



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

An Coimisiún um Rialáil Fóntais
Commission for Regulation of Utilities

Proposed Decision & Consultation on Price Control 5 Implementation

Consultation Paper

Reference: CRU2024122

Date published: 11/10/24

Closing date: 08/11/24

CRU Strategic Plan 2022-24

<p>Our Mission</p> <ul style="list-style-type: none">• Protecting the public interest in water, energy and energy safety.	<p>Our Strategic Priorities</p> <ul style="list-style-type: none">• Ensure Security of Supply• Drive a Low Carbon Future• Empower and Protect Customers• Enable our People and Organisational Capacity
<p>Our Vision</p> <ul style="list-style-type: none">• Safe, secure and sustainable supplies of energy and water, for the benefit of customer now and in the future	

Executive Summary

GNI is licenced by the CRU as the owner and operator of the Irish gas distribution and transmission networks. As part of the CRU's legislative duties under the Gas (Interim) Regulation Act, 2002, as amended, the CRU approves the revenues that GNI can collect from its customers. These revenues are set every five years in a process called a 'price control'. In December 2023 the CRU published a paper ([CRU2023140](#)) setting out its decision regarding the regulatory framework for the Price Control 5 (PC5) period. The decision included a suite of changes such as the introduction of new incentives and reporting requirements. The changes aimed to ensure that GNI has sufficient flexibility to adapt to the challenges of PC5 and to incentivise behaviours which are in the interest of the customer.

The decision paper set out that implementation of the changes to the framework will take time and that a transition period will be necessary before the full incentive and reporting regime will take effect. The transition period, which is now in effect, was intended to allow further engagement between the CRU and GNI on the practicalities of delivering on the new framework. That engagement has commenced and the CRU is now seeking feedback from the public on its proposals for implementing the PC5 regulatory framework.

The CRU and GNI agreed that the delivery of four elements of the decision should be prioritised as part of an adaptive approach to align with changing policy dynamics: the decarbonisation policy alignment incentive, shrinkage incentive, gas-fired generation connections incentive and stakeholder engagement incentive. As the proposals on these priority areas are more advanced, they are set out in the form of a proposed decision in Section 2 of this paper. The proposed decision can be summarised as follows:

- **Decarbonisation policy alignment incentive:**
 - The CRU is proposing a high-level reporting structure for this section of the FROGI and Decarbonisation Policy report, which should be submitted by end-April of each year. GNI should use this report section to show how it is going beyond simple compliance with its legal and policy obligations on decarbonisation, bringing together actions and projects into a coherent strategy to help deliver broader decarbonisation goals.
 - GNI should provide updates on all actions it is responsible for under relevant policy and legal documents, including the Climate Action Plans, National Biomethane Strategy, National Hydrogen Strategy, National Energy Demand Strategy, and the new EU Hydrogen and Decarbonised Gas Market package.
 - The CRU has proposed an initial list of metrics which GNI should include in the reporting and invites stakeholders to suggest any additional metrics.

- The assessment of this incentive will be carried out at the end of PC5, with separate scores for each of the three assessed years. The CRU will consider GNI's role in delivering or facilitating decarbonisation objectives, rather than simply looking at whether high-level targets have been met.
- **Shrinkage incentive:**
 - On information gathering and reporting, GNI should improve its estimation methodologies for Unaccounted for Gas (UAG) and the granularity of its overall shrinkage reporting for both its distribution and its transmission network. The CRU set out examples of more granular breakdowns and provided further guidance around the OGMP 2.0 framework and the recent EU Methane Regulation.
 - On demonstrated actions, GNI should provide the CRU with a summary of all known leak events and how they were resolved, including relevant metrics. In line with what is set out in the balanced scorecard and with the new EU Methane Regulation, GNI should also reference its investments and projects aimed at improving leak detection and repair (LDAR), with reference to international best practice and opportunities for innovation.
 - The assessment will be focused on GNI's performance in delivering improved information on and demonstrating actions to reduce UAG, although metrics on Own-Use Gas (OUG) should also be provided as they offer important context. The CRU will carry out a holistic assessment at the end of PC5, looking at GNI's efforts in the round. Separate scores will be provided for information gathering and reporting, on the one hand, and for demonstrated actions on the other.
- **Gas-fired generation connections (GFGC) incentive:**
 - The GFGC incentive will cover the delivery of individual connections, including managing associated risks and providing accurate cost estimates, as well as GNI's planning to coordinate across multiple connections where beneficial.
 - The GFGC Connections Report will consist of an overarching public facing document and a confidential appendix for CRU review only. The public facing document must provide an accurate view of GNI's performance in delivering GFGCs, including on project planning, cost estimation, portfolio enablement and stakeholder engagement, with the confidential appendix limited to providing strictly confidential information. Both reports are to cover the previous gas year and to be submitted by the end of February each year.
 - The assessment of this incentive will take place at the end of PC5 with the CRU considering GNI's performance in the round, including its performance against metrics and ability to apply lessons learned.
- **Stakeholder engagement incentive:**

- The stakeholder engagement incentive will cover the quality, implementation and effectiveness of GNI's stakeholder engagement strategy, as well as the lessons learned from GNI's stakeholder engagement.
- The report will also include a separate section on delivering large connections, given the expectation that engagement with large connections may differ from that with other customers.
- Assessment against GNI's Stakeholder Engagement Plan will be undertaken by a panel composed solely for this purpose, based on the panel structure used for PR5 network stakeholder's engagement evaluation (NSEE). The composition of the panel, with panel members representing stakeholders across the industry, will be determined by the CRU.
- GNI's strategy for stakeholder engagement and its activities in the preceding calendar year will be assessed annually from 2026 onwards. GNI will be awarded a score on a scale of one to ten, with at least a score of five required for a financial reward. The CRU will also publish a close out report on the panel's decision with recommendations for GNI.

The CRU has also further developed proposals on how to implement the remaining aspects of the PC5 regulatory framework. These are set out in the form of a consultation in Section 3 and summarised below:

- **Capex incentives and reporting:**
 - We expand on the PC5 decision paper and set out a number of principles that GNI's reporting template must adhere to. We also propose full quarterly capex monitoring reporting by GNI as a dashboard in confidential form. This is an increase in the frequency of reporting when compared to the annual reporting prescribed in the PC5 decision.
- **Biomethane connections incentive:**
 - We build upon the PC5 decision paper and set out a number of minimum reporting requirements such as the number of biomethane connections going through each step in the connection pipeline and timelines agreed with developers.
 - We also propose bi-monthly reporting by GNI as a dashboard and require GNI to report metrics on the expected level of renewable gas curtailment.
- **Hydrogen readiness incentive and reporting:**
 - We propose that GNI include a detailed update on its activities associated with both blending and conversion to transport 100% hydrogen through its pipelines.
 - We also sets out a number of reporting expectations including updates on GNI's actions under the National Hydrogen Strategy

- We note that GNI's focus should be on projects aimed at preparations for the potential injection of hydrogen at low levels of blend into the existing gas network, and on longer-term planning for transitioning parts of the network to hydrogen
- **Investment planning and delivery incentive:**
 - We expand on the PC5 decision paper and set out further guidance, expectations and requirements for GNI. For example, detailed CBAs when considering options in its investment decision making process, benchmarking of costs where possible and demonstrating it has taken into account lessons learned and has continuously improves over the duration of the price control.
- **Customer performance indicators:**
 - We build upon the PC5 decision paper and set out further guidance on surveys, reporting and expected information. For example, GNI should work with a third party to develop a survey for customer performance indicators subject to CRU approval and should be able to substantiate its performance, i.e. provide more information on the underlying data when requested.
- **Flexibility and adaptability incentive:**
 - We expand on the PC5 decision paper and include further guidance on reporting. For example, in the Core Flexibility Report GNI should demonstrate how it is ensuring that it delivers a capital programme of no or low-regrets investment, refer to the most recent Network Development Plan where relevant, include lessons learnt and supporting information, and develop a series of metrics that can be used to assess performance.
- **Flexibility pot and uncertainty mechanisms:**
 - We summarise GNI's expectations on when uncertainty mechanisms may be triggered and provide further guidance on the uncertainty mechanism report. For example, GNI should include a progress update on the use of all uncertainty mechanisms available within PC5, including GNI's request, the CRU's decision and any revenue impacts. Information regarding potential future use of the uncertainty mechanisms should also be provided to the extent possible.
- **Innovation:**
 - We summarise progress since the PC5 decision paper: GNI has established an interim governance board, allocated a portion of the Network-Based Innovation Fund (NBIF) to projects, and is working with Research Ireland on co-funding arrangements for the Strategic Innovation Fund
 - We comment on next steps for an enduring governance board and set out further guidance on annual innovation reporting – for example, the reports

should include a summary of ongoing allocation decisions for both pots, the outcomes of trials funded by the NBIF, and information on BAU adoption.

Feedback should be submitted to the CRU by close of business on 8 November 2024 via the CRU consultation platform. The CRU will review and consider all responses fully in reaching a decision. Once a decision is reached (likely in December 2024), a decision paper will be published on the CRU's website.

Public / Customer Impact Statement

Gas Networks Ireland (GNI) owns and operates Ireland's gas network. 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. To do this, the CRU conducts a detailed review of GNI's business plan and financial proposals every five years. This process is called a price control. The decision for the most recent price control (Price Control 5 or PC5) was published in December 2023 and covers the period from October 2022 to September 2027. As part of that decision, the CRU updated the regulatory framework underlying the price control. The regulatory framework seeks to ensure that GNI has sufficient flexibility to adapt to the challenges of PC5 and to incentive behaviours which are in the interest of the customer. With the PC5 decision the CRU aimed to achieve the following benefits for gas customers:

- 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 during 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.

Implementing the regulatory framework ensures that the benefits of the PC5 decision for gas customers, such as providing high-quality service and efficiently facilitating the energy transition, can be fully realised.

Table of Contents

Our Mission	1
Our Strategic Priorities	1
Our Vision	1
1. Introduction	11
1.1 The Commission for Regulation of Utilities	11
1.2 Background	11
1.3 PC5 reporting timeline	13
1.4 CRU decision-making timings and impact on tariffs	15
1.5 CRU evaluation	16
1.6 Purpose of this paper	16
1.7 Structure of this paper	16
1.8 Related documents	17
1.9 Responding to this paper	17
2. Proposed Decision	18
2.1 Shrinkage incentive (qualitative component)	18
2.1.1 Overview and reporting requirements for PC5	18
2.1.2 Balanced scorecard.....	20
2.1.3 Updates since PC5 decision.....	23
2.1.4 Proposed guidance on reporting and balanced scorecard	24
2.1.5 Proposed guidance on CRU evaluation	28
2.1.6 Request for comment	30
2.2 Decarbonisation Policy Alignment incentive	31
2.2.1 Overview and reporting requirements for PC5.....	31
2.2.2 Balanced scorecard.....	31
2.2.3 Updates since PC5 decision.....	34
2.2.4 Proposed guidance on reporting and balanced scorecard	36
2.2.5 Proposed guidance on CRU evaluation	41
2.2.6 Request for comment	41
2.3 Gas-fired generation connections incentive	43
2.3.1 Overview and reporting requirements for PC5.....	43
2.3.2 Balanced scorecard.....	44
2.3.3 Updates since PC5 decision.....	48
2.3.4 Proposed guidance on reporting and balanced scorecard	50
2.3.5 Proposed guidance on CRU evaluation	58
2.3.6 Request for comment	59
2.4 Stakeholder engagement	60
2.4.1 Overview and reporting requirements for PC5.....	60
2.4.2 Updates since PC5 decision.....	61
2.4.3 Proposed guidance on reporting and assessment criteria	62
2.4.4 Proposed guidance on CRU evaluation	66
2.4.5 Request for comment	68

3. Consultation topics.....	69
3.1 Capex incentives	69
3.1.1 Updates since PC5 decision.....	70
3.1.2 Request for comment	74
3.2 Biomethane Connections Incentive	75
3.2.1 Updates since PC5 decision.....	75
3.2.2 Request for comment	77
3.3 Hydrogen Readiness Incentive.....	78
3.3.1 Updates since PC5 decision.....	78
3.3.2 Request for comment	80
3.4 Investment planning and delivery incentive.....	81
3.4.1 Updates since PC5 decision.....	81
3.4.2 Request for comment	83
3.5 Customer performance indicators	84
3.5.1 Updates since PC5 decision.....	85
3.5.2 Request for comment	87
3.6 Flexibility and Adaptability incentive	88
3.6.1 Updates since PC5 decision.....	88
3.6.2 Request for comment	90
3.7 Flexibility pot and uncertainty mechanisms.....	91
3.7.1 Updates since PC5 decision.....	91
3.7.2 Request for comment	92
3.8 Innovation	93
3.8.1 Updates since PC5 decision.....	94
3.8.2 Request for comment	96
4. Next Steps.....	97

Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
BAU	Business as usual
BPQ	Business Plan Questionnaire
Capex	Capital expenditure
CNG	Compressed natural gas
CRU	Commission for Regulation of Utilities
DNO	Distribution Network Operator
GFGC	Gas-fired generation connections
GNSEE Panel	Gas Network Stakeholder Engagement Evaluation Panel
LNCA	Large Network Connection Agreement
OUG	Own-use gas
PC5	Price Control 5
PR5	Price Review 5
RAB	Regulated Asset Base
RHO	Renewable Heat Obligation
TJP	Technical Justification Paper
UAG	Unaccounted-for gas

1. Introduction

1.1 The Commission for Regulation of Utilities

The Commission for Regulation of Utilities (CRU) is Ireland's independent energy and water regulator. The CRU was established in 1999 and has a wide range of economic, customer protection and safety responsibilities in energy and water. Our mission is to protect the public interest in water, energy and energy safety.

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 Background

GNI is licenced 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. These revenues are set every five years in a process called a 'price control'. In December 2023 the CRU published a paper ([CRU2023140](#)) setting out its decision regarding the regulatory framework for the Price Control 5 (PC5) period. The decision covers the period from October 2022 to September 2027.

Taking account of the rapidly evolving policy landscape with regard to decarbonisation and security of supply, the PC5 regulatory framework decision aimed to facilitate flexibility within GNI's decision-making and to encourage behaviours that would both ensure that GNI responds appropriately to policy and bring value to gas customers, such as introducing new incentives for aligning with decarbonisation policy, engaging with stakeholders, and reducing shrinkage.

The decision paper set out that implementation of the changes to the framework would take time and that a transition period would be necessary before the full incentive and reporting regime takes effect. The transition period would allow further engagement between the CRU and GNI on the practicalities of delivering on the new framework. The paper stated that the delivery of the decarbonisation policy alignment incentive, shrinkage incentive, and gas-fired generation connections incentive would be prioritised as part of an adaptive approach to align with changing policy dynamics. Due to a request from GNI, the CRU is also prioritising the delivery of the stakeholder engagement incentive.

Following engagement with GNI since the PC5 decision, the CRU is seeking public feedback on its current proposals on how to implement the PC5 regulatory framework. As the proposals on

the prioritised areas set out above are more advanced, they are set out in the form of a proposed decision in Section 2. Proposals on remaining elements of the framework are set out in the form of a consultation in Section 3. Alongside this paper the CRU is also publishing a consultation paper (CRU2024123) on the Terms of Reference for the Gas Network Stakeholder Engagement Evaluation Panel and a call for applicants to form the panel.

The CRU and GNI have been engaging on the regulatory framework since the decision. In August 2024 GNI submitted a formal response to the CRU including suggested reporting structures and schedules as well as proposals for which metrics should be used in the assessment for these incentives. A summary of those incentives and the requisite reporting is contained in Figure 1 below.

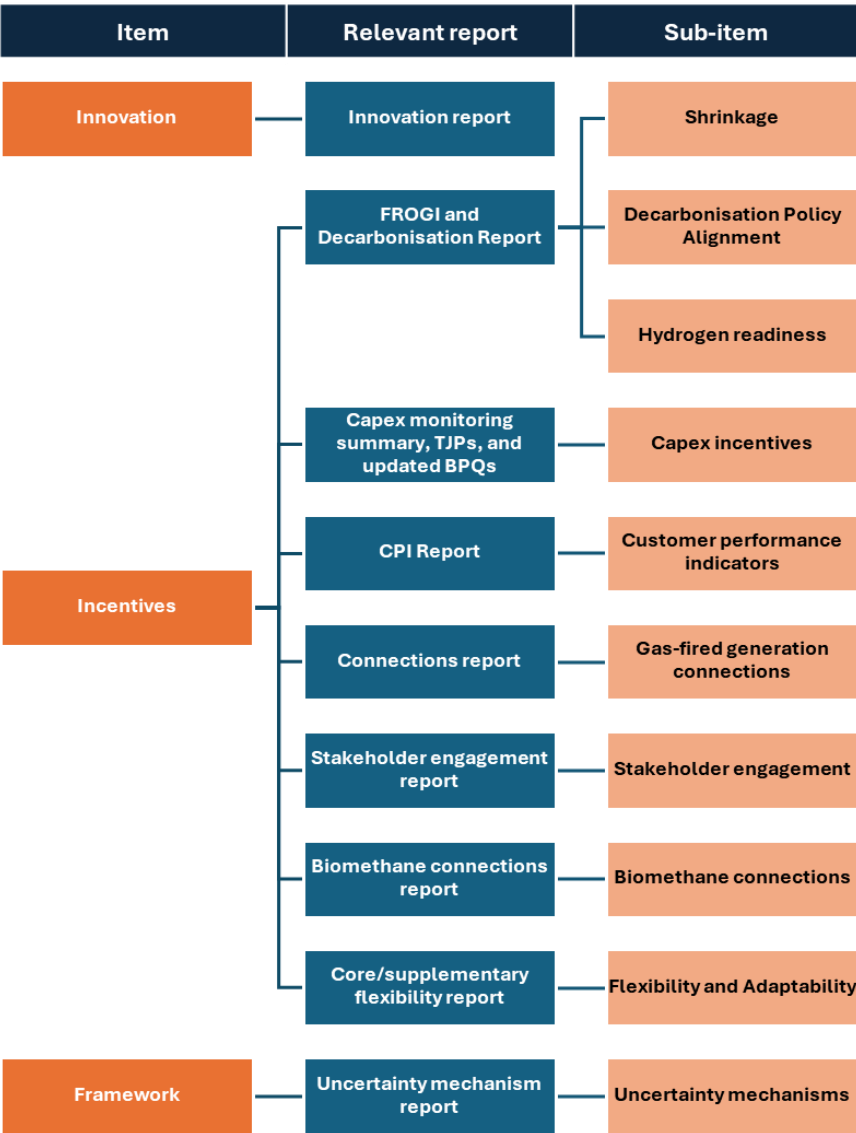


Figure 1: A summary of the incentives and corresponding reporting introduced for PC5.

