

Our GD23 Business Plan

(2023–2028)



Chapters

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Welcome



Phoenix Natural Gas has been fuelling homes and businesses in Northern Ireland for 25 years pioneering the introduction of natural gas locally in 1996. Having established one of the most modern and efficient gas networks in the world, we have continued to focus on extending our gas network and increasing connections to it to ensure as many consumers as possible have fuel choice and receive the many benefits associated with having natural gas installed in their properties.

In addition to developing the gas industry, we are actively engaged with the communities we serve with Responsible Business practices¹ embedded in our business strategy to ensure we continue to deliver wider social, economic and environmental value, above and beyond our core business responsibilities as a gas distribution network operator.

This GD23 Business Plan sets out how we will operate our business, further develop our network, manage and maintain our maturing assets and continue to provide the high-quality customer service to new and existing gas consumers over the 6 year period of the GD23 Price Control (2023-2028).

Listening to consumer views and building these into our plan has been essential in ensuring their needs remain central to our service delivery. In addition to obtaining consumers views directly, we have welcomed the input of a number of key consumer and industry stakeholders in helping us shape and create a Business Plan that is designed to deliver for new and existing gas consumers and more widely, for communities, the environment and economy.

As our network matures it will require increasing levels of maintenance and indeed in some parts reinforcement to ensure its ongoing resilience as it continues to meet the increasing demand of the growing number of consumers now using it. Therefore, our proposed programme of work

in these areas is a critical aspect of our GD23 Business Plan in ensuring we continue to meet consumer expectation of an uninterrupted natural gas supply.

It should be noted that the GD23 Price Control period comes at a time when the energy landscape is facing significant challenges and there is a need to consider new and innovative ways to ensure we can address the climate change emergency facing us all.

Phoenix Natural Gas is ready and equipped to be front and centre of Northern Ireland's energy transition challenge to be net carbon zero by 2050. Our Business Plan ambitions will continue to encourage consumers to make the move to natural gas from more polluting forms of fuel such as oil, enabling them to make immediate carbon reductions while being assured that the network they are connecting to today will be the network that provides them with renewable gas solutions in the future.

Given the ongoing consultative and legislative passage of a new energy strategy for Northern Ireland, in line with guidance from the Utility Regulator, our GD23 Business Plan has not pre-empted the outcomes of the new energy policy, however, as a business which makes significant positive environmental contributions through our existing workstreams, we will continue to play an important role in supporting the energy framework of the future, and within our GD23 Business Plan have included a proposal for a Gas Networks Innovation Fund to encourage the development of viable green gas solutions.

I hope that you will take the opportunity to read our GD23 Business Plan and hopefully share our view that this is a clear plan that delivers for consumers, communities, the environment and economy.

Michael McKinstry,
Chief Executive Officer

Quick View

Regulatory Framework:

The Northern Ireland Authority for Utility Regulation (Utility Regulator) is responsible for regulating the gas industry in Northern Ireland. It is an independent non-ministerial government department and operates in accordance with its statutory duties.

Phoenix Natural Gas operates under licence administered by the Utility Regulator and is subject to price control reviews to determine the level of allowances, return and ultimately revenue for specific periods of time.

