Adaptability Incentive
<b>FROG</b>	Future Role of Gas
<b>GDN</b>	Gas Distribution Network
<b>GFGC</b>	Gas-Fired Generation Connection
<b>GNI</b>	Gas Networks Ireland
<b>H<sub>2</sub></b>	Hydrogen



<b>HVO</b>	Hydrotreated Vegetable Oil
<b>IPD</b>	Investment, Planning and Delivery
<b>KPI</b>	Key Performance Indicators
<b>LNG</b>	Liquefied Natural Gas
<b>LOD</b>	Long O'Donnell Associates
<b>LTDS</b>	Long Term Delivery Strategy
<b>NDP</b>	Network Development Plan
<b>NBIF</b>	Network-Based Innovation Fund
<b>NSEE</b>	Network Stakeholder Engagement Evaluation
<b>OFWAT</b>	The Water Services Regulation Authority
<b>OGMP 2.0</b>	The Oil & Gas Methane Partnership
<b>OUG</b>	Own Use Gas
<b>PC1</b>	Price Control 1
<b>PC2</b>	Price Control 2
<b>PC4</b>	Price Control 4
<b>PC5</b>	Price Control 5
<b>PC6</b>	Price Control 6
<b>PR5</b>	Price Review 5
<b>RAB</b>	Regulated Asset Base
<b>RED III</b>	Renewable Energy Directive
<b>SEAI</b>	Sustainable Energy Authority of Ireland
<b>SFR</b>	Supplementary Flexibility Report
<b>SIF</b>	Strategic Innovation Fund
<b>SFI</b>	Science Foundation Ireland
<b>TJP</b>	Technical Justification Paper
<b>TSO</b>	Transmission System Operator
<b>UAG</b>	Unaccounted for Gas
<b>UM</b>	Uncertainty Mechanism

# 1. Introduction

This section outlines the CRU's role in regulating the revenues charged to GNI, the context for PC5 as well as opportunities and challenges for PC5. It also provides a list of publications relevant to this paper.

## 1.1 Commission for Regulation of Utilities

The CRU is Ireland's independent energy and water regulator. The CRU has a wide range of economic, customer protection and safety responsibilities in energy and water. The work of the CRU impacts every Irish home and business by ensuring safe, secure and sustainable energy and water supplies at a reasonable cost.

GNI is licensed by the CRU as the owner and operator of the Irish gas distribution and transmission networks. As part of its legislative duties under the Gas (Interim) Regulation Act, 2002 (as amended), the CRU approves the revenues that GNI can collect from its customers. It is important that these are set at the right level to ensure a safe, secure and sustainable supply of energy for the benefit of customers now and in the future. To set these revenues, the CRU reviews, in detail, cost proposals submitted by GNI. These revenues are set every five years, in a process called a 'price control'. This paper sets out the CRU's decisions on the PC5 regulatory framework from October 2022 to September 2027 for GNI's transmission and distribution business. Further information on the CRU's role and relevant legislation can be found on the CRU's website at <https://www.cru.ie>.

## 1.2 Context for PC5

The Irish energy system is entering a crucial period in its development, tasked with achieving world-leading decarbonisation targets and bolstering security of supply, whilst facilitating significant new energy demands. The CAP23 outlines Ireland's plan to fulfil the EU's RED III and EED, setting ambitions for achieving carbon neutrality by 2050, and a 51% reduction of emissions (against 2018) by 2030. This includes a 75% reduction in the power sector by 2030 (also against 2018 levels) and is in addition to the significant reductions already made. To underpin those objectives significant work has been undertaken, including the delivery by the Irish government of climate action plans, targets for renewable gases, a hydrogen strategy and the recent publication of the government's energy security package. The development of a biomethane strategy is also well advanced by the Irish government. These policy efforts will drive

change and future work. They will aid in the development of markets for decarbonised energy and, as they are progressed, help further define the decarbonisation pathways for Ireland.

The gas network currently powers approximately 50% of Ireland's electricity generation on average (or up to 85% at peak times), with a short-to-medium term role for gas of supporting more intermittent renewables and replacing coal or peat-fired power plants with high efficiency gas power plants to reduce emissions. For the gas network to contribute to longer term climate and sustainability goals, GNI may need to invest in the support of more nascent technologies, with associated policy mechanisms that are yet to be proven at scale. CAP23 identifies green hydrogen as a 'horizontal development' for the future with uses across multiple sectors of the economy. CAP23 also targets expansion of the indigenous biomethane industry to reach 5.7 TWh of annual production by 2030. Achievement of either of these ambitions will require effective and flexible network planning from GNI that, within the context of its overall capital plan, ensures appropriate investment decisions are made at the right time for consumers.

Alongside these sustainability pledges, Ireland's energy system also faces demand pressures with forecasts that predict an increase in overall demand in the electricity and gas sectors. This is largely caused by new connections from data centres with significant energy demands. It is predicted that by 2030, they could account for 30% of Ireland's electricity consumption. Based on this demand, there is currently ongoing contracts in place for 2,100 MW of new gas or HVO fired flexible generation in Ireland to be delivered by 26 / 27 (in addition to circa 8000 MW of new renewables seeking to connect across the island. Furthermore, the recent conclusions of the 2023 Madrid Forum emphasised the importance of flexibility in how gas network assets are reinvested in, repurposed, and if necessary, potentially decommissioned in future, and the need for integrated network planning from gas transmission system operator's (TSOs) to ensure:

- security of supply;
- system integration; and
- avoidance of stranded assets.

In this overarching context, the CRU has also published a call for evidence to assist in the development of a NEDS to assist in reducing the carbon intensity of energy demand in Ireland. A consultation on the NEDS is to be published before the end of the year and will cover workstreams on smart services, demand flexibility and response as well as new demand connections. For GNI, the objectives of the NEDS will largely be achieved through the allowances and incentive mechanisms of PC5. All this places a responsibility on the CRU to provide GNI with a set of allowances and a regulatory framework which is matched to these challenges, providing the requisite flexibility and incentives that allow GNI to respond to the dynamic and fast-moving energy landscape expected over the coming decades.

## Process

The CRU planned to publish the PC5 decision in summer of 2022. However, due to significant events occurring, this was paused. This subsection summarises the key steps from GNI's initial submission to the publication of the papers today. At the outset of the PC5 process, in June 2021, the CRU published its letter of engagement to GNI<sup>16</sup> which set out four key objectives for GNI to fulfil over the PC5 period:

- provide a safe, high-quality service for all gas customers;
- retain a continued focus on efficient spend;
- efficiently facilitate the energy transition; and
- maintain a safe and resilient gas network.

Further to that, the CRU published the PC5 strategy paper<sup>17</sup> which set out the key challenges and opportunities that GNI was likely to face during the PC5 period in the context of the Irish energy system, European and national policy. The CRU sought feedback from stakeholders on the strategy proposals to ensure that PC5 provides the right incentives and revenues to facilitate GNI delivering safe, sustainable and reliable low-carbon solutions that efficiently meet the gas customers' needs and Ireland's energy needs.

In December 2021, the CRU published a consultation on the regulatory framework<sup>18</sup> for PC5 which set out proposals for modifications to the regulatory framework in relation to the delivery of new connections, facilitating the future role of gas and providing a greater focus on outputs and outcomes for gas customers. In tandem the CRU engaged with GNI, supported by external expert advisors<sup>19</sup> to review GNI's detailed submissions with respect to past expenditure and future proposals. This process was abruptly paused after the invasion of Ukraine by Russia and the associated geopolitical uncertainty in order to assess the potential changes in the energy market.

The invasion has placed additional pressures on Ireland's energy system, highlighting the precarious nature of European economies' reliance on Russian gas, and the threat this poses to countries with low indigenous gas supplies such as Ireland. The short-term effect has been an

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<sup>16</sup> Available [here](#).

<sup>17</sup> Available [here](#).

<sup>18</sup> Available [here](#).

<sup>19</sup> Cambridge Economic Policy Associates Ltd (CEPA) provided the regulatory economic assessment of GNI's proposals. The technical and operational assessment of GNI's proposals has been completed separately by the CRU's technical advisor, Long O'Donnell (LOD).

increase in the volatility of wholesale gas prices (which reached historic highs across Europe in 2022) and pressures on the cost of living for energy consumers. For the longer term, the ongoing conflict in Ukraine, and the resultant wholesale price fluctuations, provides a stark reminder of the importance of security of supply and the key challenge it poses to modern energy systems, particularly with the key role of gas in Ireland's electricity supply. On the 14th of November 2023, the Department of Environment, Climate and Communications (DECC) published the energy security package which outlines a new strategy to ensure energy security in Ireland, while ensuring a sustainable transition to a carbon neutral energy system by 2050.<sup>20</sup>

In April 2022, the CRU wrote to GNI to set out the context for the pause and to seek a resubmission on its PC5 proposals in September 2022. The pause in the PC5 process allowed GNI to re-evaluate priority areas and resubmit its business plan for PC5. As a result, GNI's PC5 resubmission has a greater emphasis on the delivery of new, flexible gas-fired power generation to enable the retirement of more carbon intensive generators and support the roll out of more renewables. It also focuses on reinforcing strategically important areas of the network to improve security of supply.

The updated submission requested €2.6 billion in total allowed revenue over the PC5 period, split into €1.4 billion for the transmission network and €1.2 billion for the distribution network. The CRU has carried out a thorough review of GNI's requests to ensure that they will efficiently deliver value for the gas customer and that they will allow GNI to meet the challenges and opportunities that GNI expects to experience over PC5, such as future proofing, decarbonising the network, facilitating rising gas demand, and replacing aging assets.

### **1.3 Opportunities and challenges in meeting the strategic objectives of PC5**

In setting GNI's PC5 revenues, the CRU has considered the key challenges and opportunities that GNI will now likely face in meeting the strategic objectives for PC5. To identify these challenges and opportunities, the CRU has reviewed the wider policy and regulatory landscape relating to the gas network. Four key areas have been identified and considered in our review:

- **Decarbonisation:** As Ireland's gas network owner and operator, GNI must play a significant role in decarbonising the gas network and contributing to Ireland's ambitious climate targets as Ireland transitions to a climate-neutral economy. Two key pieces of legislation are the

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<sup>20</sup> [gov.ie](http://www.gov.ie) - Energy Security in Ireland to 2030 ([www.gov.ie](http://www.gov.ie)).

CAP23<sup>21</sup> and the Climate Action and Low Carbon Development (Amendment) Act 2021<sup>22</sup> (referred to as the 2021 Act). CAP23 sets out a number of actions relating to the development of biomethane, green hydrogen and compressed natural gas (CNG). The 2021 act aims, among other goals, to provide for carbon budgets and sectoral emissions ceiling to apply to different sectors of the economy. Other relevant policy developments include the government statement on the role of data centres in Ireland's enterprise strategy<sup>23</sup> and the SEAI's publication of conclusions from the national heat study<sup>24</sup>. On the 12th of July the government also published a H<sub>2</sub> strategy, which sets a useful framework for the development of a H<sub>2</sub> market to decarbonise our economy, enhance our energy security and create industrial and export market opportunities. GNI must operate, maintain and develop its network within the legally binding sectoral emission ceilings set out in the CAP23 and the 2021 act, and adopt rapidly and efficiently to policy developments. The CRU has also published its call for evidence to support the development of the NEDS, which will seek to reduce the carbon intensity of energy demand in Ireland. For GNI, the objectives of the NEDS will largely be achieved through the allowances and incentive mechanisms of PC5.

- Evolving energy policy: Numerous aspects of Ireland's climate ambitions being progressed over the PC5 period, such as the introduction of a renewable heat obligation and the publication of a hydrogen strategy for Ireland, are relevant to GNI. Policy is also developing rapidly at a European level. In December 2021, the European Commission (EC) adopted the hydrogen and gas market decarbonisation package, aiming to foster the development of renewable and low-carbon gas systems across the EU. Policy addressing security of energy supply has also been at the forefront of consideration since the Russian invasion of Ukraine. For example, in May 2022 the EC published the REPowerEU Plan, a suite of measures aiming to end the EU's dependence on Russian gas as soon as possible. GNI must be equipped to respond on an agile basis to national and EU policy developments over PC5 to ensure that key challenges such as security of supply and decarbonisation are appropriately addressed.
- Security of supply: Security of energy supply has been a significant concern for Europe as a whole since the Russian invasion of Ukraine. Ireland is particularly vulnerable given that it is highly reliant on natural gas for electricity generation, it has no storage facilities or gas interconnection with mainland Europe, and its domestic supplies of gas are declining. DECC

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<sup>21</sup> [gov.ie](http://www.gov.ie) - Climate Action Plan 2023 ([www.gov.ie](http://www.gov.ie)).

<sup>22</sup> [Climate Action and Low Carbon Development \(Amendment\) Act 2021 \(irishstatutebook.ie\)](http://irishstatutebook.ie).

<sup>23</sup> [gov.ie](http://www.gov.ie) - Government Statement on the Role of Data Centres in Ireland's Enterprise Strategy ([www.gov.ie](http://www.gov.ie)).

<sup>24</sup> [National Heat Study \(seai.ie\)](http://seai.ie).

explored these matters in more detail in a 2022 consultation paper<sup>25</sup> and recently published an energy security package that sets out a plan to 2030 on how to enhance Ireland's energy security.<sup>26</sup> As demand for natural gas is projected to increase during PC5, maintaining security of supply and bolstering system resilience must be a key consideration. To meet these challenges GNI must carefully manage the operation of the network, invest where necessary and only if effective demand side measures cannot be adopted.

- Price volatility and inflation: Along with security of supply concerns, the Russian invasion of Ukraine triggered significant levels of price volatility across global gas wholesale markets. As a result, Irish customers experienced unprecedented increases in energy costs over the past 18 months. Those increases have occurred alongside broader surges in Ireland's inflation rate and cost of living. The costs faced by GNI in operating the gas network, and in particular the costs of shrinkage gas, have also increased. However, more recent months have shown reductions in energy prices and a slowing of the rate of inflation. In setting allowances for PC5, it is important to weigh the increased costs faced by GNI in operating the network against the significant financial burden that gas customers are currently experiencing.

As explored above, the landscape of the energy sector is expected to rapidly evolve in the coming years. While this will create opportunities for positive change, the CRU is mindful that GNI will also face challenges over PC5. With this challenging landscape in mind, there will be an onus on GNI to ensure that investments in the network are thoroughly cost-efficient and beneficial for gas customers. GNI will be required to continue to maintain the gas network to the highest safety and security of supply standards while simultaneously realising robust efficiency and decarbonisation targets.

## **1.4 Purpose of this decision paper**

The purpose of this decision paper is to:

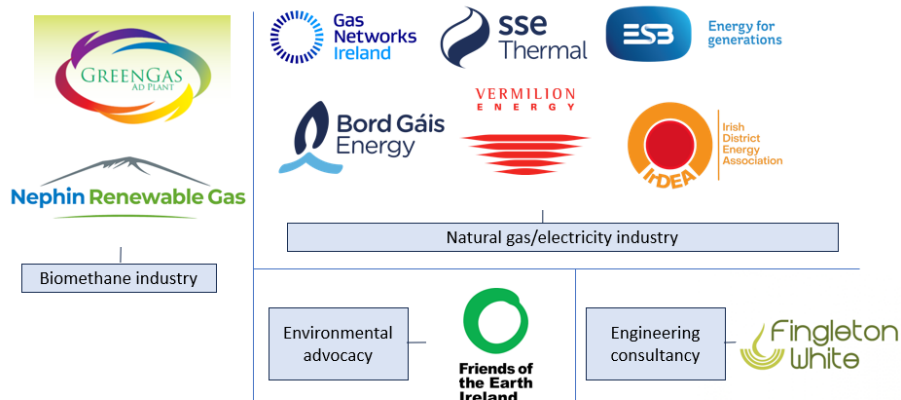
- present and discuss responses to the consultation (see figure 3 below) on the PC5 regulatory framework that ran from July to September 2023; and
- set out the CRU's decisions on the PC5 regulatory framework to be applied over the period from October 2022 to September 2027 to ensure that GNI operates efficiently and can adapt effectively to a rapidly developing energy landscape.

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<sup>25</sup> [Review of the security of energy supply of Ireland's electricity and natural gas systems \(www.gov.ie\)](http://www.gov.ie).

<sup>26</sup> [gov.ie - Energy Security in Ireland to 2030 \(www.gov.ie\)](http://www.gov.ie).

Figure 3: Respondents to the CRU's consultation on PC5 (July-September 2023)



## 1.5 Related documents

Further background relevant to this decision paper can be found in the following documents:

Decision Documents:

- CRU2023137 PC5 Summary Note
- CRU2023138 CRU Decision on PC5 Transmission Revenue for Gas Networks Ireland
- CRU2023139 CRU Decision on PC5 Distribution Revenue for Gas Networks Ireland
- CRU2023141 PC5 CRU Gas Transmission Model
- CRU2023142 PC5 CRU Gas Distribution Model
- CRU2023143 PC5 CRU Gas Corrib Model
- CRU2023144 Price Control 5 Transmission Capex Lookback Decision (Spreadsheet)
- CRU2023145 Price Control 5 Transmission Capex Lookforward Decision (Spreadsheet)
- CRU2023146 Price Control 5 Distribution Capex Lookback Decision (Spreadsheet)
- CRU2023147 Price Control 5 Distribution Capex Lookforward Decision (Spreadsheet)

Consultation Documents:

- [CRU202367](#) CRU PC5 Consultation Executive Summary
- [CRU202368](#) CRU Consultation on PC5 Transmission Revenue for Gas Networks Ireland
- [CRU202369](#) CRU Consultation on PC5 Distribution Revenue for Gas Networks Ireland
- [CRU202370](#) CRU Consultation on PC5 Regulatory Framework
- [CRU202371](#) CEPA PC5 Consolidated Transmission Paper
- [CRU202372](#) CEPA PC5 Consolidated Distribution Paper



- [CRU202373](#) CEPA PC5 Benchmarking Paper
- [CRU202374](#) CEPA PC5 Allowed Return Paper
- [CRU202375](#) CEPA PC5 Corrib Paper
- [CRU202376](#) CEPA PC5 Frontier Shift Paper
- [CRU202377](#) CEPA PC5 IT Paper
- [CRU202378](#) CEPA PC5 Flexibility Paper
- [CRU202379](#) CEPA PC5 Future Role of Gas (FROG) Paper
- [CRU202380](#) PC5 LOD Capex Transmission Lookback Review (Spreadsheet)
- [CRU202381](#) PC5 LOD Capex Transmission Look-forward Review (Spreadsheet)
- [CRU202382](#) PC5 LOD Capex Distribution Lookback Review (Spreadsheet)
- [CRU202383](#) PC5 LOD Capex Distribution Look-forward Review (Spreadsheet)
- [CRU202384](#) PC5 CRU Gas Transmission Model (Consultation)
- [CRU202385](#) PC5 CRU Gas Distribution Model (Consultation)
- [CRU202386](#) PC5 CRU Corrib Model (Consultation)

Older publications:

- [CRU/21/133](#) CRU Price Control 5 Regulatory Framework Consultation Paper<sup>27</sup>
- [CRU/21/067](#) CRU Price Control 5 Strategy Information Paper
- [CRU/21/067a](#) CRU Price Control 5 Letter of Engagement to GNI
- [CER/17/260](#) CRU PC4 Decision Paper on October 2017 to September 2022 Transmission Revenue for Gas Networks Ireland
- [CER/17/259](#) CRU PC4 Decision Paper on October 2017 to September 2022 Distribution Revenue for Gas Networks Ireland

## 1.6 Structure of this paper

The structure of this decision paper is outlined below. Each chapter following the introduction summarises proposals from the consultation, discusses the consultation feedback, and sets out the CRU's decision after considering those responses.

- **Section 2 – Revenue Allowance Adjustments** – discusses revenue adjustments which focus on GNI being adequately compensated for efficiently responding to factors that are

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<sup>27</sup> This was an early-stage consultation published in 2021 when the CRU first began considering changes to the PC5 Regulatory Framework. The CRU took responses received through that consultation into account when forming the proposals set out in the more recent CRU consultation on PC5 regulatory framework (CRU202370).

outside their control. Such revenue adjustments include flexibility pot funding, general uncertainty mechanisms and the FROG uncertainty mechanisms;

- **Section 3 – Performance Incentives** – outlines a range of original proposals with consultation feedback to ultimately provide an overall decision on performance incentives;
- **Section 4 – Innovation** – covers funding decisions for innovation;
- **Section 5 – Capex Incentives**– focuses on capex incentives, specifically the potential for improvement;
- **Section 6 – Depreciation** – discusses depreciation and the approach to be taken; and
- **Section 7 – Implementing performance incentives for PC5** – provides further details on how performance incentives will be implemented as part of the PC5 regulatory framework.

## 2. Revenue Allowance Adjustments

This section discusses three topics: flexibility pot funding, general uncertainty mechanisms and uncertainty mechanisms for future role of gas initiatives (such as biomethane and hydrogen).