This report presents proposals for the implementation of the PC5 Regulatory Framework incentives as set out in the CRU PC5 Decision. We focus on four incentives in our assessment

and engagement with GNI, which includes three incentives signalled as priority in the PC5 Decision. The prioritisation exercise reflects the evolution in the regulatory framework and an attempt to provide certainty around incentives that we consider are central to achieving the objectives set out in the PC5 Decision. The four prioritised incentives are:

- The (qualitative) Shrinkage incentive;
- The Decarbonisation Policy Alignment incentive;
- The Gas-Fired Generation Connections incentive; and
- The Stakeholder Engagement incentive.

For each of these incentives, this report presents an overview of the incentive as it was introduced in the PC5 Decision, including an explanation of the purpose of the incentive and of the reporting requirements already set out in the Decision. It then summarises relevant updates since the PC5 decision, focusing primarily on any updates provided by GNI in its August submission, any changes in legislation or policy since the PC5 Decision, and any further analysis undertaken by the CRU on how best to implement the incentives. After that, it sets out our proposed guidance for information and metrics which GNI should include in their reporting against each incentive, as well as our proposals for how we will use this information and these metrics in the evaluation to award the incentive. Finally, it lists some questions for stakeholders which the CRU is seeking views on as part of this report.

The report also lists CRU proposals for the implementation of the other six incentives and remaining aspects of the framework. These proposals follow a similar structure to that used for high-priority incentives, but are generally higher-level in nature. We are interested in stakeholder views on how to implement these aspects and intend to provide a decision on all items in December 2024.

1.3 PC5 reporting timeline

Based on the requirements set out in the PC5 Decision and on our engagement with GNI we propose the following reporting timeline for the reports which are relevant to the incentives described in this report. We provide precise timelines and frequency of reporting in Table 1 below, with the intent of alleviating the resource burden on both the CRU and GNI that would arise from a single large submission of a variety of reports. The timings chosen allow for time-sensitive assessments to be prioritised first, such as those that feed directly into the tariffing process. The CRU will review these timelines and make a final decision on them in its decision paper expected in December 2024.

Table 1: Timelines and frequency for reporting for each incentive over PC5.

Report name	Frequency of GNI reporting	Incentives linked to this report (timing of assessment)
FROGI and Decarbonisation Policy Report	Annual: refers to previous gas year; submitted by end-April	Shrinkage Incentive (end of PC5), Decarbonisation Policy Alignment Incentive (end of PC5), Hydrogen Readiness Incentive (annual), Uncertainty Mechanisms
Biomethane Connections Report	Annual: refers to previous gas year; submitted by end-February	Biomethane Connections Incentive (annual)
Gas-Fired Generation Connections Report	Annual: refers to previous calendar year; submitted by end-February	Gas-fired Generation Connections Incentive (end of PC5)
Stakeholder Engagement Plan Report and Stakeholder Outturn Report	Annual: refers to previous calendar year; submitted by end-March when Outturn Report is also published for consultation.	Stakeholder Engagement Incentive (annual)
Customer Performance Indicator Results	Annual: refers to previous calendar year; submitted by end-March	Customer Performance Indicators (annual)
Core Flexibility Report	Biennial, submitted by end-May – first report in 2025	Flexibility and Adaptability Incentive, Flexibility Pot (end of PC5)
Supplemental Flexibility Report	Biennial, submitted by end-May – first report in 2026	Flexibility and Adaptability Incentive, Flexibility Pot (end of PC5)
Uncertainty Mechanisms Report	Annual, submitted by end-March – first report in 2025	Uncertainty Mechanisms

Capex Monitoring Summary	Quarterly, submitted by end of each subsequent quarter – first report in Q1 2025	Capex Incentives, Investment Planning and Delivery Incentive (end of PC5)
Updated Business Plan Questionnaire Outputs	Annual, submitted by end-January – first report in 2025	Capex Incentives, Investment Planning and Delivery Incentive (end of PC5)
Innovation Report	Annual, submitted by end-April – first report in 2025	Innovation; Strategic Innovation Fund and the Network-Based Innovation Fund

1.4 CRU decision-making timings and impact on tariffs

The incentive framework includes a combination of within-period assessments and end-of-period assessments. Most reports used in the assessment process will be due in the first quarter of each calendar year (except those submitted biennially, which are due in Q1 of every other year). The only exceptions are the FROGI and Decarbonisation Policy Report as well as the Innovation Report, which are due in the second quarter. All reports submitted by GNI will be published, unless stated otherwise in this paper. For some incentives, GNI may be required to provide confidential information. In such cases, the report, or parts of it, may be submitted only for the CRU to review.

Reports submitted in early 2025, relative to the gas year 2023/24, will not be used to assess GNI's performance against the PC5 incentive framework and will not lead to any financial rewards or penalties. However, the CRU intends to provide GNI with feedback on its 2025 submissions, in order to inform subsequent submissions which will be assessed. The CRU intends to make feedback publicly available. It will provide an initial assessment of the structure of GNI's reports, the metrics and information reported within them, and outline any changes which GNI should make in their future reports. This may also involve shadow scores – i.e. the scores that the CRU would have awarded to GNI against each incentive if the reports had been assessed.

For incentives which the CRU will score annually, the assessment will happen ahead of the tariff setting process in Q2 of each year, such that any financial rewards or penalties will feed into the determination of tariffs for the following gas year. The reporting timeline set out above reflects this: all reports linked to incentives which the CRU will assess annually will be submitted in Q1

of each year. The only exception is the FROGI and Decarbonisation Policy Report, which GNI should submit by the end of April. The only incentive linked to this report which is assessed annually is the Hydrogen Readiness Incentive, which is a reputational incentive with no financial reward or penalty associated to it. As such, the CRU considers that an end of April submission deadline for the FROGI and Decarbonisation Policy Report is consistent with the timings set out above.

As the Innovation Report has no associated incentive, the CRU is of the view that it can also be submitted in Q2 of each year. GNI should submit the report by the end of April, which will allow for more time preparing and assessing reports on the time-sensitive incentives.

For incentives which are assessed at the end of the PC5 period, the CRU will still provide GNI with feedback on its yearly submissions as guidance to inform submissions in subsequent years. This feedback will also be published, although it will not contain shadow scores to avoid prejudicing the end-of-period assessment.

1.5 CRU evaluation

The assessment for the PC5 performance incentives will involve a degree of judgement, as most incentives will be assessed through a qualitative scorecard. In line with what was set out in the PC5 Decision, the CRU will ensure that the evaluation is carried out fairly, in a timely manner, and considering a broad set of views. As such, while the CRU will be ultimately responsible for assessing GNI's performance under the PC5 incentives, it may look to make use of external input and stakeholder views in doing so.

1.6 Purpose of this paper

This paper seeks feedback on the CRU's proposed decision regarding the implementation of priority elements of the PC5 regulatory framework as well as proposals for implementing remaining aspects of the regulatory framework. All responses to this paper will be reviewed and considered fully in reaching a decision. The paper builds on the CRU's PC5 Regulatory Framework Decision Paper ([CRU2023140](#)) published in December 2023.

1.7 Structure of this paper

This paper contains the following sections:

- Section 1 provides an introduction and context for the topics discussed in the paper;

- Section 2 sets out the CRU's proposed decision for the implementation of the priority PC5 regulatory framework topics and seeks feedback from the public;
- Section 3 describes the CRU's proposals for the implementation of other PC5 regulatory framework topics and seeks feedback from the public;
- Section 4 sets out the next steps that will occur after this paper is published; and
- Appendix A lists the consultation questions asked throughout this paper.

1.8 Related documents

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

- [CRU2023140 CRU Decision on the PC5 Regulatory Framework](#)
- [CRU202370 CRU Consultation on the PC5 Regulatory Framework](#)

Alongside this paper the CRU is also publishing a consultation paper (CRU2024123) on the Terms of Reference for the Gas Network Stakeholder Engagement Evaluation Panel and a call for applicants to form the panel.

1.9 Responding to this paper

The CRU invites responses to this paper by close of business on 8 November 2024. Responses should be submitted through the dedicated CRU consultation platform which can be found on the CRU website [here](#). Unless marked confidential, the CRU may publish all responses on the CRU's website.

2. Proposed Decision

This section sets out the CRU's proposed decision on how to implement the following priority aspects of the PC5 Regulatory Framework:

- Shrinkage incentive
- Decarbonisation policy alignment incentive
- Gas-fired generation connections incentive
- Stakeholder engagement incentive

2.1 Shrinkage incentive (qualitative component)

2.1.1 Overview and reporting requirements for PC5

Shrinkage gas is natural gas transported through the network which is not delivered to final consumers. It is composed of two high-level categories: Own-Use Gas (OUG), which is gas consumed by gas network equipment such as compressors, and Unaccounted-for Gas (UAG), which is gas lost from the network due to leakage, metering errors, or theft.

Shrinkage gas is important for two reasons. The first is its costs: a proportion of allowed revenue, which GNI ultimately recovers from gas consumers, pays for the costs of shrinkage gas – which needs to be purchased but is then not sold on to end consumers. The second is its environmental impact: shrinkage is the primary source of direct emissions from the network, and UAG is of particular concern due to the direct emission of methane into the atmosphere via gas leakages.

Shrinkage volumes accounted for an average of about 1.2% of total throughput in GNI's transmission network in the period 2015-2019, of which about 0.3% was UAG and 0.9% was OUG.¹

At the distribution level, the UAG component of shrinkage alone accounted for about 1.2% of total throughput, although it declined over the course of that period and further declines are expected to have happened in more recent years.

While like-for-like international comparisons for shrinkage volumes are difficult, due to often significant differences in the characteristics of different gas networks, GNI's distribution figures

¹ <https://www.gasnetworks.ie/docs/corporate/gas-regulation/GNI-Systems-Performance-Report-2019.pdf>
Systems Performance Reports including more recent data are expected to be published in the coming months.

suggest that its network may have had higher UAG volumes than the EU average for a comparable period. For example, an EC analysis of Eurostat data for the period 2015-2018 shows that EU-28 average distribution leakage – which is the primary component of distribution UAG in most systems – ranged between 0.4% and 0.6% of total consumption.²

Shrinkage gas is calculated as the difference between gas volumes injected into the network and volumes delivered to consumers. UAG is typically estimated ex post as the residual shrinkage gas once metered OUG volumes have been accounted for. Therefore, identifying the specific causes of UAG and measuring their contributions at a granular level is inherently quite challenging because UAG cannot be directly measured.

Typically, collecting more granular metering data on inflows and outflows from the network helps reduce the volume of UAG. To break down UAG into leakage volumes – i.e. gas emitted into the atmosphere – and UAG from other causes, GNI currently relies primarily on generic emissions factors applied to various components of its network, which are complemented by any data on known leakage. This is particularly true in the transmission network, where known levels of leakage are very low in comparison to the estimated level of UAG (i.e. residual shrinkage after removal of OUG). Another way to improve the granularity and efficacy of its shrinkage gas reporting is therefore for GNI to progressively move away from generic emissions factors, and directly monitor leakage from a representative sample of assets on their network.

In PC5, the CRU introduced a qualitative shrinkage incentive to complement the quantitative incentive (which was already applied to distribution in PC4 and will be retained). The qualitative incentive aims to improve the quality and granularity of information GNI collects and reports on shrinkage gas. This includes information on the actions taken to reduce shrinkage volumes and the identification and quantification of the underlying causes of UAG. This improved information base should enable the introduction of a quantitative incentive on shrinkage volumes in the transmission network for PC6.

The quantitative shrinkage incentive applies to GNI's distribution UAG volumes only and is applied to GNI's allowed revenue associated with the purchase of natural gas for shrinkage. GNI only receives allowed revenue to cover distribution UAG up to a "shrinkage factor" set at the target percentage for distribution UAG (as a proportion of total distribution throughput) in each year in the price control. GNI's shrinkage factor in 2022/23 was 0.70%. In its PC5 Decision, the CRU decided to reduce the shrinkage factor by 0.05% each year over the course of PC5, therefore reaching a factor of 0.50% in 2026/27.

² <https://publications.jrc.ec.europa.eu/repository/handle/JRC121752>, Figure 8.

The information reported under this qualitative incentive will be included in the Future Role of Gas Initiative (FROGI) and Decarbonisation report. This report will be published annually starting from the gas year 2024/25 and evaluated at the end of the price control period.

2.1.2 Balanced scorecard

We present below the Shrinkage incentive balanced scorecard set out in the PC5 Regulatory Framework Decision (Appendix C, page 89). We have not altered this, but provide further information in the sub-sections that follow.

Title	Description
Incentive name	Shrinkage incentive (qualitative)
Components (weight) and scoring guidance	
<p>Information Gathering and Reporting (60%)</p> <p><i>GNI should take actions to improve their understanding of shrinkage on the gas network, including improved data gathering.</i></p>	<p>Qualitatively assessed.</p> <p>Good: 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>Acceptable: GNI provides a greater breakdown of shrinkage throughput by component than provided</p>

	<p>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>Sub-par: 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. 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>Good: 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</p>

	<p>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>Acceptable: 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>Sub-par: 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>
Financial strength	
Symmetric or asymmetric	Asymmetric
Reward and / or penalty, %	+ €0.25m / - €0.50m, p.a.

of revenues	
Timings	
Frequency of GNI submission	Annual
Proposed frequency of CRU assessment	End of price control

2.1.3 Updates since PC5 decision

GNI submission

In its submission to us on the PC5 Regulatory Framework Implementation in August 2024, GNI agreed with the annual reporting requirement and proposed a schedule for submission of the annual FROGI and Decarbonisation Policy Report. This involves submission in Q2 (April to June) each year, in relation to the preceding gas year. As such, GNI proposed to submit a first FROGI and Decarbonisation Policy report in Q2 2025 for gas year 2023/24. This first report will not be subject to a formal assessment or financial incentive. However, feedback may be submitted to GNI to inform subsequent reports. GNI will then submit its final report in Q2 2028 (i.e. early in the PC6 price control), covering the gas year 2026/27.

With regards to the scope of the incentive, GNI proposed to report on the following:

- A quantitative review of GNI's shrinkage demand for the relevant gas year. We expect that it would include both a total estimate of shrinkage gas volumes, an appropriate level of breakdown, and an analysis of the drivers of changes in shrinkage volumes compared to previous periods. This is discussed in more detail in Section 2.1.4.
- A qualitative review of projects undertaken by GNI to reduce shrinkage volumes. GNI has indicated that this could include work to upgrade boilers and outputs from the "Methane Emissions working group", an internal working group which was set up to identify focus areas on reducing shrinkage emissions.
- A qualitative review of projects which GNI has not yet undertaken but is planning to undertake during the remainder of PC5, also aimed at reducing shrinkage volumes.

Policy and legislation

Since the PC5 decision an EU Regulation on methane reduction in energy sector was introduced. This Regulation came into force in August 2024.³ The Regulation introduces new requirements for the oil and gas sector in the EU to monitor, report, and take actions to reduce methane emissions from leakage – which is a major component of shrinkage volumes for gas networks.

While the regulation covers the entire European oil and gas sector, with a strong focus on companies producing and processing fossil fuels, the CRU is in discussions with GNI regarding the implications of the Regulation on the operation of the Irish gas network. GNI has signalled that it expects the implementation of the Regulation to lead to a change of pace in the measures and activities they are expected to undertake to reduce leakage volumes. For example, GNI has indicated that it may need to invest in significantly expanded leak detection and repair (LDAR) processes and equipment.

The CRU notes that a Competent Authority to oversee compliance with the new EU Regulation has not yet been appointed. This Competent Authority will be responsible for implementing the specific requirements contained in the regulation and ensuring that GNI complies with them. The information and actions which this incentive will assess overlap with the activities that the Competent Authority will be overseeing, in so far as methane emissions from leakage are a subset of shrinkage gas volumes. The CRU will continue to ensure that the shrinkage incentive is implemented in a way that is aligned with the implementation of the new EU Regulation. For example, as discussed in more detail in the next section, we will implement the “Demonstrated Actions” section of the balanced scorecard in light of more specific requirements set out by the competent authority, while maintaining the same overarching principles and objectives.

2.1.4 Proposed guidance on reporting and balanced scorecard

The scorecard for the Shrinkage incentive is divided into two sub-components: i) information gathering & reporting, and ii) demonstrated actions. We discuss each of these below.

Information gathering and reporting

GNI will submit quantitative reporting on shrinkage volumes. The accuracy and granularity of the quantitative reporting on shrinkage volumes will be assessed for this sub-component. This is independent of the level of shrinkage volumes.

As a minimum, the CRU expects GNI to report shrinkage volumes from both their transmission and distribution network broken down into Own-Use Gas (OUG) and Unaccounted-for Gas

³ [Regulation - EU - 2024/1787 - EN - EUR-Lex \(europa.eu\)](#)

(UAG), as they already do in existing monitoring and reporting. UAG should be further broken down into GNI's best estimates of:

- Metering errors;
- Theft (gas illegally taken by third parties); and
- Leakage from their network, broken down as granularly as possible.

Leakage volumes are of particular concern as they result in direct methane emissions into the atmosphere, rather than combustion of natural gas generating carbon dioxide. Since the global warming potential of methane is much higher than that of carbon dioxide, the environmental impact of similar shrinkage volumes due to gas leakage is orders of magnitude higher than equivalent shrinkage volumes lost to theft or OUG. Moreover, gas leakage can represent a safety hazard in some circumstances. As such, we expect GNI to focus significant efforts on producing high-quality information on gas leakage from their network to the highest level of granularity possible.

As an example, in GB the Gas Distribution Networks routinely report OUG, theft, and leakage volumes separately, with the latter broken down by:

- Leakage from low-pressure mains;
- Leakage from medium-pressure mains;
- Leakage from services;
- Leakage from AGIs; and
- Interference.⁴

The CRU expects GNI to improve granularity of this breakdown over the course of PC5, with explanations of how this will be achieved and any limitations provided in the report. The EU regulation may also impose requirements on GNI. We recognise that GNI's current monitoring capabilities will not immediately allow for accurate estimation at a high level of granularity.

Quality of information is particularly relevant to shrinkage volumes in GNI's transmission network. The CRU expects GNI to improve its estimates of the causes of shrinkage from the transmission network, split by OUG and UAG, with additional work to investigate the causes of the latter.⁵ GNI has signalled that this will include improving the granularity of their data collection and moving away from generic emissions factors to specific ones based on direct

⁴ See for example Cadent's 2023 Annual Environmental Report: [Annual Environmental Report 2023 \(cadentgas.com\)](https://www.cadentgas.com/annual-environmental-report-2023) or NGN's 2023 Annual Environmental Report: [NGN-22-23-AER_final-6.pdf \(northerngasnetworks.co.uk\)](https://www.northerngasnetworks.co.uk/annual-environmental-report-2023)

⁵ For example, in GB, National Gas Transmission report on UAG and OUG separately and provide annual updates on activities aimed at investigating the causes for UAG: <https://www.nationalgas.com/sites/default/files/documents/UAGCVS%20Report%20May%202024%20v1.0%20.pdf>

measurement of leakage from their assets. These improvements will be overseen by the Competent Authority appointed to oversee the EU Regulation on methane emissions; the CRU will assess their contribution to more granular reporting of shrinkage volumes.

