

Proposed Licence Modifications – “Postalisation”

The Northern Ireland Authority for Energy Regulation (the Authority) is proposing to modify the “Postalisation” conditions included in gas conveyance licences (and to make other minor and consequential modifications to such licences as necessary). The modifications will be made in accordance with Article 14 of the Gas Order and are to be made to the Gas Conveyance Licences held by BGE (UK) Ltd, Phoenix Natural Gas Limited and Premier Transmission Limited.

Summary of Proposed Licence Modifications

1. The definition of Gas Supplier (GS) Firm Capacity in Condition 2A.1.1 will be modified to refer to months as opposed to days.
2. In Condition 2A.2.5, the Forecast Postalised Commodity Charge will have a limit of seven decimal places and the Forecast Postalised Capacity Charge will have a limit of five decimal places.
3. Termination Payments will be accounted for in the Year End Charges in Condition 2A.2.6.1.
4. Debt Repayments invoiced will be included in the 'B' term in Condition 2.A3.4.
5. Condition 2A4.3.1 will be amended to make explicit that the Postalised System Administrator (PSA) also receives Forecast Required Revenues (FRR) from the Designated Pipeline Operators (DPOs).
6. The Year End Amount formula in Condition 2A.6.1.3 now accounts for Termination Payments.

7. In each of the relevant Licences, the next five years FRR need to be submitted rather than just the coming years FRR.

The remainder of this note is aimed at providing a short explanation of the rationale behind the modifications.

1. GS Firm Capacity

In an attempt to ensure consistency with Condition 2A.2.5.2 (b) of the Standard Conditions, **the definition of “GS Firm Capacity” in Condition 2A.1.1 will be modified.** The reason for this modification is that in Condition 2A.2.5.2, the Postalised Capacity Payment is calculated on a monthly basis, yet GS Firm Capacity is defined in terms of days. As no shipper in Northern Ireland can currently hold capacity for a period shorter than one month, calculating GS Firm Capacity in days may give rise to inconsistencies. Therefore the definition of GS Firm Capacity will be amended to read as follows:

“GS Firm Capacity” means the Firm Capacity held by a Gas Supplier in respect of all Exit Points on the Designated Network in a Gas Year multiplied in each case by the aggregate number of months in respect of which such Firm Capacity is held in such Gas Year and divided by 12;

2. Decimal Point Issue

In order to avoid discrepancies and confusion among the PSA and the DPO's, **a limit will be placed on the number of decimal places used for the Forecast Postalised Commodity Charge and the Forecast Postalised Capacity Charge.** There will be a limit of seven decimal places for the Forecast Postalised Commodity Charge and a limit of five decimal places for the Forecast Postalised Capacity Charge. It should however be noted that there will be no limit on the decimal places in the Year-End Charges because the year-end reconciliation requires an exact Year End Charge.

The way in which this will be incorporated into the licence is that Condition 2A.2.5.1 (d) will be inserted and will read:

- (d) *The Forecast Postalised Commodity Charge invoiced to a Gas Supplier “s” in respect of a Gas Year “t” or month “m” of Gas Year “t” calculated in accordance with Condition 2A.2.5.1 (a) shall be rounded to seven [7] decimal places.*

And Condition 2A.2.5.2 (c) will be inserted and will read:

- (c) *The Forecast Postalised Capacity Charge invoiced to a Gas Supplier “s” in respect of a Gas Year “t” or month “m” of Gas Year “t” calculated in accordance with Condition 2A.2.5.2 (a) shall be rounded to five [5] decimal places.*

3. Year End Charges

The Authority is of the opinion that where a Gas Supplier pays Termination Payments, the amount of such payment that relates to PS Transmission Payments and the then current Gas Year, should be taken account of in the Year End Charges. **Therefore, in Condition 2A.2.6.1, the term “ T_t ” will be subtracted from $PSARR_t$ and subsequently defined.** The condition will therefore now read as follows to take account of Termination Payments:

2A.2.6.1 Year-End Postalised Commodity Charge

The Year-End Postalised Commodity Charge in respect of each kWh of gas allocated to each Gas Supplier under the Network Code in respect of each Exit Point on each day during a Gas Year “t” shall be calculated as determined in accordance with the following formula, the components of which shall be in relation to Gas Year “t”:

$$YEPComC_t = \frac{(((PSARR_t - T_t) * \text{Commodity Percentage}) - \text{Supplemental Payments}_t)}{PS \text{ Annual Exit Quantity}_t}$$

where:

YEPComC_t means the Year-End Postalised Commodity Charge for Gas Year “t”;

PSARR_t means the PS Actual Required Revenue in respect of Gas Year “t”;

T_t means any Termination Payments payable in respect of PS Transmission Payments relating to Gas Year “t”;

“PS Annual Exit Quantity_t” means:

the sum of the Annual Exit Quantities (as that term is defined in each Designated Pipe-line Operator’s Respective Licence) for the relevant gas year “t”.