### 2.1 Flexibility Pot Funding

#### 2.1.1 Proposals on PC5 Flexibility Pot Funding

Demand side management (DSM) involves users of the energy system changing their usage from typical consumption patterns – e.g., reducing their demand if the system is tight. To date, this has been a more prominent feature of the electricity market where there are defined market actors who can get paid for reducing their demand at specific times. In contrast, DSM is only in its infancy in gas and GNI is currently developing interruptible contracts to offer to customers. This could provide real benefits to customers by reducing the need for infrastructure investment and by increasing security of supply. DSM also enables reduced emissions, especially when demand is reduced at times of high carbon intensity, as discussed in the CRU's NEDS<sup>28</sup>. The CRU considered different options for a DSM based flexibility mechanism which could provide GNI more flexibility to spend opex through DSM measures to reduce capex spend.<sup>29</sup>

Having reviewed the options, the CRU proposed a flexibility pot for DSM as a proportionate and simple solution. The flexibility pot would have a maximum threshold and any expenditure from this flexibility pot would be assessed ex-post for efficiency. The funding may be spent on opex or capex. All expenditure deemed to be efficient will be recoverable – either through an adjustment to allowed opex, or through RAB additions, with any inefficient expenditure excluded. Flexibility pot funding would apply to the relevant GNI business i.e., distribution or transmission.

The objective of the flexibility pot is to encourage GNI to undertake expenditure that improves flexibility and cost efficiency from a holistic perspective. The CRU proposed that GNI would report on the flexibility pot at the end of PC5 and how well the fund was used would feed into the evolution of the strategic thinking incentive (see section 3). The assessment will look at whether

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<sup>28</sup> [Energy Demand Strategy | CRU.ie](#)

<sup>29</sup> This would also have the impact of reducing emissions.

GNI has assessed a full range of solutions before proceeding with their investments, for example looking at DSM measures instead of network expansion or reinforcement.

### **2.1.2 Consultation Responses**

The majority of respondents supported the demand side management proposal as they considered that it appropriately shifted focus away from the continued expansion of the gas network. One respondent expressed the need to deliver value to customers and reduce the costs on the overall system. One respondent called on the CRU to provide criteria for activation of the flexibility pot, criteria for reporting and clarity on how the pot would be monitored.

Further engagement with GNI as part of the consultation phase highlighted that GNI is exploring various market mechanisms which would be deployed to optimise the available capacity on the system and are in the process of developing proposals in relation to interruptible capacity. GNI state that a mechanism to seek additional funding for DSM initiatives would be appropriate rather than a flexibility pot.

### **2.1.3 Decision**

Consultation responses in general supported the CRU's introduction of flexibility pot funding and further engagement with GNI has also identified that there are opportunities to make greater use of DSM in the PC5 period. The CRU has therefore decided to retain flexibility pot funding of up to €10m in aggregate for transmission and distribution over PC5. Based on respondents feedback the CRU has carefully considered the conditions and criteria that should apply to the use of flexibility pot funding. The CRU's decision is that:

- the flexibility pot funding (€10m) will be available for GNI to draw-down during the period of PC5;
- GNI will require approval from the CRU to draw upon these funds during PC5, up to the €10m allowance. This should be a light-touch process, but GNI should demonstrate that it has considered a full range of options available and why the proposed approach has merit;
- expenditure should reduce or remove the need for network reinforcement or expansion;
- the CRU defines flexibility measures that qualify for this mechanism as innovative measures that facilitate balancing of demand and supply in the gas network;
- the CRU's assessment of GNI's use of this funding allowance will be ex-post and consistent with the approach the CRU will apply to tier 2 capex projects<sup>30</sup>;

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<sup>30</sup> See Section 5 for further discussion.



GNI proposed investment during PC5 on hydrogen, biomethane and CNG. These are referred to as the ‘future role of gas initiatives’ (FROGI). Uncertainty mechanisms were proposed for these areas, and they are now discussed in turn.

Biomethane Uncertainty Mechanism – To build the number of injection facilities to meet the increased national targets of 5.7 TWh by 2030 will be challenging therefore the CRU proposed to allow opex and capex allowances in line with achieving the original 1.6 TWh biomethane target. This would then be adjusted to reflect actual delivery. It is important that GNI is provided the necessary revenues to support achievements of the national biomethane targets. However, it is difficult to forecast when biomethane injection points will come online, and whilst any capex adjustment would be done through the already existing ex-post review, a new uncertainty mechanism was proposed to carry out any opex adjustments.

CNG Uncertainty Mechanism – GNI is currently rolling out CNG filling stations through a European funded project called Causeway. The roll out is behind schedule and the CRU is awaiting a close-out report to demonstrate the value of CNG to the gas customer. Without these insights the CRU considered that it would be premature to allocate a specific allowance to GNI for CNG activities. The CRU proposed a specific reopener for CNG, where GNI can submit a revenue ask during PC5. The revenue ask would have to provide clear evidence as to why the investment would meet the strategic goals of PC5 as set out in the PC5 strategy paper<sup>32</sup> and this would have to include the outcome report from the Causeway Project.

H<sub>2</sub> Uncertainty Mechanism – Given the early stage of hydrogen development in Ireland and the relatively recent publication of the H<sub>2</sub> strategy, it is difficult to assess the need and the timing for H<sub>2</sub> activities. As such, the CRU proposed an uncertainty mechanism to cover additional hydrogen readiness activities. The uncertainty mechanism would complement base allowances for H<sub>2</sub> projects that were more certain and be adjusted, as required, to market developments and progression towards national policy outcomes.

## **2.2.2 Consultation Response**

The majority of respondents considered the uncertainty mechanisms proposed as fair and reasonable. Respondents called on uncertainty mechanisms to be triggered on an “ad-hoc” basis however, one responded expressed that guidelines for triggers will be required. A number of respondents expressed the need for flexibility on re-openers for expected government policy in the next 12-24 months. One respondent expressed the need for reporting which should include a

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<sup>32</sup> Available [here](#).

list of uncertainty mechanisms and spend for each which would be published on a yearly basis for transparency.

Biomethane Uncertainty Mechanism - The majority of respondents agreed with the need for an uncertainty mechanism on biomethane. Conflicting views arose on the proposed biomethane target of GNI's 1.6 TWh (by 2026 / 27) business plan in comparison to the government policy target of 5.7 TWh (by 2030) with some respondents requesting a higher target with others stating that the target is at the correct level. One respondent suggested a median target of 2.8 TWh. One respondent also suggested the need for increased coordination with the Utility Regulator in Northern Ireland.

CNG Uncertainty Mechanism - Several respondents supported a re-opener for CNG post the publication of the Causeway Study. Respondents expressed that without this study, there would be no clarity on the benefits of CNG. Additionally, GNI expressed the potential for CNG vehicles to be fuelled by biomethane as a significant opportunity to fully decarbonise transport.

H<sub>2</sub> Uncertainty Mechanism - The majority of respondents agreed with the uncertainty mechanism for hydrogen. Several respondents requested that any uncertainty mechanism on hydrogen to be in line with the Government's National Hydrogen Strategy. Mixed views arose on the baseline allowance proposals and whether hydrogen funding should be considered in the innovation fund. Some respondents suggested higher baseline allowances while others proposed to reduce the baseline. Four respondents focused on the need for the timely delivery of hydrogen in line with the National Hydrogen Strategy.

### **2.2.3 Decision**

As respondents generally supported the overall framework of uncertainty mechanisms for FROG initiatives, the CRU has decided to largely retain the structure of these proposals for this decision. This means there will be three uncertainty mechanisms – alongside the capex ex-post review process – used to manage uncertainty with biomethane, CNG and hydrogen readiness activities. The CRU has also carefully considered consultation responses in the uncertainty mechanisms needing to align with wider government decarbonisation policy and this has been reflected in how a number of the mechanisms have been calibrated for this final decision.

Reflecting respondent feedback, the CRU requires GNI to report annually on the status of the uncertainty mechanisms, with respect to outputs delivered and additional funding received / requested. Funding across distribution and transmission would be on the same basis as core allowances, unless separately requested by GNI and approved by the CRU. The annual tariff process will include reference to GNI's proposals, the CRU decisions and impacts on tariffs from

uncertainty mechanisms. The CRU may draw upon stakeholder feedback in finalising their decision, where relevant. Details of the three uncertainty mechanisms are set out below.

**Biomethane Uncertainty Mechanism** - The basis for the CRU’s core opex allowance for biomethane is for 1.6 TWh biomethane deployment per year by the end of PC5, aligned with GNI’s business plan, with use of the maximum connection model. As discussed in the CRU’s accompanying transmission and distribution allowed revenue decisions for PC5<sup>33</sup>, this assumed trajectory aligns the core PC5 opex and capex allowances with achievement of the government’s 1 TWh by 2025 and 5.7 TWh target by 2030 provided that the assumed growth rate in biomethane deployment achieved in the final year of PC5 continues for the remaining years to 2030.

The CRU has decided to proceed with the biomethane uncertainty mechanism for opex. This would be applied on an annual basis relative to the outputs assumed for that year in the core allowance and would be bi-directional i.e., would reduce opex allowances for lower delivery, and increase allowances in the event of higher delivery. GNI is required to provide information on outputs delivery (operational connections) to the CRU each year. The adjustments to allowed revenues for opex will be based on the figures included in CRU2023138 and CRU2023139<sup>34</sup>, applied relative to the core allowances on biomethane – see table below.

**Table 1: Parameters of Biomethane Opex Uncertainty Mechanism**

Type of connection	Opex (€k / annum per connection)	Baseline plan (cumulative outputs by year of price control)
<b>Direct Dx, no compression</b>	80	1 – 5 – 9 – 12 – 15
<b>Direct Dx, with compression</b>	130	0 – 1 – 3 – 4 – 5
<b>Direct Transmission</b>	100	1 – 2 – 3 – 5 – 6
<b>Central Grid Injection (CGI)</b>	1,107 <sup>35</sup>	0 – 1 – 1 – 2 - 2

<sup>33</sup> [Gas Networks Ireland Price Control 5 | CRU.ie](#)

<sup>34</sup> [Gas Networks Ireland Price Control 5 | CRU.ie](#)

<sup>35</sup> GNI has indicated that average CGI throughput could be as much as 700 GWh/a, as compared with c.50 GWh/a for individual grid connections. In that case, a CGI connection (at €1,107,000 per annum) is likely to have lower annual opex per unit of biomethane supplied than an individual direct connection (€80,000-€130,000 per annum).



As an example, if GNI delivered on its baseline plan for the first four years of PC5 on direct distribution connections without compression, but in the final year of PC5 had delivered 16 connections rather than the assumed 15, opex allowances would increase by €80k for one year (per connection – in this case, one). If over-delivery was in the penultimate year, the revenue adjustment would be 2 x €80k.<sup>36</sup> Changes would be reflected in subsequent tariff years in the same way as the ‘extra-over’ process.

CNG Uncertainty Mechanism - After considering the consultation responses, the CRU considers that its original proposal remains justified. GNI may submit a re-opener request for CNG PC5 revenue following the conclusions of the Causeway study.

H<sub>2</sub> Uncertainty Mechanism - Following consultation feedback the CRU has decided to retain the overall approach set out in the consultation for the treatment of hydrogen readiness activities but with a higher proportion of activities included in the core baseline opex allowance vs. activities expected to be approved via the uncertainty mechanism<sup>37</sup>. The baseline allowances for hydrogen have been increased since the PC5 consultation paper. The use of an uncertainty mechanism will then ensure that GNI is able to access additional funding for delivering on the national hydrogen strategy. GNI will similarly need to submit a justified expenditure proposal for further activities beyond the baseline foundational activities (essential activities to prepare for hydrogen injection). CRU approval of this request would increase allowed revenues available.

## **2.3 Connections**

As highlighted in the PC5 regulatory framework consultation paper<sup>38</sup>, a key area of ongoing uncertainty for GNI in PC5 relates to connections. In recognition, that the timing and type of connections is possibly outside of the control of GNI and is driven by the parties seeking to connect to the network, the CRU proposed a volume uncertainty mechanism for connections whilst also providing proposals for the treatment of biomethane connections.

### **2.3.1 Proposal for Connections**

A key area of ongoing uncertainty for GNI is related to connections and associated deep reinforcement works. GNI highlighted uncertainty around additional deep reinforcement work

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<sup>36</sup> Comprising two-years of incremental opex relative to the core baseline opex allowance.

<sup>37</sup> Funding in the first two years of PC5 has been included entirely as a core foundational allowance in the PC5 decision.

<sup>38</sup> Available [here](#).

identified through the NDP process that cannot be attributed to a single developer or connection. They also highlighted timing and output uncertainties that exist around those connections to the network. Therefore, the CRU proposed to implement a volume-based uncertainty mechanism on connections. This mechanism would seek to adjust opex spend (capex spend would be assessed separately under the existing ex-post approach). The opex uncertainty mechanism would work through setting an allowed unit cost and assumed volume baseline for PC5. Where outturn volumes differed by + / - 10% of the assumed baseline, the opex allowance would be adjusted by the allowed unit costs for each unit beyond the threshold.

### **2.3.2 Consultation Response**

Several respondents agreed with the proposal for the connection uncertainty mechanism. A number of respondents stated that the mechanism should only be activated to assist in supporting security of supply. Additionally, there was support for the proposed threshold of + / - 10% against an assumed baseline and flexibility to adjust this if there was significant deviation from the target.

### **2.3.3 Decision**

Following engagement, GNI stated the costs associated with connections include securing new customers, attaining contributions, incremental costs on meters and providing services for those new customers. Direct costs of connections are fully capitalised and are included under capex, i.e., there are no associated opex costs. The CRU has decided not to proceed with an uncertainty mechanism on connections without a clear link between connection volumes and direct opex costs, nor a suitable per unit cost to use in such a mechanism.

## **2.4 Reporting on Uncertainty Mechanisms**

As noted above, if required - the uncertainty mechanism report will be published annually ahead of tariff determinations. This should include a progress update on the use of the uncertainty mechanisms available within PC5, including GNI's request, the CRU's decision and any revenue impacts. The CRU may choose to consult on the position for any of these mechanisms.

## **2.5 Wider Strategic Policy Changes**

Since the CRU's PC5 consultation, the government has published its energy security package which includes a series of recommendations with regard to securing Ireland's gas supplies.<sup>39</sup> While the specific impact of the energy security package recommendations on GNI's regulated gas network business are uncertain, the CRU considers the PC5 framework provides sufficient flexibility for GNI's revenue allowances to adapt should GNI reasonably justify the need to trigger a change in its operating and / or capital expenditure allowances for PC5.

The CRU would expect GNI to bring forward any such proposals under the standard processes for variations to its price control operating and capital allowances, with clear justification for the need, additionality and efficiency of the requested spend.

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<sup>39</sup> [gov.ie](http://www.gov.ie) - Energy Security in Ireland to 2030 ([www.gov.ie](http://www.gov.ie)).

## 3. Performance Incentives

This section sets out the CRU's final decisions on PC5 performance incentives and the desired behaviour and objectives the regulatory framework will seek to incentivise GNI to achieve. Consultation responses are analysed and a final CRU decision on performance incentives is provided.

### 3.1 Overarching Incentive

#### 3.1.1 Proposals - Strategic Thinking Incentive

Natural gas is already playing an important role in meeting increasing electricity demand. The delivery of new, flexible natural gas generation is essential to enable the retirement of more carbon intensive generators in the coming years and natural gas will continue to play an important role in supporting the role out of more renewable energy. This is reflected in the target of 2 GW of new flexible gas-fired generation in the climate action plan. By adapting to the opportunities and challenges this presents, GNI will be better placed to meet the ongoing challenges to decarbonise the network. The CRU proposed a new incentive – the strategic thinking incentive - that would measure how well GNI has considered the wider energy needs in its network planning, operation and development. The proposed incentive was structured around an enhanced planning and strategy document to be prepared by GNI to demonstrate how they adapted their plans in a flexible way to best deliver for the current and future generations of gas consumers, with a particular focus on decarbonisation.

The headline document would be submitted to the CRU on an annual basis for review by the CRU at the end of the price control. It was proposed that this incentive would initially have been fully qualitative with a quantitative assessment potentially incorporated in future price controls. The qualitative nature of the proposal would require a largely discretionary judgement from the CRU and the CRU proposed an expert panel to feed into its evaluation. In establishing GNI's overall performance, the following were proposed - 60% for planning, 30% on delivery and 10% on its supporting processes. The CRU proposed that the financial incentive would be reward-only, up to a value of + €0.5m per annum.

#### 3.1.2 Consultation Response

Five respondents commented on this incentive, and all supported the introduction of a strategic thinking incentive. Two respondents supported the planning and strategy document outlining that

it should be incentivised to encourage the best level of engagement. Two respondents expressed that the reporting was not sufficiently defined. GNI suggested a biennial approach to the submission to alternate with the NDP. GNI requested for CRU to engage in detailed discussion during the development of the process and provide timely feedback.

Four respondents favoured the incentive proposed and agreed that it should be upside only. Bord Gáis Energy (BGE) proposed to start off lower in the initial year of PC5 at €0.25m with a view to a stepped increase towards the end of PC5 to reach €0.5m. ESB considered that the incentive should be weighted towards the quality of response, showing clear models, GNI workings, and alternatives considered. ESB has requested that the relevant authorities in Northern Ireland should be included in the list of stakeholders for both the strategic thinking and stakeholder engagement incentive.

### **3.1.3 Decision – Overview**

As noted above, responses to the consultation were generally supportive of the CRU's proposals for a new strategic thinking incentive. However, a key area of focus of the responses to the consultation was the importance of decarbonisation and ensuring GNI is supporting delivery of government legislation (e.g., the climate act, the climate action plan and the carbon budget) and CRU policy (e.g., NEDS), as well as delivering an adaptive and flexible approach to network planning and decision making. To ensure there is sufficient focus by GNI on both of these strategic issues in PC5, the CRU has decided following strong consultation responses to split the strategic thinking incentive into two incentives and increase the incentive rewards to better capture both dimensions of the original proposal. These are:

- a flexibility and adaptability incentive; and
- a decarbonisation policy alignment incentive.

The CRU's decisions for each of these incentives are set out in the subsections below.

### **3.1.4 Decision – Flexibility and Adaptability Incentive**

The CRU acknowledges the strong stakeholder support for creating an incentive on GNI to consider wider energy and adaptive planning needs in its network planning, development and operation. An upside-only financial incentive was also supported by stakeholders. This is now captured in a new FA incentive. The objective of this incentive is for GNI to demonstrate how it has adopted a flexible and adaptive planning approach to system operation and network planning in delivering its PC5 investment plans, to best deliver on long-term energy system needs in the context of the uncertainty of supply and demand and other factors impacting the gas network.

GNI will be required to produce a detailed planning document in alternating years with the NDP, the Core Flexibility Report (CFR), which demonstrates GNI's adoption of long-term adaptive / scenario planning<sup>40</sup>. As part of the close out process for PC5, the CRU will:

- assess the quality of GNI's CFR and how GNI has reflected the findings and conclusions of the CFR in the delivery of its investment programme for PC5 and the development of its business plan for PC6; and
- determine financial rewards that are awarded to GNI based on the conclusions of this assessment.

It is expected that the CFR should acknowledge and respond to the key policy / sector changes that GNI expect in the medium to long-term (covering at least the next 10-year period) and should describe a central plan / pathway for the development of the gas network. This should include a series of actions which must be taken given known policy goals, along with trigger points, which when met will require GNI to adapt its approach. For example, meeting the requirements set out by sectoral carbon ceilings<sup>41</sup>.

The CRU expects GNI to take a collaborative approach to develop the CFR, engage with relevant stakeholders<sup>42</sup>, with an emphasis on whole system thinking. The assessment of GNI's performance under the FA incentive will also take into account how GNI used flexibility pot funding to seek alternative options to balance demand and supply. For example, has GNI suitably considered a full range of options in developing its investment plans and delivery in PC5. A positive outcome would be where large capex enhancement be substituted for less costly DSM solutions where the trend in gas demand is falling. The CRU expects this to be brought out in commentary, supported by specific examples and figures.

While the CRU acknowledges the feedback from some respondents that the incentive value should step up over the course of PC5, given the importance of GNI increasingly demonstrating an adaptive, and low regrets, approach to network planning and development, the CRU has decided to retain a €0.5m p.a. reward for the incentive. However, the incentive will only apply for the final three years of PC5 with the intervening year acting as a transition year to provide time for GNI to develop its processes and reporting with the expectation that a comprehensive and high-quality CFR will be produced in 2025 when the first €0.5m p.a. reward will be available

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<sup>40</sup> A supplemental flexibility report (SFR) will be required to be produced in alternating years.

<sup>41</sup> [gov.ie - Government announces sectoral emissions ceilings, setting Ireland on a pathway to turn the tide on climate change \(www.gov.ie\).](https://www.gov.ie/en/news/2022/03/government-announces-sectoral-emissions-ceilings-setting-ireland-on-a-pathway-to-turn-the-tide-on-climate-change/)

<sup>42</sup> The CRU expects that the CFR will be consulted on with stakeholders.

under the incentive. Further details on the incentive – in particular, the balanced scorecard approach that the CRU will apply to assess GNI's performance – is provided in appendix C.

### **3.1.5 Decision – Decarbonisation Policy Alignment Incentive**

Stakeholder responses supported the use of the strategic thinking incentive, however, there was strong response to focus on decarbonisation with broader feedback indicating the importance of meeting sectoral emissions ceilings and supporting government policy ambitions. The objective of the decarbonisation policy alignment incentive, as separated out from the original strategic thinking incentive is for GNI to demonstrate how its actions are consistent with adapting and complying with an evolving set of decarbonisation policies and legislation (both Irish and European) for e.g., the climate act, the climate action plan and the carbon budget. Where policy and legislation changes, GNI will be required to adapt their plans and delivery of the PC5 programme to meet these requirements. An example of this is the NEDS, the CRU expect a consultation paper on the NEDS to be published in Q1 of 2024. GNI will need to adapt and respond to the NEDS. The regulatory framework provides the flexibility to do this, without imposing undue cost on the gas consumer.

