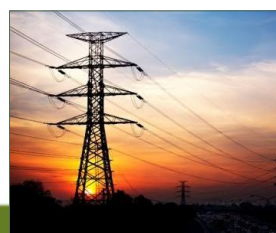


Consultation paper on changes to the high pressure gas conveyance licenses consequent to the introduction of entry products and charges

11th February 2015



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference

Act with integrity.

Abstract

This paper sets out the Utility Regulator's proposed changes to the high pressure conveyance licences arising from the introduction of entry products charges into the Northern Ireland postalised regime. The new entry products are required by European legislation.

Audience

This document is likely to be of interest to the licencees affected, other regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

Consumer impact

The changes are necessary to ensure compliance with the European Gas Regulation and in particular the network codes required by the Regulation.

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1. Introduction

Purpose of this paper

- 1.1. New entry capacity products and their associated charges must be introduced in accordance with the Gas Regulation (EC) 715/2009 and the Capacity Allocation Mechanism (CAM) Regulation (EU 984/2013). The Authority published its [Conclusions Paper](#) on the introduction of gas entry products and charges on 5th February 2015.¹ At that point we stated that licence changes would be necessary to give effect to these conclusions.
- 1.2. This paper therefore provides an overview of the licence changes we propose to give effect to the conclusions published in February. The full marked up text of the proposed licence changes, together with a table providing a fuller explanation of the changes is published alongside this paper. For ease of reference we have also published a clean version of Part 2A incorporating the changes proposed.
- 1.3. The majority of licence changes proposed is contained in Part 2A of the high pressure conveyance licenses² but there will also be some consequential changes to the revenue conditions of the BGE(UK), PTL, and BGTL licences.

Background

- 1.4. The European Union (EU) adopted the third legislative package in July 2009 to further the development of a Single European Gas Market. A key element of the third legislative package for gas is Regulation (EC) 715/2009 (the Gas Regulation) and the European network codes (EUNCs) required

¹ This followed a consultation on the proposed arrangements published in October 2014.

² Bord Gais Eireann (UK) (BGE(UK)), Premier Transmission Ltd (PTL), Belfast Gas Transmission Ltd (BGTL) and Northern Ireland Energy Holdings Ltd (NIED).

by the Gas Regulation.

- 1.5. The implementation of these requirements will trigger changes to the Northern Ireland postalised regime.
- 1.6. On the 16th October 2014 we published a [Consultation](#) Paper on the introduction of entry charges into the Northern Ireland postalised regime for gas. The Consultation Paper outlined the European requirements addressed in the proposed arrangements, namely:
 - That tariffs are set separately for every entry point into or exit point out of the transmission system as required by the Gas Regulation;
 - The introduction and subsequent tariff arrangements for non-annual capacity products as required by the CAM Regulation;
 - The use of auctions as the mechanism to allocate capacity as required by the CAM Regulation and the rules to calculate the reserve prices for such auctions.
- 1.7. The Consultation Paper also noted that the network code on tariffs had not been finalised. However we have taken into account the rules set out in the draft tariff network code where it has been appropriate to do so. We will consult on the full implementation of the tariff code in late 2015/early 2016 once the code has been agreed.
- 1.8. The responses received to the consultation broadly supported our proposals to implement entry products. Having reviewed the responses received a conclusions paper was published on 5 February 2015. Changes to the conveyance licenses of the high pressure licensees are therefore necessary in order to implement these conclusions.

Responding to this consultation

- 1.9. The deadline for responses to the issues raised in this paper is 5pm on 11th March 2015. Responses should be sent to:

Sean Murphy

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Utility Regulator

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14 Queens Street

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- 1.10. The Utility Regulator's preference would be for responses to be submitted by e-mail.
- 1.11. Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, the Utility Regulator will also ask respondents to supply the redacted version of the response that can be published.
- 1.12. As a public body and non-ministerial government department, the Utility Regulator is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this

and in particular, if asking the Utility Regulator to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.

- 1.13. This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact us and we will be happy to assist.

2. Overview of licence changes

2.1. This section provides a high level overview of the licence changes proposed to Part 2A and the revenue conditions. The changes proposed to Part 2A of the licence are extensive and we particularly welcome views on whether the changes proposed are clear or would benefit from further explanation or detail in the licence. A table has been published alongside this document which provides further explanation of the changes proposed to Part 2A.

Proposed Modifications to Postalised Conditions Part 2A

2.2. Currently Part 2A outlines the Standard Conditions pertaining to postalisation and how the relevant commodity and capacity charges are calculated. Given the introduction of new Entry products there is a requirement to revise the existing charging formulae and develop new Entry charging formulae. This also has implications for the reconciliation payments conditions required under postalisation.

