IRELAND'S PR6: AN EVOLUTION IN REGULATORY PHILOSOPHY?

How the next electricity price control recalibrates incentives for an era of delivery under uncertainty

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Ireland's electricity grid is about to undergo the largest investment programme in its history. Price Review 6 (PR6), the next Irish electricity price control, will oversee up to €19 billion of network investment between 2026 and 2030. The Commission for Regulation of Utilities (CRU), Ireland's energy regulator, published its final PR6 decision on 16 December 2025. Frontier Economics supported ESB Networks in the development of its PR6 economic submissions.

The scale of the programme is central to delivering Ireland's policy ambitions on decarbonisation, housing and economic growth. It is needed to accommodate rising electricity demand, connect substantially more renewable generation, strengthen resilience against climate-related impacts, and keep pace with an economy that is growing and electrifying simultaneously.

But PR6 is more than just a large capital programme. It represents an important evolution in how incentive-based regulation works in practice in Ireland. Understanding why requires looking at what has changed in the problem the regulator is trying to solve.[1]

The regulatory problem has shifted

RPI-X regulation was designed for a world in which the regulator's core challenge was information asymmetry over costs. The network company knew more about its own cost base than the regulator did, so the purpose of the framework was to create incentives that would reveal and discipline efficient expenditure over time. Totex assessment, efficiency challenges and sharing mechanisms were all tools for solving that problem. The regulator doesn't need to know the efficient cost precisely if it can design an incentive structure that rewards the company

[1] This article sets out our views as regulatory economists and does not reflect the views of ESB Networks or the CRU.

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for revealing it through its behaviour. The original insight was that price cap regulation could harness that dynamic more effectively than rate-of-return approaches.

That problem has not gone away. Cost discipline still matters, and incentive-based regulation remains the right foundation. But in PR6, the binding constraint has shifted.

The hardest question for the CRU now is not only: "what should an efficient company spend?" but also "how should the framework enable and incentivise timely delivery of the investment the system now requires?". PR6 therefore has to solve both problems at once: maintaining pressure for efficiency while creating a framework that can support timely delivery of a much larger and more strategic investment programme.

Why the constraint has shifted

Several factors are driving this change. Electricity demand in Ireland is expected to grow well beyond historical levels, driven by electrification, data centres, population growth, housing and wider economic activity. At the same time, the network must accommodate a substantial increase in renewable generation, including major growth in wind and solar. The grid therefore needs to be reinforced and expanded not only to address existing constraints, but also in anticipation of future needs.

Delivering it will require action at a pace not previously seen in Ireland's electricity sector, in an environment where global competition for capital, equipment and skilled labour is intensifying as many countries invest in energy infrastructure simultaneously. At the same time, while the overall need for investment is clear, not every element of the programme can be defined upfront: demand growth and renewable connections may differ from forecast, some projects remain at an early stage, and delivery itself is subject to constraints around timing, supply chains and workforce availability.

The challenge in PR6 is therefore no longer simply to fund efficient incremental reinforcement. It is to support delivery of a much larger investment programme in conditions where speed matters, but not every aspect can be fixed in advance. PR5 already signalled the direction of travel. PR6 is the point at which the scale of that challenge becomes materially more acute.

The cost of not building fast enough

The cost of under-investment in an electricity network has always been higher than the cost of over-investment. Electricity networks are essential infrastructure. The cost of not having it – unserved demand, outages, economic disruption – has always exceeded the cost of having slightly too much of it.

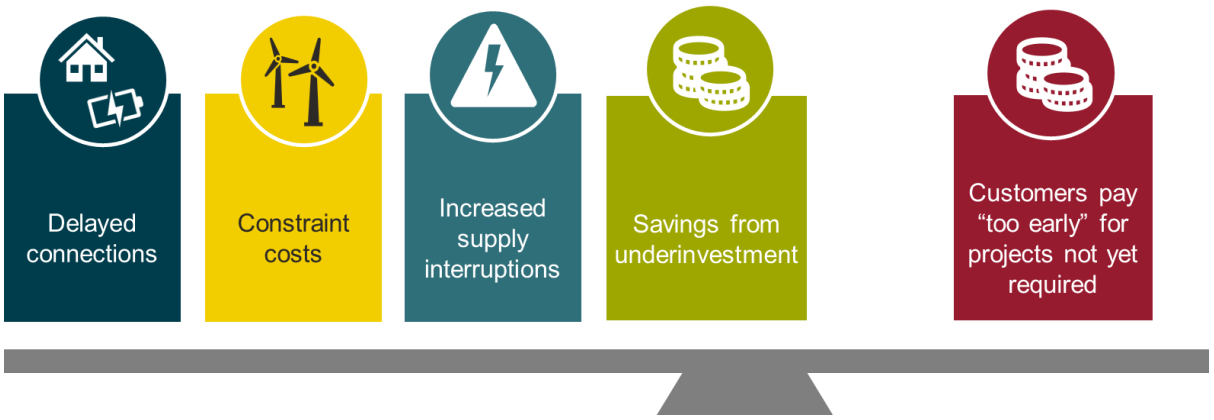
In practice, however, this asymmetry did not always dominate regulatory design. RPI-X regulation was developed and refined in a context where network investment, while significant, was often more incremental and more predictable: reinforcing and extending an existing system where the scale and timing of requirements were relatively visible in advance. In that context, the framework could focus

primarily on cost discipline, because the risks associated with under-building were more limited and more manageable.

