



# Gas Transmission Services Cost and Performance Report 2017-18 to 2019-20

## Assessment of TSOs and GMO Cost and Performance

September 2021



## 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, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



### Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



### Our vision

To ensure value and sustainability in energy and water.



### Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

## **Abstract**

We regulate the revenue gas transmission system operators (TSOs) receive through periodic price controls. Our current price control (GT17) decisions identify the expected levels of expenditure for these gas TSOs as well as for the Gas Market Operator (GMO) for Northern Ireland.

This report reflects our assessment of gas TSOs performance during the first three years of this regulatory price control, GT17, covering the period from October 2017 to September 2020.

## **Audience**

Regulated utilities, regulatory community, industry, consumers and their representative bodies and statutory bodies.

## **Consumer impact**

This assessment provides consumers with an overview of TSO performance for the first three years of GT17 in delivering the requirements of our price control.

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## Executive Summary

In overall terms, the first three years of GT17 can be considered successful. GMO has been implemented effectively and has delivered cost savings as well as practical benefits to shippers by way of:

- One point of contact for all queries/issues.
- Single transmission code and invoicing system.
- 24-hour telephone service and website.

The key indicators of GMO performance demonstrate good levels of compliance and shipper surveys suggest overall satisfaction with market operation. As of July 2020, GMO also took on responsibility for postalised tariffs, which should facilitate further efficiencies.

For the TSOs, both MEL and GNI (UK) have been effective in delivering below budget and collaborating for the benefit of the industry as a whole. RIGS reporting has commenced and has been useful in providing clarity on costs and outputs.

MEL has made good progress against its scheduled repex projects as well as undertaking some unscheduled work. GNI (UK) has experienced some problems in terms of asset replacements schemes, but COVID has had an impact on delivery.

The TSOs have undertaken the GT17 requirement to consider the feasibility of a single control room. However, the conclusion is that it is not practical at this time given legal and procurement concerns. This is understandable but disappointing, especially given the success of the GMO. Otherwise, performance in the first three years of GT17 can be considered good.

## 1. Introduction

### Background

- 1.1 There are four Transmission System Operators (TSOs) in Northern Ireland. These include:
- a) GNI (UK) – responsible for the South North and North West Pipelines.
  - b) Premier Transmission Limited (PTL) – responsible for the Scottish Northern Ireland Pipeline (SNIP).
  - c) Belfast Gas Transmission Limited (BGTL) – responsible for the Belfast Gas Transmission Pipeline.
  - d) West Transmission Limited (WTL)<sup>1</sup> – responsible for the Gas to the West Pipeline.
- 1.2 PTL, BGTL and WTL are all part of the Mutual Energy Limited (MEL) group. For the purposes of this report, activity and expenditure incurred by these three TSOs are assessed collectively under the MEL umbrella. GNI (UK) is considered separately.
- 1.3 October 2017 also saw the go-live of the Gas Market Operator for Northern Ireland (GMO). GMO is a collaboration of the four TSOs, the purpose of which is to provide a 'one stop shop' for commercial activities, which can otherwise be described as operating the gas market.

### Price Controls

- 1.4 GT17 represents the current UR [determination](#) for the gas TSOs. The price control runs for five years from October 2017 to September 2022. It sets out the allowed revenue for the holders of high-pressure conveyance licences.
- 1.5 Decisions for GNI (UK) represent fixed revenue allowances, as per the normal regulatory process. Exceptions are however made for some cost items (i.e. rates or licence fees) which are treated as a pass-through.
- 1.6 The situation differs for MEL who are a mutualised entity with no shareholders; its primary stakeholders being energy consumers. In this model, NI gas consumers absorb deviations between forecast and actual operating costs in return for an absence of equity. In this respect, GT17 is considered to be a '*shadow*' price control for MEL.

### Cost and Performance Reports

- 1.7 We use information returns and the Cost and Performance Report (CPR) to account for delivery against the price control. This document provides an assessment of TSOs performance at the end of the first three years of the five-year price control period.
- 1.8 The report provides commentary on GNI (UK), MEL and the GMO. It does not cover capital repayments as allowances for building the network have already been decided outside the price control process.

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<sup>1</sup> WTL are not a separately certified TSO but are referred to as one in this document for purposes of simplicity.