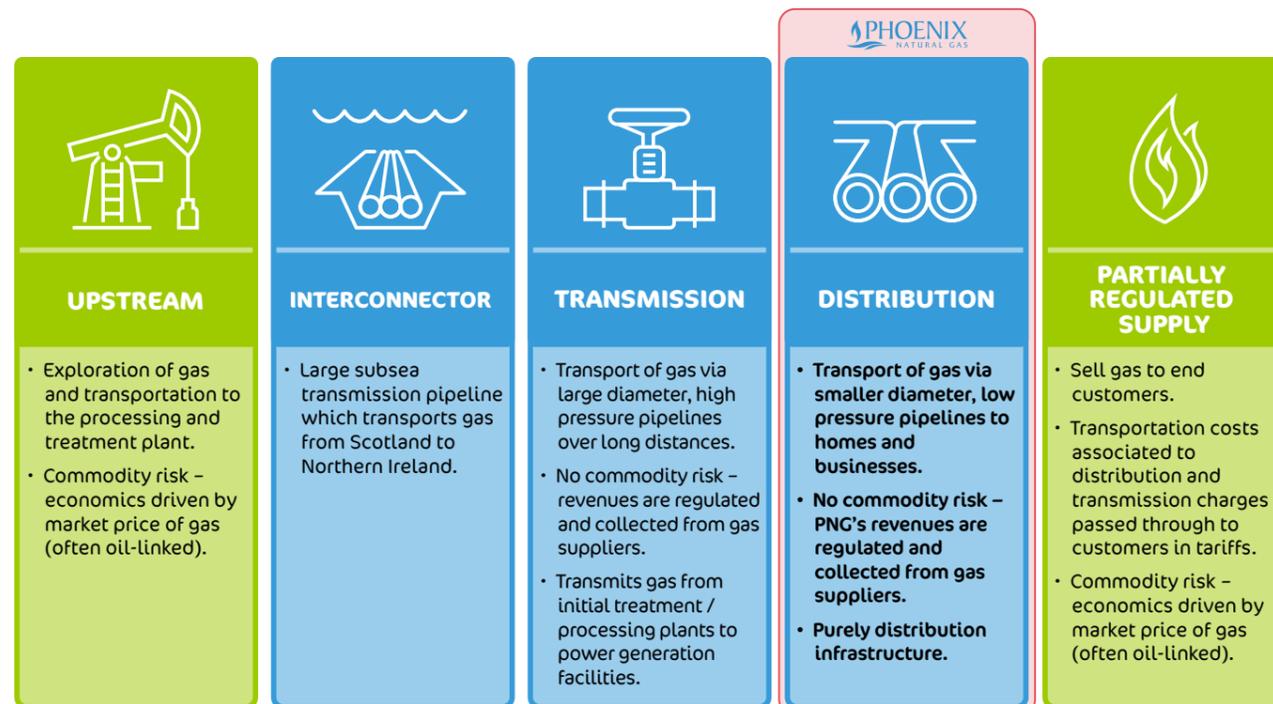
This document provides an overview of Phoenix Natural Gas's Business Plan for the GD23 Price Control period (2023-2028) and sets out how we will continue to deliver high-quality customer service to existing and new gas users, ensuring they receive a secure supply of natural gas to their homes and businesses so they can continue to enjoy the many benefits natural gas has to offer.

The Natural Gas Industry Explained

Phoenix Natural Gas is a natural gas Distribution Network Operator (DNO) and forms part of a wider natural gas industry chain that works together to supply natural gas to homes, businesses and communities.

An overview of the wider gas industry is detailed below, demonstrating the central role of Phoenix Natural Gas as a DNO.

The Gas Industry Chain



Key: ● Liberalised ● Regulated

As a DNO, Phoenix Natural Gas has a number of core responsibilities, a summary of these is outlined below:

Core Responsibilities of Phoenix Natural Gas

What we do as a Gas Distribution Network Operator (DNO)



Key Themes of the GD23 Business Plan:

- Delivery of a safe and secure network** – Investing in maintaining and reinforcing the network to ensure the continued safe and reliable supply of natural gas to consumers.
- Increasing access to the gas network** – Investing in further expansion of the network to provide increased access offering even more local consumers fuel choice.
- Sustained connection growth** – Investing in educating and providing support to consumers, who have access to the network but have not yet made the switch to natural gas, on the range of lifestyle, convenience and environmental benefits of natural gas.
- Growing to meet the evolving needs of all consumers** – Investing in the delivery of continued high standards of customer service and support to consumers. This will include (i) assisting new consumers with the connection process; (ii) maintaining the gas apparatus already installed in homes and businesses; and (iii) educating consumers on the benefits of, and how to achieve, energy efficiency. We will also place a dedicated focus on service and additional support for vulnerable consumers.

Company Information

Phoenix Natural Gas is the owner and operator of the largest gas distribution business in Northern Ireland, covering an area that encapsulates c.45% of the population of Northern Ireland, including Greater Belfast, Larne and more recent extensions into East Down and Whitehead (the 'Licensed Area').