Notwithstanding the provisions of Condition 2A.2.5.1, where the PS Annual Exit Quantity is zero, the Commodity Percentage shall be 0%.

2A.2.6.2 Year-End Postalised Capacity Charge

The Year-End Postalised Capacity Charge in respect of each kWh/day of Firm Capacity held by each Gas Supplier for Exit from any part of the Designated Network during a Gas Year “t” shall be determined in accordance with the following formula:

$$YEPCapC_t = \frac{(PSARR_t - T_t) * \text{Capacity Percentage}}{PS \text{ Actual Firm Capacity}_t}$$

where:

“YEPCapC_t” means the Year-End Postalised Capacity Charge for Gas Year “t”;

PSARR_t = the PS Actual Required Revenue in respect of Gas Year “t”;

T_t means any Termination Payments payable in respect of PS Transmission Payments relating to Gas Year “t”;

“PS Actual Firm Capacity_t” means the sum of the Actual Firm Capacity (as that term is defined in each Designated Pipeline Operator’s Respective Licence) held in a Gas Year by all PS Gas Suppliers.

Notwithstanding the provisions of Condition 2A.2.5.2, where the PS Annual Exit Quantity is zero, the Capacity Percentage shall be 100%.

4. Debt Repayments

The Authority believe the current wording of Condition 2A.3.4.3 is incorrect and confusing as it does not consider if Gas Suppliers have received a debt repayment from DPOs. In order to correct this, **the B term will now include Debt Repayments made. For clarity, the word “current” will also be removed from the definition for A.** The condition will therefore now read as follows:

2A.3.4.3 Each month “m”, the Net Debt Position (“NDP”) as at the Debt Notice Date will be calculated by the PSA as follows:

$$NDP_m = (A - B - C) + Z$$

Where:

A = as at the Debt Notice Date, the PS Notified Debt;

B = as at the Debt Notice Date, the sum of all Debt Payments then paid or payable (including any interest accrued or accruing in respect of late payments) minus the sum of all Debt Repayments then paid or payable (including any interest accrued or accruing in respect of late payments)

$C =$ as at the Debt Notice Date, the total value of all Recoveries received into the PoT Account, together with any interest paid on such Recoveries;

$Z =$ the sum of all interest charges accrued in relation to NDP in previous months calculated in respect of each such previous month (" pm " and each such interest charge being " I_{pm} ") as:

$$I_{pm} = NDP_{pm} \times r$$

$r =$ the interest rate from time to time calculated at the monthly equivalent rate of 0.75 plus the one month LIBOR rate, published five Business Days before the relevant Invoice Date.

A minor amendment will also be made to the "PS Notified Debt" definition in Condition 2A.1.1. This is in order to clarify that PS Notified Debt refers to all debt which has been notified whether currently or in the past. The modified amendment will read as follows:

"PS Notified Debt" means, at any time, the aggregate of PS Non-Payments, excluding any VAT element, which are at that time or were prior to that time the subject of a notification by a Designated Pipe-line Operator to the PSA as contemplated in Condition 2A.3.4.1 of such Designated Pipe-line Operator's licence;

5. PSA Receiving FRR

To make explicit that the PSA should be in receipt of the FRRs from the DPOs, the Authority is amending Condition 2A.4.3.1 (a) of the Standard Conditions. The current licences state that the PSA must receive the forecast volumes and forecast capacity from each of the DPOs but they do not state clearly that they must also be in

receipt of the DPO forecast revenues to allow them to set forecast tariffs. The condition will now read:

- (a) *the receipt from each of the Designated Pipe-line Operators of the information to be submitted to the PSA pursuant to Condition 2A.2.3 of each Designated Pipe-line Operator's Respective Licence and the receipt from each of the Designated Pipe-line Operators of its Forecast Required Revenue for the coming Gas Year "t" and the following four Gas Years pursuant to its Respective Licence;*

6. Year End Amount Formula

In order to be consistent with the modification set out in section 3 above, the Authority believe that if a Gas Supplier's accession to the Network Code were to be terminated then any resultant payments would need to be incorporated in the Year End Amount formula. Therefore, **in Condition 2A.6.1.3, PSTMP_t will become PSTMPT_t and the definition will change accordingly.** The condition will therefore now read as follows:

2A.6.1.3 *Year-End Amounts – Calculation of Entitlement/Obligation*

- (a) *A year-end amount ("Year-End Amount" or "YEA_{Lt}") in respect of that Gas Year shall be calculated in accordance with the following formula, in relation to which if YEA_{Lt} is a negative figure, the Licensee shall be obliged to make payment into the PoT Account of the amount of such figure within 25 Business Days of the date that it receives notice from the PSA of the relevant amount, and if YEA_{Lt} is a positive figure, the Licensee shall be entitled to receive the amount of the Year-End Amount from the PoT Account:*

$$YEA_{Lt} = \frac{(ARR_{Lt} \times (PSTMPT_t + \sum DPI_{mt} + RP_{Total} + DPIR_t)) - AMPE_{Lt}}{PSARR_t}$$

Where

YEA_{Lt} = Year-End Amount in respect of Gas Year “t” and Licensee “L”;

ARR_{Lt} = the Licensee’s Actual Required Revenue in respect of Gas Year “t”;

$PSARR_t$ = the PS Actual Required Revenue in respect of Gas Year “t”;

$PSTMPT_t$ = the aggregate of $TMPT_m$ as calculated in Condition 2A.6.1.2 (a) in respect of all the months falling within Gas Year “t”;

RP_{Total} = the aggregate of all Capacity Reconciliation Payments and Commodity Reconciliation Payments, each in respect of Gas Year “t” and receivable from PS Gas Suppliers; and

$AMPE_{Lt}$ = the aggregate of Monthly Postalised Entitlements of the Licensee in respect of Gas Year “t”.

$DPIR_t$ = any interest paid on payments relating to Reconciliation Payments received after the Due Date and before or on the Second Due Date falling in month “m”.

$\sum DPI_{mt}$ = the aggregate amount of interest paid on payments relating to Total Monthly Payments for Gas Year “t” payable in any month “m” received after the Due Date and before or on the Second Due Date.

7. Five Year FRR Submission

A modification is being made to each relevant DPO Licence to ask for the next five years Forecast Required Revenue. The current licences only request the coming years

FRR and not the following four so by submitting the next five years FRR, the PSA will be able to calculate the forecast tariffs.

The relevant Conditions to be modified are 2.3A.1 of the Phoenix Licence, 2.2.1.1 of the BGE Licence and 3.1.2 of the PTL Licence. The relevant sub-paragraphs of these conditions will now read as follows:

Phoenix ***2.3A.1 Charges to be subject to Total Allowed Transmission Revenue***

- (e) *No later than the first Business Day in July in any Gas Year commencing on or after the Designation Date the Licensee shall provide to the Authority its calculation of Forecast Required Revenue for the next Gas Year and the following four Gas Years together with such explanations and information as may be reasonably necessary to permit the Authority to verify that the Forecast Required Revenue has been calculated in accordance with any formula in place for the time being for the purposes of calculating Total Allowed Transmission Revenue.*
- (f) *No later than the fifteenth Business Day in July in any such Gas Year referred to in sub-paragraph (e) the Licensee shall provide to the PSA its calculation of Forecast Required Revenue in respect of the next Gas Year and the following four Gas Years.*

BGE ***2.2.1.1 Application of the Revenue Determination Formula during Revenue Recovery Period***

- (d) *No later than the first Business Day in July in any Gas Year commencing on or after the Designation Date the Licensee shall provide to the Authority its calculation of Forecast Required Revenue for the next Gas Year and the following four Gas Years.*
- (f) *No later than the fifteenth Business Day in July in any such Gas Year referred to in sub-paragraph (d) the Licensee shall provide to the PSA its calculation of Forecast Required Revenue in respect of the next Gas Year and the following four Gas Years.*

PTL

3.1.2 Allowed revenue recovery during period of designation

- (b) *No later than the fifteenth Business Day in June in each Gas Year, the Licensee shall provide to the Authority its calculation of Forecast Required Revenue for the next Gas Year and the following four Gas Years together with such explanation and supporting information as the Licensee considers to be reasonably necessary to permit the Authority to be satisfied that the Forecast Required Revenue is a reasonable forecast in accordance with Condition 3.1.1(b).*
- (d) *No later than the fifteenth Business Day in July in each Gas Year the Licensee shall provide to the PSA its calculation of Forecast Required Revenue, pursuant to Condition 3.1.2(b), with any variation made thereto pursuant to Condition 3.1.2(c), in respect of the next Gas Year and the following four Gas Years for the purpose of calculation of the Forecast Postalised Charges in accordance with Part 2A of the Licence.*

It is proposed that these modifications will take effect from Thursday 22nd June 2006

Any representations or objections with respect to the above proposed modifications may be made on or before Friday 16th June 2006 and should be addressed to Ian Davidson at Ofreg, Queens House, 14 Queens Street, Belfast, BT1 6ER or ian.davidson@ofregni.gov.uk