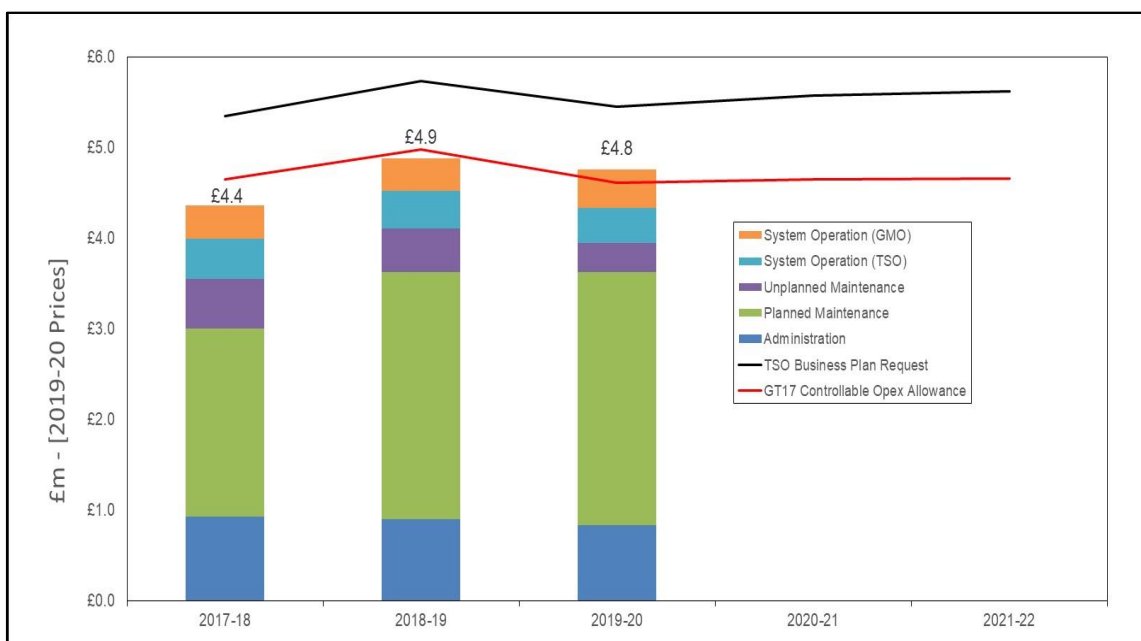
- 1.9 For the TSOs, analysis of costs is split into three sections as follows:
- a) Controllable opex – Operational spend within management discretion. This includes staff costs, administration, maintenance and systems operation.
  - b) Repex – Is also controllable opex within TSO control, but is analysed separately as it represents material spend on replacement of assets on an intermittent basis.
  - c) Total costs – Encompasses all opex costs including pass-through items which are considered uncontrollable such as rates, licence fees and costs incurred on the network at the Scottish end (for PTL).
- 1.10 The report also looks at GMO performance and implementation of single system operation. Although the cost of GMO is incurred by the respective TSOs, GT17 set indicative allowances for undertaking market operation. GMO is judged against this budget and other Key Performance Indicators (KPIs).

## 2. GNI (UK) Performance

### Controllable Opex

- 2.1 The graph below details GNI (UK) opex by cost category and in comparison to both the GT17 allowance and the TSO business plan (BP) request.

**Figure 2.1 – GNI (UK) controllable opex in real terms**



**Figure 2.2 – GNI (UK) controllable opex: actual vs allowance**

Cost Category	2017-18	2018-19	2019-20	Total (Y1 to Y3)
GNI (UK) BP Request (£m)	5.35	5.74	5.46	<b>16.54</b>
FD Allowance (£m)	4.66	4.98	4.62	<b>14.26</b>
Actual Spend (£m)	4.36	4.89	4.77	<b>14.02</b>
Differential (£m)	-0.29	-0.10	0.15	<b>-0.24</b>
Variance (Under) / Over (%)	-6.3%	-1.9%	3.2%	<b>-1.7%</b>

*All figures in 2019-20 prices*

- 2.2 The TSO spend is below the FD budget on a cumulative basis but is slightly over in 2019-20. This has been largely attributed to increases in planned maintenance costs, which are c. £0.6m above budget. GNI (UK) has advised that this is principally due to their new maintenance contractor rates.

### Repex

- 2.3 Replacement expenditure or repex is much more atypical in nature. It is associated with larger ad hoc costs required to maintain the system. GNI (UK) spend on their GT17 repex programme is detailed below.