We are responsible for the safe and secure supply of natural gas to our 235,000 domestic and business consumers already connected. These responsibilities include the development and maintenance of our c.4,000km pipeline network and a 24/7 operation and transportation platform for natural gas suppliers and consumers across our Licensed Area.

Since its beginnings, Phoenix Natural Gas has invested over £500m into the local economy, supporting the wider natural gas industry which now provides employment to over 2,500 people locally.

Providing increased fuel choice and with a range of associated lifestyle, convenience and environmental benefits, we continue to be warmly welcomed by consumers with thousands of new customers connecting each year.

We continue to be innovative and are exploring opportunities for renewable gas solutions as we play our role in delivering a lower carbon future.



Market Development

Since its beginnings in Greater Belfast in 1996, the natural gas network in Northern Ireland continues to develop as it reaches more consumers across the region.

Each year, more and more consumers across Northern Ireland are gaining access to the natural gas network for the first time.

We are responsible not only for the growth of our infrastructure within our Licensed Area, but also for the continued growth of our customer base.

This ongoing growth and development has created significant economic, social and environmental opportunities locally as the natural gas industry supports a wide range of related local businesses, including installation companies, merchants, manufacturers, distributors, training centres and retailers, all of which benefit from continued support from Phoenix Natural Gas in recognition of the role they play in delivering a consistently seamless and positive customer experience.

Independent market research conducted during 2020 with customers who have recently connected to the natural gas network continues to evidence a consistently high quality customer experience with **99%** of customers advising they would recommend getting natural gas installed to a friend. Furthermore, **96%** of customers reporting it was very easy, or quite easy, to purchase and install Phoenix Natural Gas.

Coupled with the efficiency, convenience, lifestyle and environmental benefits that consumers enjoy as a result of making the connection, the focus on a high standard of connection and installation service that we and our partners maintain is a core part of our strategy to continually grow our market reach and convert unconnected customers.



Would you, based on your experience, recommend installing Phoenix Natural Gas to a friend?

99%

How easy, in overall terms, would you say it was to purchase and install Phoenix Natural Gas?