GNI will be required to produce an annual document, termed the 'FROGI and decarbonisation policy' report, which will contain both qualitative and quantitative reporting<sup>43</sup>. The incentive will be a financial unweighted balanced scorecard, with an upside reward of €0.25m per annum available to GNI. GNI is required to report and consult with stakeholders on an annual basis under this incentive. Fuller information is included in section 7 and appendix C.

## **3.2 Investment planning and delivery (IPD) Incentive**

### **3.2.1 Proposals for the Investment Planning and Delivery (IPD) Incentive**

The CRU proposed to include a new incentive for 'Investment Planning and Delivery' (IPD). The IPD incentive is targeted at effective planning and delivery of investments and aims to encourage GNI to thoroughly appraise investment options and provide evidence on effective and ongoing cost and risk management throughout PC5. It is focused on the planning and delivery of projects included in PC5. It was proposed that the IPD incentive for PC5 would follow the precedent set by the CRU on the PR5 price control. Under PR5, there is an IPD incentive on the transmission system operator that utilises a balanced scorecard approach which includes a mix of qualitative

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<sup>43</sup> The scorecard is based on a qualitative assessment, but GNI's reporting will include relevant statistics and metrics on decarbonisation and FROG initiatives.

and quantitative evidence. For PC5, a financial weighted scorecard was proposed and would measure GNI's performance across the following areas: effectiveness of planning, efficient delivery and its supporting processes. In establishing GNI's overall performance, the following were proposed – 40% for effectiveness of planning, 40% on efficient delivery and 20% on its supporting processes. It was proposed that there would be a financial reward and / or penalty of + / - €0.5m per annum.

### **3.2.2 Consultation Response**

Several respondents broadly agreed with the introduction of the IPD incentive. Two respondents had comments on the scorecard which suggested a rebalancing of the scorecard weighting towards “efficient delivery” and away from “effectiveness of planning”. It was also suggested that an additional criterion on operationalising net zero initiatives should be included. BGE suggested that the maximum incentive levels should start off lower at + / - €0.25m with a view to a stepped increase in the incentive level to + / - €0.5m. Several respondents asked for clarity on reporting frequency, how success will be judged and how the incentive will work.

### **3.2.3 Decision**

The CRU has decided to retain an IPD for its final decision, aligned with stakeholder support. The wording in the detailed scorecard has been updated, including reference to net zero initiatives. The CRU considers that equal weights for planning and delivery remain appropriate. The incentive will use a financial weighted scorecard with both rewards / penalties. The incentive value is equal to + / - €0.5m per annum. GNI is required to report and consult with stakeholders on an annual basis under this incentive. The IPD covers all capex, therefore includes the FROG initiatives expenditure and expenditure linked to connecting gas-fired generation.

The final IPD incentive is broadly the same as the CRU's proposal set out for consultation. However, the CRU has sought to reflect respondents' consultation feedback in the detailed design of the incentive; for example, the scorecard for the incentive (see appendix C) includes reference to GNI focusing on strategic priorities around decarbonisation and security of supply, including operationalising net zero initiatives. While the CRU carefully considered BGE's proposal that the incentive value should start at a lower level, it has been decided to retain the consultation position given the importance of investment planning and delivery as an activity and the importance of the incentive having sufficient monetary value in the overall context of GNI's price control. While the IPD is a new incentive for PC5, the CRU expects high quality performance from GNI from the start.

There are three types of reporting expected in support of the IPD incentive:



- TJPs: GNI should produce TJPs where new capex projects are being introduced within the price control, or where the solution on existing projects changes materially. The TJPs contain relevant information on the capex governance process, including optioneering, design, cost-benefit analysis (CBA), risks and outputs. These will be produced as necessary for new projects or revised projects;
- capex monitoring reporting: GNI will produce annual summaries of the status of capex projects (at the level set out in the allowances) across three dimensions – expected cost, timings and outputs, with a delta highlighted against the previous report. The expected style of the output was discussed in the July 2023 consultation, with a focus on the project-level allowances; and
- BPQ submissions: GNI will provide annual submissions on the status of outturn costs and outputs against allowances on capex and opex. This will not include an assessment of capex incentives (as this should be considered at the end of the price control), nor require a detailed narrative.

### **3.3 Shrinkage Incentive**

#### **3.3.1 Proposals for the Shrinkage Incentive**

GNI is required to purchase gas to cover the level of shrinkage on its networks, known as shrinkage gas. Shrinkage gas includes gas that is consumed by GNI in operating its network and gas which is not accounted for which includes leaks and gas theft. This gas has an environmental impact in terms of CO<sub>2</sub> emissions from its combustion and methane emissions from leaks. This gas must also be bought by GNI and imposes a not insignificant cost on customers. It is important that the level of shrinkage gas is minimised. The CRU proposed that a quantitative distribution incentive would be retained for PC5. This would see the distribution shrinkage factor continue to reduce by 0.05% each year. There is currently no incentive on transmission however GNI has indicated that it will work towards collecting information on transmission shrinkage, to allow sufficient data for a quantitative incentive plausible to be considered for PC6.

The CRU also proposed a new qualitative financial weighted scorecard incentive for shrinkage which would be aimed at improving information on shrinkage. In establishing GNI's overall performance, the following were proposed - 60% for information gathering and reporting and 40% on demonstrated actions. It was proposed that there would be a financial reward of + / - €0.25m per annum. This would be submitted to the CRU each year for records, with the CRU reviewing GNI's performance at the end of the price control.

### **3.3.2 Consultation Response**

The majority of respondents to the consultation agreed with the shrinkage incentives for distribution and transmission. Several respondents suggested that the incentive should focus on unaccounted for gas (UAG) rather than own use gas (OUG). GNI requested that the distribution target percentage reduction should be lower under the quantitative incentive and agreed that any transmission quantitative incentive should be reputational only until a baseline is set.

Additionally, GNI has stated that they are assessing the necessary steps to be compliant with the EC proposal on shrinkage reporting and state that the proposed regulation acknowledges the costs associated with the investment that will be required to ensure compliance. GNI state that they are not in a position to quantify these costs however, they are expecting them to come into effect during the price control period.

### **3.3.3 Decision**

The CRU has decided to retain the overall framework of incentives for shrinkage as set out in the consultation proposal. These will be qualitative and quantitatively (for distribution) assessed elements of the shrinkage incentives that are applied at PC5.

#### *Qualitative Incentives*

The qualitative shrinkage covers GNI's performance across both transmission and distribution networks. The CRU considers that a comprehensive assessment of reductions to shrinkage gas through UAG and OUG is important to obtain a full picture, though UAG differs to OUG in that UAG can have wider implications and OUG generally relates to choices around operation of the gas network (e.g., routine venting at compressor stations). The CRU considers that this position is consistent with stakeholder responses. The detailed scorecard (see appendix C) states that better quality monitoring and reporting across the two types of shrinkage gas is expected over PC5.

A financial incentive has been strengthened, with an increased penalty of up to €0.50m per annum combined, with a maximum reward of €0.25m per annum. This will apply for PC5 for the qualitative shrinkage component for UAG only. GNI will be rewarded where they obtain improved data quality and provide evidence on how their actions are likely to have improved shrinkage (e.g., fixing leaks and investing to target lower shrinkage levels). GNI will be expected to have command of the data to facilitate the introduction of a quantitative incentive for PC6 in transmission.

#### *Quantitative Incentives*

The quantitative shrinkage incentive on distribution will continue to apply a 0.05% annual improvement factor over PC5, beginning with a shrinkage factor at 0.70% for 2022 / 23 and at 0.50% for 2026 / 27. While the CRU acknowledges GNI's feedback on this issue, the CRU considers that it is important that GNI face stretching targets to reduce shrinkage during PC5. The UAG factor is multiplied by system throughput to arrive at a UAG shrinkage factor, which is itself split into commodity and capacity elements. Transportation charges will be used to derive an overall monetary target. The CRU agrees that a quantitative financial incentive on transmission is currently impeded by absence of good quality data. The qualitative shrinkage incentive will encourage GNI to improve its data so that a quantitative shrinkage incentive will be possible for PC6. GNI is expected as part of its processes for reporting on shrinkage to positively support actions that will facilitate introduction of a quantitative incentive at PC6.

With regard to GNI's statement around unclear requirements at the EC level on shrinkage, the CRU will only provide increases to opex allowances (through the extra-over process) where costs are necessary, additional and efficient. GNI will be required to demonstrate why the activities are incremental to what they are funded to deliver through the PC5 decision.

## **3.4 Gas-Fired Generation Connections Incentive**

### **3.4.1 Proposals for the Gas-Fired Generation Connections Incentive**

CAP 2021 set the target that by 2030 circa 2 GW of new flexible gas-fired power stations would be delivered in support of a variable renewables electricity system and, one that will no longer include coal and peat fired generation. To meet this requirement, GNI is expected to connect multiple new gas-fired power plants. GNI has a key role in the delivery of connections for new gas-fired generation. While the CRU recognises that not all elements of the connection process are in the direct control of GNI, GNI should be motivated to proactively and effectively manage risks and undertake every feasible measure to ensure prompt delivery; this includes effectively managing planning risks.

The CRU proposed that GNI's performance of connecting new power stations should be assessed through a financial weighted scorecard approach. The scorecard would consider the performance of GNI in terms of planning, delivery and its supporting processes to ensure the timely delivery of connections. In establishing GNI's overall performance, the following weights were proposed for the scorecard - 40% for planning, 40% on delivery and 20% on GNI's supporting processes. The CRU proposed that there would be a financial value of + / - €0.25m per annum associated with this new incentive. The CRU set out expectations that GNI would be required to report annually on its performance, and that the CRU would assess GNI's performance on an annual basis.

### **3.4.2 Consultation Response**

There were mixed views on the proposed gas-fired generation incentive. Three respondents questioned the need for this incentive and the appropriateness given the overall decarbonisation goal to reduce demand. Other respondents agreed with the incentive to connect power generation in order to meet the CAP target of circa 2 GW of additional flexible gas-fired generation by 2030. Another respondent suggested a reputational incentive should be in place until a baseline is set.

In terms of the scorecard, it was suggested that the weightings be reconsidered, and additional criteria be added to ensure successful and timely delivery. It was also suggested that GNI's performance should be sought from the connecting counterparties at the end of each connection project and considered during the final rating. GNI requested clarity on the intended audience for the reporting documentation sought by the CRU. GNI stated that some details could be commercially sensitive in nature and the audience would dictate the appropriate level of detail that could be provided.

### **3.4.3 Decision**

The importance of security of supply and GNI's role in connections means that the CRU continue to support the introduction of a financial weighted scorecard incentive for GFGC's for PC5. The CRU notes the publication of the energy security package in November 2023 with actions for sustainable, affordable and a secure energy landscape. In response to those questioning the need of the incentive and concerns around decarbonisation, the incentive does not encourage GNI to pursue unnecessary connections or provide a reward for delivering more connections. The criteria focuses on working effectively and efficiently to deliver required connections on a timely basis. While responses to the consultation raised a number of queries and proposals in how the scorecard should be framed, including greater use of quantitative metrics, the CRU had set out why a qualitative incentive was preferred to a quantitative assessment in the consultation paper and no evidence has been raised to change this position.

The CRU has decided to retain a symmetrical financial incentive for its final decision with maximum value increased to + / - €0.50m per annum, in line with some stakeholder responses. Other responses proposed no financial incentive should exist. The CRU considers that the importance of this for security of supply has been further emphasised in recent policy and legislation, informing our decision on the financial value. The criterion for assessment now includes reference to GNI providing effective cost estimates for connections to the network. Further information is available in appendix C and section 7 on the form of assessment and expectations around reporting for this incentive.

## **3.5 Biomethane Connections Incentives**

### **3.5.1 Proposals for the Biomethane Connections Incentive**

A new incentive which the CRU proposed was the introduction of a biomethane connections incentive. Its aim was to incentivise the timely delivery of network connections to encourage biomethane projects. Incentivising this area is important given the maximum only connection policy. The CRU proposed to score GNI's performance in connecting biomethane projects to the network through a financial unweighted scorecard. Generally, this type of incentive is used when there is less information available and when there is less of a baseline to assess GNI against. Such a scorecard is seen as a good fit as the biomethane industry is in its infancy - with GNI having only connected one biomethane plant so far.

The CRU proposed that the scorecard would be assessed at the end of PC5, with GNI providing an annual report over the PC5 period. In establishing GNI's overall performance, the following were proposed as items to capture in the scorecard and its assessment – timeliness, biomethane output, and compliance and market arrangements. It was proposed that there would be a financial reward of + / - €0.25m per annum associated with the performance incentive.

### **3.5.2 Consultation Response**

The majority of respondents agreed with the proposal with some modifications. In terms of the scorecard, timing was an issue that was raised multiple times; BGE suggested that the initial weighting is given to the number of agreed delivery dates provided by GNI against the number of connection requests received to encourage GNI to agree delivery dates. ESB noted that “compliance and market arrangements” should be a standalone criterion, whilst one respondent suggested that compliance should be addressed in the ex-post assessment and treated as business as usual (BAU). One respondent supported a financial incentive for connecting biomethane projects while suggesting that CGI facilities should take priority. Another respondent considered that the incentive was not sufficiently strong to influence GNI's responsiveness on biomethane connections.

GNI raised that biomethane connections are not homogenous with varying characteristics in terms of volume, delivery, timescales and complexity. They stated that they were open to the introduction of reporting on its biomethane activities. However, they stressed that the CRU would need to align reporting requirements with existing budgeting process / financial years, as otherwise it would necessitate the compilation of a second round of connection projections annually.

### **3.5.3 Decision**

Given the stakeholder support received, the CRU has decided to introduce the biomethane connections incentive for PC5. As per the consultation, this will use an unweighted scorecard and have a maximum financial value of + / - €0.25m per annum. The scorecard will continue to have three components; timeliness, biomethane output and market arrangements (compliance has been removed, in light of feedback). All three metrics will be qualitatively assessed to reflect feedback and challenges in applying quantitative metrics to use within PC5. While the CRU acknowledges stakeholder comments on the appropriate focus areas and weights for the scorecard, it considers the proposed focus areas and equal weight being placed on all three areas reflects the need to assess GNI's performance holistically, given the uncertainty around what types of connections will be delivered and when.

While the CRU also acknowledges respondents feedback on the value of the incentive, it has retained a + / - €0.25m per annum symmetric incentive value to ensure that the financial value of the incentive is not out of balance with other performance incentives in PC5 price controls. To minimise burden, the CRU will accept calendar year submissions from GNI but will require a 9-month submission in 2027 to cover the final year of the PC5 period. Further detail on the incentive, including its reporting requirements are provided in appendix C.

## **3.6 Hydrogen Readiness Incentive**

### **3.6.1 Proposals for Hydrogen Readiness Incentive**

A comprehensive hydrogen strategy for Ireland was published which sets a useful framework for the development of a H<sub>2</sub> market to decarbonise our economy, enhance our energy security and create industrial and export market opportunities. This will further support the steps already underway to prepare for a future in which hydrogen plays an increasing role in the low carbon transition. Hydrogen readiness is a new area of GNI activity; therefore, the aim of this incentive is to encourage GNI to complete work in a timely manner and achieve the deliverables they committed to at the beginning of PC5 or the point of CRU approval under the uncertainty mechanism. Introducing this incentive will encourage GNI to undertake the desired behaviour of adopting a best practice approach for hydrogen.

The CRU proposed a reputational unweighted scorecard for hydrogen readiness. Under the proposal GNI would provide information annually to the CRU. The information should demonstrate the following: timely completion, completion of key deliverables, updated hydrogen deployment assessment, stakeholder engagement and more effective ways of working. The CRU would review that information and publish commentary on GNI's performance each year.

### **3.6.2 Consultation Response**

Two respondents agreed with the proposal to have a reputational incentive whereas one respondent supported a financial incentive. Two respondents recommended that any distribution or transmission safety case should be added to the list of evidence / effectiveness measures; due to the long-time frame required to complete a safety case. Two respondents supported the need for GNI to report transparently on its actions on hydrogen. GNI considered the incentive and associated reporting as unnecessary as the actions would be assessed against the CAP and H<sub>2</sub> strategy by the interdepartmental hydrogen working group, which will be chaired by DECC.

### **3.6.3 Decision**

Given the generally positive consultation feedback received, the CRU has decided that a hydrogen readiness incentive will be introduced in PC5. Consistent with the consultation proposal, this will be a reputational incentive, with GNI's performance assessed using an unweighted scorecard. The CRU proposes to work with GNI during the transition period to be proportionate in the requests of GNI on reporting, e.g., reduce overlap on the reporting undertaken by GNI on the CAP and H<sub>2</sub> strategy for the interdepartmental working group in requirements for the FROGI and decarbonisation policy report. The details on the incentive have been updated to reflect stakeholder feedback and responses as detailed in appendix C.

## **3.7 Customer Performance Indicators**

### **3.7.1 Proposals for Customer Performance Indicators**

The CRU proposed to maintain the customer performance indicators (CPIs) from PC4, these are intended to encourage GNI to provide a high quality and beneficial service to customers. They are designed to increase transparency of GNI's customer performance and provide a penalty if GNI does not deliver expected standards of performance to customers. There would be no reward for continued good performance but rather only a penalty where GNI underperformed.

In addition, the CRU proposed that one new performance indicator would be introduced – the percentage of appointments that GNI reschedule. It was proposed that this new performance indicator would be assessed on a reputational basis only for PC5 – i.e., with no financial incentive attached. The CRU also proposed that an additional indicator to measure a customer's overall satisfaction with GNI should be developed during PC5 and implemented in PC6. The CRU proposed that the proposed new incentive should be measured by way of survey.

### **3.7.2 Consultation Response**

Two respondents commented on this incentive. One respondent was for, and one was against the design of this incentive. One respondent suggested that the CRU should incentivise GNI by penalty avoidance to maintain performance above certain thresholds. The other respondent did not agree with the penalty only incentive. Both respondents welcomed the incentive on appointments and agreed that it should be reputational for PC5, and the incentive should be considered again for PC6.

Both respondents supported the development of an overall satisfaction survey. One respondent recommended that GNI should contract an external party to carry out the survey, correlate the results, and present the findings to GNI for comment. The external party, having considered, GNI's comments, would then submit the report to CRU for review and assessment. GNI considered that it would be best placed to carry out the surveys. GNI noted that they already have a survey method in place and that if this was to be changed further engagement with the CRU would be required. GNI also noted that if a new satisfaction survey is required there would be an incremental cost which is not currently allowed for in base allowances of c. €20-30k per annum.

### **3.7.3 Decision**

The CRU has decided to keep the CPI incentive for PC5, with mixed views set out by stakeholders. As per the consultation proposal, this will comprise of 11 metrics across three areas, including two new indicators measuring appointment cancelling and overall customer satisfaction. The metrics will have a mix of financial and reputational incentives associated with them. The CRU has decided to retain the consultation position to keep the financial metrics as penalty only. Given that customers should expect a good and stretching base level of performance from GNI.

However, if performance falls to a level in which GNI will receive a penalty, they will be given one opportunity to provide written evidence to the CRU to justify how this was outside of their control. Failure to meet performance that are outside of GNI's control will not be penalised, however, the emphasis is on GNI to demonstrate why this was the case, supported by clear and substantiated evidence. The maximum financial penalty is set at - €0.20m per annum.

With respect to the selection of indicators, the CRU has decided to retain its consultation proposal to introduce a new indicator to measure customer's overall satisfaction with GNI. This is supported by stakeholder responses. The indicator will be developed during PC5 by an independent party, with engagement from GNI. The level of engagement from GNI will not require incremental funding. Additionally, the CRU has amended its position from the consultation and expects the indicator to be operational before the end of PC5. Once operational,



the indicator will be reputational during PC5, which can be reviewed at the start of PC6, with the opportunity to then turn into a financial incentive. More detail of the indicators and the associated targets are provided in appendix D.

## **3.8 Stakeholder Engagement Incentive**

### **3.8.1 Proposals for the Stakeholder Engagement Incentive**

The initial PC5 regulatory framework consultation paper in 2021<sup>44</sup> proposed to introduce a stakeholder engagement incentive. That proposal built on the PR5 experience in electricity, where a stakeholder engagement evaluation panel was established to score and assess annual performance in relation to stakeholder engagement. In the July consultation, the CRU proposed to implement a stakeholder engagement incentive to encourage GNI to ensure the potential benefits of effective stakeholder engagement is delivered in practice. Specifically, it was proposed that GNI would be subject to a financial incentive on the scope, quality and outcomes / impacts of its stakeholder engagement activities. It was proposed that the CRU assessment would be undertaken by a panel constituted by the CRU for this purpose and chaired by a CRU Commissioner. It was proposed that there would be a financial reward of + / - €0.25m per annum. This proposal was built on the PR5 experience in electricity where a stakeholder engagement evaluation panel was established to assess annual performance.