2.3. A table has been added to Condition 2A.2.5.1 which summarises the capacity products which will be made available to shippers. This table could also be incorporated into the Charging Methodology Statement which is required by Part 2A. This would give more flexibility if the available products changed in the future. Before finalising the licence changes we will give further consideration to whether the table should be incorporated into Part 2A or the Charging Methodology Statement

2.4. In considering the changes required we have retained the existing structure of Part 2A where possible.

- 2.5. There are a number of new definitions and amendments to existing definitions proposed in Condition 2A.1.1. Certain definitions may need to be reviewed further in order to ensure consistency with the transmission network code changes being developed alongside this licence consultation. In particular we will review the definitions related to auctions, exit ratchet charges, and entry overrun charges to ensure alignment with the network code.
- 2.6. No substantive changes are proposed to how commodity charges are calculated and reconciled.
- 2.7. For the purpose of calculating the forecast and year-end postalised capacity charges, the capacity products have been grouped according to duration - Annual, and Non-Annual. We have not gone further and defined how charges will be calculated and reconciled for each of the non-annual products as we propose that these are treated similarly. However, we are open to including further detail in the licence where respondents think the licence does not provide sufficient detail or clarity.
- 2.8. The licence changes need to account for the possibility that auction premia will arise. We have opted to deal with the revenue from auction premia in Part 2A so that the premia is charged during the year and taken account of in the reconciliation. We believe that this is more transparent than the alternative of deducting the premia from the actual required revenue of each licensee in the revenue conditions. The process for dealing with auction premia is further detailed in the adjoining explanatory table.
- 2.9. The conclusions paper on entry charges, confirmed that the reconciliation process will be updated to reconcile entry and exit revenues together in a

single end of year reconciliation process with a single bullet payment. The changes proposed to Conditions 2A.2.6.4 and 2A.2.6.5 give effect to this conclusion.

2.10. We have also proposed licence changes to facilitate the licensee in charging for entry overruns and exit ratchet charges. We propose that the charge entry overruns is set out in the Charging Methodology Statement (CMS). The proposed licence changes are further explained in the table published alongside this paper.

2.11. The CMS which is referenced in the licence has not yet been drafted. When this is in place Condition 2A.2.1.9 will be updated to reflect the final content of the statement. As now the licence requires that the CMS will be reviewed and approved by the Authority prior to its implementation.

2.12. It should be noted that we are not proposing any material changes to the following conditions within part 2A. However, when the licence changes are finalized we will review these conditions and make any consequential changes necessary:

- 2A.3 Recovery of PS Non-payments;
- 2A.4 The Postalisation System Administrator;
- 2A.5 The Trustee;
- 2A.6 The Distribution from the PoT Account and Designated Pipeline Operators Agreement; and,
- 2A.7 The New Licence requirements relating to the Network Code.

2.13. The PSA contract may need to be amended to facilitate the new processes associated with entry charges. It may therefore be necessary to make further changes to Part 2A to accommodate this.

Modifications to Revenue Conditions

- 2.14. The changes proposed to Part 2A mean that consequential changes are necessary to the special conditions which set out how revenue from Short Term Capacity (STC) and Virtual Reverse Flow (VRF) products is treated. The current conditions reflect the fact that these products were not previously fully incorporated in the postalised PoT when these products were introduced in 2012.
- 2.15. An overview of the changes to each licence is provided below. It should be noted that at this point we are not proposing to make any corresponding changes to the high pressure Gas to the West licence granted to NIEH. We will consider what changes may be necessary to that licence once the new pipeline approaches its first operational commencement date.

BGE(UK) Licence

- 2.16. We propose to remove Conditions 2.2.21 to 2.2.22.2 from the BGE(UK) Licence. These specifically relate to STC and VRF and are now redundant in light of the changes proposed to Part 2A.
- 2.17. Similarly we propose an update to the formula for Total Allowed Conveyance Revenue detailed under Annex 1 of the Licence as STC and VRF revenues do not need to be included in the calculation in light of the changes proposed to Part 2A.

PTL and BGTL Licences

- 2.18. Similarly to the changes proposed for BGE(UK) we propose to remove references in the PTL and BGTL revenue conditions to STC and VRF

capacity.

- 2.19. In the PTL licence we also propose to remove Condition 3.1.8A which deals with STC/VRF services at Stranraer has been removed. Condition 3.1.8.3 Forecast UC Revenue Receivable has also been updated to remove the consideration for forecast STC and VRF revenue receivable.

3. Next steps

- 3.1. The Authority has been working on a tariff model to calculate the postalised tariffs, shipper invoice amounts and reconciliation payments. An early illustrative version of this model was previously published on the Authority website. Once the licence changes have been finalized the illustrative model will be amended to ensure it is consistent with the licence.
- 3.2. The Authority is also in the process of reviewing any consequential changes to DSO/supply licenses that may be necessary as a result of Gas Regulation/EUNC implementation.