96%
Said very or quite easy

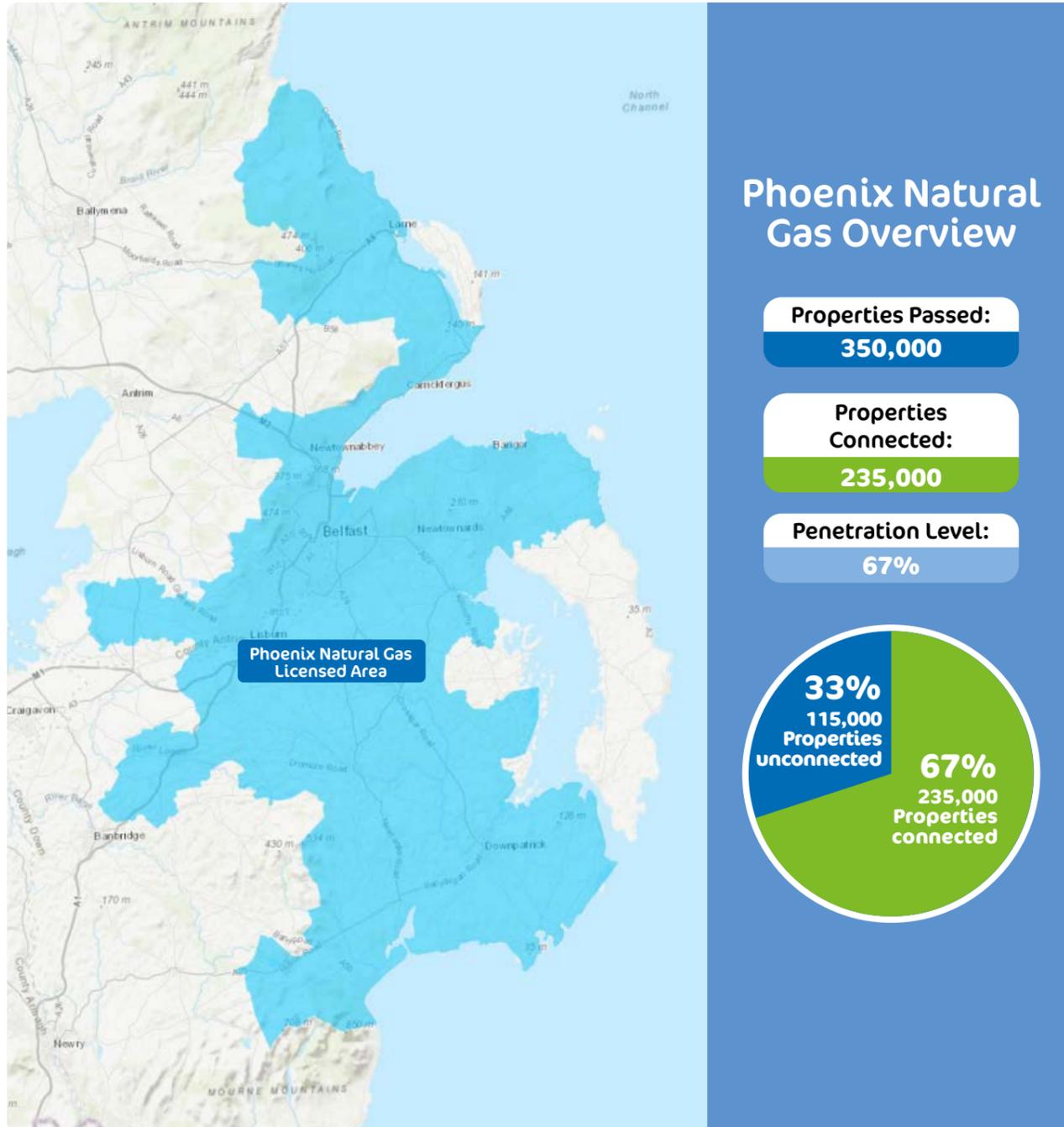
*MRNI June & October 2020

Overview of Phoenix Natural Gas availability

Figures as at end of December 2020

There are three DNOs under licence in Northern Ireland, with each operator responsible for natural gas distribution across a specific geographical area.

Our Licensed Area is outlined below:



Our Vision and Objectives

The Phoenix Natural Gas GD23 Business Plan has been developed to deliver our Corporate Vision and Objectives:

Operating in a responsible, sustainable manner is at the heart of our business, with a vision to be recognised for excellence as a world leading utility provider. Our business operations are a benchmark for others in the local marketplace and across the wider utility sector and focus on six key areas for delivery:



Stakeholder and Consumer Engagement

We know that consumers and stakeholders have a significant interest in our business and we recognise the importance of such groups being involved in the development of future business needs. We talk with consumers, representative bodies, local political and community leaders, developers and councils regularly and specifically on key business projects to ensure that we understand what consumers need from us in the delivery of our services, and in turn use these insights to shape our business plan.

These discussions have helped inform our GD23 Business Plan, and we will invest even more in our consumer and stakeholder engagement throughout the GD23 period on key operational and consumer led activity, including the development of best practice consumer protection policies, vulnerability support and in the delivery of fair outcomes for energy transition.

Who we engage with:



A snapshot of organisations we regularly engage with:



Engagement in Action

GD23 Engagement: Stakeholder and Consumer

To ensure the views of stakeholders and consumers informed our GD23 Business Plan we engaged with IPSOS MORI as our strategic research partner to conduct a detailed series of engagement with consumers and stakeholders on the areas that were important for the future of our business.

We talked with a diverse variety of consumers including natural gas users, unconnected consumers and consumers with vulnerabilities, ensuring their insights, experiences and expectations helped shape our plan and investment priorities.

Through our bespoke GD23 Stakeholder Engagement activity we heard from representatives from a range of sectors who demonstrated significant support for the priority areas of our GD23 Business Plan.



Consumer Experience

In addition to engagement with stakeholders and consumers on key business decisions, such as the preparation of the GD23 Business Plan, we regularly engage with consumers across a number of important areas and will continue to do so throughout the GD23 period.