### **3.8.2 Consultation Response**

The majority of respondents agreed with the introduction of a stakeholder engagement incentive in line with PR5. Several respondents agreed that the CRU should follow the network stakeholder's engagement evaluation (NSEE) panel model under PR5 where panel members represent stakeholders from across the industry in a meeting chaired by the CRU. A respondent requested a consultation on the categories of stakeholders which will comprise the panel. In terms of the scorecard, one respondent suggested an additional criterion of 'reflection,' where GNI would list where it has learned or changed its approach based on reflection. Another respondent recommended adding additional questions around decommissioning.

### **3.8.3 Decision**

After considering the consultation responses, the CRU considers that its original proposal remains justified. GNI shall be subject to a financial incentive on the quality, implementation,

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<sup>44</sup> Available [here](#).

effectiveness and delivery. Following positive feedback, an additional criteria has been included to capture lessons learnt from the process. Performance shall follow the PR5 NSEE panel model and shall be measured through an annual assessment of GNI's strategy for stakeholder engagement and the processes and activities undertaken by GNI pursuant to that strategy over the preceding calendar year. The evidence to inform this assessment shall be included in the connections report and take the form of an annual submission by GNI consistent with guidance set by the CRU. Further information on this report is captured in section 7.

The assessment shall be undertaken by a panel constituted by the CRU for this purpose and chaired by a CRU Commissioner – and conclude with the award of a score on a scale of 1 to 10, consistent with guidance set by the CRU. GNI will be scored out of 10 and shall achieve at least a score of 5 in order to receive any incentive payment. Following consultation responses, it has been decided that the financial reward will be in line with the approach taken in PR5 and be €0.25m per annum upside only. A 'Terms of Reference' consultation will be held on the formation of the panel and the initial guidance on assessment criteria can be found in appendix E.

## 4. Innovation

This section sets out the CRU's decision on innovation funding. It summarises the proposals the CRU made in its July consultation, consultation feedback and the CRU's final decision on the structure and governance of the innovation funding mechanisms in PC5.

### 4.1.1 Proposals for the Innovation Fund

In the PC5 strategy paper<sup>45</sup>, the CRU noted that innovation should become a more integral part of GNI's ordinary operations, rather than an activity enabled by a specific allowance only. The CRU proposed total innovation funding of €4.8m over PC5. This comprised a strategic innovation fund (SIF) pot of €1.5m over the duration of PC5, and also an additional €3.3m innovation pot to fund a network-based innovation fund (NBIF) and project management costs (€400k over PC5). There was a €1m funding cap proposed on innovation projects relating to FROG initiatives. The objective of the SIF is to be a research-led allowance, with proposed collaboration with Science Foundation Ireland (SFI)<sup>46</sup> using a challenge funding approach. The remaining funding component of the SIF was intended to cover co-funded research with other reputable research bodies, such as SEAI and ESRI.

The NBIF intends to fund trials of new and leading technology offerings, utilise new software to obtain better information and to develop GNI's work through their Network Innovation Centre and on hydrogen initiatives. GNI presented potential examples of co-funding through the NBIF in working with UK Gas Distribution Networks (GDNs). GNI had requested innovation funding of €13m over PC5, with €2m for research and €11m for network innovation and project management. The CRU considered that several projects suggested by GNI should be included under their capex delivery once a project reached significant maturity, or through an 'extra-over' item on opex. Under the CRU's proposals GNI would be allowed to keep 5% of savings on projects from the NBIF pot due to successfully securing any new co-funding. Additionally, it was proposed that GNI would need to report on innovation projects, as part of the enhanced reporting framework. The report would cover criteria set out by the CRU.

### 4.1.2 Consultation Response

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<sup>45</sup> Available [here](#).

<sup>46</sup> This is expected to be €1.2m of the €1.5m SIF budget envelope.

The majority of respondents agreed with the innovation fund proposals. Some respondents called on the CRU to provide a greater distinction between the two funds. However, respondents supported the splitting of the funds into the SIF and NBIF.

Two respondents questioned whether the funding amounts were sufficient to meet the requirements for the PC5 period. GNI requested a €1m increase to the fund. Some respondents questioned whether the FROG initiative cap within the fund was set too low. The majority of respondents welcomed the proposal to retain 5% savings on new co-funded projects.

### **4.1.3 Decision**

The CRU has carefully considered the consultation feedback on its consultation responses. Given that the majority of responses were generally in favour of the overall proposed framework for innovation funding in PC5, the CRU has largely retained the structure of the innovation funding mechanisms proposed in its consultation, while also adapting aspects of the arrangements in its final decision to reflect stakeholder feedback as set out below. The CRU has decided on the following objectives for the PC5 innovation fund:

- providing a safe high-quality service for all gas customers;
- a continued focus on efficient spend;
- efficiently facilitating the energy transition with a particular focus on decarbonisation;
- effectively identifying suitable projects for co-funding;
- enhancing the GNI innovation webpage in order to attract suitable applicants;
- maintaining a safe and resilient gas network; and
- effective dissemination of all research and innovation outcomes.

Consistent with its consultation proposals, the CRU has decided that innovation funding for PC5 will be split into two separate pots:

- Strategic Innovation Fund (SIF): A €1.5m pot, of which €1.2m is to adopt a challenge funding approach to be co-funded with SFI. A smaller funding amount of €0.3m is included to capitalise on co-funding with other reputable bodies such as SEAI and ESRI.
- Network Based Innovation Fund (NBIF): The CRU has increased the allowance to €3.8m for NBIF (€5.3m across the PC5 innovation fund). The €3.8m NBIF pot will further best practice of running gas networks and continuing to work with peers, for instance the Oil and Gas Methane Partnership 2.0 (OGMP). This fund includes a €400k allowance (€80k per annum) for project management across the two innovation pots, i.e., the allowance for project management is captured within the €3.8m allowance rather than additional to it. GNI will be

allowed to retain 5% savings of co-funding on the NBIF where new projects are both approved by the governance board and are successfully co-funded.<sup>47</sup>

The CRU considers that no more than €1.5m of funding should be allocated to projects linked to FROG initiatives – this is an increase of €0.5m from the PC5 consultation and reflects consultation responses on this topic. This aims to ensure that the majority of expenditure is on projects with a business case tied to the existing gas network, rather than the newer nature of FROG initiatives. While the CRU acknowledges consultation responses feedback on the overall size of the innovation pot, the CRU considers the €5.3m overall fund for PC5 to be appropriate given the range of pressures on use of gas customer funds and the significant additional spend that is also being funded in PC5 via FROG initiatives.

Governance: The CRU considers it mandatory that the governance board (for both the SIF and NBIF) is resourced with independent members to fairly assess projects in the project pipeline.

The process to select independent members is as follows:

- GNI updates CRU on the process, candidates, evaluation and recommendation of candidates (administered by GNI);
- CRU approves the appointment; the independent members are appointed for the price control period unless they resign or are replaced. Where a new independent member is appointed, their contract will cover until the end of the price control period;
- the independent members must not have been employed by GNI and must be independent with no conflicts of interest in projects being considered; and
- the independent members must have experience at a senior level with relevant expertise, i.e., minimum of 10 years' experience in the gas sector.

The CRU, at its own discretion, may request an audit of GNI to ensure that the gas innovation fund is being used as prescribed.

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<sup>47</sup> The value on which the total co-savings reward can be earned is limited to 50% of the size of the NBIF excluding project management costs (i.e., €1.70m). The 5% co-funding incentive limits the total reward to €85k over PC5.

## 5. Capex Incentives

This section focuses on capex incentives, specifically the potential for improvement. This section also reviews consultation responses and how they have been addressed in the PC5 decision.

### 5.1.1 Proposals for Capex incentives

The existing framework for opex and capex cost incentives was developed in PC2 with the international best practice and experience from the review of performance under PC1. The regime has evolved over time to ensure clear guidance on desired behaviours and outcomes. In considering the effectiveness of the existing framework to date, we note that the existing capex framework may work better on some projects rather than others. The regime works less well where the certainty of a project is less clear and changes over the course of the price control. Therefore, the CRU proposed to introduce a series of changes to the existing capex guidelines and incentive framework that applied in PC4. It was proposed that allowed projects in the ex-ante allowances would be allocated into two tiers. Tier 1 projects would be subject to a similar capex incentive regime in PC5 as in PC4. Tier 2 projects where a clear baseline has not been established ex-ante, would be funded at outturn cost. Tier 2 projects are subject to an ex-post review of the efficiency of the incurred spend. Tier 3 projects reflect where no allowance is set as a needs case has not been established by GNI.

For tier 1 projects, the CRU proposed to align the strength of the unfinanced overspend penalty with the efficient savings reward and proposed that there would be an assessment of whether an efficient savings claimed by GNI had been driven by efficiency as opposed to a mechanistic adjustment. Additionally, the CRU proposed that tier 2 projects would not be able to receive rewards from efficient savings or efficient deferrals. Tier 2 projects would also not face penalties from unfinanced overspends, provided that the outturn spend was demonstrated to be efficient.

### 5.1.2 Consultation Response

Several respondents agreed with the tiering approach for capex to improve the balance between baseline and uncertainty. GNI requested a top-down review of projects layered on top of the bottom-up assessment and they also requested a mechanism to be in place to allow certain tier 2 projects to transition to tier 1 projects during the course of the price control.

Additionally, GNI requested clarity on required evidence that is required to meet the criteria for externally driven and internally driven factors that would justify overspends. GNI did not support

the proposed change to the unfinanced overspend incentive and proposed that the PC4 mechanism for unfinanced overspend penalty should be retained.

### **5.1.3 Decision**

The CRU proposes to retain the framework of capex incentives and guidelines, as set out in the PC5 consultation paper. This includes the use of a tiering approach, as supported by stakeholders. The CRU has engaged with GNI to provide more information on the basis for setting allowances for PC5 to improve clarity for stakeholders. The CRU has applied sense-checks to ensure that the result of the structured framework that has been applied to the PC5 capex assessment delivers on the objectives of the mechanism. The CRU does not propose to allow projects to transition from tier 2 to tier 1 during the PC5 price control, contrary to GNI's request. Having such a mechanism may create perverse incentives for GNI and may slow investment taking place during the price control.

The CRU's technical consultants adopted a relatively mechanistic approach to assess the external and internal justification of GNI's expenditure in the PC4 lookback capex assessment. Previous price controls have considered similar drivers of outturn variations to the CRU's ex-ante allowances to assess the efficiency of GNI's capex ex-post. The CRU will apply the same principles for its ex-post capex assessment as previous price controls when making its PC5 lookback assessment. The evidence base that is required to justify the economic and efficiency of GNI's outturn capital spend will depend on the context and circumstances of the projects GNI delivers in PC5 and the drivers of any variations from the CRU's ex-ante allowances.

The emphasis remains on GNI to demonstrate why it made the investment decisions it took, and that GNI would need to evidence to the CRU that the decisions taken were justified, low regrets investments, and that the incurred costs was efficient. The factors that the CRU has taken into consideration in PC4, and previous lookback assessments provide significant precedent of how the CRU will approach its decision making. The CRU does not consider that GNI has provided compelling evidence on why incentive strengths on unit cost outperformance ('efficient savings') should not be aligned in PC5 with incentive strength on unit cost underperformance ('unfinanced overspend'). The CRU has therefore decided to retain the proposed change to the unfinanced overspend incentive from consultation. More information on the guidelines for capex is contained in appendix F.

## 6. Depreciation

This section discusses depreciation and the approach to be taken. For the avoidance of doubt, any findings and conclusions from the CRU's review of depreciation policy in PC5 will not take effect until PC6.

### 6.1.1 Proposals for Depreciation

The recent July 2023 PC5 regulatory framework consultation paper did not discuss depreciation in detail. In the July 2021 regulatory framework paper, GNI had indicated that the current depreciation regime applied to the RAB was fundamentally fit for purpose but would need to be considered in the context of a changing energy landscape.

The introduction of investments in FROG initiatives necessitated a review of asset lives to ensure that these assets are properly reflected in the RAB. An example of this is on biomethane assets. This was discussed in the individual transmission and distribution papers, published for the PC5 consultation.<sup>48</sup>

### 6.1.2 Consultation Response

One respondent stated that depreciation should have been addressed as part of the PC5 consultation, as long-life capex assets will remain on the RAB for future consumers, creating issues around revenue recovery and risks this could create for consumers at future price control periods, particularly in the light of demand uncertainty. Individual comments on particular assets are discussed in the capex sections of the individual transmission and distribution papers.

### 6.1.3 Decision

The PC5 regulatory framework introduces a set of evolution changes to the PC4 framework. The CRU has considered depreciation and recognises the impacts that depreciation has on profile of GNI's revenue recovery, gas network tariffs, intergenerational equity and the balance of who pays for network investments between current and future consumers.

For PC5, the CRU has decided to not introduce significant changes to the established depreciation policy in the gas sector. It is noted that the introduction of new FROG initiatives in

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<sup>48</sup> [CRU202368 CRU Consultation on PC5 Transmission Revenue for Gas Networks Ireland.pdf \(divio-media.com\)](#) & [CRU202369 CRU Consultation on PC5 Distribution Revenue for Gas Networks Ireland.pdf \(divio-media.com\)](#)



PC5 and longer-term uncertainty of demand are expected to drive changing patterns of use of the gas network, and the CRU therefore intends to undertake an in-depth review of depreciation policy ahead of the PC6 price control. The CRU will remain conscious of energy policy changes and assess the need to change its depreciation policy if it so arises. For the avoidance of doubt, any findings and conclusions from the CRU's review of depreciation policy in PC5 will not take effect until PC6. The CRU will also consult on any proposed changes before they are given effect.

## 7. Implementing Incentives in PC5

This section provides further details on how performance incentives will be implemented as part of the PC5 regulatory framework. This includes information on monitoring and reporting, how assessment will be conducted and application of financial incentives.

### 7.1 Overview

The design of individual performance incentives has been previously covered in section 3, with further details presented in the appendices of this paper around how the CRU intends to implement the performance incentives. Multiple respondents requested additional detail on how the performance incentives would be implemented during PC5. This includes the basis for reporting, the timing of assessment, the form of assessment and how financial incentives would be applied. This section intends to provide additional clarity on each of those questions. To do such, this section provides guidance on reporting, how incentives are applied, the means of assessment (evaluation panels etc.) and details around the need for publication and consultation. The level of detail serves as a foundational framework for GNI to initiate the development of their reports. The responsibility lies with GNI to identify and communicate any issues to the CRU. Upon identification of issues, the purpose of the engagement is not to change the design of the incentives (e.g., strength / use of scorecard) but to further refine how the outputs required to evaluate the incentives will be delivered and how and when the publication of assessments will be done. This engagement with GNI will commence at the start of 2024 and the outcomes of that engagement will be published. This will be done in advance of the end of the transition period in September 2024 and when GNI first starts to submit reports for assessment in 2025.

### 7.2 Transition Period

#### 7.2.1 Decision

Implementation of the PC5 regulatory framework changes will take time for GNI and the CRU to implement. The need for a transition period from the final PC5 decision to the new reporting and incentive framework taking effect is needed to ensure effective implementation of the CRU's decisions. This will allow further engagement with GNI on the practical delivery of the outputs required. It is important to note that the CRU has already engaged with GNI and amended its proposals to account for practicalities of delivery – e.g., combining reports and simplifying assessments where appropriate.

However, the PC5 decision only goes so far in terms of detail. GNI will have to evaluate the implications of this decision and determine the best way to deliver the outputs required. This will inevitably require GNI to assess the practical steps required for delivery and the CRU will engage with GNI to understand these to further refine how the outputs will be delivered. This will be done within the transition period to give the CRU time to review and update guidelines and other details where necessary before the end of 2024. Financial incentives would not apply during this period. Incentives will apply for the final three years of the price control, unless otherwise stated.

## **7.3 Monitoring and Reporting**

### **7.3.1 Decision**

The table below includes a summary of outputs for delivery of the performance incentives in PC5. These outputs have been altered to consider feedback from consultation including questions around practicality and administrative burden. The CRU recognises that the new reports and incentives require a step change in behaviour and have made changes such as changing the frequency of reporting (from bi-annual to biennial for the incentives captured within the strategic thinking incentive), updated scorecards for clarity and have provided significant guidance for reports. The information in this section provides a good basis for GNI to begin developing their reports however the CRU notes that in developing their reports, real practicalities may arise, and the CRU will engage with GNI on those matters. To note, reports should be data driven and it is advised that assessments relying on qualitative measures should be complemented by a narrative providing context to the factual basis. This approach aims to streamline efforts on both ends, fostering efficiency in the reporting process.

**Table 2: Monitoring and Reporting**

<b>Performance incentive</b>	<b>Report</b>	<b>Frequency</b>	<b>Proposed CRU Assessment</b>
<b>Flexibility &amp; Adaptability</b>	1. Core Flexibility Report (CFR) 2. Supplemental Flexibility Report (SFR)	1. Biennial 2. Biennial	End of Price Control
<b>Decarbonisation Policy Alignment</b>	FROGI and Decarbonisation Report.	1. Annual	End of Price Control
<b>Investment Planning &amp; Delivery</b>	1. Technical Justification Papers (TJPs) 2. Capex monitoring summary 3. Updated Business Plan Questionnaire (BPQ) outputs	1. Ad hoc – as required 2. Annual 3. Annual	End of Price Control
<b>Shrinkage (qualitative)</b>	FROGI and Decarbonisation Report.	Annual	End of Price Control
<b>Gas-fired generation connections (GFGC)</b>	Connection Report	Annual	Annual
<b>Biomethane Connections</b>	Connection Report	Annual	Annual
<b>Hydrogen Readiness</b>	FROGI and Decarbonisation Report.	Annual	Annual
<b>Customer Performance Indicators</b>	Customer Performance Indicator Results	Annual	Annual
<b>Stakeholder Engagement</b>	Connection Report	Annual	Annual
<b>Innovation</b>	Innovation Report	Annual	End of Price Control
<b>Uncertainty Mechanisms</b>	Uncertainty Mechanism Report	Ad hoc – as required	Annual

New incentives, encompassing flexibility & adaptability, decarbonisation policy alignment, investment planning & delivery, gas-fired generation connections, biomethane connections, hydrogen readiness, and stakeholder engagement have been introduced alongside shrinkage, customer performance indicators, innovation and uncertainty mechanisms. In light of the evolving policy landscape, the CRU will strategically prioritise support on certain incentives during the implementation phase, to ensure that evidence in newer areas is available to the CRU and stakeholders. These prioritised incentives will include the decarbonisation policy alignment incentive, shrinkage incentive and gas-fired generation connections incentive as part of an adaptive approach to align with changing policy dynamics.

The changes to the PC5 framework will require GNI to provide more annual reporting to the CRU. However, the CRU anticipates that the inputs to the price control process for PC6 should be supported through GNI's annual reporting during the PC5 price control, and lead to efficiency improvements in the price review process for GNI. The presentation of information should provide more timely and transparent information for GNI's stakeholders and the CRU. The development of reporting requirements will be part of the transition period.

## **7.4 Guidance for GNI Reporting**

### **7.4.1 Decision**

The CRU considers it important to have clarity over the content GNI will be producing in its PC5 reporting. In this sub-section, we provide further information around publication documents. The format will be agreed with GNI during the transition period, though this is likely to be based on criteria and principles for assessment, rather than the CRU dictating a precise format for GNI to report in.

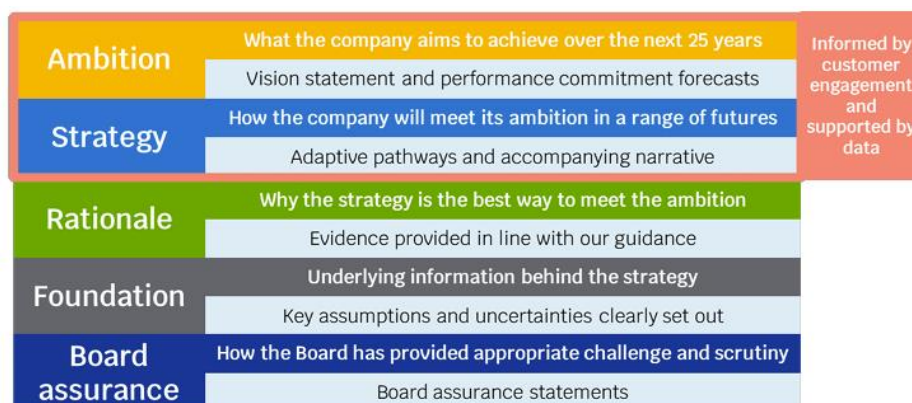
#### **➤ Core Flexibility Report (CFR)**

The CFR should put investment in the PC5 price control into the context of longer-term planning and strategy for the gas network. Structurally, the CRU expects that the document will cover similar aspects to Ofwat's Long Term Delivery Strategy (LTDS), as shown below<sup>49</sup>.

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<sup>49</sup> Ofwat (2022) Final Guidance for Long Term Delivery Strategy. Available [here](#). The CRU does not however expect GNI Board Assurance and considers that a 10-15yr horizon is suitable for the CFR, given increasing uncertainty as time progresses.

Figure 4: Ofwat Long Term Delivery Strategy



Source: Ofwat

There are several useful concepts in the Ofwat guidance, including the use of ‘no or low regrets’ investments in the core investment pathway, together with decision points and trigger points between moving between pathways. Ofwat’s expectation is that the development of core and alternative pathways considers and reflects the findings from adaptive planning analysis under different scenarios for climate change, technology, demand, abstraction reduction and potentially wider scenarios that are specific to individual water and wastewater companies.