What has changed is not the asymmetry itself, but the likelihood and significance of that downside risk. With demand rising rapidly, and with the network needing to accommodate electrification, data centres, population growth, housing and renewable generation, the consequences of delayed or insufficient investment have become much more acute. If funding is released too slowly or too narrowly, network companies cannot mobilise, sequence and deliver investment in time. The effects can then spread quickly: connection queues lengthen, housing and industrial development are delayed, system constraint costs rise, and consumers ultimately bear higher costs through constrained delivery than they would through somewhat higher network charges.

Independent analysis by Frontier Economics and IAEW RWTH Aachen shows that the Irish distribution network faces materially greater risks from under-investment than from over-investment, in terms of both cost to consumers and ability to meet long-term demand.

By contrast, over-investment remains a self-correcting error. If allowances prove too generous, customers may pay more than necessary. That matters, but the economic harm is limited: the assets are still built, the network still functions, and the regulator can at the next price control. The over-payment does not spread into other sectors. Under-investment in the current environment is a compounding error because its effects are wider, more persistent and much harder to reverse: the grid cannot be built retrospectively for the demand and connections that were delayed years earlier.



There is a further subtlety. Electricity networks are a high fixed-cost business. Once capacity is in place, the cost of serving additional demand is often relatively low. So, provided that demand does materialise - and the issue is increasingly one of timing and location rather than whether it will emerge at all - higher volumes can improve the economics of the network. That has an important implication for affordability. The most effective strategy is not simply to constrain capital spending, but to ensure that new network capacity is well used: by supporting demand growth, and by using flexibility, storage and time-of-use signals to spread load and increase utilisation.

How PR6 addresses this

The PR6 framework introduces several features designed to balance flexibility with accountability, in a way that reflects this shifted constraint.

A two-part allowance structure

A central feature of PR6 is the distinction between baseline funding and a high-case investment envelope. ESB Networks and EirGrid have been granted €13.8 billion in baseline funding, alongside an approved high-case investment envelope of €18.9 billion over PR6.

The baseline allowance covers more mature projects and early mobilisation. The high-case envelope reflects the full scale of investment identified as needed to meet policy and other objectives. Companies can access the high-case funding during the period through in-period mechanisms as projects become more developed. The structure is intended to support planning and delivery at scale, while allowing funding to be released as projects mature.

Viewed through a traditional lens, this can look like a lower-powered incentive regime: not all funding is fixed upfront, and part is released in period. But that misreads what is happening. The incentives have not been removed; they have been redirected. PR6 places less weight on encouraging companies to outperform against a fixed allowance, and more on supporting project readiness, mobilisation and delivery. In that sense, it adapts incentive regulation to a context in which the greater risk is not gold-plating, but delay or under-delivery.

Simpler routes to additional funding

PR6 places greater weight on in-period reopeners for expenditure above the baseline. Critically, these are not intended to operate like mini price controls. Where projects have progressed through the companies' internal governance and can demonstrate readiness and deliverability, additional funding can be released during the period. This is intended to give companies a practical route to accessing high-case funding as projects mature, without the delays that a full regulatory review process would entail.

Financeability as an enabler of delivery

PR6 introduced a working capital allowance to support financing costs associated with pre-purchasing materials and committing to supply chains ahead of project delivery.

Financeability has been assessed ex ante against the high-case level of expenditure. Given uncertainty over how investments will evolve, PR6 also includes a financeability reassessment mechanism that can be triggered during the period. This recognises that a company's ability to finance the programme is a practical precondition for delivery, not an afterthought.

Delivery obligations and enhanced oversight

Greater flexibility on funding raises legitimate questions about customer protection. The PR6 framework addresses this through enhanced monitoring and reporting, introduction of delivery obligations that link funding more closely to outputs, and an ex-post review process for cost efficiency. Performance incentive mechanisms ensure a continued focus on the outcomes that matter for consumers.

The real test

PR6 represents a significant evolution in regulatory approach. It recalibrates incentive regulation for an environment in which the central challenge is no longer cost revelation alone, but enabling and incentivising delivery at pace under uncertainty. It does not abandon incentive-based regulation; it adapts it.

Its success will ultimately depend on implementation. The main risk is not weak oversight, but that reporting requirements and delivery obligations become so burdensome that they create a new bottleneck. The framework needs to keep strong pressure on the networks to deliver -the scale of investment required leaves no room for complacency - while ensuring that accountability mechanisms do not themselves slow the pace of build that the framework is designed to enable. That balance will be the real measure of whether PR6 delivers on its promise.

Frontier Economics supported ESB Networks in the development of its PR6 submission.

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