Serving the needs of all consumers

We work in partnership with industry and regulatory bodies ensuring the continuous development and improvement of our consumer support as we meet their evolving needs. In the GD23 period, we will further progress our support for consumers with vulnerabilities, working alongside the wider Consumer Vulnerability Working Group to ensure we meet the needs of all consumers within our Licensed Area.

Marketing & Advertising

To ensure our marketing and advertising activity remains impactful and persuasive, we undertake frequent consumer research, independently led through MRNI (Market Research Northern Ireland) to assess the key drivers for connection and barriers for unconnected consumers. These insights help inform our marketing and advertising strategy, ensuring it educates and informs consumers on the full range of lifestyle and environmental benefits of natural gas. Consumer feedback demonstrates the importance of marketing activity in influencing their move to natural gas, with many advising the advertising material was often the final motivator that sealed their decision to connect to the network.

Maintenance

With over 235,000 existing connections to our network and with assets continuing to mature, it is important that we understand the experience of connected consumers as we undertake asset maintenance works. With works in this area expected to grow during the GD23 period, we have an additional opportunity to engage with consumers and utilise their insights to continually improve our works in this area.



Stakeholder and Consumer Insights

Outlined below is a snapshot of the key themes which emerged through our stakeholder and consumer engagement and which have helped inform our GD23 Business Plan:

The importance of supporting the needs of the vulnerable:

- Ensuring the safe and secure supply was very important for vulnerable consumers, elderly consumers and those with serious health conditions.
- 82% of respondents demonstrated a preference for telephone contact, but consumers with vulnerability felt it was vital to have a range of ways for consumers to get in touch.
- Consumers with vulnerability strongly endorsed the role of Phoenix Natural Gas's Energy Advisor in supporting consumers throughout the connection process.

"I'm 69 and my husband's 72. We both have heart complaints and we really do need a warm and safe house – it's very important."

The importance of timely and accessible information

- Where there is a query, problem or issue, consumers want it to be dealt with quickly and efficiently.
- Clear communication and understanding of the impact and timescales of any construction, connection or maintenance works is important to consumers.
- Consumers want to be treated as individuals and expect to be able to contact us via email, telephone and online.

"If there is an issue for it to be dealt with quickly or if there's an issue in your area you want to be notified."



The safe and uninterrupted supply of natural gas is a basic requirement

- Consumers expect their gas supply to be safe and uninterrupted.
- Where there is a planned interruption of supply consumers want early notification, with a preference for contact by letter.
- It was important to consumers and stakeholders that Phoenix Natural Gas representatives could be clearly identified, particularly to provide reassurance for vulnerable consumers.

"I expect it to always be OK. I don't expect there to be a problem."

Marketing remains important in influencing unconnected consumer behaviour

- Consumers felt the marketing and advertising activity was a persuasive factor in their decision to connect to natural gas, with a number of consumers advising it was marketing or advertising activity that was the key factor in connecting.
- Consumers were more aware of the advertising and marketing activity when they were considering a change and felt that advertising and marketing was important in keeping Phoenix Natural Gas front of mind at these key times.
- With a diverse audience of unconnected consumers to reach it was important that advertising and marketing activity was carried across a range of advertising platforms to reach all unconnected consumers.
- It was felt that the environmental credentials of natural gas could feature more prominently in advertising and marketing materials so consumers could see the difference they can make by switching to natural gas from more polluting forms of fuel.

"There's not one person who is one every type of media, some people don't watch TV, some people aren't on social media. It depends on what audience you are targeting; you need all of them."

Stakeholders and consumers expect our business to be ready for the future

- There was widespread support from consumers and stakeholders for the utilisation of gas infrastructure to provide green gas solutions for the future.
- Having heard details on the availability of green gas options being explored, consumers felt it demonstrated that Phoenix Natural Gas is a business that cared about sustainability and the future.
- Unconnected consumers wanted to be reassured that the gas network was future-proofed advising this would be an important factor for them in considering to connect.

"Excellent work that Phoenix Natural Gas are doing looking at biomethane and hydrogen opportunities."