The CFR should include these forward-looking considerations. CEPA’s report on PC5 flexibility<sup>50</sup> contained further discussion of reporting and expectations around adaptive planning. The CRU expects the CFR to also cover backward-looking elements including:

- how GNI has evolved its investment plan over the previous year against what was expected, including how this meets strategic priorities, such as decarbonisation and security of supply;
- how tier 2 capex projects have evolved;
- GNI’s use of the flexibility pot and innovation funds to deliver long-term outcomes;
- updates on FROG initiatives;
- how GNI has engaged with other energy system participants, e.g., EirGrid, stakeholders in Northern Ireland;
- relevant metrics; and
- whether any strategic decision points or trigger points have been faced.

The CRU expects that effective CFR publications will link backward-looking evidence to forward-looking planning, for example, applying lessons learnt in future strategy. The CFR is likely to

<sup>50</sup> Available [here](#).

contain supporting information on GNI's investment planning processes, including cost-benefit analysis and investment appraisal used by GNI in developing and refining their strategy to ensure it is delivering – and proposes to deliver – a capital programme of low regrets investments. Effective reporting will provide clear read-across with projects funded under PC5 and consider PC5 projects in the context of longer-term plans, e.g., over the next 15 years. This is useful in the context of projects that are deferred to subsequent price controls.

#### ➤ **Supplemental Flexibility Report (SFR)**

The SFR is expected to be less detailed than the CFR and instead to provide an update on the year following the publication of the CFR. The information produced should cover similar backwards-looking information to that of the CFR, but without as much information on forward-looking elements. An effective SFR will nonetheless put outturn actions and delivered outputs in the context of longer-term strategy and what was expected at the outset of PC5.

#### ➤ **FROGI and Decarbonisation Policy Report**

The FROGI and decarbonisation policy report will include information used for multiple performance incentives in PC5 (see table 2). The CRU considers that a single source of reporting is most suitable to contain inter-related information. In the report, the CRU expects both quantitative and qualitative information to be reported by GNI. The quantitative reporting should include information on FROG initiative deployment and overall demand estimates, including new connections and terminations from the gas network. The CRU also expects quantitative reporting to cover information on emissions and broader environmental impacts – including but not limited to CO<sub>2</sub>, shrinkage gas, and other greenhouse gases. Shrinkage should be split by OUG and UAG.

Qualitative reporting will provide the narrative around how GNI is delivering positive outcomes for the Irish energy system and linking this to both the quantitative outcomes and relevant policy. GNI should identify relevant legislation and discuss its actions in relation to this; examples include the CRU's energy demand strategy and the EU directive (2023/1791) on energy efficiency. GNI will need to provide relevant narrative to cover incentives assessed – for example, improvements to shrinkage, and updates on biomethane connections and hydrogen readiness. GNI will be asked to discuss how its investment choices have impacted on sectoral emissions ceilings and whether investments lock-in gas demand in the future.

#### ➤ **Technical Justification Papers (TJPs)**

GNI produced TJPs for the PC5 decision and produced similar reports when developing their investment plans, tied to broader capex and investment governance processes. TJPs should

include transparent information on design, an assessment of relevant costs and benefits, a comparison to other options considered, risks and details on the solution / outputs. Effective TJPs will put the project in the broader context of GNI's plans across PC5 and future price controls.

### ➤ **Capex Monitoring Summary**

Capex monitoring summaries are expected to be largely quantitative in nature and the CRU expects them to be akin to a dashboard of capex projects. There are three dimensions to this reporting – expected cost, timings and outputs. The information should show how capex projects evolve over time. Where there is a material change in any of these, there should be brief reporting on what has led to the change; this should be produced on an annual basis. The reporting is aligned with what was set out in the PC5 consultation and clarifies that reporting is aligned with the CRU's allowance definition of projects.

### ➤ **Business Plan Questionnaire (BPQ) Outputs**

GNI fill in BPQ templates ahead of each price control. For PC5, the CRU is requesting annual updates to tables. The CRU will work with GNI during the transition period to finalise these, but the form will be similar to those used at PC5. Details should include:

- annual opex broken down by both functional area and expense item, with granular breakdown of contributions, innovation and pass-through opex items captured separately;
- capex information on a project-level basis with the PC5 allowance compared to the PC5 outturn to date, in both a costs and outputs context; and
- relevant cost driver information for GNI's gas network, including length of network, throughput, customer numbers and FTEs.

Information should allow reconciliation of allowances with outturn costs, even where GNI is utilising a different method for internal reporting.

### ➤ **Connections Report**

The connections report should set out a list of all planned GFGC's and biomethane connections, with information on the expected timings (i.e., schedule), scale and cost of each connection. GNI should provide an annual update on the progress of these connections, together with relevant information on feedback from stakeholders and lessons learned in delivering the connections. GNI should set out the actions it has taken to support safe and timely delivery of these connections.



As there is a connection element within the stakeholder engagement incentive, the CRU views the connection report as a suitable report to capture all relevant information. In terms of stakeholder engagement reporting, GNI are requested to demonstrate, with evidence, the presence of the following:

- what its stakeholder engagement strategy was during the year being reported on; how the strategy relates to the identified needs of stakeholders, and the strategic or operational challenges facing the business; how the strategy is given practical effect within the business – including how stakeholders are identified and categorised, and accountability and management reporting in respect of the how the strategy works within the business;
- what engagement channels and initiatives were deployed during the year being reported on; how these were tailored to the issue(s) and stakeholders involved; the range and delivery of issues and stakeholders involved, and the innovative nature of methods used;
- what impacts<sup>51</sup> the deployed channels and initiatives had on stakeholders, and the business during the course of the year being reported on;
- what its stakeholder engagement strategy, engagement channels and impacts has on stakeholders specifically in relation to delivering large connections; and
- what lessons were learnt in terms of reflection based on engagement with stakeholders.

#### ➤ **Customer Performance Indicators Report**

GNI is requested to provide an update on their KPI's each year. This report shall be a one-page document following the table set out in appendix D. However, if performance falls to a level in which GNI will receive a penalty, they will be given one opportunity to provide written evidence to the CRU to justify how this was outside of their control. Failure to meet performance that is outside of GNI's control will not be penalised, however, the emphasis is on GNI to demonstrate why this was the case, supported by clear and substantiated evidence. This evidence can be provided for within this report.

#### ➤ **Innovation Report**

GNI will need to report on innovation projects, as part of the enhanced reporting framework for PC5. GNI's reporting will need to include:

- how GNI has achieved the objectives of the gas innovation fund;
- how GNI has introduced innovation to BAU practices;

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<sup>51</sup> Where impacts should be interpreted broadly to include quantified descriptions of the engagement activities themselves and consequential impacts on customer, stakeholder or business outcomes or plans.

- details on all projects that have been co-funded and how the 5% savings on co-funded projects has been achieved;
- details on how learnings from different jurisdictions have been implemented;
- information regarding the governance of the fund; and
- implications on future costs incurred by GNI.

➤ **Uncertainty Mechanism Report**

The uncertainty mechanism report will be published annually ahead of tariff determinations. This should include a progress update on the use of the uncertainty mechanisms available within PC5, including GNI’s request, the CRU’s decision and any revenue impacts.

## 7.5 Form of Assessment for Incentives

### 7.5.1 Decision

The majority of performance incentives will be assessed using scorecard approaches, as shown in Table 3. The detailed scorecards are available in appendix C.

Table 3: Form of Assessment

<b>Performance incentive</b>	<b>Form of assessment</b>
<b>Flexibility &amp; Adaptability</b>	Financial weighted scorecard
<b>Decarbonisation Policy Alignment</b>	Financial weighted scorecard
<b>Investment Planning &amp; Delivery</b>	Financial weighted scorecard
<b>Shrinkage (quantitative)</b>	Annual improvement factors (see section 3)
<b>Shrinkage (qualitative)</b>	Financial weighted scorecard
<b>Gas-fired generation connections</b>	Financial weighted scorecard
<b>Biomethane Connections</b>	Financial unweighted scorecard
<b>Hydrogen Readiness</b>	Reputational unweighted scorecard
<b>Customer Performance Indicators</b>	Key performance indicators
<b>Stakeholder Engagement</b>	Panel

### *Scorecards*

Performance incentives with scorecards will be assessed at the end of the PC5 price control. There are three scores available for each incentive criteria – ‘good’, ‘acceptable’ and ‘sub-par’. The rationale for the scores are set out in appendix C. The scores are linked to financial rewards and penalties where the incentive is financial. A score of ‘good’ is required for a financial reward to be earned. ‘Acceptable’ performance across any metric is associated with zero reward or penalty. This is true for ‘reward-only’ incentives. For the reward-only incentives, scores of sub-par will not be associated with a financial penalty. The CRU is permitted to use a blended score – namely ‘good / acceptable’ or ‘acceptable / sub-par’. A ‘good / acceptable’ score would assume half of the ‘good’ outcome and half of the ‘acceptable’ outcome. The same principle applies to ‘acceptable / sub-par.’ The weights of the incentive scale the size of the reward. An example using an illustrative, reward only, incentive is presented below.

#### Illustrative example

Weights = 40% planning, 40% delivery, 20% over-arching processes.

Maximum reward = €500k per annum.

If for a given year, GNI achieved score of ‘good’ (planning), ‘acceptable’ (delivery) and ‘sub-par’ (over-arching processes), under the reward-only incentive, GNI would achieve the following financial outcome. GNI would receive a financial reward of €200k for their ‘good’ score on planning (i.e., 40% x €500k). GNI would receive neither reward nor penalty for delivery. As a reward-only incentive, the ‘sub-par’ score on over-arching processes does not have any financial penalty. The net financial reward would therefore be €200k.

#### *Stakeholder Engagement Panel*

For the stakeholder engagement incentive, the CRU will use a panel – chaired by the CRU – to undertake the assessment. The panel would be responsible for producing an explanation of their scoring following their assessment. The stakeholder engagement incentive has a bespoke scoring approach; this is set out below. The maximum incentive payment shall be €0.25m per annum upside only. The score will be a number out of 10. GNI must achieve at least a final score of 5 (after each category is weighted) in order to receive an incentive payment. Therefore, the incentive payment will be €0 for any score below 5. For scores equal<sup>52</sup> to or greater than 5, the incentive payment will be calculated with the following formula:

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<sup>52</sup> If a score equal to 5 is achieved, GNI will receive 10% of the maximum incentive payment available to them.

$$\text{Incentive payment} = z + (x - 5) \cdot \left(\frac{y - z}{5}\right)$$

Where:

x = the panels final score.

y = maximum incentive payment.

z = 10% of maximum payment.

Further assessment criteria can be found in appendix E.

## **7.6 Strength of Financial Incentives**

### **7.6.1 Decision**

The financial incentive for each performance incentive is set out below in table 4. This includes a reward-only financial incentive for the new FA and decarbonisation policy alignment incentives. Figures are presented in real 20 / 21 monies. The total PC5 value of maximum reward or penalty reflects that the incentives will apply for the final three years of the price control, following the completion of the transition period.

Table 4: Strength of Financial Incentives

Performance incentive	Annual value of maximum reward or penalty	Total PC5 value of maximum reward or penalty
<b>Flexibility &amp; Adaptability</b>	+ €500k / no downside	+ €1,500k / no downside
<b>Decarbonisation Policy Alignment</b>	+ €250k / no downside	+ € 750k / no downside
<b>Investment Planning &amp; Delivery</b>	+ €500k / - €500k	+ €1,500k / - €1,500k
<b>Shrinkage (qualitative)<sup>53</sup></b>	+ €250k / - €500k	+ €750k / - €1,500k
<b>Gas-fired generation connections</b>	+ €500k / - €500k	+ €1,500k / - €1,500k
<b>Biomethane Connections</b>	+ €250k / - €250k	+ €750k / - €750k
<b>Hydrogen Readiness</b>	Reputational	Reputational
<b>Customer Performance Indicators</b>	No upside / - €200k	No upside / - €600k
<b>Stakeholder Engagement</b>	+ €250k / no downside	+ €750k / no downside
<b>Total</b>	<b>+ €2,500k / - €1,950k</b>	<b>+ €7,500k / - €5,850k</b>

The penalty for customer performance indicators was previously expressed in allowed revenue terms, though we consider that having this in absolute € terms provides additional clarity. The incentive will continue to be equally weighted to the three metrics highlighted as part of the consultation (call centre, complaints metric and customer survey). Where the incentive is assessed at the end of the price control period, the assessment will be made across the three years of PC5 post-transition period in a holistic way. Annual scores are not expected to be determined, but figures are presented for the purpose of comparison.

The CRU considers that the strength of the incentives are suitable for the PC5 price control. The behaviours incentivised are expected to create consumer benefit, therefore we consider that the

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<sup>53</sup> The quantitative shrinkage incentive on distribution will be set with reference to transportation charges and the UAG factors discussed in section 3.

potential positive financial rewards available to GNI is proportionate. The potential penalties that can apply would be where GNI obtains a ‘sub-par’ performance across each of the metrics, consequently leading to consumer detriment.

## **7.7 Application of Financial Incentives**

### **7.7.1 Decision**

The performance incentives cover GNI’s activities across its gas network. The CRU has determined that an equal 50%-50% split across transmission and distribution networks is appropriate for applying any financial rewards or penalties. The financial rewards or penalties will be implemented as revenue adjustments in the PC6 price control (i.e., the price control beginning in October 2027).

The incentives cover GNI’s performance across the PC5 price control, with information expected to be provided up to September 2027 on their performance and an assessment taking place thereafter. The CRU expect to have determined scores by 1st April 2028, with a final decision in place by 1st June 2028. This should enable the revenue adjustment to be incorporated after the first year of the PC6 price control.

## **7.8 Publication of GNI Inputs and Consultation**

### **7.8.1 Decision**

As a general principle, the CRU would expect that the reporting provided by GNI in support of these incentives is published for stakeholders to review. Greater transparency and better engagement with stakeholders are objectives of the PC5 regulatory framework. The CRU intends to determine, with input from GNI, whether any documents should be kept confidential – either through necessity, or where the benefit of providing the information outweighs the risks:

- an example of the former could be in relation to details of gas-fired generation connections, where there will be an overarching public-facing document alongside a commercial appendix for CRU review only; and
- an example of the latter would be TJPs, where the CRU does not intend to publish these.

The CRU would expect to, as far as possible, publish materials that have informed panel assessments of performance incentives as part of the consultation after the end of the PC5 price control.

## **7.9 Next Steps and Actions**

### **7.9.1 Decision**

Implementation of the PC5 regulatory framework changes will take time for GNI and the CRU to implement. The need for a transition period from the final PC5 decision to the new reporting and incentive framework taking effect is, therefore, needed to ensure effective implementation of the CRU's decisions. New financial incentives for PC5 would not apply during this transition period and are only expected to apply to the final three years of the price control, unless otherwise stated. The CRU will also conduct a review of depreciation policy for the gas network in advance of PC6 and will keep the charges for biomethane connections under review (as described in the transmission and distribution papers, published alongside this paper, customer contributions for biomethane connections have initially been set at 30%).

## Appendix A: Consultation Responses

Table 5: Summary of Consultation Responses

Area	Summary
<b>Demand Side Flexibility (DSM)</b>	<p>The majority of respondents supported the demand side management proposal as they considered that it appropriately shifted focus away from the continued expansion of the gas network. One respondent expressed the need to deliver value to customers and reduce the costs on the overall system. One respondent called on the CRU to provide criteria for activation of the flexibility pot, criteria for reporting and clarity on how the pot would be monitored.</p> <p>Further engagement with GNI as part of the consultation phase highlighted that GNI is exploring various market mechanisms which would be deployed to optimise the available capacity on the system and are in the process of developing proposals in relation to interruptible capacity. GNI state that a mechanism to seek additional funding for DSM initiatives would be appropriate rather than a flexibility pot.</p>
<b>Uncertainty Mechanisms</b>	<p>The majority of respondents considered the uncertainty mechanisms proposed as fair and reasonable. Respondents called on uncertainty mechanisms to be triggered on an “ad-hoc” basis however, one responded expressed that guidelines for triggers will be required. A number of respondents expressed the need for flexibility on re-openers for expected government policy in the next 12-24 months. One respondent expressed the need for reporting which should include a list of uncertainty mechanisms and spend for each which would be published on a yearly basis for transparency.</p>
<b>Biomethane Uncertainty Mechanisms</b>	<p>The majority of respondents agreed with the need for an uncertainty mechanism on biomethane. Conflicting views arose on the proposed biomethane target of GNI’s 1.6 TWh (by 2026 / 27) business plan in comparison to the government policy target of 5.7 TWh (by 2030) with some respondents requesting a higher target with others stating that the target is at the correct level. One respondent suggested a median target of 2.8 TWh. One respondent also suggested the need for increased coordination with the Utility Regulator in Northern Ireland.</p>
<b>Hydrogen Uncertainty Mechanism</b>	<p>The majority of respondents agreed with the uncertainty mechanism for hydrogen. Several respondents requested that any uncertainty mechanism on hydrogen to be in line with the Governments National Hydrogen Strategy. Mixed views arose on the baseline allowance proposals and whether hydrogen funding should be considered in the innovation fund.</p>



	<p>Some respondents suggested higher baseline allowances while others proposed to reduce the baseline. Four respondents focused on the need for the timely delivery of hydrogen in line with the National Hydrogen Strategy.</p>
<p><b>CNG Uncertainty Mechanism</b></p>	<p>Several respondents supported a re-opener for CNG post the publication of the Causeway Study. Respondents expressed that without this study, there would be no clarity on the benefits of CNG. Additionally, GNI expressed the potential for CNG vehicles to be fuelled by biomethane as a significant opportunity to fully decarbonise transport.</p>
<p><b>Connections Uncertainty Mechanisms</b></p>	<p>Several respondents agreed with the proposal for the connection uncertainty mechanism. A number of respondents stated that the mechanism should only be activated to assist in supporting security of supply. Additionally, there was support for the proposed threshold of + / - 10% against an assumed baseline and flexibility to adjust this if there was significant deviation from the target.</p>
<p><b>Biomethane Connections</b></p>	<p><b>Biomethane Direct Connections:</b> Overall, there were mixed opinions on the proposal for biomethane connections. Five respondents favoured the maximum model whilst two respondents favoured the minimum model. One respondent expressed concern on the risk the maximum model places on the Irish gas customer (by socialising technical risk for producers and unnecessary costs), while another respondent suggested that the onus should be on the customer to pick which model, they would like to avail of. Four respondents supported the proposed contribution of 30% from the customer; two respondents disagreed. Some respondents expressed that 30% should be the maximum contribution while others focused on the 30% contribution being the minimum contribution. One respondent suggested an economic test to be carried out to assess connection feasibility to ensure the network focus is on long-term decarbonisation goals.</p> <p><b>Centralised Grid Injections:</b> One respondent stated that CGIs should be favoured over direct grid connections as direct connections can promote an unfair advantage over the use of a CGI in terms of cost and location. Two respondents considered that contributions should be required for CGIs where one respondent stated that a mechanism needs to be put in place to share the cost with future users. One respondent suggested a contribution tariff for CGIs as opposed to GNI who considered the current regulatory approach to CGIs as appropriate.</p>
<p><b>Strategic Thinking Incentive</b></p>	<p>Five respondents commented on this incentive, and all supported the introduction of a strategic thinking incentive. Two respondents supported the planning and strategy document outlining that it should be incentivised to encourage the best level of engagement. Two respondents expressed that the reporting was not sufficiently defined.</p>

	<p>GNI suggested a biennial approach to the submission to alternate with the NDP. GNI requested for CRU to engage in detailed discussion during the development of the process and provide timely feedback.</p> <p>Four respondents favoured the incentive proposed and agreed that it should be upside only. Bord Gáis Energy (BGE) proposed to start off lower in the initial year of PC5 at €0.25m with a view to a stepped increase towards the end of PC5 to reach €0.5m. ESB considered that the incentive should be weighted towards the quality of response, showing clear models, GNI workings, and alternatives considered. ESB has requested that the relevant authorities in Northern Ireland should be included in the list of stakeholders for both the strategic thinking and stakeholder engagement incentive.</p>
<p><b>IPD Incentive</b></p>	<p>Several respondents broadly agreed with the introduction of the IPD incentive. Two respondents had comments on the scorecard which suggested a rebalancing of the scorecard weighting towards “efficient delivery” and away from “effectiveness of planning”. It was also suggested that an additional criterion on operationalising net zero initiatives should be included. BGE suggested that the maximum incentive levels should start off lower at + / - €0.25m with a view to a stepped increase in the incentive level to + / - €0.5m. Several respondents asked for clarity on reporting frequency, how success will be judged and how the incentive will work.</p>
<p><b>Shrinkage Incentive</b></p>	<p>The majority of respondents to the consultation agreed with the shrinkage incentives for distribution and transmission. Several respondents suggested that the incentive should focus on unaccounted for gas (UAG) rather than own use gas (OUG). GNI requested that the distribution target percentage reduction should be lower under the quantitative incentive and agreed that any transmission quantitative incentive should be reputational only until a baseline is set. Additionally, GNI has stated that they are assessing the necessary steps to be compliant with the EC proposal on shrinkage reporting and state that the proposed regulation acknowledges the costs associated with the investment that will be required to ensure compliance. GNI state that they are not in a position to quantify these costs however, they are expecting them to come into effect during the price control period.</p>
<p><b>Gas-Fired Generation Incentive</b></p>	<p>There were mixed views on the proposed gas-fired generation incentive. Three respondents questioned the need for this incentive and the appropriateness given the overall decarbonisation goal to reduce demand. Other respondents agreed with the incentive to connect power generation in order to meet the CAP target of circa 2GW of additional flexible gas-fired generation by 2030. Another respondent suggested a reputational incentive should be in place until a baseline is set.</p>