Generally, the CRU expects GNI to accompany their quantitative reporting with detailed justifications for any methodological choices, explanations for missing information, and useful comparisons against past data on shrinkage volumes. Where there have been significant changes, GNI should provide adequate commentary and/or analysis to explain the cause of the changes.

The CRU understands that GNI is still in the process of carrying out a more detailed assessment of the OGMP 2.0 reporting level that it considers to be currently able to achieve.

The Oil and Gas Methane Partnership (OGMP) was set up in 2014 as a partnership amongst industry, government and civil society as part of a United Nations Environment Programme (UNEP) initiative. A launch followed a year later, as a voluntary initiative for companies to reduce methane emissions in the oil and gas sector. There is an associated reporting framework:

- **Level 1** of the framework corresponds to emissions reporting at a single, aggregate level for an entire organisation, with very limited information available.
- **Level 2** of the framework is achieved when leak emissions are reported in aggregated, simplified source categories, using a variety of different quantification methodologies.
- **Level 3** corresponds to emissions being detailed by specific source type, still using generic (but source-specific) emissions factors.
- **Level 4** is achieved when emissions are reported by detailed source type using specific emission and activity factors. Where possible, these are based on direct measurement, or otherwise on other robust methodologies.
- **Level 5** is achieved when Level 4 reporting is integrated with site-level direct measurements from representative sites and facilities.

Based on its overall understanding of GNI's shrinkage reporting, the CRU considers that GNI should currently be able to achieve Reporting Level 2 out of 5 on the OGMP 2.0 scale. Under the incentive, if GNI chooses to join the OGMP 2.0 framework, GNI should therefore aim to achieve at least Reporting Level 3 before the end of the price control, with a longer-term plan to achieve higher levels in the future. If GNI does not choose to join OGMP 2.0, it will still be expected to achieve a similar level of reporting granularity. Specific monitoring obligations introduced by the new EC regulation on methane emissions may also require GNI to accelerate their improvements towards higher reporting levels.

The balanced scorecard provides GNI the flexibility to use a different measurement-based reporting framework, aiming for equivalent reporting granularity. However, the new EC Regulation points to the OGMP 2.0 framework as the primary template for reporting on methane leaks. If GNI chooses an alternative reporting framework, this should be compliant with all reporting requirements and at a comparable or better degree of reporting granularity.

The CRU would expect GNI to provide evidence on the frequency of surveys in respect of methane leaks (or escapes) on its network and why this was appropriate, drawing on best practice in other jurisdictions and any internal risk management documentation where appropriate, and in line with new requirements under the EU Regulation.

Demonstrated actions

The second sub-component of the shrinkage incentive scorecard is focused on assessing the actions that GNI are undertaking to reduce shrinkage volumes, and in particular UAG and leakage. GNI has proposed to submit a review of both their existing projects and their pipeline of future projects aimed at this. This should include a list of existing and planned investments, with associated costs related to these projects.

For example, if a project involves GNI improving its leakage detection capabilities on its medium-pressure mains, GNI should provide information about any equipment which has been purchased or will be purchased to achieve greater capabilities. This may include upgrades to internal metering infrastructure, software solutions, or equipment.

GNI is required to demonstrate the business case and efficiency of any investment in their regular capex reporting and in governance processes around innovation expenditure. Such information would continue to be required, with evidence submitted to the CRU and a high-level description contained in the FROGI and Decarbonisation Policy Report.

In relation to OUG, GNI should also include references to projects associated with reducing emissions from venting and flaring gas. These may be both aimed at reducing overall volumes of gas lost and at flaring rather than venting the volumes that do need to be lost in that way, subject to appropriate safety risk assessment, in order to reduce the damage associated with direct methane emissions.

GNI should provide a summary of known leak or escape events which occurred on their network over the reporting period, including publicly reported escapes (PREs) from the distribution network. These should be based on incident reports for these leaks and contain, to a proportionate extent, information about the location of the escape, relevant assets involved, the estimated volume of gas escaped, and the time it took GNI to detect and to repair the escape.

GNI should reference pilot projects, best practice, and innovation initiatives from other countries (or at the EU level) in its review of existing and future projects. For example, the International Energy Agency's 2020 Methane Tracker contains resources on several measures which can help reduce methane emissions from oil and gas sectors, including gas transport.⁶ International comparators could come from the EU, where the EC's new methane regulation included a mandate for significant additional investment LDAR equipment for all oil and gas facilities, or from case studies outside the EU, such as recent reductions in leakage due to new LDAR programmes in California.^{7, 8}

To the extent that GNI is able to secure external funding – including from the EU – towards these projects, we would expect this to be reported on as part of their review of the pipeline of future projects. Where such funding opportunities are not available or GNI has been unsuccessful in securing them, GNI should provide evidence that they have attempted to secure external funding where possible and explain the reasons for why they were not successful, where applicable.

GNI should provide evidence of taking steps towards membership of an appropriate industry body, such as OGMP 2.0, before the end of the price control (noting that this is separate to using the OGMP 2.0 reporting framework or equivalent above).

Reporting and structure

The CRU agrees with GNI's proposed reporting structure, based on the three points they propose to cover. The shrinkage section of the FROGI and Decarbonisation Policy report should therefore be split into three sections:

- Quantitative data and information on shrinkage volumes;
- Qualitative information on existing projects and initiatives aimed at reducing shrinkage;
- Qualitative information on planned projects and initiatives aimed at reducing shrinkage.

GNI should provide the calculations used to derive any estimates of shrinkage volumes. Ideally, these calculations should be provided in a spreadsheet format as appendices to the main report.

2.1.5 Proposed guidance on CRU evaluation

⁶ <https://www.iea.org/reports/methane-tracker-2020/methane-abatement-options>

⁷ <https://data.consilium.europa.eu/doc/document/ST-15927-2023-INIT/en/pdf>

⁸ <https://www.sciencedirect.com/science/article/pii/S2667010022001202>

The CRU will conduct a qualitative review of the information provided by GNI in their yearly reporting on shrinkage volumes and actions aimed at reducing them. The full assessment will be carried out at the end of the price control on the basis of information in the second, third, and fourth FROGI and Decarbonisation Policy Reports which GNI plans to submit, covering gas years 2024-2027⁹. This assessment will be based on the balanced scorecard and lead to the determination of the financial reward or penalty associated with the qualitative component of the shrinkage incentive. GNI will be awarded a score of “Good”, “Acceptable”, or “Sub-par” for each of the two sub-components in the scorecard.

The overall reward or penalty will be calculated as follows:

- Since “Information Gathering and Reporting” is worth 60% of the overall (qualitative) shrinkage incentive, a score of “Good” in this sub-section would result in a reward of +€0.15m p.a., whereas a score of “Sub-par” would result in a penalty of -€0.30m p.a.
- Since “Demonstrated Actions” is worth 40% of the overall qualitative incentive, a score of “Good” in this sub-section would result in a reward of +€0.10m p.a., whereas a score of “Sub-par” would result in a penalty of -€0.20m p.a.

For both sub-sections, a score of “Acceptable” would result in no reward or penalty.

While GNI is expected to report information on both OUG and UAG, the qualitative assessment will be primarily focused on UAG, both in terms of progress towards greater granularity in reporting and in terms of demonstrated actions to reduce its volumes.

The CRU will carry out the final assessment at the end of the price control period, however, it expects to review GNI’s annual FROGI and Decarbonisation Policy Report submissions and provide informal views and feedback to GNI. While this informal feedback will not prejudice the final assessment, it will help GNI to make any adjustments or concentrate efforts on areas where it is most useful for them to do so.

The assessment of GNI’s performance with regards to this incentive will be carried out in the round, considering the progress made by GNI over the course of the three years being assessed. The CRU may only issue one score for each of the two sub-components of the scorecard, across the three years which are assessed, and calculate the associated reward or penalty as three times the relevant yearly amount. This is contrast to some other PC5 incentives, where a separate score will be awarded for each annual report and then combined to derive the final reward or penalty value.

The CRU considers that an in-the-round assessment is more appropriate to establish GNI’s progress over the whole price control period, enabling GNI to focus on the most effective actions

⁹ Gas Year 2024 refers to the period 1 October 2024 to 30 September 2025.

to improve information on and reduce leakage volumes, even when these will take more than a year to show tangible results.

In assessing how timely GNI detected and repaired leaks under “Demonstrated Actions”, the CRU will be mindful of requirements in the new EU Regulation on methane emission reductions in the energy sector, which requires repairs to commence no later than 5 days after detection and be completed no later than 30 days after detection. This is aligned with the requirements already set out in the scorecard published in the PC5 Decision Paper (reproduced in Section 2.1.2 of this paper), further reinforcing the need for GNI to resolve any leaks within 30 days of detection.

Finally, since the assessment of the information reported by GNI under the shrinkage incentive will happen at the end of PC5, the financial rewards or penalties associated with it will need to be reflected in GNI’s PC6 revenue allowance.

2.1.6 Request for comment

- Do you have any views around the proposed implementation of the shrinkage incentive?
- Are you aware of any pilot projects to reduce shrinkage emissions, the learnings from which could be applicable to the Irish context?
- Do you have any views on the level of granularity in shrinkage, and particularly UAG reporting that GNI should be expected to be able to meet by the end of PC5?

2.2 Decarbonisation Policy Alignment incentive

2.2.1 Overview and reporting requirements for PC5

The purpose of the Decarbonisation Policy Alignment (DPA) incentive is for GNI to demonstrate its compliance and proactiveness around existing and future decarbonisation policy and legislation, both at the Irish and at the EU level. This will be assessed based on information reported by GNI in its annual FROGI and Decarbonisation Policy reports, covering the gas years 2024/25, 2025/26, and 2026/27. Each annual report will be assessed separately at the end of the price control period.

Given the broad nature of this incentive and the rapidly evolving landscape of relevant decarbonisation policy and legislation, the activities covered by this incentive will inevitably overlap to some extent with activities covered by other incentives in PC5, particularly Shrinkage, Biomethane connections, and Hydrogen readiness incentives. The purpose of the DPA incentive is to supplement these more targeted incentives to ensure that GNI maintains strategic alignment with Ireland's and the EU's decarbonisation goals. It also aims to incentivise actions or projects which would align GNI with changing decarbonisation policies or legislation related to shrinkage, biomethane, or hydrogen where these are not explicitly covered by the other incentives, due to the rapidly evolving policy landscape.

GNI will in part need to adapt its actions and investments to strategic documents which have not yet been published – hence the need to maintain some flexibility in the way the DPA incentive is applied. GNI should as far as possible link its investment in projects undertaken under capex or other mechanisms, bringing together top-down strategy with bottom-up investment projects and programmes.

Generally, the CRU considers the DPA incentive will provide greater transparency around the actions GNI are taking, with rewards available where GNI demonstrates an active role in facilitating the delivery of Irish decarbonisation policy and providing high quality information. This reflects the opportunity that GNI has to integrate the various actions it is required to undertake to comply with various national and EU-level policies into its broader strategy as a business and network operator.

2.2.2 Balanced scorecard

We present below the balanced scorecard for the Decarbonisation Policy Alignment Incentive as set out in the PC5 Regulatory Framework Decision (Appendix C, page 83). We have not altered this, but provide further information in the sub-sections that follow.

Title	Description
Incentive name	Decarbonisation Policy Alignment
Components (weight) and scoring guidance	
<p>Overall (100%)</p> <p><i>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.</i></p>	<p>Qualitatively assessed.</p> <p>Good: GNI presents clear information on understanding, complying with and suitably engaging with relevant decarbonisation policy and legislation. GNI provides evidence on 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 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>Acceptable: GNI presents information on understanding, complying with and suitably engaging</p>

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.

GNI is able to provide relevant information on how it has contributed to / sought compliance with relevant performance metrics.

GNI explains how its actions have had impacts on relevant metrics considered by policy and legislation.

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.

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.

GNI's reporting is on time, but the information may not always be clearly linked or be accessible to all relevant stakeholders.

Sub-par: GNI does not show an understanding of, complying with and suitably engaging with relevant decarbonisation policy and legislation impacting on its business.

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.

GNI does not show that it has considered suitable alternatives that may better meet policy objectives and intent.

	<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, % of revenues	+ €0.25m p.a.
Timings	
Frequency of GNI submission	Annual
Proposed frequency of CRU assessment	End of price control

2.2.3 Updates since PC5 decision

GNI submission

In its submission, GNI proposed to consider alignment against the following pieces of policy and legislation in their reporting for the DPA incentive:

- Climate Action Plan (DECC);¹⁰
- National Biomethane Strategy (DAFM / DECC);
- Renewable Heat Obligation (DECC);
- National Hydrogen Strategy (DECC);
- Energy Security Package (DECC);
- Hydrogen and Decarbonised Gas Market Package (EU);
- Methane Emissions Reduction Regulation (EU);
- Large Energy Users Connection Policy (CRU); and

¹⁰ This is updated by DECC on an annual basis.

- National Energy Demand Strategy (CRU).

The final two items listed are CRU policy documents which were still under development when GNI submitted its feedback. The CRU consulted on the Large Energy Users (LEU) Connection Policy earlier this year, with final decisions yet to be published.¹¹ The National Energy Demand Strategy was published in July 2024, and sets out a range of measures to ensure gas and electricity demand in Ireland are in line with carbon budgets and sectoral emission ceilings (SECs), as well as measures to deliver demand flexibility.¹² A substantial update to the Strategy is expected at the end of PC5, in 2026/27.

GNI also proposed a reporting structure for the section of the FROGI and Decarbonisation Policy Report that they intend to use to report on their decarbonisation policy alignment. It proposed to structure that section into the following five sub-sections:

- **Due consideration of decarbonisation policy** – where GNI will present evidence from different completed PC5 workstreams, linking them to specific decarbonisation policy and legislation (from the above list). This will be intended as an introductory section, outlining what has changed in the policy landscape since the last annual report and outlining major milestones associated with GNI’s role in facilitating and delivering decarbonisation policy;
- **Delivery of CAP/wider decarbonisation policy** – where GNI will present detailed evidence on the projects and actions it is undertaking to deliver, or facilitate the delivery of decarbonisation policy, first and foremost in terms of its obligations under the Climate Action Plan (CAP) and other relevant policy and strategy documents;
- **Key performance metrics** – where GNI will present a series of indicators measuring its contribution to and compliance with key decarbonisation policy and legislation;
- **Compliant investment decisions** – where GNI will demonstrate that it has properly considered the alignment of its investment decisions with decarbonisation objectives, with due consideration of the full range of options available. This will include uses of flexibility pot funding, innovation funding, as well as core opex and capex allowances;
- **Stakeholder engagement** – where GNI will provide evidence of how it engaged with a suitable range of relevant stakeholders to inform its approach and decisions.

GNI’s proposed reporting structure is aligned with the structure of the scorecard for this incentive.

¹¹ <https://www.cru.ie/publications/27878/>

¹² <https://www.cru.ie/publications/28200/>

Policy and legislation

A further update since the PC5 decision was published is the introduction of the EU Regulation on methane reduction in the energy sector, which is described in detail in Section 2.1.3, and of the EU hydrogen and gas market decarbonisation package, which is discussed in Section 2.2.4.

2.2.4 Proposed guidance on reporting and balanced scorecard

The CRU has no objections to GNI's proposed reporting structure above. This section provides further guidance on the specific content we would propose GNI should include in each part of the DPA section of the FROGI and Decarbonisation Policy Report.

Generally, the CRU sees this section of the FROGI and Decarbonisation Policy report as an opportunity for GNI to demonstrate how it is bringing together the various actions and projects they are undertaking to lead the energy transition in Ireland, rather than simply complying with mandated requirements. GNI should also set out how it plans to evolve its role as a network operator as different decarbonisation initiatives scale up in size and importance – e.g. on compressed natural gas, biomethane, and hydrogen. Where more work is needed to develop and then deliver these plans, GNI should set out a clear pathway for how it will carry out this work in line with broader policy requirements. Finally, GNI should show how its actions and investments contribute to deliver decarbonisation policy, and in particular to meet carbon budgets, both in the short and in the long term.

Consideration and delivery of decarbonisation policy

The first two sub-sections, focused on compliance with and delivery of decarbonisation policy, should provide an update against each of the policy documents listed by GNI, as well as consider any new relevant policy or legislation issued over the course of the price control. GNI should provide an overview of its understanding of its role in delivering (or complying with) each of the policies, and present evidence on the actions it took to do so. GNI may decide to combine these two sub-sections if it prefers.

For example, GNI has an important role to play in facilitating the connection of biomethane producers to its network, and more generally to transition towards clean gases such as biomethane and hydrogen. While the delivery of specific targets for biomethane throughput and hydrogen are not under GNI's exclusive control, the CRU expects GNI to report on the actions and projects it is undertaking to deliver them. This will help it assess GNI's specific role in delivering these targets.

GNI should also report on its progress towards delivering against any specific requirements in policy and legislation related to their role in driving and facilitating emissions reductions. This

should include a comprehensive assessment of the impact of how new policies and legislation on GNI's Code of Operations. Where Code Modifications are anticipated to be required in order to comply with the requirements, GNI should set out its plans to carry out the modifications, including timelines and planned engagement with the Code Modification Forum.

One relevant example is with regards to compliance with the new EU regulation on methane emissions, which is discussed in detail in Section 2.1.3. While GNI's compliance with requirements specific to monitoring and reducing shrinkage volumes are primarily assessed as part of the Shrinkage Incentive, GNI should refer any broader activities associated with the new regulation in this section of the FROGI and Decarbonisation Report.

As mentioned above, the EU's hydrogen and gas decarbonisation package has also been introduced since the publication of the PC5 Decision.¹³ The package updates the rules on the EU natural gas market with the aim to facilitate the uptake of renewable low-carbon gases. The updated regulations include actions for gas Transmission System Operators (TSOs) which apply to GNI. For example, the updated regulations introduce requirements for TSOs to share data on the impact of any tariff discounts on the expected volumes of renewable and low-carbon gases transported. They also explicitly mention the development of procedures and arrangements to consider reverse compression solutions in order to mitigate any risk of curtailment of biomethane connections at the distribution level.¹⁴ GNI should therefore also report on the actions it is carrying out to comply with these requirements.