GD23 Investment

Background

Phoenix Natural Gas, like all other natural gas DNOs, provides a detailed Business Plan as part of our price control submission to the Utility Regulator to demonstrate the investment needed to meet our core responsibilities to consumers.

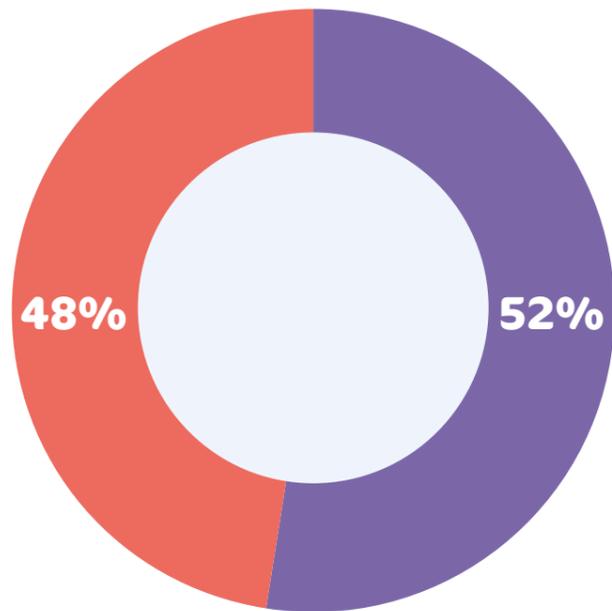
This GD23 Business Plan details the investment required for the Price Control period 2023 – 2028, following the completion of the GD17 Price Control (2017 – 2022).

The Business Plan

To deliver the core responsibilities and the outputs outlined in our GD23 Business Plan will require investment of **c.£237.7m** over the 6-year GD23 Price Control period.

GD23 Investment Breakdown

This investment is broadly broken down across two core areas of expenditure as outlined below:



Capital Expenditure: c.£113.2m

Operating Expenditure: c.£124.5m

Capital Expenditure

Capital Expenditure facilitates the continued development of our gas network, enabling connection growth for unconnected householders and businesses and ensuring existing asset and infrastructure continues to meet the needs of our expanding customer base and the delivery of a safe and secure supply of natural gas.

The Business Plan has identified capital expenditure requirements for the GD23 Price Control period of **c.£113.2m**.

Key areas of Capital Expenditure include:



Properties Passed

We will lay c.250 km of mains and make gas available to c.22,800 properties in the GD23 price control period.

The ongoing development of the gas network will allow new communities to benefit from a secure, affordable and lower carbon form of energy compared to the heating oil it is replacing.

During the GD23 Price Control period this will enable us to increase access to the natural gas network through the:

- completion of ongoing network infill programmes in Greater Belfast and East Down; and
- continued development to make gas available to properties outside these infill programmes, in particular new build properties, currently without access to the gas network

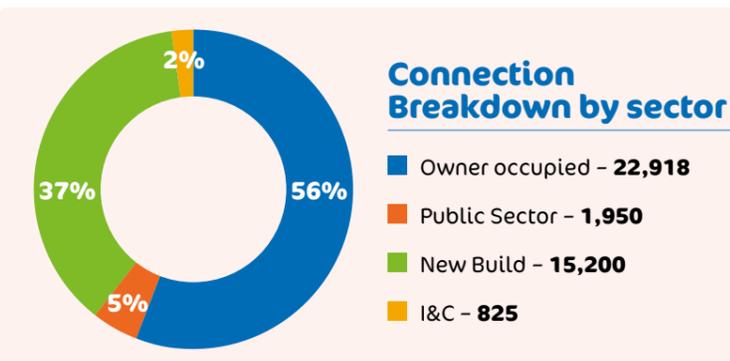


Connection Growth

We will connect c.40,900 properties to our natural gas network between 2023 and 2028.

At the end of 2020 we had connected over 235,000 properties to our natural gas network, but there remains a significant opportunity to further grow connections through those that remain unconnected, ensuring they are aware of the lifestyle, convenience and environmental benefits associated with a natural gas connection.

Through the delivery of a multi stranded advertising and marketing strategy to engage unconnected consumers, alongside targeted support, we will deliver new connections to our network across all sectors to include owner occupied, public sector, industrial and commercial and new build properties.