	<p>In terms of the scorecard, it was suggested that the weightings be reconsidered, and additional criteria be added to ensure successful and timely delivery. It was also suggested that GNI’s performance should be sought from the connecting counterparties at the end of each connection project and considered during the final rating. GNI requested clarity on the intended audience for the reporting documentation sought by the CRU. GNI stated that some details could be commercially sensitive in nature and the audience would dictate the appropriate level of detail that could be provided.</p>
<p><b>Biomethane Connections Incentive</b></p>	<p>The majority of respondents agreed with the proposal with some modifications. In terms of the scorecard, timing was an issue that was raised multiple times; BGE suggested that the initial weighting is given to the number of agreed delivery dates provided by GNI against the number of connection requests received to encourage GNI to agree delivery dates. ESB noted that “compliance and market arrangements” should be a standalone criterion, whilst one respondent suggested that compliance should be addressed in the ex-post assessment and treated as business as usual (BAU). One respondent supported a financial incentive for connecting biomethane projects while suggesting that CGI facilities should take priority. Another respondent considered that the incentive was not sufficiently strong to influence GNI’s responsiveness on biomethane connections.</p> <p>GNI raised that biomethane connections are not homogenous with varying characteristics in terms of volume, delivery, timescales and complexity. They stated that they were open to the introduction of reporting on its biomethane activities. However, they stressed that the CRU would need to align reporting requirements with existing budgeting process / financial years, as otherwise it would necessitate the compilation of a second round of connection projections annually.</p>
<p><b>Hydrogen Readiness Incentive</b></p>	<p>Two respondents agreed with the proposal to have a reputational incentive whereas one respondent supported a financial incentive. Two respondents recommended that any distribution or transmission safety case should be added to the list of evidence / effectiveness measures; due to the long-time frame required to complete a safety case. Two respondents supported the need for GNI to report transparently on its actions on hydrogen. GNI considered the incentive and associated reporting as unnecessary as the actions would be assessed against the CAP and H<sub>2</sub> strategy by the interdepartmental hydrogen working group, which will be chaired by DECC.</p>
<p><b>Customer Performance Indicators</b></p>	<p>Two respondents commented on this incentive. One respondent was for, and one was against the design of this incentive. One respondent suggested that the CRU should incentivise GNI by penalty avoidance to maintain performance above certain thresholds.</p>

	<p>The other respondent did not agree with the penalty only incentive. Both respondents welcomed the incentive on appointments and agreed that it should be reputational for PC5, and the incentive should be considered again for PC6.</p> <p>Both respondents supported the development of an overall satisfaction survey. One respondent recommended that GNI should contract an external party to carry out the survey, correlate the results, and present the findings to GNI for comment. The external party, having considered, GNI's comments, would then submit the report to CRU for review and assessment. GNI considered that it would be best placed to carry out the surveys. GNI noted that they already have a survey method in place and that if this was to be changed further engagement with the CRU would be required. GNI also noted that if a new satisfaction survey is required there would be an incremental cost which is not currently allowed for in base allowances of c. €20-30k per annum.</p>
<p><b>Stakeholder Engagement Incentive</b></p>	<p>The majority of respondents agreed with the introduction of a stakeholder engagement incentive in line with PR5. Several respondents agreed that the CRU should follow the network stakeholder's engagement evaluation (NSEE) panel model under PR5 where panel members represent stakeholders from across the industry in a meeting chaired by the CRU. A respondent requested a consultation on the categories of stakeholders which will comprise the panel. In terms of the scorecard, one respondent suggested an additional criterion of 'reflection,' where GNI would list where it has learned or changed its approach based on reflection. Another respondent recommended adding additional questions around decommissioning.</p>
<p><b>Capex Incentives</b></p>	<p>Several respondents agreed with the tiering approach for capex to improve the balance between baseline and uncertainty. GNI requested a top-down review of projects layered on top of the bottom-up assessment and they have also requested a mechanism to be in place through the framework to allow certain tier 2 projects to transition to tier 1 projects during the price control. Additionally, GNI would like clarity on required evidence that is required to meet the criteria for externally driven and internally driven factors justifying overspends. GNI did not support the unfinanced overspend incentive and asked for the incentive to be reconsidered. GNI considered the PC4 mechanism for unfinanced overspend penalty should be retained.</p>
<p><b>Capex Monitoring</b></p>	<p>The majority of respondents agreed with the capex monitoring proposal. GNI stated that additional funding of €352k in PC5 would be required to meet the proposed annual reporting requirements. Two respondents noted the resource burden that this type of reporting may impose. GNI also stated that the project gateway proposed was inappropriate and impractical for the programme of works that GNI is involved in. GNI</p>

	<p>agreed with Cambridge Economic Policy Associates (CEPAs) approach to align reporting with ex-ante allowances for PC5. Alignment would be required with the business plan questionnaire (BPQ) templates, new reporting and technical justification papers (TJP's). GNI requested further engagement with the CRU on the implementation of this enhanced reporting.</p>
<p><b>Innovation</b></p>	<p>The majority of respondents agreed with the innovation fund proposals. Some respondents called on the CRU to provide a greater distinction between the two funds. However, respondents supported the splitting of the funds into the SIF and NBIF.</p> <p>Two respondents questioned whether the funding amounts were sufficient to meet the requirements for the PC5 period. GNI requested a €1m increase to the fund. Some respondents questioned whether the FROG initiative cap within the fund was set too low. The majority of respondents welcomed the proposal to retain 5% savings on new co-funded projects.</p>

## Appendix B: Uncertainty Mechanisms

This appendix presents further detail of the following uncertainty mechanisms introduced for PC5:

- Biomethane Uncertainty Mechanism
- CNG Uncertainty Mechanism
- H<sub>2</sub> Uncertainty Mechanism

The type of uncertainty being addressed through the uncertainty mechanisms in each case include:

- Cost uncertainty which can make it difficult to achieve accurate estimates of GNI's future costs, and the degree of cost uncertainty may vary across different expenditure areas.
- Timing uncertainty which relates to when the expenditure would need to take place. Accurately forecasting efficient levels of expenditure for projects with highly unpredictable delivery timelines can be challenging.
- Output uncertainty which relates to the need for, and the quantity and / or quality of, outputs that are delivered by the GNI.

Table 6: Biomethane Uncertainty Mechanism

Biomethane Uncertainty Mechanism						
<b>Type of uncertainty being addressed</b>	Cost	✓	Timing	✓	Output	✓
<b>Description</b>	Currently there is one facility injecting biomethane into the gas network. To build the number of injection facilities to meet the national targets of 5.7 TWh by 2030 will be challenging. It will depend not only on GNI's ability to deliver connections to its network but also the right condition for businesses to invest in this area.					
<b>Triggers</b>	An initial capex and opex allowance has been decided on, which can be adjusted to take into account the actual number of biomethane connections being delivered. GNI can provide progress reports on the timely connections of biomethane, a proposal can then be submitted to the CRU to avail of further funding.					

Table 7: CNG Uncertainty Mechanism

<b>CNG Uncertainty Mechanism</b>						
<b>Type of uncertainty being addressed</b>	Cost	✓	Timing	✓	Output	X
<b>Description</b>	GNI is currently rolling out CNG filling stations through a European funded project called Causeway. The role out is behind schedule and as such the CRU is still awaiting a close out report to demonstrate the value of CNG to the gas customers. Recognising that policy may evolve, the case for further CNG investment might be evidenced through the successful completion of the causeway project.					
<b>Triggers</b>	The CRU decided that a specific reopener for CNG, where GNI can submit a revenue ask during PC5 is the best approach. The ask will have to provide clear evidence as to why the investment would meet the strategic goals of PC5 and this must include the outcome report from the Causeway Project.					

Table 8: Hydrogen Uncertainty Mechanism

<b>H<sub>2</sub> Uncertainty Mechanism</b>						
<b>Type of uncertainty being addressed</b>	Cost	✓	Timing	✓	Output	✓
<b>Description</b>	Given the early stage of hydrogen development in Ireland and consequent difficulty in assessing all the proposed activities and their timescales at this point, the CRU has decided to implement an uncertainty mechanism for H <sub>2</sub> .					
<b>Triggers</b>	GNI can submit progress reports to the CRU on developments of the foundational activities and specifically actions 3, 11, 12, 13, 14 and 15 of the Governments National Hydrogen Strategy. GNI can then submit a proposal for the additional conditional allowances as required.					

## Appendix C: Scorecards for Incentives

### C.1 Flexibility and Adaptability Incentive

Title	Description
Incentive Name	Flexibility and Adaptability
Components (weight) and scoring guidance <sup>54</sup>	
<p>Planning (60%)</p> <p><i>GNI will be assessed on the comprehensiveness and coherence of their long-term planning. This will focus on GNI's production of a new Flexibility Report and the Network Development Plan (NDP) and GNI's investment strategy.</i></p>	<p>Qualitative assessment</p> <p><b>Good:</b> GNI has developed a comprehensive Flexibility Report and investment plan on a biennial basis demonstrating flexible and adaptive network planning. There is evidence that proposals have been considered holistically and are tied to a clear and unified underlying gas network planning strategy, which is evident through each stage of the plan. The ongoing investment programme is demonstrated to be a set of low regrets investments that are justified and needed in a range of policy and supply and demand scenarios for the gas network.</p> <p>GNI has reflected the findings and conclusions from its Flexibility Reports and the NDP in its PC6 business plan - i.e., GNI's PC6 business plan reflects a set of investments as justified by GNI's adaptive planning and scenario analysis in the Flexibility Report and NDP.</p> <p>GNI presents a central plan of action, which is underpinned by a clear list of assumptions (e.g., around energy policy and industry developments) and a set of well justified scenarios that underpin GNI's analysis, with key assumptions outlined in detail. GNI has detailed how its key planning assumptions are linked to different planning scenarios.</p> <p>The rationale behind GNI's proposed actions and investments in the central plan is well-evidenced and linked to the assumptions in the adaptive planning analysis. GNI display as part of their Flexibility Report that they have considered different options, articulating why the chosen action is the most appropriate and low regrets, with reference to evidence such as cost benefit analysis (CBA), multi-criteria analysis, or stakeholder engagement. GNI outline how they have considered the whole system implications of the plan, with</p>

<sup>54</sup> We include three categories of scoring: "good", "acceptable" and "sub-par".



Title	Description
	<p>evidence of meaningful engagement with EirGrid and other relevant stakeholders.</p> <p>A comprehensive list of policy uncertainties is provided detailing the associated magnitude, likelihood, and any ‘trigger’ or ‘decision’ point which could lead to a change in GNI’s central plan and what the proposed changes to the plan would be. Uncertainties and trigger points will be reflected in the plan – with evidence of pre-planning actions taken by GNI for uncertainties and trigger points that are of higher likelihood. This should consider sectoral emission limits and security of supply. When changes are required to the central plan, GNI has described these changes in the look-back section of the Flexibility Report, with GNI explaining why the specific course of action was undertaken.</p> <p>Milestones and metrics proposed by GNI in the assessment of the ‘delivery’ component of the incentive (see below) are both stretching and targeted, clearly linked to actions which are required for the successful delivery of the plan. GNI should include milestones dedicated to achievement of whole system thinking principles.</p> <p><b>Acceptable:</b> GNI presents a well justified Flexibility Report and investment plan. GNI has demonstrated how long-term flexible thinking and adaptive planning has informed its strategy and is used to identify a set of low regrets investments for its investment programme. Aspects of the Flexibility Report are good, but some parts lack clarity on how consistently and effectively GNI has applied adaptive and scenario planning principles and processes throughout the report.</p> <p>GNI has reflected the findings and conclusions from its Flexibility Reports and the NDP in its PC6 business plan - i.e., GNI’s PC6 business plan reflects a set of investments as justified by GNI’s adaptive planning and scenario analysis in the Flexibility Report and NDP.</p> <p>GNI presents a central plan of actions and investments, which are underpinned by assumptions (e.g., around energy policy or industry developments) and a set of well justified scenarios that underpin GNI’s adaptive planning analysis.</p> <p>GNI provides evidence-based rationale behind their central plan, and why this is low regrets, for example referencing CBAs or stakeholder engagement. GNI demonstrates through its application of scenario-based adaptive planning that its proposed plan of investments is low regrets.</p>

Title	Description
	<p>GNI discuss policy uncertainties which are linked to its scenario assumptions. Some discussion of the magnitude or likelihood of the uncertainty is provided in Flexibility Reports. GNI provide a discussion of associated trigger points and high-level discussion of how this will affect actions in their plans and the types of pre-planning activities that are being undertaken.</p> <p>GNI provide milestones and metrics linked to their central plan. Evidence that these are stretching and targeted and link to whole system thinking.</p> <p><b>Sub-par:</b> GNI has not clearly demonstrated how long-term strategic thinking and adaptive planning (going out at least 10 years) underpins GNI’s Flexibility Report and investment plan. Parts of the plan are incoherent, internally inconsistent, or inconsistent with GNI’s stated aims. The plan does not clearly demonstrate why the proposed investment plan is low regrets and flexible to a range of future scenarios for the development and use of the gas network. GNI has not comprehensively reflected the findings and conclusions from its Flexibility Reports and NDP in its PC6 business plan.</p> <p>Assumptions and the scenarios used for the adaptive planning analysis underlying GNI’s central plan are not clearly articulated and / or are not clearly linked to the central plan.</p> <p>GNI do not provide convincing evidence to justify their central plan, e.g., limited evidence of stakeholder engagement or CBAs, which makes it difficult to assess the appropriateness or relative merits of proposed actions and why the proposed plan is underpinned by a set of low regrets investments.</p> <p>Little discussion of policy uncertainties, triggers, or how the central plan will adapt to them.</p> <p>GNI provide milestones and metrics linked to their central plan. Uncertainty over how stretching or targeted these milestones and metrics are.</p>
<p>Delivery (30%)</p> <p><i>GNI will be assessed against the metrics GNI proposed for the year ahead. There should be clear linkages between strategy, decisions, and delivery. Metrics should focus on processes and</i></p>	<p>Qualitative assessment</p> <p><b>Good:</b> GNI deliver the metrics and milestones as proposed in their plan. For example, effective progress with delivery of the central plan, timely achievement of stakeholder engagement programmes, well documented engagement with EirGrid on whole system issues, use of Flexibility Pot funding or responding effectively to triggers outlined in their plan.</p>

Title	Description
<p><i>delivery of strategic planning objectives as opposed to investment planning and delivery.</i></p>	<p>If targets are not achieved, GNI should provide supporting commentary that convinces the CRU that this was outside of their control and that reasonable steps were taken by GNI to try and achieve targets despite any obstacles.</p> <p><b>Acceptable:</b> GNI partially delivers the metrics and milestones proposed in their plan. For example, this could include partial achievement of stakeholder engagement programmes, use of Flexibility Pot funding or efficiency targets. If targets or timelines are missed, then some commentary is provided explaining causes and actions taken by GNI to minimise delays or under-delivery.</p> <p><b>Sub-par:</b> GNI under-deliver on their plan, with significant delay in timelines or missing multiple targets. Supporting commentary does not provide evidence of causes that were outside of GNI's control, or steps taken to minimise the impact.</p>
<p>Over-arching processes (10%)</p> <p><i>Over-arching processes assess GNI against aspects that are important for presenting, articulating, and delivering across both the planning and delivery phases of the capital programme.</i></p>	<p>Qualitative assessment</p> <p><b>Good:</b> GNI present information evidencing application of adaptive planning and flexible decision making across their Flexibility Report, NDP, PC6 business plan and the delivery of its action plan in a clear, consistent, and transparent way. GNI uses high quality data to undertake analysis, which is presented using consistent best-practice principles, and consistently across submissions. This includes the categorisation and labelling of business areas, activities, and initiatives, which should be consistent between documents and business areas.</p> <p><b>Acceptable:</b> GNI present clear information across their Flexibility Report, NDP, PC6 business plan and the delivery of its action plan. Issues with consistency or transparency across its document are not fundamental, i.e., sources or rationale are provided, but could be presented in a more user-friendly manner, and any inconsistencies between documents are minor. Labelling between business areas, activities, and initiatives is sufficient to identify spending across areas.</p> <p><b>Sub-par:</b> Information is not presented clearly across documents. Fundamental issues with consistency which present reconciliation between documents or business areas, either due to inconsistent labelling or classification. Presentation is not user friendly, data quality is poor, or provision of information is delayed.</p>

Title	Description
Financial strength	
Symmetric or asymmetric	Asymmetric upside only
Reward and / or penalty	+ €0.5m p.a.
Timings	
Frequency of GNI submission	Annual (biennial core flexibility report, or supplemental flexibility report)
Proposed frequency of CRU assessment	End of period

## C.2 Decarbonisation Policy Alignment Incentive

Title	Description
Incentive Name	Decarbonisation Policy Alignment
Components (weight) and scoring guidance <sup>55</sup>	
<p>Overall (100%)</p> <p>GNI will be assessed on the alignment of its actions with relevant decarbonisation policy and legislation and how it has acted to support and deliver on these policies. This will focus on the quality and justification in GNI's decarbonisation report and GNI's delivery during PC5 as captured in the lookback sections of its PC6 business plan.</p>	<p>Qualitative assessment</p> <p><b>Good:</b> GNI present clear information on understanding, complying with and suitably engaging with relevant decarbonisation policy and legislation. GNI evidence how it has effectively managed the delivery of its plan during PC5 to comply with and support delivery of Climate Action Plan and other relevant policy and legislation.</p> <p>GNI is able to provide granular and transparent information on how it has contributed to / sought compliance with relevant key performance metrics e.g., sectoral emissions ceilings.</p> <p>GNI explains how its actions have had impacts on relevant metrics considered by policy and legislation, both in the short-term and in the longer-term.</p> <p>GNI demonstrates that it has properly considered the options available to it in proceeding with investments, in a dynamic and</p>

<sup>55</sup> We include three categories of scoring: "good", "acceptable" and "sub-par".

Title	Description
	<p>adaptable fashion, and why they align / comply with decarbonisation policies and legislation. This includes use of the flexibility pot funding, capex governance and decision-making processes, delivery of FROG initiatives, use of innovation funding and core opex and capex allowances.</p> <p>GNI's approach has been informed by suitable engagement with relevant market stakeholders.</p> <p>GNI's reporting meets the deadline, is accessible and links quantitative and qualitative sections.</p> <p><b>Acceptable:</b> GNI present information on understanding, complying with and suitably engaging with relevant decarbonisation policy and legislation. GNI evidence how it has managed the delivery of its plan during PC5 to comply with and support delivery of Climate Action Plan and other relevant policy and legislation.</p> <p>GNI is able to provide relevant information on how it has contributed to / sought compliance with relevant performance metrics.</p> <p>GNI explains how its actions have had impacts on relevant metrics considered by policy and legislation.</p> <p>GNI demonstrates that it has looked at alternative approaches to investment delivery and why these more effectively (or less effectively) align / comply with decarbonisation policies and legislation.</p> <p>GNI has evidenced engagement with relevant market stakeholders, but aspects of its engagement and the resulting actions taken could have been clearer in its submissions and documentation.</p> <p>GNI's reporting is on time, but the information may not always be clearly linked or be accessible to all relevant stakeholders.</p> <p><b>Sub-par:</b> GNI do not show an understanding of, complying with and suitably engaging with relevant decarbonisation policy and legislation impacting on its business.</p> <p>GNI is only able to provide limited information on how it has contributed to / sought compliance with relevant performance metrics, and limited explanation of the impacts of its actions on those outcomes.</p>

Title	Description
	<p>GNI does not show that it has considered suitable alternatives that may better meet policy objectives and intent.</p> <p>GNI's has not evidenced engagement with relevant market stakeholders and / or there are concerns with the scope of the engagement undertaken.</p> <p>GNI may have taken actions that, based on information available at the time of them taking their decision, would run contrary to relevant policy and legislation.</p> <p>GNI's reporting is late, incomplete, or difficult to engage with.</p>
Financial strength	
Symmetric or asymmetric	Asymmetric upside only
Reward and / or penalty	+ €0.25m p.a.
Timings	
Frequency of GNI submission	Annual (FROGI and decarbonisation report)
Proposed frequency of CRU assessment	End of period

### C.3 Investment Planning and Delivery Incentive

Title	Description
Incentive Name	Investment planning and delivery incentive
Components (weight) and scoring guidance <sup>56</sup>	
Planning (40%)  GNI should demonstrate a dynamically assessed needs case of projects, and have conducted relevant	Qualitative assessment  <b>Good:</b> GNI provide comprehensive planning documentation across the full range of projects they assess – both ahead of the price control and within period documentation e.g., TJPs.

<sup>56</sup> We include three categories of scoring: “good”, “acceptable” and “sub-par”.