There is some overlap between actions which GNI should report on under the Decarbonisation Policy Alignment Incentive, and those reported under the Biomethane Connections Incentive. For example, this includes associated with delivering biomethane targets, including the development of arrangements to enable reverse compression, updating connection policies and charging methodologies for Central Grid Injection (CGI) facilities. Where this is the case, the CRU expects GNI to appropriately cross-reference between this section of the FROGI and Decarbonisation Report and relevant sections of its Biomethane Connections Report, ensuring there is consistency in the information provided across both. While the detailed information on facilitating biomethane connections should be reported in the Biomethane Connections Report, GNI should use this section of the FROGI and Decarbonisation Policy report to outline how their actions fit within broader strategic plans to transition their network away from natural gas and towards renewable gases.

¹³ https://energy.ec.europa.eu/topics/markets-and-consumers/hydrogen-and-decarbonised-gas-market_en

¹⁴ Reverse compression occurs when excess gas (usually biomethane) in a distribution system is compressed and redirected to the transmission network. This may happen in the future in certain areas if there are high concentrations of biomethane productions connected to the same distribution network.

With regards to the National Energy Demand Strategy, GNI is the responsible body for the following four actions:

- **Gas flexibility products and services:** Undertake assessment to identify flexibility products and services on the gas network which can contribute towards achieving targets and overall NEDS objectives (e.g. gas storage options).
- **Gas network emissions information:** Explore and implement potential enhancements to the information available on system emissions, drawing on international examples and engaging the CRU.
- **Future role of the gas network:** Ensure a fit for purpose gas grid, that supports Ireland’s energy and climate ambition. Includes the development of scenarios to define the future role of the gas network.
- **Support planning for the future role of the gas network and pathway for implementation:** Develop a plan for transitioning the gas network over time, taking due consideration of various aspects including development of the hydrogen and biomethane sectors, energy security, costs, blending, amongst others.

Additionally, GNI is listed as a “supporting body” for four additional actions:

- Developing the NEDS Communications strategy.
- The Biomethane lighthouse project.
- Exploring options for the certification of additionality for renewable gas (specifically, GNI may play an important role in developing a methodology for renewable gas certificates of origin).
- Monitoring work to assess the role that integrated energy parks could play in our future energy system.

The CRU expects GNI to use this section of its report to provide an update on their delivery against these actions, particularly those that it is directly responsible for, but also those they are supporting. Some of these actions overlap with information assessed as part of other PC5 incentives (e.g. the action on gas network emissions information overlaps with information reported under the shrinkage incentive). In these cases, GNI should signpost to where information is already reported and explain how its work on delivering those specific actions fits into its broader role to support decarbonisation policy in Ireland.

A further area of work where GNI is likely to play a role over the course of PC5 is the potential blending of small volumes of green hydrogen into the gas grid. GNI is likely to be an important stakeholder in delivering this. As such, information about the actions and projects undertaken by GNI to deliver or facilitate this work should also be included in this section of the FROGI and Decarbonisation Policy Report. More generally, GNI should include information about any future actions assigned to it in policy documents or legislation. Finally, in this section the CRU would

also expect GNI to provide a comprehensive update on the delivery of the planning and research projects it is carrying out to deliver its overall decarbonisation agenda. This may include updates on the delivery of its “Pathway to a Net Zero Carbon Network” strategy,¹⁵ as well as anticipated further updates to this strategy and the development of multiple scenarios akin to EirGrid’s Tomorrow Energy Scenarios.¹⁶

Actions taken by GNI today are needed to enable GNI’s future phases of its pathway to net zero. Hence, GNI should also provide information about longer-term projects and whether it is on track to meet longer-term objectives set out in policy and legislation, as well as targets for future phases of GNI’s own decarbonisation plans. This should include any ongoing projects or research that GNI are undertaking to plan for potential decommissioning of parts of its network, or repurposing them to renewable gases, as fossil natural gas demand declines. This may link to the scenario development work reported on as part of the Flexibility and Adaptability incentive – in which case we encourage GNI to signpost to relevant sections and documents here.

Key performance metrics

GNI did not specify which performance metrics it intends to include in the dedicated section of the FROGI and Decarbonisation Policy Report. The CRU also understands that the full list of metrics will need to be adapted as the relevant policy landscape evolves.

GNI’s role in Ireland’s energy transition is particularly central when it comes to renewable gases, such as biomethane, green hydrogen, and compressed natural gas (CNG) used in transport (particularly if it is bio-CNG).

The National Biomethane Strategy published this year sets an ambitious target of 5.7 TWh p.a. of biomethane produced in Ireland by 2030, as well as an interim target of 1 TWh p.a. by 2025.¹⁷ GNI’s target is to deliver at least 1.6 TWh p.a. of total biomethane throughput by the end of PC5. While GNI’s performance on connecting biomethane producers to the network is assessed as part of the Biomethane Connections Incentive, metrics associated to its delivery of these targets should also be reported as part of this section of the FROGI and Decarbonisation Report.

CNG can be used to replace diesel in road transport, and particularly heavy road transport. Even if derived from natural gas, it results in lower carbon emissions than diesel. However, bio-CNG derived from biomethane has the potential for much more significant reductions in road transport emissions.

¹⁵ <https://www.gasnetworks.ie/docs/pathway-to-a-net-zero-carbon-network.pdf>

¹⁶ [Tomorrow’s Energy Scenarios \(TES\)](#)

¹⁷ <https://www.gov.ie/pdf/?file=https://assets.gov.ie/294685/3de4b66e-ff15-410e-9211-260e08d93b14.pdf#page=null>

Therefore, as a starting point for consideration, the CRU has identified some metrics which it considers GNI should be able to report that would assist us in assessing its performance against the DPA incentive:

- The total volume of biomethane transported in GNI's network in GWh;
- Number and identity of new direct biomethane connections and associated biomethane volumes;
- Number of CNG refuelling stations delivered (against target);
- Volume of CNG delivered to end consumers in GWh;
- Estimated emission savings from biomethane delivered by GNI; and
- Estimated emission savings from CNG delivered by GNI.

The CRU would reach a more positive assessment where GNI provides a broad range of relevant metrics at a granular level, together with any relevant benchmarks. Future metrics may also include any progress in hydrogen blending into the grid (e.g. any volumes of green hydrogen blending), or a detailed Code of Operations impact assessment with firm timelines for Code Modifications driven by decarbonisation policy.

Compliant investment decisions

This sub-section will be focused on GNI's main investment decisions and the extent to which these are consistent with GNI's own broader decarbonisation goals, as well as requirements imposed by national and EU policy.

The CRU recognises that GNI is an important stakeholder when it comes to Ireland's objectives in terms of reducing natural gas demand and transitioning to cleaner fuels such as renewable gases and electricity. As such, it expects GNI to consider the climate impacts of their connections work and to report on it in this sub-section of the report.

In this section, the CRU also expects GNI to highlight where spending from Uncertainty Mechanisms or from the Flexibility pot are being used to help deliver decarbonisation policy. This will also overlap with other reporting, which can be referred to summarily here with the purpose of highlighting how specific spend is contributing to broader decarbonisation objectives.

Stakeholder engagement

As specified in the PC5 decision document, GNI is required to consult with relevant stakeholders on its decarbonisation plans and progress towards them on an annual basis. In this sub-section of their report, GNI should provide a comprehensive summary of this engagement, signposting

to other reporting where appropriate (for example, this may in part already be covered by reporting for the Stakeholder Engagement incentive, discussed in Section 2.4).

2.2.5 Proposed guidance on CRU evaluation

As mentioned in the scorecard, the CRU will carry out the assessment of GNI's final three FROGI and Decarbonisation Policy Reports for PC5 at the end of the price control period. GNI's reports will be assessed separately for each gas year, resulting in three "Good", "Acceptable", or "Sub-par" scores respectively. For each "Good" score, we will award GNI a reward of €0.25m. For each "Acceptable" score, the reward will be €0.05m, whereas there will be no reward (or penalty) associated with years where GNI will be scored "Sub-par" on DPA.

The reward for an "Acceptable" score has been intentionally set at a level lower than half of the reward associated with a "Good" score. This is to encourage GNI to go beyond "Acceptable"-level reporting and aim for a "Good" score on this incentive.

The CRU recognises that decarbonisation policy and legislation will continue to evolve over the course of PC5. As such, we will score GNI's performance on the DPA incentive on the basis of the strategic objectives, conditions, and policy landscape within which they were operating in each gas year. Similarly, we expect GNI to be flexible in its reporting and to continue to update its own strategic objectives and projects as new policy documents, strategies, or pieces of legislation are published.

In particular, with regards to the CRU National Energy Demand Strategy and the upcoming LEU Connections Policy, the CRU will take into account GNI's specific role in connecting new users to the gas network, recognising that it is not directly responsible for the demand of potential new users. Instead, the CRU will recognise GNI's role as an important stakeholder in Ireland's pathway towards phasing out natural gas use, and will evaluate their actions in line with their role as set out in the upcoming policy.

Finally, the CRU also recognises that while GNI is an important stakeholder, the ultimate delivery of national and EU-level decarbonisation objectives depends on many factors that are outside GNI's control. As set out in the scorecard, the purpose of this incentive is not simply to reward GNI if wider decarbonisation targets (e.g. the 1.6 TWh p.a. biomethane production target by the end of PC5) have been met. Instead, the aim is to look at the evidence provided by GNI to establish the extent to which it has taken all appropriate actions to facilitate wider decarbonisation policy, and increase the chances of these targets being met.

2.2.6 Request for comment

- Do you have any views around the proposed implementation of the decarbonisation policy alignment incentive?
- Are you aware of any policy documents or relevant legislation which GNI should ensure alignment with for the decarbonisation policy alignment incentive that was not mentioned in this paper?
- Are there any other metrics beyond those proposed in this section which you believe would be useful to assess GNI's decarbonisation policy alignment?
- Do you consider CNG metrics are appropriate for GNI to report on?

2.3 Gas-fired generation connections incentive

2.3.1 Overview and reporting requirements for PC5

The Gas-Fired Generation Connections (GFGC) incentive is designed to encourage GNI to connect gas-fired power plants to the gas network in an efficient and timely fashion. Gas-fired generation will continue to have an important role in supporting an electricity system with a high share of variable renewable generation. During PC5 and beyond, GNI will need to proactively manage the connection process for gas-fired power plants to enable meeting the target of 2 GW of new flexible gas-fired power stations by 2030, set in the Climate Action Plan (CAP) 2021 and retained in subsequent iterations. The GFGC Incentive, outlined in the CRU's decision on the PC5 Regulatory Framework, will cover the delivery of individual connections, including managing associated risks and providing accurate cost estimates, as well as GNI's planning to coordinate across multiple connections.

A new connection project typically involves the construction of a new pipeline from the existing transmission network to the customer site and a new Above Ground Installation (AGI), located at the customer premise. The requirements and risks for a connection project can vary widely, depending on the pipeline route and location of the AGI. GNI has categorised its current portfolio of connection projects into three categories – urban/semi-urban, rural and major rural to show how the location affects the project requirements. This is shown in Figure 2 below, which is applicable for all connection projects (i.e. not just limited to power plants).

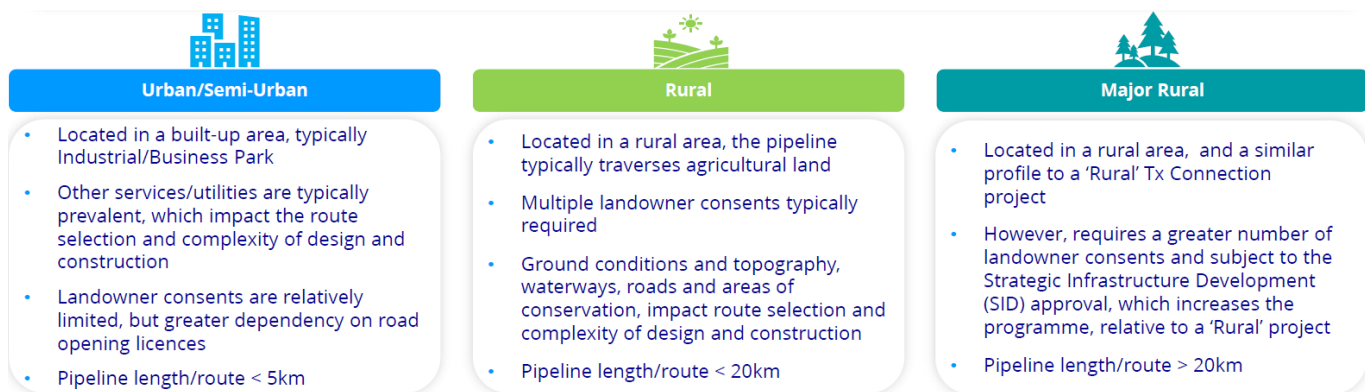


Figure 2: Different connection project types. Source: GNI.

A connection project will typically have four phases, as shown in Figure 3 below. For gas-fired power plants, the timing of the project initiation depends on the project developer. Some developers contact GNI in advance of the Single Electricity Market (SEM) Capacity Auctions, where capacity payments are allocated to new generation. Other developers only contact GNI at the beginning of the auction process. Rural, and particularly, major rural projects tend to have longer construction periods, while obtaining permissions and consents can be particularly

lengthy for a major rural project. GNI has emphasised that all projects are different, and the categorising is for illustrative purposes.



Figure 3: Connection project phases. Source: GNI.

The CRU decision on the PC5 Regulatory Framework set out that GNI is expected to submit an annual report on its performance on delivering GFGCs. This report should be data driven and list all planned connections. Information should be provided on schedule, scale and costs of those connections. GNI should set out actions it has undertaken to support delivery, as well as feedback from stakeholders and any lessons learned.

GNI's performance on the GFGC incentive will be assessed at the end of the PC5 period. In this paper, the CRU seeks feedback on the implementation of the GFGC incentive.

2.3.2 Balanced scorecard

The CRU will use a balanced scorecard to assess GNI's performance in delivering GFGCs. The scorecard sets out the criteria for assessment under three areas - GNI's planning, delivery and supporting processes to ensure the timely delivery of connections. The criteria are unchanged from the PC5 decision on the regulatory framework (Appendix C, page 92). The balanced scorecard is provided below.

Title	Description
Incentive name	Gas-fired generation connections incentive
Components (weight) and scoring guidance	

<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 have undertaken planning in a coordinated fashion.</i></p>	<p>Qualitatively assessed.</p> <p>Good: 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> <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 connections 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>Acceptable: 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>Sub-par: 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 improvement.</p>
<p>Delivery (40%)</p> <p><i>GNI has taken actions to deliver accelerated gas-fired generation connections in a clear and supportive fashion.</i></p>	<p>Qualitatively assessed.</p> <p>Good: GNI has surpassed 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 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>Acceptable: 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>Sub-par: 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 how its planning has led to more effective delivery and picked up lessons learnt from their experiences.</i></p>	<p>Qualitatively assessed.</p> <p>Good: 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> <p>GNI's reporting is very transparent and detailed, with inclusion of backwards and forwards looking evidence.</p> <p>Acceptable: 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>Sub-par: 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

2.3.3 Updates since PC5 decision

GNI submission

In its response to the PC5 Regulatory Framework decision, submitted in August 2024, GNI proposed to submit a stand-alone report on GFGCs - as opposed to our proposal of combining the three incentives under the Connections Report (GFGCs, Biomethane Connections and Stakeholder Engagement).

The GFGC Connections Report will consist of an overarching public-facing document and a confidential appendix for CRU review only. GNI has proposed for the report to be delivered on the first quarter of each calendar year on a calendar year basis. Both documents would contain forward-looking elements as well as an update on progress in the previous year. From the second annual report onwards, progress will be reported against the plan outlined in the previous year's report.

GNI is proposing for the overarching public facing document to contain the following four sections:

- **Project planning** - section will focus on the actions taken to plan and deliver connection projects and it will present planned project categorised based on the phase they are in the project lifecycle and timelines in terms of major project milestones.
- **Portfolio enablement** - section will set out the actions GNI has taken to accommodate a wider portfolio of GFGCs through coordinating across multiple projects, maintaining the supply chain and demonstrating innovation.
- **Stakeholder engagement** - section will demonstrate GNI's effective dialogue with industry participants to facilitate timely delivery of GFGCs.
- **Network development** - section will demonstrate that GNI has undertaken analysis and identified and progressed reinforcements and upgrades required to accommodate future GFGCs.

The complementing confidential appendix would contain the following sections:

- A section listing planned GFGCs with information on expected timelines and scale of each connection.
- A section providing an update on progress of these connections.
- A section detailing the actions taken across the portfolio to ensure the effective and efficient delivery of the connections in line with the assessment criteria provided.
- A section on lessons learnt.

Further GNI updates

Since its response to the CRU's decision paper, GNI has informed us that it is planning to group connections into cohorts based on project phases, such as 'design and planning', 'material procurement', 'construction' and 'commissioning'. The public-facing document would provide information at the aggregate level (i.e. across the relevant groupings), as opposed to discussing individual connections. In the confidential appendix, GNI would set out the schedule for each connection, with emphasis on key milestones for the upcoming year, and report against the schedule in the following years. The confidential appendix would also contain the reasons for any changes in timelines. As some of these may be due to the developer or the development of the powerplant, GNI considers that these are best suited to the confidential appendix, in order to maintain effective and open dialogue with developers.

Policy and legislation

It can be informative to look at experience in other regimes, however we are not aware of comparable examples of international precedent on GFGC incentives.¹⁸ We would welcome any suggestions from stakeholders on other relevant case studies.

In the UK, electricity distribution network operators (DNOs) are subject to a Major Connections Incentive (MCI) to encourage good customer service to major connections. To enable assessment of their performance, DNOs are required to undertake a customer satisfaction survey and produce an annual report. Poor performance may lead to a financial penalty.¹⁹

The major connections incentive was introduced for the price control period (RIIO-ED2) that began in April 2023, replacing Ofgem's previous Incentive on Connections Engagement. While the previous incentive was considered to effectively identify connection customers' concerns and priorities, Ofgem considered that it did not sufficiently encourage DNOs to address them. Ofgem had emphasised the importance of improvements over the price control period and is now hoping that the more mechanistic approach of the MCI will better support evaluating improvements over time. One of the ways Ofgem is hoping to achieve this is by a timeliness metric. However, it should be noted that assessment for the financial incentive in Ofgem's MCI is based on the customer satisfaction survey, making the approach different to that of the CRU.

The key takeaways from Ofgem's approach are that the DNOs are expected to demonstrate improvements each year in their annual submission, while they are held accountable for delivering their major connection strategies within period.²⁰

Depending on where gas-fired power plant projects are in the project lifecycle, we would expect GNI to report on different aspects of its connection process each year. We might expect more connections to be delivered towards the end of the price control period. Assessing GNI's annual reports at the end of the period will need to strike a balance between accounting for the project lifecycle and expecting GNI to be able to improve its performance and apply lessons learned.

2.3.4 Proposed guidance on reporting and balanced scorecard

In this section we set out further guidance to that provided in the CRU decision on PC5 Regulatory Framework on GNI's reporting on its performance in connecting gas-fired

¹⁸ In addition to the MCI, Ofgem's Large Onshore Transmission (LOTI) framework and approach in the RIIO-ED2 price control may be of interest, however, we do not deem these to be particularly relevant to the GFGC Incentive.