Network Reinforcement and Resilience

Our internationally accredited (ISO 55001) Asset Management System has informed our GD23 Business Plan capital investment requirements.

Our review concluded network reinforcement and resilience projects will be required during the GD23 price control period. These projects are essential to ensure Phoenix Natural Gas continues to maintain and operate a resilient network capable of supplying gas to an increasing customer base.

Network reinforcement and resilience investment



Meter Apparatus Replacement Programme

During the GD23 Price Control, as part of our meter apparatus replacement programme we will undertake the replacement of c.88,650 gas meters at a cost of c.£21.5m.

The volume of meters reaching the end of their expected utilisation life increases during the six-years of the GD23 Price Control and will require us to replace 59,250 meters through our 20-year Meter Replacement Programme.

In addition to this planned meter apparatus replacement, we provide support for consumers where gas apparatus operation is affected by other issues, such as wear and tear. We therefore are forecasting that we will replace a further c.29,400 meters during the GD23 Price Control period.

Operating Expenditure

Operating Expenditure enables the delivery of our day to day business operations, enabling investment in our people who deliver our services and support for the 235,000 consumers connected to our network, as well as key operational workstreams such as our maintenance and inspection programme.

The Business Plan has identified operational expenditure requirements for the GD23 Price Control period of **c.£124.5m**.

Key areas of Operating Expenditure include:

Maintenance and Inspection Programme

Consumers rely upon and expect an uninterrupted supply of natural gas to their homes, and we have a responsibility to ensure that condition and performance of our network enables that seamless and reliable delivery. Given that elements of our network have been in place for 25 years, refurbishment and repair are increasingly important to ensure that continued reliability for consumers.

During the GD23 Price Control period we will therefore invest in (i) a scheduled asset replacement programme; (ii) network inspection; and (iii) remedial works, where necessary, to ensure the condition and performance of our network enables the continued distribution of a safe, reliable, uninterrupted provision of natural gas.



People Resources

Central to the delivery of our GD23 Business Plan are our people. They support our 235,000 connected consumers as well as the wider natural gas industry, which consists of around 2,500 people.

In our GD23 Business Plan we will deliver our business activities with a full time equivalent resource of c. 130 people - equating to 1 full time resource per 1,800 consumers currently connected to the network.

Given the critically important nature of the service we provide, we continue to invest in the knowledge, skills and technical ability of our people to ensure we understand and support the needs of consumers, ensuring our services are accessible and inclusive for all.

Market Development and Advertising

The economic, social and environmental benefits from the growth of Northern Ireland's natural gas industry are significant and there is an opportunity to introduce these benefits to over 22,000 additional owner-occupied households during the GD23 period by continuing to invest in a suitably funded advertising and marketing strategy capable of engaging unconnected consumers across our Licensed Area.

With the delivery of owner-occupied connection targets as set for the GD17 Price Control period (2017-2022) currently on track, we have demonstrated the importance and effectiveness of advertising and marketing activity, which has been increasingly important during the unique and challenging conditions that continue to be experienced as a result of the COVID-19 pandemic.

Our experience demonstrates a strong positive relationship between advertising and market development expenditure and new connections, this is further reinforced in stakeholder and consumer engagement where consumers tell us that the advertising activity is a significant driver for connecting, ensuring natural gas is front of mind when they are considering a home move or improvement.

In identifying forecasted expenditure in this area for the GD23 Price Control period, we have set challenging connection targets and, in line with our experience, using a marketing and advertising strategy that has been developed and refined over the GD17 period, provides us with the best chance of meeting these targets in a cost-effective and efficient way.



Gas Networks Innovation Funding

Our GD23 Business Plan has been prepared, in line with guidance from the Utility Regulator, on the basis of the continuation of existing workstreams and as such does not include investment in relation to energy transition activity.

With a focus on driving carbon emission reduction, a new Energy Strategy for Northern Ireland is being designed and developed by the Northern Ireland Assembly, led by the Department for the Economy but again we do not attempt to preempt its outcomes in our GD23 Business Plan.