Title	Description
<p>analysis (e.g., CBA, benchmarking) – as expected in TJPs.</p>	<p>GNI includes a holistic summary to support the more bottom-up project-based assessment.</p> <p>GNI uses consistent and effective indicators to highlight the status of projects e.g., project governance phases and gateways, together with how costs / outputs / timelines have evolved over time.</p> <p>GNI present their plans in a form that is aligned with the regulatory determination process and relevant allowances.</p> <p>GNI includes detailed and robust CBAs on a consistent basis across projects.</p> <p>GNI demonstrate effective benchmarking of costs and accurate estimates early within projects.</p> <p>GNI submit comprehensive and updated TJPs at relevant decision points to the CRU.</p> <p>GNI indicate clear inclusion of strategic priorities, e.g., decarbonisation and security of supply and assurance that the capital programme is low regrets.</p> <p><b>Acceptable:</b> GNI provide good planning documentation which covers the full range of projects they assess. A greater level of detail may be desirable in some areas.</p> <p>GNI uses consistent and effective indicators to highlight the status of projects e.g., project governance phases and gateways. GNI could provide more detail over how costs / outputs / timelines have evolved over time.</p> <p>Plans reconcilable with regulatory determination processes and relevant allowances with minimal effort, although there may be some differences in form.</p> <p>GNI include robust CBAs on a consistent basis across projects.</p> <p>Some effective benchmarking of costs or accurate estimates.</p> <p>GNI submit comprehensive and updated TJPs at relevant decision points to the CRU.</p> <p>GNI discuss strategic priorities, e.g., decarbonisation and security of supply, and provide assurance of a low regret's capital programme.</p>

Title	Description
	<p><b>Sub-par:</b> Planning documentation provided, but of poor detail, with vague descriptions or areas missed.</p> <p>GNI rarely or inconsistently use indicators to highlight the status of projects.</p> <p>Plans are difficult to reconcile with regulatory determination processes and relevant allowances.</p> <p>Poor quality or inconsistent use of CBAs across projects.</p> <p>Lack of benchmarking or cost estimates.</p> <p>TJPs are not updated.</p> <p>Lack of reference to strategic priorities and why the portfolio of capital investments is low regrets.</p>
<p>Delivery (40%)</p> <p>GNI should demonstrate clear evidence of effective cost and risk management over PC5, with ongoing decision making / review.</p>	<p>Qualitative assessment</p> <p><b>Good:</b> GNI can demonstrate across its capital portfolio where it has effectively managed costs and limited cost increases / delivered cost savings, where they have the ability to do so.</p> <p>GNI has delivered innovation / market leading behaviours to deliver capex projects in the best fashion possible.</p> <p>GNI has utilised effective and detailed risk management tools to manage a range of risks facing the business.</p> <p>GNI has acted swiftly and effectively to manage / mitigate against risks with negative impacts on the business.</p> <p>GNI clearly demonstrate flexibility in their decision making that leads to optimal outcomes, which are aligned with any new plans and objectives.</p> <p><b>Acceptable:</b> GNI can provide evidence of how they have effectively managed costs and limited cost increases and / or delivered cost savings. Clear and evidenced efforts have been made to reduce costs, although some areas may have been missed or are not substantiated.</p> <p>GNI displays good practice / examples of best practice in delivering their capex projects.</p> <p>GNI can evidence consideration of a range of business risks impacting on the delivery of its investment programme, and the actions it has taken linked to managing these risks.</p>



Title	Description
	<p>GNI has acted to manage / mitigate against risks that could have negative impacts on the business. The speed or effectiveness of its response has not seriously increased the magnitude of any negative impacts on the business (e.g., timeliness of delivery or degree of cost escalation).</p> <p>GNI can provide evidence of flexible decision making that leads to better outcomes, aligned with new plans or objectives.</p> <p><b>Sub-par:</b> GNI cannot provide good evidence of how they have effectively managed costs and limited cost increase / delivered cost savings. Evidence may be incomplete or suggest that GNI has not made appropriate cost savings a high priority.</p> <p>GNI displays poor practice in some areas when delivering their capex projects.</p> <p>GNI cannot provide evidence of considering key business risks impacting the delivery of its investment programme, or proportional actions it has taken to manage these risks. GNI has not reacted quickly or effectively to the emergence of risks.</p> <p>GNI rarely displays flexible decision making that aligns with new plans or objectives.</p>
<p>Over-arching processes (20%)</p> <p>The PC5 plan is delivered in a timely and transparent fashion, with clarity of information and linkage between planning and delivery phases.</p>	<p>Qualitative assessment</p> <p><b>Good:</b> GNI present clear links between their planning processes and delivery.</p> <p>GNI's information is presented in a transparent fashion, with clear evidence presented on both a backwards looking and forward-looking basis including information on project dates versus delays.</p> <p>GNI, demonstrate they have taken into account lessons learned and can demonstrate continuous improvement over the control.</p> <p>GNI deliver and report on a timely basis, demonstrating action is taken when needed.</p> <p><b>Acceptable:</b> GNI present clear information across planning processes and delivery. Some issues with consistency or transparency of information. These are not fundamental, but information could be presented in a more user-friendly manner, and any inconsistencies are relatively minor (e.g., between the backwards looking vs forward looking analysis).</p>

Title	Description
	<p>Lessons learned are documented and any issues with consistency or transparency are not fundamental, e.g., information could be presented in a more user-friendly manner, and any inconsistencies are relatively minor (e.g., between the backwards looking vs forward looking analysis). Lessons learned are documented and are evident in some areas of planning and delivery. Some minor delays in reporting or actions taken.</p> <p><b>Sub-par:</b> Information is not presented clearly across documents. Fundamental issues with consistency or lack of evidence (either on a forward or backwards looking basis). Lessons learnt are not documented or are clearly ignored. Significant delays in submission or required actions.</p>
Financial strength	
Symmetric or asymmetric	Symmetric
Reward and / or penalty	+ / - €0.5m p.a.
Timings	
Frequency of GNI submission	Annual (and ad hoc)
Proposed frequency of CRU assessment	End of period

#### C.4 Shrinkage (Qualitative) Incentive<sup>57</sup>

Title	Description
Incentive Name	Shrinkage balanced scorecard incentive
Components (weight) and scoring guidance <sup>58</sup>	
Information Gathering and Reporting (60%)	Qualitatively assessed.

<sup>57</sup> Note that the quantitative shrinkage incentive for distribution does not use a scorecard approach.

<sup>58</sup> We include three categories of scoring: “good”, “acceptable” and “sub-par”.

Title	Description
<p><i>GNI should take actions to improve their understanding of shrinkage on the gas network, including improved data gathering.</i></p>	<p><b>Good:</b> GNI collects shrinkage throughput information at a sufficiently granular level to enable breakdown both by OUG / UAG and their sub-components. This includes but is not limited to compressor fuel gas, AGI heating fuel gas, leakages, and metering errors. Where information on a sub-component is not provided, it is justified and a plan is put in place to describe how to rectify this in future shrinkage reports, if possible.</p> <p>Improvement in granularity of reporting demonstrated through achieving higher levels of the OGMP 2.0 framework or a similar measurement-based methane reporting framework.</p> <p>Sufficient information on transmission shrinkage is collected to enable implementation of a quantitative incentive mechanism on transmission shrinkage at a later date e.g., PC6.</p> <p>GNI carries out surveys of methane leaks on infrastructure at the appropriate intervals.</p> <p><b>Acceptable:</b> GNI provides a greater breakdown of shrinkage throughput by component than provided during PC4, although not all components may be provided. Where information on sub-components is not provided, sufficient justification is provided.</p> <p>Improvement in granularity of reporting demonstrated through achieving, or exhibiting steps towards, higher levels of the OGMP 2.0 framework or a similar measurement-based methane reporting framework. More information on transmission shrinkage is collected, and GNI has identified a clear pathway to introducing a transmission shrinkage incentive at a later date, e.g., PC6.</p> <p>GNI carries out surveys of methane leaks on infrastructure at the appropriate intervals.</p> <p><b>Sub-par:</b> GNI do not provide a greater breakdown of shrinkage throughput by component than the information provided during the PC4 period.</p> <p>GNI do not demonstrate steps towards achieving higher levels of the OGMP 2.0 framework or a similar measurement-based methane reporting framework.</p> <p>Little to no extra information on transmission shrinkage is provided by GNI.</p>

Title	Description
	<p>GNI fail to carry out surveys of methane leaks on infrastructure at the appropriate intervals.</p>
<p>Demonstrated Actions (40%)</p> <p><i>GNI should demonstrate how the improved information and data has been utilised to reduce shrinkage and leakages on the network and other actions taken such as access to innovation funding and a joined-up reporting framework.</i></p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> All gas leaks identified are repaired immediately after detection, with all repairs complete within 30 days (information may be subject to audit).</p> <p>All investments aimed at reducing shrinkage are prioritised using evidence from the split of shrinkage components. Such investments could be compressors that run on biomethane or improved metering, among other things. Where data on this is still unavailable (particularly in the earlier years of PC5) GNI show a willingness to justify investments based on forecasts and their best understanding.</p> <p>GNI secures access to some form of funding, such as innovation funding or an EU grant.</p> <p>Appropriate steps are taken towards membership of an appropriate industry body, for example OGMP 2.0.</p> <p>GNI demonstrate thought about pilot projects from peers in other countries and how these could apply to the Irish context.</p> <p><b>Acceptable:</b> The vast majority (e.g., 90%) of gas leaks identified are repaired immediately after detection, with repairs complete within 30 days.</p> <p>Investments aimed to reduce shrinkage are prioritised using evidence from the split of shrinkage components.</p> <p>GNI seek access to some form of funding, such as innovation funding or an EU grant, with funding yet to be secured.</p> <p>Appropriate steps are also taken towards membership of an appropriate industry body, for example OGMP 2.0.</p> <p>GNI demonstrate thought about pilot projects from peers in other countries, however thoughts on application to the Irish context could be expanded.</p> <p><b>Sub-par:</b> Less than 90% of gas leaks identified are repaired immediately after detection, with repairs complete within 30 days.</p> <p>Investments aimed at reducing shrinkage are not sufficiently justified using the available information.</p>

Title	Description
	<p>GNI does not seek any access to innovation funding, EU grants, or explore potential industry group memberships such as the OGMP 2.0.</p> <p>GNI do not demonstrate thought about pilot projects from peers in other countries and how these could apply to the Irish context.</p>
Financial strength	
Symmetric or asymmetric	Symmetric
Reward and / or penalty	+ €0.25m / - €0.50m
Timings	
Frequency of GNI submission	Annual
Proposed frequency of CRU assessment	End of control

### C.5 Gas-Fired Generation Connections Incentive

Title	Description
Incentive Name	Gas-fired generation connections incentive
Components (weight) and scoring guidance <sup>59</sup>	
<p>Planning (40%)</p> <p><i>GNI should demonstrate that it has undertaken detailed design work to identify long lead time components and planning requirements, identified reinforcements and upgrades that benefit multiple connections and</i></p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> GNI has produced highly detailed plans (an initial report and subsequent updates) that provide clear and actionable plans for GNI to accommodate gas-fired generation for both individual connections and holistically in coordinating across multiple connections.</p> <p>GNI has undertaken effective dialogue with industry participants to position themselves to deliver on a timely and coordinated basis.</p>

<sup>59</sup> We include three categories of scoring: “good”, “acceptable” and “sub-par”.

Title	Description
<i>have undertaken planning in a coordinated fashion.</i>	<p>GNI's planning is dynamic and regularly updated to take into account new potential connections and reflect market conditions.</p> <p>GNI's plan includes innovative elements and the new techniques introduced were beneficial.</p> <p>GNI's plan is effective in its ability to deliver the number of gas-fired generation connection incentives needed to meet national requirements/ objectives.</p> <p>GNI provides accurate cost estimates to parties wishing to connect to the network.</p> <p>GNI does not prevent gas-fired generation connections through cost estimates that sit above efficient cost.</p> <p><b>Acceptable:</b> GNI produced suitably detailed plans with actions to accommodate gas-fired generation, with both top-down (strategic) and bottom-up (project by project level) planning.</p> <p>GNI has communicated with relevant parties to understand requirements and timings for delivery.</p> <p>GNI's plans are regularly updated and take into account new conditions.</p> <p>GNI's plans include current techniques or incremental improvements.</p> <p>GNI's plan is effective in delivering required gas-fired generation connections.</p> <p>GNI provides generally accurate cost estimates to parties wishing to connect to the network.</p> <p>GNI does not prevent gas-fired generation connections through cost estimates that sit above efficient cost.</p> <p><b>Sub-par:</b> GNI's plan falls short of expectations in one or more areas e.g., GNI fails to properly engage with industry participants or show very limited scope for improvements.</p>
Delivery (40%)	Qualitatively assessed.
<i>GNI has taken actions to deliver accelerated gas-fired generation connections in a</i>	<b>Good:</b> GNI has surpassed relevant milestones to at least the expected level of quality.

Title	Description
<p><i>clear and supportive fashion.</i></p>	<p>GNI’s actions have not precluded connections being delivered on a timely basis, and at times may have accelerated connections through improved coordination.</p> <p>GNI can demonstrate how its actions have been anticipatory and effective in facilitating connections e.g., procuring relevant materials for use across projects, or in taking coordinated actions across multiple projects.</p> <p>GNI can present evidence of how it has been dynamic and changed performance to change revised needs for the network, e.g., under new versions of the CAP.</p> <p>GNI demonstrate innovation in their approach.</p> <p>GNI demonstrates how their approach mitigates against cost escalation and reduces efficient cost of delivery.</p> <p><b>Acceptable:</b> GNI’s delivery meets relevant milestones to at least the expected level of quality.</p> <p>GNI’s actions have not precluded connections being delivered on a timely basis and GNI has attempted to coordinate.</p> <p>GNI’s actions are suitably anticipatory and effective in facilitating connections.</p> <p>GNI updates its delivery to reflect new plans and requirements.</p> <p>GNI shows elements of innovation in delivery.</p> <p>GNI demonstrate how their approach mitigates against cost escalation and can be considered to reflect efficient cost.</p> <p><b>Sub-par:</b> GNI’s plan falls short of expectations in one or more areas e.g., failing to meet relevant milestones or take appropriate anticipatory action.</p>
<p>Overarching processes (20%)</p> <p><i>GNI’s gas-fired generation connection plans are delivered in a timely and transparent fashion, with clarity of information and linkage between planning and delivery phases. This may include demonstrating</i></p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> GNI clearly demonstrates the linkage between their dynamic planning process and their delivery of gas-fired generation connections.</p> <p>GNI demonstrate that their actions have supported timely, and potentially accelerated, delivery.</p> <p>GNI has engaged frequently and effectively with relevant market participants.</p>

Title	Description
<p><i>how its planning has led to more effective delivery and picked up lessons learnt from their experiences.</i></p>	<p>GNI's reporting is very transparent and detailed, with inclusion of backwards and forwards looking evidence.</p> <p><b>Acceptable:</b> GNI demonstrate the linkage between their dynamic planning process and their delivery of connections.</p> <p>GNI demonstrate that their actions have supported timely delivery.</p> <p>GNI has suitably engaged with relevant market participants to add value to their process.</p> <p>GNI's reporting is suitably transparent and detailed, with inclusion of backwards and forwards looking evidence.</p> <p><b>Sub-par:</b> GNI's plan falls short of expectations in one or more areas e.g., do not link general planning to delivering individual connections, or failing to suitably engage with market participants.</p>
Financial strength	
Symmetric or asymmetric	Symmetric
Reward and / or penalty, % of revenues	+ / - €0.50m p.a.
Timings	
Frequency of GNI submission	Annual
Proposed frequency of CRU assessment	End of period

#### C.6 Biomethane Connections Incentive

Title	Description
Incentive Name	Biomethane connections incentive



Title	Description
Components and scoring guidance <sup>60</sup>	
<p>Timeliness</p> <p><i>GNI should demonstrate that they have delivered timely connections for biomethane producers.</i></p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> GNI's actions contribute to connections for each of the four connection categories being provided materially quicker than the timeline agreed with the developer.<sup>61</sup></p> <p><b>Acceptable:</b> GNI's actions help connect each of the four connection categories broadly within the timeline agreed with the developer.</p> <p><b>Sub-par:</b> GNI's actions contribute to connections of the four connection categories materially slower than the timeline agreed with the developer.</p>
<p>Biomethane output</p> <p><i>Assessment of the volume of biomethane delivered relative to the baseline.</i></p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> If GNI contributes to delivery above the target of 1.6 TWh/a + 0.4 TWh/a (deadband upper limit) by 2026/27. If the Government changes the biomethane target and policy framework during PC5, then the volume targets for the incentive may be changed.</p> <p><b>Acceptable:</b> If GNI contributes to delivery of the 1.6 TWh/a (+/- 0.4 TWh/a) target by 2026/27. If the Government changes the biomethane target and policy framework during PC5, then the volume targets for the incentive may be changed.</p> <p><b>Sub-par:</b> If GNI contributes to delivering below the target of 1.6 TWh/a - 0.4 TWh/a (deadband lower limit) by 2026/27. If the Government changes the biomethane target and policy framework during PC5, then volume targets may be changed.</p>
<p>Market arrangements</p> <p><i>GNI should demonstrate best practice reporting standards and progress</i></p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> GNI present information across biomethane reporting submission, which is clear, consistent (including across years) and transparent. Evidence is provided in a timely manner, GNI uses high quality data to undertake analysis, which is presented</p>

<sup>60</sup> We include three categories of scoring: “good”, “acceptable” and “sub-par”.

<sup>61</sup> GNI should provide commentary if a timeline agreed with a developer does not align with the ‘normal’ timeline submitted at the start of PC5. The categories include direct connections and Central Grid Injections, both with and without additional compression.

Title	Description
<p><i>their connections arrangements for PC6.</i></p>	<p>using consistent best-practice principles, and consistently across submissions.</p> <p>A ‘developer choice’ model to offer customers both minimum and maximum connection models and customer contributions mechanism for CGIs is either finalised or significantly progressed by the start of PC6.</p> <p><b>Acceptable:</b> On the whole GNI present clear information in their submissions. Issues with consistency or transparency are not fundamental, i.e., sources or rationale are provided, but could be presented in a more user-friendly manner, and any inconsistencies are minor.</p> <p>GNI has made significant progress progressing the ‘developer’ choice model and customer contributions mechanism for CGIs. Some minor developments are required to deliver during PC6.</p> <p><b>Sub-par:</b> Information is not presented clearly. Fundamental issues with consistency (whether within documents or across years). The presentation is not user friendly, data quality is poor, or provision of information is delayed.</p> <p>GNI has made poor progress with the ‘developer’ choice model and customer contributions mechanism for CGIs. It is unlikely that one or the other will be ready during PC6.</p>
Financial strength	
Symmetric or asymmetric	Symmetric
Reward and / or penalty	+ / - €0.25m p.a.
Timings	
Frequency of GNI submission	Annual
Proposed frequency of CRU assessment	End of period

### C.7 Hydrogen Readiness Incentive

Title	Description
Incentive Name	Hydrogen readiness incentive
Components and scoring guidance <sup>62</sup>	
<p>Timely completion</p> <p>Whether the work package is completed according to the schedule proposed by GNI and approved by the CRU</p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> The work package is fully completed according to the schedule agreed with the CRU in an original price control document that is subsequently updated.</p> <p><b>Acceptable:</b> The work package is not completed according to the schedule agreed with the CRU, however sufficient justification is provided by GNI explaining why this was the case.</p> <p><b>Sub-par:</b> The work package is not completed according to the schedule agreed with the CRU and no or limited justification is provided.</p>
<p>Completion of key deliverables</p> <p>GNI should complete all key deliverables of the work package to a satisfactory standard</p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> Satisfactory completion of all key deliverables proposed for that work package, including an enumeration by GNI of the associated economic, safety and environmental benefits which result from the completed work. These may focus on the interests of Irish energy consumers, those of other stakeholders and the expected contribution of hydrogen to climate policy goals.</p> <p><b>Acceptable:</b> Satisfactory completion of most key deliverables proposed for that work package, including an enumeration by GNI of the associated economic, safety and environmental benefits which result from the completed work.</p> <p><b>Sub-par:</b> GNI fail to complete most of the key deliverables proposed for that work package, or all key deliverables are not provided to a satisfactory standard.</p>
<p>Updated hydrogen deployment assessment</p> <p>As of completing the work package, GNI should update their assessment of the way</p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> As of completing the work package, an updated GNI assessment of the way hydrogen is likely to be deployed in Ireland, including volumes, timescales, locations, and the implications for the gas network is provided.</p>

<sup>62</sup> We include three categories of scoring: “good”, “acceptable” and “sub-par”.