¹⁹ Ofgem (2024), *Major Connections Governance Document*. Available on Ofgem [website](#).

²⁰ Ofgem (2023), *Outcome of our assessment under the 2022 RIIO-ED1 Incentive on Connections Engagement*. Available on Ofgem [website](#).

powerplants for the purposes of the GFGC incentive. The CRU welcomes views from stakeholders in the structure and content of GNI's reports.

Report structure

We accept GNI's proposal for the provision of separate reports, given the different type of content expected in each. While the general structure proposed by GNI for its two-part report on GFGCs appears sensible, we note that the content of the confidential appendix is currently unclear and may only be fully clarified once GNI is developing its first report. GNI has informed us that it expects the confidential appendix mostly to provide more detail on the 'Project planning' section of the overarching public-facing document. We expect both reports to be submitted by the end of February each year.

The confidential appendix should be limited to providing strictly confidential information. It is essential that the public facing document provides an accurate view of GNI's performance in delivering GFGCs, and backs this up with quantitative and qualitative evidence, to allow stakeholders to engage with the material. In addition to providing relevant quantitative information, the public facing document should identify areas where progress is required, and in subsequent years, detail GNI's achieved improvements.

We do not see the rationale for providing lessons learned only in the confidential appendix. The public and stakeholders would be better able to link the CRU's assessment of GNI's performance, and any potential financial rewards or penalties, when provided with transparent information on GNI's performance. Stakeholders' views on what information they require in the public facing document should also inform how GNI structures its reporting.

In addition, we propose that GNI includes a section on its approach to cost estimation. Much of the specific cost evidence provided in this section may be confidential, though information on their processes should not be. The section should outline the approach GNI has taken to determine cost estimates for the projects presented in the 'Project planning' section and the proposed reinforcements in the 'Network development' section of the overarching document. The CRU would expect to see the following provided:

- GNI's approach to cost estimation along with estimates for connection projects.
- GNI's approach to estimating costs for reinforcements and upgrades and associated costs.
- GNI's approach to accounting for uncertainty in its estimates.

GNI should provide project costs with reference to the size/type of connection, in addition to grouping projects according to where they are in the project lifecycle. We acknowledge that indicative cost estimates are likely to be subject to significant uncertainty. Material and

equipment costs may increase over time, and land acquisition costs and specialist contractor costs can be difficult to determine early on in the process.

The section on costs should outline the biggest risks and uncertainties associated with connections, likely costs drivers and how these have been accounted for in the cost estimation process. For example, GNI might provide cost estimate ranges rather than point estimates, e.g., based on its use of the AACE classification system. GNI has informed us that it has ample evidence of previous projects, particularly on AGI costs, that it can leverage in determining costs for both connection projects and deep reinforcement. For example, we understand that the cost of the AGI depends on its capacity/specification, while cost of new pipeline depends on the route (cross-country, rural, urban etc.) and length of the required pipeline. GNI should set out its use of this evidence, any external benchmarks and assumptions used to derive the estimates, e.g., relating to technical specifications or required materials and equipment.

The section on costs should also consider how GNI mitigates cost escalation. Given that any costs increases, including those arising from activities undertaken by GNI, are passed on to the connection customer (for 'large connections'²¹), it is essential that GNI provides transparent information on its cost escalation mitigation strategy. We understand that cost escalation soon after the initial cost estimate has been an issue (before AACE classification 4/5 and Gate 3 decision), and as such, a potential focus area.

GNI has also informed us that at times customers prioritise timelines to costs. We would expect GNI to set out such cases. Where cost escalation is expected to arise from costs associated with subcontractors or suppliers, GNI can provide evidence of any precautions it has undertaken, e.g., the terms of conditions between itself and a subcontractor/supplier or hedging against potential price increases. Lastly, GNI may wish to set out its approach to updating cost estimates as more information is received.

Report content

In this section, we provide guidance on the type of evidence GNI might provide in its reports to meet the criteria in the balanced scorecard. Any confidential information will be provided in the appendix, as determined by GNI. It should be noted that GNI's proposed report structure does not perfectly align with the structure of the balanced scorecard. As such, GNI will need to evidence its performance in planning, delivery and overarching processes in each section of the two-part report, as appropriate. For example, demonstrating that GNI's planning is dynamic and updated to reflect market conditions might be evidenced for an individual connection but also for wider processes, e.g., in discussing GNI's procurement strategy.

²¹ More information on how GNI defines large connections can be found in its Connections Policy Document, available on the GNI [website](#).

It should be noted that the following sections contain examples of the things the CRU would expect to see in GNI's reporting, but ultimately, GNI is best placed to determine which evidence is the most relevant and useful for the CRU's assessment.

Project planning

In the section on project planning, GNI will have to cover planning for potential connections and evidencing progress in delivering them. GNI should also demonstrate its overarching processes that link these phases together. To enable assessment against the scorecard, GNI should provide the following information, along with anything else that it deems relevant:

- Detailed workplans for new connections, with associated schedule and milestones (including with respect to any suppliers and sub-contractors) as well as responsibilities. The schedule should be provided with reference to a 'typical' schedule and milestones for a project of the same type/size if possible. GNI should also describe any factors, such as availability of resources or materials, that might have driven the proposed timings and include evidence of the extent these factors have influenced the schedule. Depending on the number of connections, it may be appropriate to provide representative workplans for different type of connections. GNI has informed us that it might be able to share the workplans it provides to customers, however, these will be confidential.
- An overview of the risk profile and approach to managing (schedule) risk arising from factors within and outside of GNI control. Factors outside of GNI's control may relate to obtaining planning and environmental consents for above ground installations and interconnecting pipelines and negotiating pipeline easements and wayleaves on private land. External delays might also be caused by obtaining consents for upstream reinforcement and supplier lead times on materials and equipment. For example, GNI might provide evidence of early engagement with relevant planning bodies and suppliers or explain its procurement strategy and associated risk management.
- Progress on delivering a connection should be set out against the initial schedule set for the connection. GNI should explain any changes to the timelines.
- GNI may wish to set out its approach to deciding the continuation of a connection project, e.g., a stage-gate approval process.

Portfolio enablement

In this section, GNI will need to evidence a holistic approach to coordinating multiple projects, that is, it considers linkages and interdependencies between projects, and aims to take advantage of potential scale effects or efficiencies in delivering connections.

However, we acknowledge that GNI is somewhat limited in the extent it can coordinate across projects, due to its licence requirement of delivering connections in the sequence in which the Large Network Connection Agreements (LCNA) are executed. That is, GNI cannot, for example, manage the connection queue to derive efficiencies, such as from delivering connections simultaneously or promoting a connection in the queue if connecting a certain plant makes connecting others faster/cheaper. Nevertheless, we would expect GNI to set out those cases where coordinating holistically across projects has been feasible and beneficial to the connections in questions. Coordinating across projects is likely to require extensive dialogue with stakeholders and project developers, which should be covered in the section on stakeholder engagement. This section should also set out how innovation and supply chain are best utilised to facilitate efficient delivery across projects.

In this section, we would expect GNI to provide information and evidence on the following aspects:

- GNI should set out where it has coordinated across projects to benefit from efficiencies and/or economies of scale. One of the potential areas for coordination may be the procurement of materials. For example, GNI has previously procured line pipe to service multiple projects for which timelines overlapped. GNI has noted that in this case the benefits came not just from lower costs, but also from greater engagement from suppliers for larger scale. At times, there might also be opportunities for coordinating in the design of the network for co-located customers, as we are aware GNI has done previously for a powerplant and three data centres located in the same area. For example, GNI might show evidence of pipeline route planning taking into account multiple potential connections.
- GNI should be proactive in looking to ensure that projects are progressed in a swift manner. At times GNI may be required to pause a project when there is a lack of engagement on the customer side to ensure others can be progressed. While the CRU is aware that GNI treats such cases carefully, due to its licence requirements to not discriminate between customers, GNI should explain its approach to them.
- Where GNI has undertaken anticipatory actions to facilitate delivery, it should set this out, e.g., evidence of forecasting equipment need, and subsequent engagement with suppliers.
- To evidence innovation, GNI may discuss how it has improved its processes to make delivering connections faster or more seamless. GNI might also include examples of

particular connection projects, where innovative solutions were used to address challenging ground conditions for construction of the pipeline or AGI. Lastly, GNI may also discuss how innovation has been used in the company to benefit all areas, and how this is reflected in the delivery of GFGCs.

Stakeholder engagement

GNI should detail its approach to communicating with industry participants and those seeking to connect. GNI should aim to show that its approach to communicating with developers has supported the connection process, and not hindered it. Ofgem has pointed out that project developers in GB claimed ineffective engagement on behalf of the DNOs to have impacted project development. This was partly caused by under-resourcing in the DNOs.²² Effective engagement can be evidenced by providing examples of communication plans, which are tailored to suit different customer needs. These might set out the information that GNI provides to potential connections when first approached by them, including information on what the developer will need to do to progress the connection as well as how contact is maintained with the developer throughout the connection process. In particular, GNI should set out the information it has provided to the potential connection prior to the signing of a LNCA, and the requirements for the customer associated with the contract. GNI should also include explanations on where stakeholder engagement has informed its decision-making and processes, and any cases where stakeholders have disagreed with its views.

We understand that it often takes at least six months from the SEM capacity contract having been granted to signing of the LNCA – an area where GNI has signalled its intention to seek for improvements. While the early timelines may often be dependent on the developer (e.g., developer is required to confirm design parameters), there may be scope for GNI to hasten the process on its part by engaging more effectively.

Where progressing a connection depends on the developer informing GNI of a successful planning application or paying its contribution towards the connection costs, the CRU expects GNI to show that it has proactively requested these from the developer.

Where multiple connections are delivered simultaneously, the CRU expects GNI to show how its communication with the developers improved coordination across connections, including by facilitating dialogue among the developers.

A key part of engaging with those seeking to connect is providing indicative cost estimates. GNI should evidence that it has provided clear explanations to the developer, set out the level of granularity in its cost estimates and how it informs developers of uncertainty and any underlying

²² Ofgem (2024), *Outcome of our assessment under the 2023 RIIO-ED1 Incentive on Connections Engagement*. Available on Ofgem [website](#).

assumptions in the estimate. As large customers are responsible for the full cost of the connection, they should also be kept well informed on how and why costs have evolved over the project lifecycle.

Network development

In this section GNI should demonstrate that it has identified required reinforcements and upgrades to accommodate future GFGCs. GNI should demonstrate that it has undertaken assessment of the wider network and adequacy needs and considered the role of potential new connections. In addition to GNI outlining its general approach to analysing the need for reinforcements and upgrades, GNI should show it has considered the following:

- GNI should show that its approach considers how different projects impact the need for upstream/deep reinforcement and upgrades. It should detail its process and methodology for doing this, e.g., its approach to ‘scenario planning’ in coordination with the relevant power plant producers and how the likely extent of network reinforcement over a specified period of time is determined based on these scenarios.
- GNI should also evidence that its planning for reinforcements not only considers powerplants going through the connection process, but also anticipatory reinforcement required to meet future demand.
- Similarly to the section on project planning, GNI should detail its approach to managing risks and evidence any anticipatory actions it has taken to secure materials/equipment and engage with planning bodies.
- GNI should also set out how it aligns its work on reinforcements and upgrades with progressing connections, that is, how it makes sure delivering a connection is not slowed down by the need for upstream reinforcement. Its project planning for individual connections should reflect its work on reinforcements and upgrades.

GNI is also expected to demonstrate that its planning is effective in its ability to deliver GFGCs needed to meet national objectives. While GNI is planning to include forward-looking elements to its planning, these will mostly focus on the upcoming year. We acknowledge that GNI’s planning is dependent on the SEM Capacity Auction results and developers getting in touch, however, to the extent that it is possible, GNI may wish to evidence it is planning for the longer-term with respect to required reinforcements and upgrades.

Metrics

Most of the qualitative and quantitative evidence provided by GNI in its reporting on GFGCs is unlikely to be suitable for formalised metrics. For example, we would expect GNI to rely on providing documentation of its plans and contracts it has with other parties such as suppliers.

However, where possible, metrics might be used to support the assessment of GNI's performance, potentially on the timeliness of delivery and efficiency of costs.

Any metric should be provided separately for individual projects (as opposed to aggregated metric performance), along with 'baselines' for each metric. For example, GNI might provide a baseline based on its previous experience or an external baseline (e.g., based on GB evidence).

Where appropriate, calculation of the metrics should also take into account those projects that are abandoned to avoid misrepresenting GNI's performance.

Designing metrics for assessing GNI's performance should also be done in the context of the project lifecycle – GNI's activities may vary between years depending on the powerplants going through the connection process, with a ramp up of delivery expected towards the end of the period.

For example, Ofgem requires DNOs to annually report against two timeliness metrics – the Major Connections Time to Quote and the Major Connections Time to Connect. The former measures the average time from the DNO receiving a complete application to issuing a quotation, while the latter measures the average time from the customer accepting the quotation to the connection being completed.²³

Setting a timeliness metric for GNI on the time it takes to provide a quotation for a plant seeking a connection can support the annual assessment of GNI's performance. The CRU would also expect to see GNI improving on this measure. However, a metric on the time it takes GNI to deliver a connection would have to be interpreted with caution, given that it takes several years to deliver a connection. The end of period assessment will need to consider GNI's performance in the round, as opposed to treating each year separately. A simple metric based on annual performance may fail to reflect efficiencies and factors outside of GNI control. However, the metric would also provide an opportunity for GNI to link its narrative with quantitative evidence and show how its actions, or factors outside of its control, have resulted in changes in the metric.

GNI currently reports to the CRU on the number of GFGCs in the connection queue (including at different stages of the connection process). The CRU would expect GNI to continue providing this information, in addition to any other metrics that CRU might decide to require. The CRU would appreciate stakeholder views on potential metrics to support the assessment of GNI's performance.

Bi-monthly updates

²³ Ofgem (2024), *Major Connections Governance Document*. Available on Ofgem [website](#).

In addition to the annual reporting on GFGCs described above, the CRU is of the view that GNI should develop a dashboard on its progress on delivering gas-fired connections, updated on a bi-monthly basis (i.e. every two months). The dashboard should include information on each gas-fired power plant going through the connection process. It should include an update on timelines and costs (when new estimates have been determined), as well as reasons for any changes compared to the previous month. GNI might also wish to detail its focus of work and priorities during the period in question (or the upcoming period).

GNI is currently updating the CRU on its progress on GFGCs on a bi-monthly basis. Hence, the dashboard could be based on its current approach. The dashboard and the information contained within it will be confidential and submitted only for the CRU to review. Although not formally assessed, the dashboard will support the CRU's assessment of the annual reports, by providing more transparency on how GFGC projects have evolved over time.

2.3.5 Proposed guidance on CRU evaluation

This section sets out how the CRU will score GNI's performance against the GFGC incentive, as outlined in the PC5 decision, and provides further context on how the CRU expects to evaluate GNI's reports.

The CRU will evaluate GNI's performance based on the information provided in the two-part GFGC Report and the criteria in the balanced scorecard. For each area of the scorecard (planning, delivery and overarching processes), GNI's performance will be scored either as 'good', 'acceptable' or 'sub-par'. We can also use a blended score of these three categories of scoring. A score of 'good' is required for a financial reward, 'acceptable' leads to neither reward nor penalty and 'sub-par' is associated with a penalty. The maximum annual reward/penalty for GFGC is \pm €0.5m.

For the GFGC incentive, the following weights will be used to establish overall performance and any financial reward or penalty – 40% for planning and delivery and 20% for supporting processes. That is, a 'good' performance in planning leads to reward of €0.2m (40% x €0.5m), with performance in delivery and overarching processes also impacting the net financial outcome.

We will assess GNI's performance against the GFGC Incentive at the end of the PC5 period. However, we will informally review GNI's annual reports as they are submitted to ensure the direction of travel in GNI's reports is appropriate. In the end-of-period assessment, performance will be scored separately for each year, but we will consider GNI's performance in the round, that is, with reference to overall performance over the final three years of PC5. While the key focus in assessing every report will be on GNI's performance in delivering connections, we

might pay more attention to GNI's planning and whether GNI has identified areas of improvement in the first report, with focus gradually moving whether GNI has applied lessons learned. It should be kept in mind that the impact of many of GNI's actions might only become clear later during the period, e.g., relating to any efficiencies derived from holistic planning or adopting innovative processes. Nevertheless, GNI should be able to set out its planned actions and expected impacts in the first report.

2.3.6 Request for comment

- Do you have any views around the proposed implementation of the GFGC incentive?
- What information (including metrics) would you expect to see in the GNI's public facing document on GFGCs? Please provide reasoning on why this information would be helpful for the public/industry stakeholders.
- Are you aware of any relevant international precedence or best practice to inform the design of the GFGC incentive?

2.4 Stakeholder engagement

2.4.1 Overview and reporting requirements for PC5

The CRU has decided to introduce a Stakeholder Engagement incentive to encourage GNI to ensure that the benefits of stakeholder engagement are delivered in practice. The incentive will cover the quality, implementation and effectiveness of GNI's stakeholder engagement strategy, with these areas considered separately for large connections given the importance of stakeholder engagement for their delivery, as well as the lessons learned from GNI's stakeholder engagement.

Assessment against the incentive will be undertaken by a panel composed solely for this purpose, based on the panel structure used for the PR5 network stakeholder engagement evaluation (NSEE). The composition of the panel, with panel members representing stakeholders across the industry, will be determined by the CRU. The panel will be chaired by the CRU and will meet at least twice a year during the first half of the year.

GNI's strategy for stakeholder engagement and its activities in the preceding calendar year will be assessed annually. GNI will be awarded a score on a scale of one to ten, with at least a score of five required for a financial reward. The maximum annual available incentive payment is €0.25m. The CRU will also publish a close out report on the panel's decision with recommendations for GNI.

In its decision on the PC5 Regulatory Framework, the CRU set out the following areas of assessment along with associated weights:

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

The CRU will be holding a separate consultation on the terms of reference for the panel that will assess GNI's performance against the Stakeholder Engagement incentive. In this report, we focus on the design of the incentive, namely, the assessment criteria used by the panel and what we would expect GNI to provide in its reporting.

2.4.2 Updates since PC5 decision

GNI submission

While the CRU had proposed reporting for the stakeholder engagement incentive to be part of the Connections Report, GNI proposed in its submission to the CRU in August 2024 to report on its stakeholder engagement separately to other incentives. It will submit two annual reports – a forward-looking Stakeholder Engagement Plan and a Stakeholder Engagement Outturn Report. GNI proposed to publish both reports for consultation.

In addition, GNI proposed additional categories of industry representatives, namely communities/small customers and trade bodies, to be included in the panel.