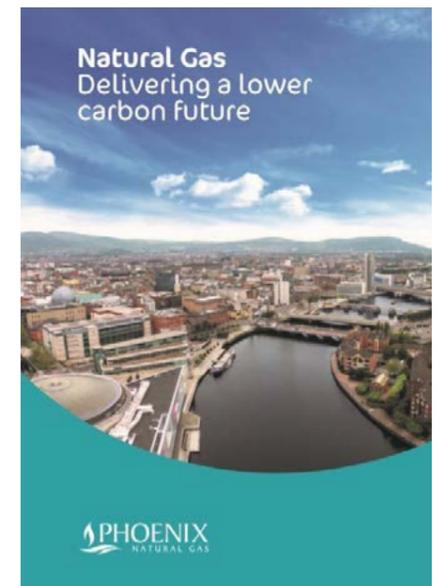
However, the gas industry is ready and equipped to be front and centre of Northern Ireland's energy transition. With a modern gas network consisting of high-density polyethylene pipeline, Northern Ireland is already ahead of counterparts in Great Britain, who are now undertaking the replacement of its old iron mains. This means our gas network is already capable of transporting low carbon fuel alternatives such as biomethane.

Indeed, the Department for the Economy recognises that NI "has a modern polyethylene gas distribution network which is expected to be able to accommodate zero carbon gas without requiring extensive upgrades"². Therefore, consumers will not need to radically change their behaviour as the energy transition for heat unfolds.

However, a change to the traditional role of an economic focussed regulatory regime is required to accommodate the net zero innovation trials that will need to be progressed on the Northern Ireland gas network to maximise this potential.

Looking ahead and given the importance of a low carbon future, we are proposing that the Utility Regulator positions itself an enabler on the pathway for the decarbonisation of heat locally by making a Gas Networks Innovation Fund available as part of the GD23 Price Control Determination. This will allow gas network operators and other interested parties to apply for funding to trial innovative projects such as hydrogen injection.

These trials will help all parties understand the strategic and operational viability of innovation on the Northern Ireland gas network and ensure that we can deliver an innovation business plan aligned with the Department for the Economy's policy position on the future of the gas network.



² <https://www.economy-ni.gov.uk/sites/default/files/consultations/economy/energy-strategy-for-ni-consultation-on-policy-options.pdf> or Page 103 of DfE's Consultation on Policy Options.

Funding The Investment

Our GD23 Business Plan requires further investment to enable us to continue delivering economic, social and environmental value for consumers and communities across our Licensed Area.

Our GD23 Business Plan has been developed to ensure:

- Delivery of a safe and secure network
- Increased access to the gas network
- Sustained connection growth
- Growth to meet the evolving needs of all consumers

In order to effectively finance our Business Plan we need to obtain an appropriate rate of return on the investment made. We have carefully considered prevailing financial conditions and are proposing a real, pre-tax cost of capital of 3.81% for the GD23 period.

For consumers within our Licensed Area, it is important to note that our GD23 Business Plan forecasts no increase to the distribution network charges that are a key component of gas users end bill.



Next Steps

Our GD23 Business Plan demonstrates how we will continue to deliver high-quality customer service and safe, secure supply of natural gas that is expected of us by our stakeholders and consumers.

There are a number of key timelines before the final determination on our GD23 Business Plan is issued by the Utility Regulator, with specific opportunity for consumer feedback available following the publication of the Draft Determination Consultation which is expected in December 2021.

An outline timetable of the next steps is outline below:

Activity	Indicative timeline
1 GD23 Business Plan submission provided by Phoenix Natural Gas to the Utility Regulator	Jun-21
2 GD23 Business Plan (Consumer) published by Phoenix Natural Gas	Jul-21
3 Utility Regulator published Draft Determination Consultation	Dec-21
4 Utility Regulator Draft Determination Consultation period ends	Feb-22
5 Utility Regulator GD23 Final Determination and Licence consultation published	Jun-22
6 GD23 Licence modifications published	Sept-22
7 GD23 Price Control takes effect	Jan-23

Note: All timescales outlined above are indicative and some may be subject to change.