Title	Description
hydrogen is likely to be deployed in Ireland	<p><b>Acceptable:</b> The updated GNI assessment of the way hydrogen is likely to be deployed in Ireland, including volumes, timescales, locations, and the implications for the gas network is provided but at a slight delay due with reasonable justification.</p> <p><b>Sub-par:</b> No update to GNI's assessment of the way hydrogen is likely to be deployed in Ireland is provided. Or the assessment fails to include all key metrics including volumes, timescales, locations, and the implications for the gas network.</p>
<p>Stakeholder engagement</p> <p>The extent and quality of GNI's external stakeholder engagement during the course of the work package</p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> GNI is shown to have undertaken extensive, high-quality stakeholder engagement throughout the duration of the work package (through own submissions and separate feedback from industry stakeholders to the CRU).</p> <p>All relevant stakeholders, including industry participants, consumer bodies, government agencies and others, as appropriate, are consulted.</p> <p>Interim progress reports have been shared with the CRU and the wider stakeholder community.</p> <p>Where appropriate, relevant external stakeholders are involved in the project sufficiently at all stages.</p> <p><b>Acceptable:</b> Evidence provided by GNI and CRU feedback received from external stakeholders shows that GNI only undertook high-quality and extensive stakeholder engagement throughout certain stages of the work package, or stakeholder engagement was present throughout all stages but could have been more extensive or high-quality.</p> <p>All relevant stakeholders, including industry participants, consumer bodies, government agencies and others, as appropriate, are consulted.</p> <p>Where appropriate, relevant external stakeholders are involved in the project sufficiently at most or all stages.</p> <p><b>Sub-par:</b> Evidence provided by GNI and CRU feedback received from external stakeholders shows that GNI failed to undertake extensive and high-quality stakeholder engagement at most or all stages of the work package.</p>

Title	Description
	<p>GNI do not consult all relevant stakeholders, including industry participants, consumer bodies, government agencies and others as appropriate.</p> <p>Where appropriate, relevant external stakeholders are not involved in the project sufficiently at all stages.</p>
<p>More cost-effective ways of working</p> <p>The extent GNI has been able to find more cost-effective ways of working</p>	<p>Qualitatively assessed.</p> <p><b>Good:</b> GNI has been able to deliver enhanced outcomes in relation to the PC5 budget provided through finding more cost-effective ways of working and this is well-evidenced.</p> <p><b>Acceptable:</b> GNI has found few or no more cost-effective ways of working, however evidence they provide shows GNI took all the necessary steps to investigate whether a more cost-effective way of working was possible.</p> <p><b>Sub-par:</b> GNI do not find any more cost-effective ways of working and fail to provide sufficient evidence outlining how they attempted to find more cost-effective ways of working.</p>
Financial strength	
Symmetric or asymmetric	n/a - reputational
Reward and / or penalty	n/a - reputational
Timings	
Frequency of GNI submission	Annual
Proposed frequency of CRU assessment	End of period

## Appendix D: Customer Performance Indicators

Table 9: PC5 Customer Performance Indicators

Indicator	Target	Award method	Range of incentive allowed revenue
<b>A. Call Centre</b>			
A.1. Calls abandoned (after 10s)	1.5%	Equal penalty every 0.5% point above target, up to 1.0%.	- 0.075% to 0%
A.2. Call response	92% answered within 20 seconds	Equal penalty every 1.0% point below target, up to 2.0%.	
<b>B. Complaints Metric</b>			
B.1. Total number of complaints	1,800	Equal penalty every 100 complaints over target, up to 400 complaints over.	- 0.075% to 0%
B.2. Complaints resolved (10 days)	96%	Equal penalty every 1.0% under target, up to 4%.	
B.3. Complaints resolved (30 days)	98%		
<b>C. Customer Survey</b>			
C.1. Quotation turnaround (7 days)	97%	Equal penalty per 1.0% under target, up to 4.0%.	- 0.075% to 0%
C.2. Appointment granting (5 days)	97%		
C.3. Appointment keeping (1 day)	96%		
C.4. Reinstatement commitment (24 hrs)	94%		
C.5 Appointment Cancelling	N/A	Reputational only	
C.6 Customer's Overall Satisfaction Survey	N/A	Reputational only	

## Appendix E: Stakeholder Engagement Incentive

In this appendix the CRU sets out its initial guidance for GNI on the assessment criteria for submissions under the stakeholder engagement incentive being introduced.

The panel will be established by the CRU and will undertake the annual assessment of GNI's performance and will possibly meet at least twice between February and March. At the first meeting, GNI will give an overview to the panel of their stakeholder engagement strategy and how comments received from the consultation process have been addressed. At the end of the process each year, the CRU will draft and publish a close out report setting out the panel's discussion, conclusions and recommendations for GNI.

### **Assessment:**

The CRU shall adopt the following weightings in considering the evidence presented by GNI:

- 25% - Quality of stakeholder engagement strategy, management systems and processes within the business to enable its delivery;
- 25% - How well the strategy was implemented; quality of delivered set of channels and initiatives for engaging of strategy; consistent with the documented strategy;
- 25% - Effectiveness of strategy, quality of demonstrable positive impacts on stakeholders, stakeholder groups or the business consequent to the delivered channels and initiatives;
- 15% - Delivering Large Connections, stakeholder engagement to ensure delivery of large connections, strategy, implementation, and effectiveness; and
- 10% - Lessons learnt, GNI's lessons or change in approach based on engagement with stakeholders.

### **Assessment Criteria:**

#### Quality of the Strategy

- Was there clear strategic objectives set out in the strategy? If so, were the objectives linked to activities and initiatives that GNI planned to undertake?
- Was there clear measures of success set out in the strategy?
- Was the strategy, comprehensive, up to date and in plain English?
- Were the needs of stakeholders and challenges facing GNI identified and linked to the strategies?
- Were there areas subject to improvement identified and tracked in the strategy?
- Did the strategy cover what mechanisms are used to keep stakeholders informed about issues, business activities and decision making?

- Did the strategy cover how the mechanisms to keep stakeholders informed are monitored and reported within the company?
- Did the strategy cover how GNI enables timely input and feedback from the stakeholders?
- Did the strategy cover how input and feedback from stakeholders feed into the work of GNI?
- Did the strategy put in place sufficient project management processes and resources? Did it include contact details for different initiatives planned?
- Was the strategy embedded into the overall business plan?

### Implementation of the Strategy

- Were all aspects of the strategy implemented? Was there sufficient evidence provided to demonstrate so?
- Were the engagement channels and initiatives undertaken linked to the strategic objectives of the strategy?
- Were the engagement channels used consistent with the strategy and appropriate for all relevant stakeholders?
- Were the initiatives undertaken by the company innovative?
- Were the channels and initiatives appropriately adapted for the range of stakeholders?
- Were the stakeholders' issues and needs fully addressed?
- Were there mechanisms to monitor and report the implementation of the strategy within GNI?
- Did the implementation adapt in response to experience and issues as they arose?
- Did the company demonstrate that the strategy implemented was cost-effective?

### Effectiveness of the Strategy

- Did the initiatives undertaken lead to measured outcomes?
- Were positive impacts for consumers demonstrated to have been delivered? If so, how were these quantified?
- Did the quantified positive impacts show that GNI focused on engagements on areas / projects that would deliver value in terms of customer outcomes and / or system outcomes?
- Did the initiatives lead to action plans?
- Did the initiatives have impacts on GNI's processes, policies, or plans?
- Did the implementation of the strategy have an impact on GNI's culture, activities, or decision-making process? Was this clearly demonstrated?
- Did the outcomes feed into the strategy?
- Did the initiatives undertaken by GNI have demonstrable regard to industry's feedback?



- Did the company demonstrate that stakeholder feedback to industry consultations and at workshops were taken into account and addressed?
- Did the initiatives address the needs of stakeholders and result in measurable benefits?
- Was performance benchmarked with best practice? Was this evidenced by GNI?

#### Delivering Large Connections

- Were all the relevant stakeholders identified and the engagement approach for each clearly explained?
- Was the strategy appropriately adapted to the range of stakeholders?
- Were the needs of stakeholders and the challenges facing GNI identified and linked to the strategy?
- Did the strategy cover what mechanisms are used to keep stakeholders informed about connections, issues, business activities and decision-making?
- Was the strategy embedded into the overall business plan?
- Were the engagement channels used consistent with the strategy and appropriate for the relevant stakeholders?
- Were the initiatives undertaken by the company innovative?
- Did the initiatives undertaken lead to measured outcomes?

#### Lessons Learnt

- Did the company demonstrate that the lessons learned have been captured and implemented?
- Were the areas where implementation did not go well identified in order to drive improvements in future years?

## Appendix F: Capex Incentives and Monitoring

The existing framework for opex and capex cost incentives was developed in PC2 with the international best practice and experience from the review of performance under PC1. The cost incentives included the use of an ex-ante assessment on opex and an ex-ante / ex-post approach to capex, which included adjustments to the RAB for efficient expenditure. The treatment of capex costs under the ex-post review is set by so called expenditure categories.

The regime has evolved over time to ensure clear guidance on desired behaviours and outcomes. In considering the effectiveness of the existing framework to date, the main findings are that GNI has looked to deliver efficiencies on projects to reduce cost, defer projects - that do not have a strong business case, and look to mitigate project overspends. These actions are in the customer's interest.

### ➤ Consultation Position and Decision on PC5 Capex Incentives & Monitoring

Ahead of the PC5 consultation, the CRU undertook an assessment of the existing cost incentive regime, focused on the framework that was applied to capex in PC4. The CRU used five assessment criteria for its assessment of the existing capex regime:

- **Incentives to deliver the right outputs at the right time:** Is GNI encouraged to take suitable behaviours to adjust its investment programme and demonstrate flexibility to address changing conditions as asset manager?
- **Incentives to deliver at lowest cost:** Is GNI encouraged to deliver projects at lowest cost, both on an individual project basis and at the overall programme level?
- **Suitable balance of risk and reward:** Does the overall package of incentives present a suitable balance of upside and downside exposure for GNI?
- **Resource burden:** Does the proposed regime create a proportionate burden on both GNI and the CRU itself?
- **Scope for gaming:** Does the regime create opportunities for gaming, either for reputational or financial gain?

As set out in the consultation paper<sup>63</sup>, the CRU noted that the PC4 capex framework was likely to work better on some projects rather than others:

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<sup>63</sup> Available [here](#).

- The incentive framework was seen to work best at a project level where there is a clear output and cost at the time of the ex-ante regulatory determination (i.e., a clear baseline allowance is established), with a delivery of a similar scope during the price control itself.
- The regime was seen to work less well where the initial scope is less clearly defined and changed over the course of the price control. This informed the use of a two-tiered approach to designing the capex framework in PC5 (see below).

As a result, the CRU proposed a series of changes to the capex framework for PC5, including different categories, referred to as ‘tiers’, of capex project / programme that would receive different cost assessment and incentive treatments at the PC5 look-back review. The CRU also proposed changes to the strength of incentives applied to capex in certain scenarios and also changes to its requirements for the ongoing monitoring and reporting of GNI’s investment programme during the course of PC5.

As set out in this decision document (see section 5), the CRU has decided to largely retain the positions set out in the consultation paper<sup>64</sup>. The regime that will apply to capex during PC5 is set out in the subsections which follow.

➤ **Use of tiers for setting capex allowances**

For this PC5 decision, the CRU has decided to retain the use of a tiered approach to assessing capex projects, as described in the consultation. The CRU has assessed GNI’s capex proposals and allocated projects into three tiers. Tier 3 projects have not been included in the ex-ante allowances for PC5, for example where the needs case for investment has not been demonstrated. Tier 1 and tier 2 projects are included in ex-ante allowances but receive different regulatory treatments, as summarised in the table below.

Table 10: Description of Treatment of Tier 1 and Tier 2 Projects under PC5 Capex Framework

Tier	Cost Assessment Approach	Incentives Applying to Projects
Tier 1	Tier 1 projects have a CRU-set baseline, built up from an assessment against GNI’s submission of unit costs and quantities. This baseline is summarised in CRU2023138 & CRU2023139. <sup>65</sup>	Tier 1 projects will face the same framework of incentives to the PC4 regulatory framework, as described in table 11 below.

<sup>64</sup> Available [here](#).

<sup>65</sup> [Gas Networks Ireland Price Control 5 | CRU.ie](#)

Tier	Cost Assessment Approach	Incentives Applying to Projects
	<p>For tier 1 projects, the CRU may have applied a price or quantity challenge to GNI's original submission.</p> <p>The CRU will assess GNI's outturn capex performance at the PC5 ex-post review taking into consideration what had been assumed for quantities and unit prices.<sup>66</sup></p>	
Tier 2	<p>Tier 2 projects are included in the PC5 ex-ante capex allowances without the CRU applying a challenge to GNI's submission for PC5 (either on price or quantity).</p> <p>This does not imply that the CRU considers GNI's ex-ante estimate of the project cost is a definitive view of economic and efficient expenditure (or indeed solution).</p> <p>Tier 2 projects are cases where GNI has demonstrated a needs case for investment and CRU considers it suitable to build up the headline allowance using GNI's cost estimate for PC5. However, there remains a higher degree of uncertainty of expenditure requirements for the project / programme in question.</p>	<p>Tier 2 projects will be funded at outturn cost (subject to an ex-post review of the efficiency of the incurred spend).</p> <p>Tier 2 projects will not have the incentive framework applied to tier 1 projects given the CRU was not able to establish a sufficiently robust baseline for the tier 2 project at the PC5 ex-ante capex assessment.</p>

The expectation is that tier 1 projects are further along GNI's project investment gateway cycle and, therefore, these are less likely to be cancelled or significantly changed. If GNI is able to beat the allowance or defer part of the work for these projects, it is more likely that this is a result of efficiency savings or efficient deferral. It should also be clearer to identify what is the source / cause of any project / programme overspends that are incurred, as GNI's outturn expenditure can be reviewed against a relatively clear baseline / robust forecast. For these reasons, the CRU considers it appropriate to apply the PC4 incentive framework to these tier 1 projects.

In contrast, for tier 2 projects, the baseline cost is less clear, and it is expected that a greater proportion of the work may be fundamentally changed in scope, mix or may get reallocated to other priorities. For these projects, the CRU is less confident in setting an ex-ante baseline and,

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<sup>66</sup> In some cases, the project-based allowances relate to a programme of work with less quantifiable outputs. In those cases, the challenge may be less suited to a mechanistic application of the incentive framework and the CRU will apply judgement, for example whether the envisaged output/quantity of work was in practice delivered by GNI.

therefore, attributing the drivers of under or overspends compared to GNI's original ex-ante cost submissions for the purposes of applying an incentive framework to these over and underspends. For these reasons, the CRU does not consider it is appropriate to apply the incentive framework it adopted at PC4 to these projects, and instead will review the economy and efficiency of GNI's outturn spend at the PC5 ex-post review.

For both tier 1 and 2 projects, the emphasis is on GNI to demonstrate why it has undertaken an investment, and to evidence to the CRU as part of the ex-post review that project / programme decisions taken were justified and the costs efficient. As with tier 1 projects, investment for tier 2 projects may be disallowed by the CRU from the RAB where GNI's expenditure is not sufficiently demonstrated to be justified, necessary and efficient (i.e., 'unjustified spend'). Under all cases, the onus continues to rest with GNI to demonstrate the efficiency of spend and provide relevant information to support any ex-post assessment.

Consistent with previous price control look back assessments, the CRU expects GNI's PC5 investment programme for tier 1 and tier 2 projects to be justified by reference to, *inter alia*:

- technical justification papers;
- cost benefit analyses;
- analysis and findings from the NDP and new core flexibility report;<sup>67</sup>
- the CRU's capex project workbook – see appendix of CRU2023144 & CRU2023146.<sup>68</sup>
- unit cost benchmarking and project costing;
- evidence of the internal and external factors that impacted outturn cost performance;
  - external items may include demonstrating external cost pressures, changing composition of work, scale of work varying or changes in scope;
  - internal items may include robustness of scope design, risk allocation, procurement and project management; and
- reconciliation to GNI's original PC5 submissions and business cases for projects.

The CRU and its technical consultants have assessed the projects that are included in PC5 ex-ante allowances (i.e., tier 1 and tier 2 projects) and have an ex-ante need / business case, with information available today. However, GNI should expect to demonstrate at the ex-post review that there remains a need / business case when the investment is undertaken by reference to the principles and guidelines set out above. The CRU is also not indicating that the tier 2 solution is

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<sup>67</sup> See section 3 of the main document for further discussion.

<sup>68</sup> [Gas Networks Ireland Price Control 5 | CRU.ie](#)

necessarily the optimal one, as there is sufficient uncertainty around this, as to it being included as a tier 2 project.

The cost incentive will be applied by comparing outturn costs to allowances. In doing so, the CRU will have regard to the information that the licensee had available, or should reasonably have had available, at the time of making expenditure decisions. CRU has decided that projects will not be able to change tier during the course of PC5. Projects that GNI deliver but are not envisaged in the PC5 determination will face the same treatment as tier 2 projects.

➤ **Categories of expenditure under PC5 capex framework**

The treatment of capex costs under the PC5 ex-post review will be set by a series of expenditure categories, which are summarised in table 11 below.

Table 11: Categories of Expenditure under the Capex Incentive Framework

<b>Expenditure category</b>	<b>Description</b>	<b>Application to Tiers</b>
RAB additions		
Efficient expenditure	Expenditure that should be allowed to enter the RAB and recovered over the assumed life of the asset. Expenditure is considered necessary and technically justified.	Both
Unjustified spend	Expenditure that should be disallowed from the RAB. Expenditure is not considered to be economic and efficient cost that benefits consumers.	Both
Revenue adjustments i.e., incentives		
Financed overspend No reward/penalty	Expenditure that should be allowed to enter the RAB and recovered over the assumed life of the asset and GNI recompensed for financing the investment in PC4, despite GNI's outturn unit costs being higher than assumed at the previous determination. Additional cost is considered to be justified as economic and efficient.	Tier 1
Unfinanced overspend Financial penalty	Expenditure where GNI should not be recompensed for financing the investment in PC4, but the investment should be included in the opening RAB for PC5. GNI face the costs of the overspend from five years from the date of inclusion in the RAB. GNI's outturn unit costs are higher than assumed at the previous determination.	Tier 1

Expenditure category	Description	Application to Tiers
Efficient savings Financial reward	GNI retain the benefits of this saving for five years from the date of inclusion in the RAB, but actual rather than forecast capex incurred would be put in the RAB at the end of the five years. This is where GNI's outturn unit costs are lower than assumed at the previous determination and the savings represent a demonstrable efficiency <sup>69</sup> .	Tier 1
Efficient deferral Financial reward	GNI will retain the depreciation and return earned for the deferred work in PC4, but no value for the work will be added to the starting RAB for PC5. The expenditure is considered to be appropriately delayed, given evolving business cases for completing the project / work programme.	Tier 1

➤ **Incentive strength / values**

The financial strength applied to unfinanced overspends and efficient savings will be equivalent in PC5, i.e., 5-years of return and depreciation on the over or underspend relative to the PC5 ex-ante allowance. For efficient deferrals, the reward is based on 2.5 years of return and depreciation benefits.

➤ **Monitoring**

GNI will be required to report on the basis set out in the main report. This includes the preparation of technical justification papers, for new projects or projects that have materially changed. The reporting also includes annual reporting on cost, outputs and timings, at a project-level consistent with PC5 allowances. Wider reporting, such as the core flexibility report, will also be relevant for ensuring GNI's PC5 capex programme is transparent and well-understood by the CRU and industry stakeholders.

➤ **Treatment of contributions**

For the purposes of the lookback assessment, the CRU will assess efficiency of spend on a gross basis, i.e., net of contributions. For distribution, contributions are not aligned with projects, therefore a net approach cannot be applied at present. For transmission, the mix of work can

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<sup>69</sup> Rather than for example, delivering a different mix of work that involves an equivalent volume of lower cost outputs.

impact on contributions received and has the ability to distort rewards when using a net approach. The CRU will consider contributions more broadly ahead of PC6.



## Appendix G: Annual Reporting Templates

The annual reporting template is expected to closely follow the form of an excel-based business plan questionnaire (BPQ) prepared by GNI at the start of the PC5 price control.

GNI will report across three items: i) costs, ii) outputs/ timings (capex only), and iii) cost drivers.

### ➤ Costs

For costs, GNI should report on a disaggregated and aggregated basis, for both opex and capex. The CRU expects a flat-file database style presentation for the disaggregated reporting. This will permit the CRU to utilise the information to present information in different ways and avoid GNI having to duplicate effort to present tables in different forms.

For aggregated reporting, GNI will report in a way that aligns with the reporting in the CRU decision documents.<sup>70</sup> The additional definition rows will be used to provide further breakdown of cost categories e.g., asset breakdown into sub-functions on opex, or capturing multiple outputs on capex projects. The CRU expects to work with GNI during the transition period to determine these costs.

Table 12: Columns for Reporting

Columns	Columns
Opex costs	Capex costs
Distribution / Transmission / Corrib	Distribution / Transmission / Corrib
Controllable / Pass-through	Outturn / Allowance
Outturn / Allowance	Gross capex / Contribution
Gross opex / Contribution / Innovation	Project reference
Functional Opex / Pass-through category	Project name
Additional definition 1	Project driver
Additional definition 2	RAB category
Additional definition 3	Additional definition 1

<sup>70</sup> [Gas Networks Ireland Price Control 5 | CRU.ie](#)

Expense item	Additional definition 2
Year	Year
Value (€)	Value (€)

➤ **Outputs / Timings**

For individual capex projects, the CRU requires GNI to set out their project outputs in a way that is consistent with the price and quantities set out by the CRU in this decision (see CRU202318 & CRU2023139)<sup>71</sup>. GNI should also provide information on the relevant gateway for each project set out in that file and expected timings for completion of the project.

➤ **Cost Drivers**

The CRU expects GNI to provide relevant cost drivers on an annual basis. The cost driver information from GNI should include FTEs (gas year average) by functional area, and information on:

- number of customers (#);
- units distributed (MWh pa);
- line Length (km); and
- new connections (#).

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<sup>71</sup> [Gas Networks Ireland Price Control 5 | CRU.ie](https://www.cru.ie)