CRU Updates

The CRU has expanded the list of categories that are proposed to be represented in the panel membership according to GNI's proposal. The CRU agrees that it will be important to reflect the variety of relevant stakeholders in the composition of the panel. For example, relevant stakeholders in the renewable gas producers category for the purpose of this incentive include biomethane/AD producers, prospective CGI facility operators, bio-CNG station developers and hydrogen project developers. The updated categories to be reflected in the panel membership are:

- Natural gas producers;
- Renewable gas producers;
- Suppliers/shippers;
- Generators;
- Large energy users;
- Academia;
- Communities/small customers;
- Trade bodies; and
- Other stakeholders where appropriate.

The First Stakeholder Engagement Plan will be prepared for the calendar year 2025, with first assessment consequently taking place in 2026. GNI is expected to submit its Stakeholder Engagement Plan (and Stakeholder Outturn Report from 2026 onwards) to the CRU by 31

March. The Engagement Plan should describe the stakeholder engagement activities that GNI plans to conduct in the coming year and the Outturn Report should detail GNI's performance in the previous year against the plan for that year.

The Stakeholder Outturn Report should also be published for consultation by 31 March with the final Outturn Report adjusted to reflect consultation responses. The Panel will meet at least twice a year, between April and June to assess GNI's stakeholder engagement performance during the previous year. The first meeting will be shortly after GNI has published its Outturn Report for consultation. Panel members will review both the Engagement Plan and the Outturn Report and provide provisional scores in advance of the meeting. In the second meeting, GNI will present its revised Outturn Report, and the panel will score GNI's submission. A third meeting may be held if needed by the panel to arrive at a decision on the score awarded to GNI.

2.4.3 Proposed guidance on reporting and assessment criteria

Assessment criteria

In its decision on the PC5 Regulatory Framework, the CRU set out assessment criteria for the Stakeholder Engagement Incentive. In addition, the CRU outlined that there should be particular focus on engagement relating to large connections.

We provide the assessment criteria in this section (in bullet points) along with some additional guidance on what GNI may wish to set out in its Outturn Report to evidence its performance against the criteria. However, we consider that the criteria are often self-descriptive and provide an indication to the GNI on what we would expect to see. GNI is also experienced in engaging with stakeholders, and as such, knowledgeable of the type of evidence it may be able to set out in its reporting. Nevertheless, the focus should be on actual outcomes for customers, that is, how GNI's engagement is designed to lead to positive outcomes, how it has impacted customer outcomes and how these have been measured.

GNI should also keep in mind that the CRU expects GNI's reports to be concise in nature to allow the panel members to assess the materials within the required timeframes. The Outturn Report should be no more than 15 A4 pages in length.

Quality of the Strategy

The following assessment criteria was set in the CRU's decision on the PC5 Regulatory Framework:

- 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?

GNI should set out measures of success that reflect its strategic objectives, or perhaps its more practical objectives for stakeholder engagement within different areas. For example, measures of success could relate to the number of stakeholders GNI is aiming to engage with, or initiatives, campaigns or events it will hold. We consider that GNI is in the best position to set these metrics along with its plans for engagement. Ideally, the same metrics could be used in both years of assessment in PC5 to allow for comparison of performance.

In identifying the needs of stakeholders, GNI will need to account for the variety of stakeholders and how their needs may differ and show that this is reflected in its strategies. The CRU would expect the GNI to show consideration of a range of methods to engage with customers, whether this is campaigns, workshops, working groups, newsletters or surveys.

Although GNI should have personnel responsible for stakeholder engagement, stakeholder engagement should be embedded in the overall business planning and influence ways of working and culture within the GNI more widely.

Implementation of the Strategy

The following assessment criteria was set in the CRU's decision on the PC5 Regulatory Framework:

- 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?

If stakeholders' needs are appropriately identified, the engagement channels and initiatives should reflect the range of stakeholders. Where appropriate, the CRU would expect GNI to show innovation in its initiatives – this could be trying new methods (i.e., running pilots), adopting behavioural insights to make engagement more effective or demonstrating regard for external research, case studies and best practice.

Demonstrating the cost-effectiveness of the strategy could rely on comparing costs between initiatives (including historical), calculating the cost per stakeholder contacted, or utilising external benchmarks.

GNI might provide detailed information on the campaigns/initiatives it ran, events it held etc. in an appendix of its Outturn Report. However, this should be accompanied by a narrative in the main report that explains why the approach was chosen and how it was designed to contribute towards GNI's objectives.

Effectiveness of the Strategy

The following assessment criteria was set in the CRU's decision on the PC5 Regulatory Framework:

- 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?

Approaches to measuring outcomes can include quantitative measures (e.g., similar to the metrics) as well as qualitative measures, for example, stakeholder feedback and survey responses. GNI might demonstrate its focus on engagement in areas that delivery value for customers (or GNI) by linking the positive impacts to the identified needs of customers or areas of improvement.

After stakeholder engagement, it is important that GNI sets out 'next steps' based on the outcomes of the engagement – these should take the form of action plans with specified timelines and responsibilities.

Delivering Large Connections

The following assessment criteria was set in the CRU's decision on the PC5 Regulatory Framework:

- 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?

The CRU is considering making the assessment criteria for 'Delivering large connections' more specific to the topic area to avoid duplication in the criteria. For example, the assessment criteria would specify that the CRU is interested in how GNI identifies relevant stakeholders in this area and what the specific needs of large connections are. We welcome stakeholder views in

responses to this report on what is important to them with respect to GNI's stakeholder engagement with large connections, and how engagement with large connections may differ from that with other customers.

Given the importance of stakeholder engagement for the delivery of large connections, we would expect GNI to have clear internal responsibilities as well as specific points of contacts for large connections. GNI's stakeholder engagement strategy should reflect the specific needs of large connections in terms of approach, initiatives and engagement channels.

Lessons Learnt

The following assessment criteria was set in the CRU's decision on the PC5 Regulatory Framework:

- 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?

GNI should describe how it ensures that lessons learned are diffused within the company. That is, feedback and stakeholder views received within one area of GNI's remit, should be reflected in all of its operations where appropriate.

In addition to the assessment criteria set out above, the CRU is of the view that GNI should consider the effectiveness of its engagement and lessons learned with respect to the complaints it has received from customers (including those shared with the CRU on GNI). That is, identifying lessons learned and areas of improvement should also account for the engagement with customers undertaken when handling customer complaints. The CRU also notes that customer complaints to the CRU about GNI's services are not included in the Customer Performance Indicators detailed in Section 3.5, making it more important that GNI addresses lessons learned based on them within its reporting on stakeholder engagement.

2.4.4 Proposed guidance on CRU evaluation

This section sets out further guidance to that provided in the CRU decision on PC5 Regulatory Framework on how the panel should evaluate GNI's submissions.

While GNI's performance will be subject to an annual assessment, we would expect the panel undertake the assessment in reference to that taken in the previous year. This follows the example set by the panel model in electricity, where the panel provides feedback and recommendations to the GNI, in addition to scoring its performance. In the following year, the panel considers how well GNI has taken these on board.

The panel should in general pay attention to incremental improvement over the time period that will be assessed in PC5, that is, how well GNI has identified areas of improvement and reflected them in its strategy. We would expect that GNI should demonstrate that stakeholder engagement adds value to the process²⁴.

In terms of timelines, it is crucial that GNI circulates the Outturn Report according to the set timelines to allow the panel to review it. The panel's annual assessment will feed directly into the annual revenue decision for GNI.

The NSEE Panel in electricity has previously recommended that a draft report is circulated to panel members, due to delays to circulating the final report.²⁵ While providing a draft report should not be considered by GNI as an alternative to circulating the final report by the relevant deadline, we might consider whether there is a need to also provide the draft report to allow panel members to have more time to review the report. If GNI provides the final report to the panel members behind the set timelines, it is at the discretion of the panel to reflect the delay in the score it rewards to GNI.

In general, to score well the report should convey to the panel members that GNI has a good understanding of the needs of customers and has thought of the best way to reflect these in its engagement. GNI's strategy should be purposeful and relevant to the range of its stakeholders. GNI should show that it is committed to improving its stakeholder engagement, and willing to try new approaches and methods, and when successful, to scale them up. The panel members should be left with a good understanding of how GNI has evaluated the outcomes of its engagement and how the engagement has influenced its processes, decision-making and strategies.

It should also be noted that the CRU expects the panel members to evaluate GNI's performance against the assessment criteria from the perspective of the category they have been selected to represent (e.g., renewable gas producers, academia). However, awarding the score to GNI should be based on a consensual decision between the panel members.

Incentive payment

This section details how the incentive payment will be calculated.

The final score will be a number from one to ten. GNI must achieve a minimum score of five to receive an incentive payment. The incentive payment for any score below five will be €0. For

²⁴ This is considered as part of Ofgem's Stakeholder Engagement Incentives Panel report. For example: <https://www.ofgem.gov.uk/sites/default/files/2023-09/2022-23%20SECV%20Panel%20Report%20Update.pdf>

²⁵ CRU (2023), *Electricity Networks Stakeholder Engagement Evaluation (NSEE) Panel Close-out Report 2022*. Available on the CRU [website](#).

scores equal to or greater than five, the incentive payment will be calculated using the following formula:

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

Where:

x = the Panel's final score

y = maximum incentive payment

z = 10% of maximum payment

For PC5, the maximum incentive payment will be fixed at €0.25m per annum. Based on this, the incentive payment formula can be simplified to the following where x = the Panel's final score:

$$\text{Incentive payment} = 25,000 + ((x - 5) \times 45,000)$$

A worked example is given below, in which a final score of seven results in an incentive payment of €115,000.

$$\text{Incentive payment} = 25,000 + ((7 - 5) \times 45,000 = 115,000)$$

2.4.5 Request for comment

The CRU will be consulting on the Terms of Reference for the gas NSEEP panel separately, and in this report, we are purely seeking feedback on the design of the Stakeholder Engagement Incentive.

- Do you have any views around the proposed implementation of the stakeholder engagement incentive?
- Are there any additional assessment criteria, relating to large connections, that should be considered by the gas NSEEP panel in assessing GNI's performance?

3. Consultation topics

This section covers the remaining incentives, including innovation. These are less developed than the topics discussed in Section 2, where a provisional decision has been made. For more detail on each incentive discussed in turn below please refer to the Decision on the PC5 Regulatory Framework (CRU2023140).

3.1 Capex incentives

Please refer to Section 5 and Appendices F and G of the PC5 Regulatory Framework for more information on the incentive discussed below.

Capex incentives aim to reward GNI for efficient decisions and penalise GNI for inefficient decisions with regard to capital expenditure. The capex incentive regime has evolved over time to ensure clear guidance on desired behaviours and outcomes. In PC4, the CRU conducted both ex-ante (based on forecasts before PC4 began) and ex-post (based on actual spend at the end of PC4) reviews of GNI's capex. Part of the ex-post review involved determining which of the below categories each capex item fell into, and accordingly whether GNI should be subject to penalties / rewards through the incentive mechanism:

- **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.
- **Unjustified spend:** Expenditure that should be disallowed from the RAB. Expenditure is not considered to be economic and efficient cost that benefits consumers.
- **Financed overspend:** 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.
- **Unfinanced overspend:** Incurs 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's outturn unit costs are higher than assumed at the previous determination.
- **Efficient savings:** Generates financial reward. GNI retains the benefits of this saving for five years from the date of inclusion in the Regulated Asset Base (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 due to improvements in efficiency.

- **Efficient deferral:** Generates financial reward. GNI retains 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.

In reaching a decision for PC5, the CRU noted that the efficacy of the PC4 capex regime could be improved in some cases such as where the certainty of a project is less clear and changes over the course of the price control. Accordingly, the PC5 decision introduced a number of changes to the capex incentive regime. The regime is summarised below:

- The CRU will continue to apply an ex-ante / ex-post capex framework that builds on the existing regulatory treatment from PC4.
- Projects allowed at the outset of PC5 (ex-ante allowances) will now be allocated into two tiers based on the level of certainty of costs and quantities. Tier 1 projects will be subject to a similar capex incentive regime as PC4. Tier 2 projects will be funded at outturn cost (subject to ex-post review of expenditure efficiency) where a clear baseline has not been established ex-ante.
- The same expenditure categories will exist for Tier 1 projects as PC4 with the following changes:
- The strength of the unfinanced overspend penalty will be aligned with the efficient savings reward, i.e. the impact of the penalty will be retained for a rolling five-year period and will include both the return and depreciation elements (for 5 years) of the overspend vs the original ex-ante allowance.
- There will be an assessment of whether efficient savings claimed by GNI is driven by efficiency as opposed to a mechanistic adjustment.
- Tier 2 projects will not be able to receive rewards from efficient savings or efficient deferrals, and they also will not be subject to penalties from unfinanced overspends.

3.1.1 Updates since PC5 decision

GNI submission

In their submission to the CRU on the PC5 Regulatory Framework Implementation, GNI set out their current thinking and progress against the requirements laid out in the PC5 Decision.

Regarding the annual capex monitoring reporting submissions, GNI proposed a revised capex BPQ structure in the form of a flat-file database style presentation, as requested in the PC5

Decision. The structure proposed by GNI allows cost and output data to be traceable both to CRU decision spreadsheets and the GNI internal reporting categories. GNI's proposals are that each of the following sections will contain:

Outputs:

- The quantity of outputs included in the determination for an allowance;
- The quantity of outputs currently expected to be delivered;
- The position reported in the prior reporting year; and
- A qualitative explanation of the variance to the prior reporting year where there is a material difference.

Costs:

- The total cost included in the determination in nominal monies;
- The currently expected total cost that will be incurred under the allowance to September 2027 in nominal monies;
- The position reported in the prior reporting year; and
- A qualitative explanation of the variance to the prior reporting year where there is a material difference.

Schedule:

- The expected completion date for key projects that come under the allowance at each Approval Gate.
- Note GNI propose that the schedule section will have a specific focus on a select number of allowances that consist of larger discrete projects that may span across multiple price controls.

GNI's proposals broadly follow the illustrative examples provided in Appendix G of the CRU Regulatory Framework. Illustrative examples of GNI's proposal for both costs and outputs were also provided within GNI's submission. GNI propose that reporting is done at allowance level.

Following engagement with the CRU, GNI has provided a further submission outlining the typical triggers that lead to a TJP addendum and proposes to develop a heatmap with a scoring mechanism based on the following to determine which variations are material enough to warrant updating a TJP.

- Variance reasons e.g. schedule change, scope change or cost change
- Drivers of the variance
- Description of the variance
- Whether the driver was internal or external

- Whether the variance resulted in a strategy change

GNI confirmed its intention to report on all expected capital variances to the CRU with the BPQ reporting template. The heatmapping process will be used to determine where a TJP addendum is required, with the suite of TJP addendums detailing the changes and the impact it will have on the investment strategy to be shared with the CRU once developed.

GNI's additional submission also contained a proposal for a proposed project categorisation to determine what information would be provided through the BPQs for initiatives of different types, as not all information required by the CRU is applicable for all types of projects. Four different categories are proposed by GNI:

- **Defined outputs:** Initiative calling for delivery of specific outputs. Generally homogenous outputs.
- **Discrete project:** Individual project delivering a single initiative; generally higher value
- **Outputs Less Defined:** Initiative is a provision for delivery of approximate quantities of different outputs. Scope definition to form part of the initiative.
- **Rolling programme:** Continuous rolling programme of age or condition-based replacements/refurbishments; Outputs can be consistent or variable; Will continue price control to price control.

CRU proposals

As determined in the CRU decision on the PC5 Regulatory Framework, the enhanced capex monitoring regime will be expanded to include:

- Quantitative evidence on outputs / work delivered, cost estimates and timelines with a supporting excel document.
- Reference to project gateways structure in presenting results on timings.
- Technical justification papers (TJPs) updates for projects that had not reached an investment decision when its PC5 proposals were submitted to the CRU, or a TJP Addendum where an investment has changed strategic direction.
- A detailed narrative to support any raw data.

The CRU anticipates that the capex monitoring summary is submitted to the CRU on a quarterly basis, with the frequency to be determined at decision. Each dashboard submission will be provided at the end of the subsequent quarter, with the first submission due in Q1 2025. The dashboard will be largely quantitative in nature and leverage existing GNI systems. The updated BPQs will be submitted by GNI on an annual basis by the end of January, with the first submission due in January 2025.

The CRU is working with GNI to develop a suitable BPQ design and reporting structure that can be efficiently populated by GNI, through leveraging GNI's existing optimised data frameworks, that fulfils our data requirements as part of the capex monitoring regime. The new annual BPQ template will be compatible with the PC6 submission, though we reserve the right to change this should the capex reporting not work as intended. The nature of the PC6 submission may itself necessitate changes to the template. It is anticipated that revisions to the BPQ template would be agreed with GNI as part of the initiation of the PC6 engagement.

The template will adhere to the following principles:

- Use of clear programme names linked to allowances from the PC5 determination.
- Use of a data referencing structure and categorisation that enables alignment of the data.
- Inclusion of gross and net costs, with contributions assigned at the reporting line level.
 - Where contributions are not received at the reporting line level (e.g. distribution contributions), GNI will allocate such contributions using a methodology that is to be agreed with the CRU.
- Outturn data to be provided for all PC5 years.
- Information on scheduled gateways to be provided, starting from the 2023/24 gas year.
- Expected outturn post-PC5 to also be included, where it is appropriate to do so.
- Separate sheets for costs and outputs across both distribution and transmission.
- Granularity is preferable, where reporting such information is possible, e.g. allowances can be broken down into multiple rows if there are different outputs or projects associated with a programme of work that receives an allowance.
- Highlight/identify safety programmes with a Corrective Action Request number.

The CRU welcomes GNI's proposals for initiative categorisation, and is currently minded towards accepting GNI's proposal. However, the CRU will finalise the categorisation structure as part of the Decision Paper.

GNI should provide associated qualitative information on variances in outturn (with respect to costs, outputs or schedule) for any given programme on an annual basis. Updated TJPs may also be required. The CRU intends to provide more explicit guidance on this as part of the Decision Paper, following further engagement with GNI on its proposed heatmap process.

Regarding strategic changes to the PC5 plan outside of the annual submission process, GNI has explained through its engagement that this would only occur in an exceptional situation

where a significant change has not been signposted in the most recent annual submission and where the next BPQ annual submission is more than six months in the future.

The full quarterly capex monitoring reporting will be shared by GNI as a dashboard in confidential form to the CRU. We intend for a shortened summary for both distribution and transmission form to be published, providing a more high-level overview of status regarding costs, outputs and schedule. This summary will not contain any commercially sensitive information.

3.1.2 Request for comment

- Do you have any views around the proposed implementation of the capex incentives?
- Is there any further information that GNI should provide CRU as part of its annual capex monitoring reports?
- Do you have a view on how to define where GNI should report in detailed terms from a sufficiently material variance in costs, timings or outputs for a given capex project?
- Do you have any thoughts on the treatment of contributions?

3.2 Biomethane Connections Incentive

Please refer to Section 3.5 and Appendix C of the PC5 Regulatory Framework for more information on the incentive discussed below.

Biomethane has an important role to play in decarbonising the Irish economy, and GNI is a key stakeholder in enabling the transition from fossil gas to biomethane. The Biomethane Connections Incentives was introduced to incentivise GNI to deliver direct biomethane connections in a timely manner, removing current obstacles to the delivery of connections, and ultimately contributing to the delivery of national biomethane production targets.

Currently, GNI only offers connections to developers based on a “maximum connection model” where GNI retain ownership of all equipment contained within the injection facility. Under this model, GNI are responsible for procuring and overseeing the installation of the entire injection facility as well as delivering the connection to their network. GNI’s role is therefore especially important in delivering biomethane targets, particularly in the earlier years of the industry and before alternative connection models are developed and offered.

3.2.1 Updates since PC5 decision

Policy and legislation

In May 2024, the National Biomethane Strategy was published.²⁶ The Strategy sets an ambitious target of 5.7 TWh p.a. of biomethane production by 2030, with an intermediate target of 1 TWh p.a. by 2025. This reinforced the importance of GNI being able to deliver a large number of connections in the coming years, with the aim of achieving 1.6 TWh p.a. of biomethane throughout before the end of PC5 (subject to any further changes to government targets on biomethane).

At the same time, the detailed design of the Renewable Heat Obligation (RHO), which will introduce an important policy mechanism to scale up the biomethane market, has not yet been published and is currently expected for the end of 2024.²⁷

GNI updates

In line with what was set out in the PC5 Decision, in its August submission to the CRU, GNI proposed to submit a standalone Biomethane Connections Report in Q1 of every calendar year

²⁶ <https://www.gov.ie/en/publication/d115e-national-biomethane-strategy/>

²⁷ <https://www.gov.ie/en/publication/7a1f1-renewable-heat-obligation/>

over the course of PC5. This report will contain the information and metrics which we will use to assess GNI's performance under the Biomethane Connections Incentive.

In our engagement with GNI since its submission, GNI has indicated that it has received fewer applications than originally anticipated to date. GNI stated that this is primarily down to the delay in the publication of the full RHO policy and explained that it has an initial and growing pipeline of biomethane connection applications which it is processing. GNI expects to deliver the 1.6 TWh p.a. target by the end of PC5.

CRU proposals

The CRU agrees with GNI's proposal to submit a standalone Biomethane Connections Report, although we expect its content to be closely aligned with that of the FROGI and Decarbonisation Report referring to the same gas year. We propose that, as a minimum, GNI should cover the following in its report:

- Key metrics, to be agreed with CRU, on the delivery of biomethane connections;
- A narrative on the determinants of the metrics, explaining any delays to delivery and outlining what GNI is doing to solve any issues; and
- A summary of actions undertaken by GNI to develop its market arrangements and internal policies to support the scale-up of biomethane connections. This should include updates on GNI's progress towards developing a "developer choice" model and a mechanism for customer contributions to Central Gas Injection (CGI) facilities.

We expect GNI to provide information on the following, as a minimum:

- The number of biomethane connections going through each step in the pipeline (e.g. number of connections at initial enquiry stage, formal application, Gas Entry Point Agreement signed, detailed design, under construction, and fully commissioned);
- The timelines agreed with developers for each connection and GNI's delivery against that timeline (including commentary on instances when the agreed timelines deviated from typical timelines for connections);
- The volume of biomethane production associated with this pipeline of connections, as well as a breakdown between direct and virtual connections;
- The costs associated with the pipeline of connections, including an analysis of how costs evolve from initial assessments at the application stage to outturn costs after commissioning; and
- The charges to customers in the form of customer contributions (split by standard and supplemental contributions) as well as additional information as new charging methodologies are developed.

As the number of connections increases, we also expect some new connections to face some level of expected gas curtailment, in the absence of GNI investment in reverse compression infrastructure or alternative solutions to reduced curtailment. We therefore propose that GNI also report metrics on the expected level of curtailment of their pipeline of connections, with some information on their location. GNI should also refer to any associated analysis of needs cases for reverse compression which they may refer to elsewhere, for example in their innovation reporting or in flexibility pot funding applications.

In addition to the annual reporting on biomethane connections in the Biomethane Connections Report, GNI should produce and share a dashboard on key biomethane connections metrics with the CRU, updated on a bi-monthly basis. Similarly to the proposals set out in Section 2.3 for Gas-fired Generation Connections (GFGCs), GNI should include in the dashboard a summary of mostly quantitative information on the number of connections, the timeline and costs involved in delivering them, and include any reasons for changes compared to the previous period. GNI might also wish to detail its focus of work and priorities during the period in question (or the upcoming period).

This dashboard would not be used directly to assess GNI's performance against the Biomethane Connections Incentive, which will still be based on information contained in the yearly Biomethane Connections Report. However, it would allow the CRU to have a more granular understanding of progress on delivering against biomethane targets and identify any issues or concerns early. It would also improve transparency and allow the CRU to provide GNI with earlier feedback on its actions to deliver connections, which GNI will then be able to reflect in its annual reports.

3.2.2 Request for comment

- Do you have any views around the proposed implementation of the biomethane connections incentive?
- Are there any further metrics on biomethane connections that you believe GNI should report on as part of this incentive?

3.3 Hydrogen Readiness Incentive

Please refer to Section 3.6 and Appendix C of the PC5 Regulatory Framework for more information on the incentive discussed below.

The National Hydrogen Strategy sets out ambitious plans to scale up the production and transportation of low-carbon hydrogen in Ireland.²⁸ This is likely to include repurposing some of the existing natural gas network to transport hydrogen and to explore opportunities for low-volume blending of hydrogen into the existing gas grid. GNI is a crucial stakeholder in delivering these changes. As such, the Hydrogen Readiness Incentive is a reputational incentive aimed at assessing GNI's planning and actions are consistent with the Strategy's targets and overall Irish hydrogen policy.

3.3.1 Updates since PC5 decision

GNI updates

GNI is already providing regular, high-level updates to the CRU on its hydrogen programme and activities. In their August submission to the CRU, GNI flagged that it will engage with the CRU on the detailed structure of the hydrogen section of their FROGI and Decarbonisation Report. This engagement is still ongoing, and the specific structure will be agreed as GNI's plans progress.

GNI is working on plans to enable low-volume blending of hydrogen into its network in the medium term. In its August submission to the CRU, GNI stated that it plans to have carried out pilot projects at discrete locations to demonstrate the safe injection of hydrogen at low levels of blend into the gas network. In its recent engagement with the CRU, GNI signalled that it is also developing plans to deliver a hydrogen cluster, where it will be transporting 100% hydrogen, as opposed to low-level blends. However, this is of secondary priority.

CRU proposals

The CRU proposes that GNI include a detailed update on its activities associated with both blending and conversion to transport 100% hydrogen through its pipelines. This should include both an update on GNI's feasibility studies and research activities, as well as information on the

²⁸ <https://www.gov.ie/en/publication/624ab-national-hydrogen-strategy/>

development of any pilot projects. As a minimum, the CRU would expect this section of GNI's report to include:

- A list of all projects it is carrying out related to hydrogen readiness, including both research projects and pilot projects;
- A summary of GNI's delivery against hydrogen-related actions which it is tasked to deliver under the National Hydrogen Strategy (see more detail below), the Climate Action Plan, and other current or future policy documents; and
- An update on GNI's stakeholder engagement activities related to hydrogen readiness.

GNI's primary focus should be on projects aimed at preparations for the potential injection of hydrogen at low levels of blend into the existing gas network, and on longer-term planning for transitioning parts of the network to hydrogen. In line with what is set out in the National Hydrogen Strategy (Action 12), these plans should take due consideration of:²⁹

- Plans to develop a biomethane sector in Ireland (which should form part of an integrated plan to transition the gas network away from fossil fuels to renewable gases);
- The prioritisation of end uses for 100% hydrogen as set out in the National Hydrogen Strategy, and their likely location where known;
- Energy security needs during the transition;
- How existing end users can transition from natural gas to hydrogen, or to alternative solutions, e.g. electrification;
- The role of lower levels of hydrogen blends during the transition, including associated costs and practicalities of moving from low-level blends to 100% hydrogen (or biomethane).

The CRU expects GNI to report on its progress towards the development of these plans. More generally, the CRU proposes that GNI provide updates in this section of the report on its work to help deliver the following actions under the National Hydrogen Strategy:

- **Action 3** – particularly, the work GNI is carrying out to develop a national certification scheme for hydrogen blended at low volumes into the existing gas network, in line with EU standards on renewable and low-carbon hydrogen.
- **Action 11** – including any research and related work that GNI is carrying out to prove the technical capabilities of the network to transport hydrogen, both at low-volume and 100% blends. This should include an overview of GNI's engagement

²⁹ <https://www.gov.ie/pdf/?file=https://assets.gov.ie/263248/f982c10f-eca6-4092-a305-90000e5213ed.pdf#page=null>

with network operators in other European countries in relation to the interoperability between future hydrogen networks.

- **Action 12** – as mentioned above, this should include an update on GNI’s progress towards long-term plans to transition the network from natural gas to renewable gases. Where relevant, this may signpost to work already reported on under the Decarbonisation Policy Alignment Incentive in the same report, or to information reported on under the Flexibility and Adaptability Incentive in the Core and Supplementary Flexibility Reports.
- **Action 13** – updates on how GNI is contributing to the work to identify and support the development of strategic hydrogen clusters.
- **Action 14** – including references to GNI’s role in developing long-term energy systems planning fit for the future energy system in Ireland, signposting to information reported elsewhere where appropriate (as with Action 12).

Where the activities undertaken under this workstream have direct links to broader plans or activities reported on under different incentives, GNI should signpost to other relevant reports and set out how its progress on hydrogen readiness has been accounted for in their broader strategic plans. For example, GNI may want to highlight any links to information reported under the Decarbonisation Policy Alignment incentive, where their delivery of hydrogen-related research or pilot projects has contributed to their broader delivery or facilitation of Irish decarbonisation policy.

3.3.2 Request for comment

- Do you have any views around the proposed implementation of the hydrogen readiness incentive?

3.4 Investment planning and delivery incentive

Please refer to Section 3.2 and Appendix C of the PC5 Regulatory Framework for more information on the incentive discussed below.

The CRU decided to implement a new investment planning and delivery (IPD) incentive for PC5 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.

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

- **Technical Justification Papers (TJPs)** where new capex investment strategies are being introduced within the price control, or TJP Addendums where a TJP already exists but there has been a material change in the strategy in that TJP.
- **Quarterly capex monitoring reporting** covering the status of all capex projects across the dimensions of cost, timings and outputs.
- **Business Plan Questionnaire (BPQ) submissions** on the status of outturn costs and outputs against allowances on capex.

3.4.1 Updates since PC5 decision

GNI updates

In its August submission to the CRU, GNI confirmed that in Q1 2025 it will submit an initial report that will include information for the period from October 2021 to September 2024. This report will not be subject to any scoring or financial rewards or penalties, with the annual incentive of +/- €0.5m only applicable for each of the final three years of PC5 (i.e. from gas year 2024/25 onwards). The incentive will be assessed using the financial weighted scorecard at the end of PC5.

The initial reporting will include the required information as set out within the PC5 determination, with a mix of qualitative and quantitative evidence encompassing:

- Technical Justification Papers (TJPs) for new investment strategies or TJP Addendums to record a material change in an existing investment strategy.
- Annual databook submissions on outturn capex costs and outputs against allowances (BPQs).
- Annual capex monitoring reports summarizing the status of capital investments across cost, schedule and outputs and highlighting changes from prior year reporting.

GNI has indicated through further engagement with the CRU that the databook submission and monitoring reports could be amalgamated into one deliverable, in line with the proposed BPQ approach.

CRU proposals

We provide further clarity on the IPD scorecard below.

Regarding the planning component of the scorecard, we expect the required planning documentation – such as TJPs – to provide comprehensive detail on the various details in relation to capital projects, including (but not limited to): scope, asset risk and asset lifecycle. GNI should also provide us with the current status of all projects using their investment gateway structure.

For delivery, the scorecard makes reference to GNI delivered innovation / market leading behaviours to deliver capex projects. Such innovation is likely to be similar to innovative measures currently being taken by DNOs and TOs in GB and Europe. For instance, the Energy Networks Innovation Strategy 2022 outlines the principles of innovation that gas and electricity operators are following in GB.³⁰ These include:

- Positive carbon impact
- Increased collaboration and stakeholder engagement
- Consumer financial benefit
- Transparent and accessible data and knowledge sharing
- Deploying innovation initiatives into business-as-usual.

We note that GNI has indicated that it is adopting best practice sustainable procurement, by implementing improvements in line with ISO 20400, the Sustainable Procurement Guidance Standard, which is the leading international standard in this area. The CRU would expect GNI to provide more detail regarding sustainable procurement and other market leading behaviours as part of its IPD submission.

We also expect GNI to undertake detailed and robust cost-benefit analyses (CBA) on a consistent basis across projects. The assumptions and methodology used should be in line with European Commission guidance e.g. regarding discount rates and inflation. Conducting CBAs should involve reducing a long-list of potential options to solve a given issue down to a short-list that is assessed in more detail based on well-defined criteria. This process will typically require

³⁰

<https://www.energynetworks.org/assets/images/Resource%20library/Energy%20Networks%20Innovation%20Strategy%202022.pdf?1724949908>

a large number of inputs and detailed analysis. A well-defined, realistic counterfactual will be required that feasibly portrays the outcome without the proposed project(s) going ahead. The value of costs should be defined using opportunity cost (i.e. the benefit forgone from the next best option) while the benefits should not double-count the potential impacts.

Where possible, GNI should undertake benchmarking of costs to obtain accurate estimates early within projects. Benchmarking should use appropriate cost drivers and adjustments to ensure a fair comparison is completed. Benchmarks are likely to be drawn from GB companies. For distribution, the eight regional GDNs in GB should provide suitable comparators for benchmarking given the more repeated nature of most distribution projects (though there may be the need to adjust for individual network characteristics).

We understand that transmission projects can be more bespoke in nature, making unit cost benchmarking more challenging, however GNI should still look to international comparators where possible, such as National Grid. We would classify benchmarking as 'effective' where the estimates obtained through benchmarking are robust, subject to unforeseen factors outside of GNI's control. Overall, GNI would be rewarded where it makes efforts to improve the quality of benchmarking information – engaging with other international comparators and relevant comparators within Ireland; this can apply to sub-sets of costs, not simply total costs.

A key criterion for over-arching processes is GNI demonstrating it has taken into account lessons learned and has continuously improves over the duration of the price control. This will include explaining within its submission where an action or process previously taken by GNI was sub-optimal and has resulted in a changed approach for subsequent decisions.

3.4.2 Request for comment

- Do you have any views around the proposed implementation of the investment planning and delivery incentive?
- Are you aware of other market leading or innovative activities that GNI should be undertaking with regards to investment planning and delivery?

3.5 Customer performance indicators

Please refer to Section 3.7 and Appendix D of the PC5 Regulatory Framework for more information on the incentive discussed below.

In the decision on the PC5 Regulatory Framework, we decided to maintain the customer performance indicators (CPIs) from PC4, which are intended to encourage GNI to provide high quality service to customers. The CPIs cover several aspects of GNI's customer service and are associated with a penalty on poor performance only, that is, there are no financial rewards associated with meeting targets. Given that customers should be able to expect good and stretching base level of customer service from GNI, we consider that the overall incentive package is balanced and the penalty only approach is acceptable.

The CRU PC5 decision also introduced two new performance indicators on customer service: i) on appointment cancelling (% of appointments cancelled) and ii) overall customer satisfaction based on a customer survey. The new indicators will be associated with reputational incentives.

The total package of CPIs consists of eleven metrics, of which most will be subject to a financial penalty.³¹ The penalties will be determined based on GNI's performance against specified targets, with the maximum annual financial penalty being €0.2m. In the case that GNI's performance would fall to a level in which it would receive a penalty, it will have an opportunity to provide written evidence to the CRU to demonstrate that the performance was due to factors outside of its control. In such cases, GNI's performance will not be penalised. However, it will be GNI's responsibility to justify such cases and provide clear evidence.

The customer satisfaction indicator, and the survey used for measuring it, will be developed over the course of the PC5 period, with the intention that it will be operational during the period.

In this paper, we seek feedback from stakeholders on the proposed package of customer indicators, and in particular, on the implementation of the two new proposed indicators.

³¹ The indicators subject to a financial penalty are: Calls abandoned, Call response, Total number of complaints, Complaints Resolved (10 days), Complaints resolved (30 days), Quotation turnaround (7 days), Appointment granting (5 days), Appointment keeping (1 day), Reinstatement commitment (24 hrs). Only Appointment rescheduling/cancelling and the overall customer satisfaction will have reputational incentives. More information can be found in the CRU's decision on the PC5 Regulatory Framework.

3.5.1 Updates since PC5 decision

GNI Submission

In its submission to the CRU on the PC5 Regulatory Framework in August 2024, GNI proposed to report on CPIs annually by calendar year as per its current reporting process. It would include a summary table setting out its performance against the eleven indicators for the previous year.

GNI set out the basis of its reporting and targets for each indicator in Table 2 below.

Appointment cancelling will form a part of the operational indicators, while GNI proposed that the overall customer's satisfaction survey should be developed based on its customer monitoring programme, which includes customer surveys on its existing processes.

Table 2: GNI's CPIs and sources of reporting for PC5. Source: GNI.

Indicator	Target	Source for reporting
<i>Call Centre</i>		
A1 Calls abandoned (after 10s)	1.5%	Existing GNI Operational Performance Reporting
A2 Call Response	92% answered within 20 seconds	Existing GNI Operational Performance Reporting
<i>Complaints Metric</i>		
B1 Total Number of Complaints	1,800	Existing GNI Operational Performance Reporting
B2 Complaints Resolved (10 days)	96%	Existing GNI Operational Performance Reporting
B3 Complaints Resolved (30 days)	98%	Existing GNI Operational Performance Reporting
<i>Customer Survey</i>		
C.1. Quotation turnaround (7 days)	97%	Existing GNI Operational Performance Reporting
C.2. Appointment granting (5 days)	97%	Existing GNI Operational Performance Reporting
C.3. Appointment keeping (1 day)	96%	Existing GNI Operational Performance Reporting
C.4. Reinstatement commitment (24 hrs.)	94%	Existing GNI Operational Performance Reporting
C.5 Appointment Cancelling	n/a	Operational KPI to be developed and agreed with CRU
C.6 Customer's Overall Satisfaction Survey	n/a	Survey KPI(s) to be developed and agreed with CRU based on GNI's customer monitoring programme

Since its submission, GNI has informed the CRU that it is working with relevant stakeholders to develop a formal definition for appointment cancelling to be used for quantifying performance.

On the overall customer satisfaction survey, GNI has explained that its current surveys on

customer satisfaction, carried out by a third-party supplier, have been in place for several years and provide a comprehensive view of GNI's customer interactions including measuring satisfaction with the services GNI delivers.

CRU updates

The CRU is aware that GNI wishes to base the customer's overall satisfaction survey indicator (C.6) on its existing customer survey programme. The CRU will engage with GNI to determine whether the existing programme is sufficient to be used as a basis for the new indicator. However, the CRU considers that GNI should design the survey for the indicator by using a third-party supplier. The survey would be subject to the CRU's approval. It will be important that the survey is appropriately targeted to all relevant customers, and as such, the CRU would expect GNI to provide information on how and to whom it is planning to target the survey to. In addition, the CRU welcomes GNI's proposal to further develop the definition for appointment cancelling (C.5), which will be submitted to the CRU for agreement.

GNI should submit its annual report on the CPI results for the previous year by the end of March. The CRU will assess GNI's performance on an annual basis. However, considering GNI's performance with respect to earlier years might be required, in particular for the indicators associated with a reputational incentive (e.g., improvements in performance compared to the previous year).

In its report on CPIs, GNI should provide sufficient information on how the CPIs are defined and measured, e.g., how it defines a complaint and what this means for counting customer contacts towards the metric.

While our assessment will rely mostly on GNI's measured performance against the targets, we would expect GNI to be able to substantiate this performance. That is, GNI should be able to provide more information on the underlying data when requested. GNI should have good records of engagement with customers, for example, how complaint cases were resolved. The CRU is of the view that if GNI is not able to substantiate its performance on CPIs, we may decide to impose a penalty despite GNI reportedly meeting targets.

At a minimum, GNI's report on CPIs should provide narrative explaining its performance for each CPI, in addition to setting out its performance for the previous year in a summary table. This will be particularly important for the two new incentives (C.5 and C.6) which have a reputational incentive. GNI should also discuss its approach to improving its performance, particularly for indicators where it has failed to meet the target.

GNI should reflect on how well the new indicators (C.5 and C.6) have worked, and whether the implementation has been successful. For example, whether the survey used for the Customer's Overall Satisfaction (C.6) reflects all relevant aspects of the customer experience.

3.5.2 Request for comment

- Do you have any views around the proposed implementation of the customer performance indicators incentive?
- Do you have any feedback on GNI's proposal on C.5 Appointment cancelling and C.6 Customer's Overall Satisfaction Survey?

3.6 Flexibility and Adaptability incentive

Please refer to Section 3.1 and Appendix C of the PC5 Regulatory Framework for more information on the incentive discussed below.

The purpose of the Flexibility and Adaptability incentive is to assess the extent to which GNI has adopted a flexible and adaptive planning approach to system operation and network planning in delivering its PC5 investment plans. It will be assessed through the biennial Core Flexibility Report (CFR), supplemented by a Supplementary Flexibility Report (SFR) in the year in which no CFR will be submitted.

3.6.1 Updates since PC5 decision

GNI updates

In its August submission, GNI informed us that they have started developing the first CFR for delivery in 2025. GNI is developing this report under four main workstreams:

- Adaptive planning;
- Scenario development;
- Framework development; and
- Coordination with other long-term gas network planning requirements.

On adaptive planning, GNI is working with its advisers to develop an “adaptive planning framework” based on international best practice and engagement with relevant stakeholders. GNI intends to base their future approach towards adaptive planning on this new framework.

On scenario development, GNI is currently in the process of developing high-level storylines, which will then be used to inform assumptions on long-term modelling of gas supply and demand. In working towards comprehensive scenarios, GNI is aiming for a more system integrated approach which accounts for developments in biomethane, hydrogen, carbon capture, and gas storage infrastructure. GNI is also engaging with EirGrid to foster collaboration in this space.

On framework development, GNI is currently developing their proposal for the detailed structure of the CFR, SFR, and project plan.

Finally, on coordination with other long-term gas network planning requirements, GNI’s work is focused on aligning its actions and requirements under the National Hydrogen Strategy, the Energy Security Package, and other relevant policies into a consistent network transition plan.

CRU proposals

The CRU welcomes GNI's plan to submit the first CFR in 2025, and therefore the second one in 2027, with one SFR submitted in 2026. We propose that all three reports should be submitted by the end of May of the relevant year.

With regards to the structure of the CFR, the CRU proposes that – as a minimum – GNI dedicate a section of the report to outline all updates to its long-term planning over the course of the previous two years. GNI should refer to the most recent Network Development Plan where appropriate, signposting to specific sections where relevant.

The content of the CFR should be focused on GNI's work to improve its adaptive planning capabilities. This means primarily that GNI should show how lessons learnt from past investments are informing their future strategy and investment planning processes. Where relevant, this should include summaries and references to relevant information reported elsewhere. As set out in the PC5 Decision, the CRU expects this to cover the following:

- 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 system participants, e.g. EirGrid, and stakeholders in Northern Ireland, including the outcome of that engagement;
- Relevant metrics; and
- Whether any strategic decision points or trigger points have been faced.

GNI should show throughout their reporting how it is ensuring that it delivers a capital programme of no or low-regrets investments. In reporting about the outcome of its engagement with other system participants, GNI should provide an update about how it is progressing work with them to develop joint scenarios on potential electricity, gas, and hydrogen developments, including scenarios with network decommissioning requirements.

The CRU also expects GNI to propose a series of metrics in its first CFR in 2025, which will be used to assess their performance in the subsequent years of the price control. This should include metrics related to:

- Progress towards delivering long-term planning and scenario development;
- GNI's assessment of its investment plans, including from cost-benefit analysis and other forms of ex-ante appraisal;

- GNI's lessons learned from delivering its investment plan over the previous year;
- Measured progress on specific stakeholder engagement programmes; and
- Targets for the use of Flexibility Pot funding.

We will carry out the assessment of GNI's performance under this incentive at the end of the price control period.

3.6.2 Request for comment

- Do you have any views around the proposed implementation of the flexibility and adaptability incentive?
- Do you have any views on the reporting structure for the Core Flexibility Report (CFR) and Supplementary Flexibility Report (SFR)?

3.7 Flexibility pot and uncertainty mechanisms

Please refer to Section 2 of the PC5 Regulatory Framework for more information on the incentive discussed below.

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 decided to retain flexibility pot funding of up to €10m in aggregate for transmission and distribution which GNI is able to draw down during the period of PC5, subject to CRU approval.

GNI is also able to utilise uncertainty mechanisms to manage uncertainty with biomethane, CNG and hydrogen readiness activities – areas referred to as the future role of gas (FROG) initiatives. These three uncertainty mechanisms sit alongside the capex ex-post review process and will be reported on annually in the uncertainty mechanisms report.

3.7.1 Updates since PC5 decision

GNI updates

In its August submission to the CRU, GNI stated that the flexibility pot mechanism is under consideration and GNI does not have any proposals on the use of the pot at this stage.

GNI provided updates on each of the three uncertainty mechanisms:

- Biomethane uncertainty mechanism – the first formal update on biomethane connections will be provided to the CRU in the first uncertainty mechanism report in Q1 2025. As of July 2024, GNI has connected one Biomethane injection facility to the gas network.
- CNG uncertainty mechanism – GNI has informed the CRU that it anticipates requesting a reopener for CNG activities in early 2025, following completion of the Causeway Report and formulating a new Renewable Gas in Transport Strategy. This strategic plan aims to:
 - Deliver a comprehensive outlook on the status and potential growth of the Renewable Gas in Transport market.
 - Evaluate prospects for Gas Networks Ireland to foster market development.
 - Define a role of Gas Networks Ireland in this sector.
- Hydrogen uncertainty mechanism – the hydrogen uncertainty mechanism is expected to be triggered in response to market developments and progression towards national policy outcomes, in particular actions arising from National

Hydrogen Strategy. GNI will submit proposals to CRU for any conditional funding allowances.

CRU proposals

The CRU uncertainty mechanism report should be published annually ahead of tariff determinations. The report should include a progress update on the use of all uncertainty mechanisms available within PC5, including GNI's request, the CRU's decision and any revenue impacts. Information regarding potential future use of the uncertainty mechanisms should also be provided to the extent that GNI has such information.

The CRU welcomes GNI's plan to submit the first uncertainty mechanism report by end-March 2025 and the plan for a new Renewable Gas in Transport Strategy in early 2025 following completion of the Causeway Report.

Regarding use of the flexibility pot funding mechanism, the onus is on GNI to set out why a particular use case would make effective use of the available funding. For instance, proposals may be accompanied by TJPs or other appropriate submissions. The CRU anticipates that GNI will request funding for a range of potential use case to balance supply and demand and that such solutions are likely to be innovative in nature.

The CRU would welcome further views from stakeholders on potential use cases of the flexibility pot funding and reasoning as to how such a use case would be effective use of the available funding. For instance, as the CRU noted at the PC5 decision two potential use cases could be demand side management and within-grid compression.

3.7.2 Request for comment

- Do you have any views around the proposed implementation of the uncertainty mechanisms?
- Are there any particular use cases you envisage the flexibility pot could be utilised for during the course of PC5?

3.8 Innovation

Please refer to Section 4 of the PC5 Regulatory Framework for more information on the incentive discussed below.

In the CRU's decision paper on the PC5 Regulatory Framework, the CRU set out its decision on innovation funding, including the structure and governance of the funding mechanism.

The Innovation Fund will have the following objectives:

- 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.

The Innovation Fund will be split into two separate pots – the Strategic Innovation Fund (SIF) and the Network-Based Innovation Fund (NBIF). The former will fund research projects using a challenge approach, in collaboration with Research Ireland (formerly Science Foundation Ireland)³², while the latter will fund trials of new technologies and software for the running of gas networks as well as develop GNI's work through its Network Innovation Centre.

The CRU decided to allocate €1.5m to the SIF and €3.8m for the NBIF, with the latter also including €400k for project management across the two pots.³³ No more than €1.5m should be allocated to projects linked to FROG initiatives, as the Innovation Fund should have focus on projects with a business case linked to the existing gas network.

The CRU also set out that a governance board for the two pots will need to include independent members to ensure fair allocation of funds to projects. The CRU outlined the process for selecting independent members as follows:

- GNI updates CRU on the process, candidates, evaluation and recommendation of candidates (administered by GNI);

³² A small share of the funding allocated to the SIF (€0.3m) is intended to cover co-funded research with other research bodies such as SEAI and ESRI.

³³ 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 successfully co-funded.

- 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

GNI will be expected to report on innovation funding on an annual basis. We may also request an audit of GNI to ensure the use of the Innovation Fund is as prescribed.

3.8.1 Updates since PC5 decision

GNI Submission

In its submission to the CRU in August 2024 on the PC5 Regulatory Framework implementation, GNI provided an update on the on-going allocating of funds within the NBIF and on its progress on setting up the SIF.

GNI has also established a governance board for the Innovation Fund, the Innovation Steering Group. The group is comprised of members representing GNI and two independent members, who were appointed on an interim basis. GNI is working to appoint independent members on an enduring basis.

Network-Based Innovation Fund

At the time of its submission, GNI had allocated over €750k to 29 innovation projects from the NBIF. GNI's summary of the projects is provided in Table 3 below. GNI estimated that an additional €500k is required to bring these projects to completion.

Table 3: A breakdown of the current allocation of NBIF funding as of August 2024. Source: GNI

No. Of Projects	CRU Policy Objectives	PC5 Funding
4	Continued focus on efficient spend	€178,867 (24%)
2	Efficiently facilitating the energy transition	€194,055 (26%)
20	Maintaining a safe and resilient gas network	€358,563 (48%)
3	Providing a safe high-quality service for all our gas customers	€20,019 (2%)
Total: 29		€751,504

Source: GNI (2024), PC5 Regulatory Framework Implementation: Gas Networks Ireland submission to CRU

Funding decisions for potential projects are based on a five-gate process:

- **Gate 1 – Idea Evaluation:** Ideas / proposals are screened for suitability for funding this includes the CRU Policy Objectives, Gas Networks Ireland Strategic Objectives and the fund scope.
- **Gate 2 – Innovation Idea Approval:** Idea is presented to Steering for Approval to be developed into an Innovation Project.
- **Gate 3 – Innovation Project Delivery:** Innovation Project (with project plan, milestones, and project timelines) is presented to the Innovation Steering Group for approval.
- **Gate 4 – Innovation Implementation Planning:** Innovation Project is completed and presented to the innovation Steering Group for BAU adoption.
- **Gate 5 –BAU Implementation:** Business Implementation of the Innovation as per the BAU recommendations from Gate 4.

It should be noted that GNI has since clarified to the CRU that only Gates 1-4 related to expenditure under the Innovation Fund. After a successful trial, preparation for handing over the innovation project to other teams within GNI for business-as-usual (BAU) adoption comes under the project management costs of the Innovation Fund. However, Gate 5 activities are no longer part of the Innovation Fund.

Strategic Innovation Fund

GNI has partnered with Research Ireland and established a joint working group to define the type of challenges that SIF funding should address. In its submission to the CRU, GNI anticipated that an agreement on co-funding arrangements with Research Ireland will be finalised by the end of 2024, with SIF challenges launching shortly afterwards.

Further GNI updates

GNI has informed us that the topic areas (challenges) for the SIF have been determined by GNI and Research Ireland. Funding under the SIF can be applied for projects relating to (i) energy system integration and (ii) biomethane and biohydrogen production (FROG initiatives).

The first area, energy system integration, is aimed at supporting the development of solutions to accelerate the optimisation and integration of the energy system in the country's transition to a low carbon economy. Researchers can submit applications relating to two broad themes under this area; the integration of renewable gases at local and regional levels and the development of AI solutions for gas network performance diagnostics

Applications for funding under the 'biomethane and biohydrogen production' challenge can be submitted for research seeking to develop solutions which improve the efficiency, efficacy and commercial viability of biomethane and biohydrogen production.

GNI is currently working with Research Ireland on the practical implementation of the SIF and is expecting to finalise this by the end of November 2024 to be able to kick off funding allocations in early 2025. In addition, GNI informed us that €650k has been provisionally allocated for co-funded projects with Research Ireland in 2025, with the remainder of the innovation fund expected to be allocated in subsequent years.

Lastly, GNI is working on the composition of the governance board (the Innovation Steering Group), which should be finalised by the end of 2024.

CRU proposals

We welcome the progress on both NBIF and SIF but note that appointing enduring independent members for the governance board, according to the process outlined in the PC5 decision, is currently behind schedule. As allocation of funding has started for NBIF, it is essential that the enduring independent members will be appointed in a swift manner.

GNI will be expected to report on its use of the Innovation Fund in the Innovation Report, which will be submitted by the end of April in each year. The report should contain a summary of any ongoing allocation decisions for both pots, e.g., the number of projects at different stages of the five-gate process for NBIF. GNI should provide an update on the total allocated funding for both pots, as well as separately for FROG initiatives.

In addition, the CRU is of the view that GNI should report on the outcomes of the trials funded by the NBIF as well as information on BAU adoption and any lasting impact that the NBIF funding might have consequently led to within GNI. The CRU would also expect to see reporting on the type of research projects funded under the SIF and the outcomes achieved.

3.8.2 Request for comment

- Do you have any views around the proposed approach to the innovation fund?
- Do you have any feedback on the topic areas chosen for the SIF or the objectives for NBIF funding?
- Is there anything that GNI and the Innovation Steering Group should take into account when assessing applications for funding?

4. Next Steps

This paper seeks input from the public on the CRU's proposed decisions for implementing four priority areas of the PC5 Regulatory Framework. It also seeks input on implementing remaining elements of the Regulatory Framework and sets out a number of consultation questions.

Feedback on the proposed decision and consultation must be submitted by 8 November 2024.

The CRU will review and consider all responses fully in reaching a decision. Once a decision is reached (likely in December 2024), a decision paper will be published on the CRU's website.

Appendix A: Consultation Questions

1. Do you have any views around the proposed implementation of the shrinkage incentive?
2. Are you aware of any pilot projects to reduce shrinkage emissions, the learnings from which could be applicable to the Irish context?
3. Do you have any views on the level of granularity in shrinkage, and particularly UAG reporting that GNI should be expected to be able to meet by the end of PC5?
4. Do you have any views around the proposed implementation of the decarbonisation policy alignment incentive?
5. Are you aware of any policy documents or relevant legislation which GNI should ensure alignment with for the decarbonisation policy alignment incentive that was not mentioned in this paper?
6. Are there any other metrics beyond those proposed in this section which you believe would be useful to assess GNI's decarbonisation policy alignment?
7. Do you consider CNG metrics are appropriate for GNI to report on?
8. Do you have any views around the proposed implementation of the GFGC incentive?
9. What information (including metrics) would you expect to see in the GNI's public facing document on GFGCs? Please provide reasoning on why this information would be helpful for the public/industry stakeholders.
10. Are you aware of any relevant international precedence or best practice to inform the design of the GFGC incentive?
11. Do you have any views around the proposed implementation of the stakeholder engagement incentive?
12. Are there any additional assessment criteria, relating to large connections, that should be considered by the gas NSEEP panel in assessing GNI's performance?
13. Do you have any views around the proposed implementation of the capex incentives?
14. Is there any further information that GNI should provide CRU as part of its annual capex monitoring reports?
15. Do you have a view on how to define where GNI should report in detailed terms from a sufficiently material variance in costs, timings or outputs for a given capex project?
16. Do you have any thoughts on the treatment of contributions?
17. Do you have any views around the proposed implementation of the biomethane connections incentive?
18. Are there any further metrics on biomethane connections that you believe GNI should report on as part of this incentive?

19. Do you have any views around the proposed implementation of the hydrogen readiness incentive?
20. Do you have any views around the proposed implementation of the investment planning and delivery incentive?
21. Are you aware of other market leading or innovative activities that GNI should be undertaking with regards to investment planning and delivery?
22. Do you have any views around the proposed implementation of the customer performance indicators incentive?
23. Do you have any feedback on GNI's proposal on C.5 Appointment cancelling and C.6 Customer's Overall Satisfaction Survey?
24. Do you have any views around the proposed implementation of the flexibility and adaptability incentive?
25. Do you have any views on the reporting structure for the Core Flexibility Report (CFR) and Supplementary Flexibility Report (SFR)?
26. Do you have any views around the proposed implementation of the uncertainty mechanisms?
27. Are there any particular use cases you envisage the flexibility pot could be utilised for during the course of PC5?
28. Do you have any views around the proposed approach to the innovation fund?
29. Do you have any feedback on the topic areas chosen for the SIF or the objectives for NBIF funding?
30. Is there anything that GNI and the Innovation Steering Group should take into account when assessing applications for funding?