**Figure 2.3 – GNI (UK) repex: actual vs allowance**

Repex Project	FD Allowance (Y1 to Y3) £000s	Actual Spend (Y1 to Y3) £000s	% Variance (Under) / Over Budget
Cathodic Protection	131	18	-86%
Boiler Refurbishment	379	0	-100%
Control System Upgrades	124	0	-100%
Instrumentation Refurbishment	222	14	-94%
Metering Recalibration	316	11	-97%
AGI <sup>2</sup> security	TBD	TBD	n/a
Cyber Security Upgrades	169	42	-75%
Emergency Escapes	294	0	-100%
Outputs not in GT17	0	99	n/a
<b>Totals</b>	<b>1,636</b>	<b>184</b>	<b>-89%</b>

*All figures in 2019-20 prices*

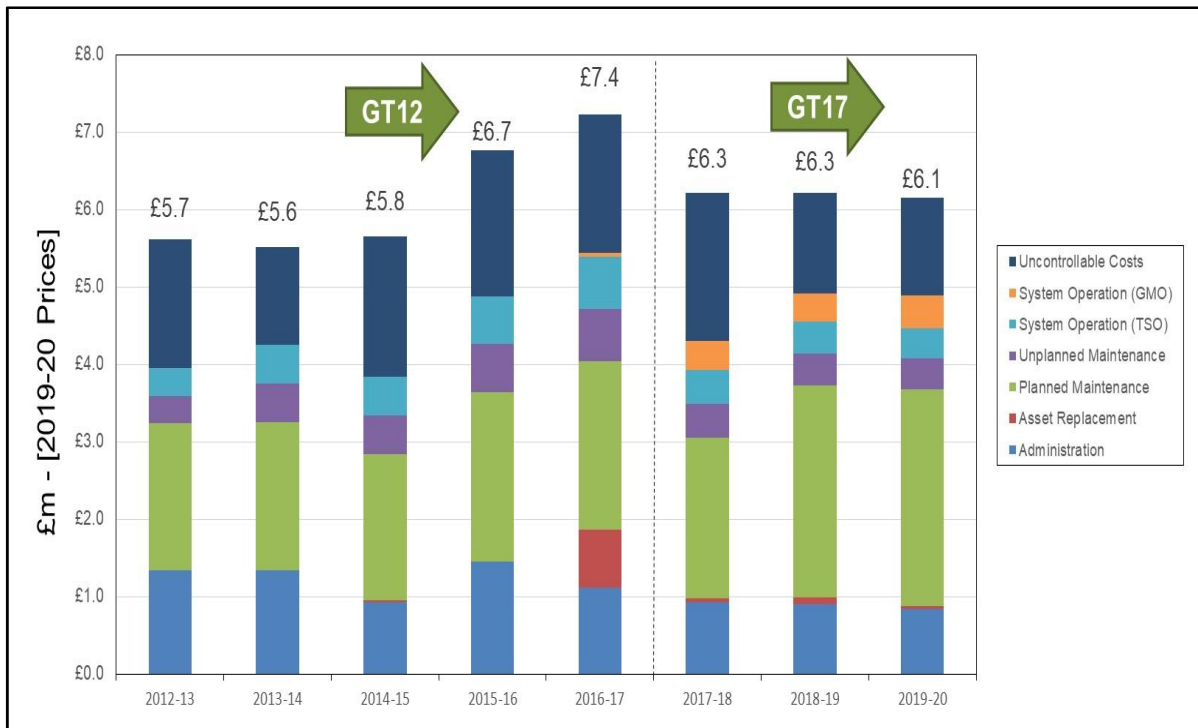
- 2.4 Repex to date is underspent by £1.45m (-89%) against an allowance of £1.64m for the first three years. GNI (UK) is yet to progress virtually any of the GT17 projects with the exception of some conceptual design work and cyber security upgrades.
- 2.5 The TSO has cited the legitimate restrictions around COVID, however little progress was made on the upgrades in the first two years of the price control. GNI (UK) has indicated that the bulk of repex projects will be delivered in 2021 and 2022. The exception is the boiler refurbishment programme, which is expected to be reduced by 50% in GT17 from ten to five boilers being replaced.
- 2.6 It is too early to comment decisively on repex at this stage due to phasing of spend / activity. However, we would expect much of the targeted outputs funded by NI customers to be delivered in the remaining GT17 years.

### **Total Costs**

- 2.7 Total costs incorporate opex, repex and pass-through items. Overall, GNI (UK) are below the GT17 budget across all years. This can largely be explained by:
- 1) Work not yet undertaken on repex project;
  - 2) Lower than expected uncontrollable costs; and
  - 3) Reasonably good financial control on the part of the TSO.
- 2.8 The chart below details GNI (UK) performance across a number of years and price controls.

<sup>2</sup> AGI = Above Ground Installation.

**Figure 2.4 – GNI (UK) total cost in real terms**



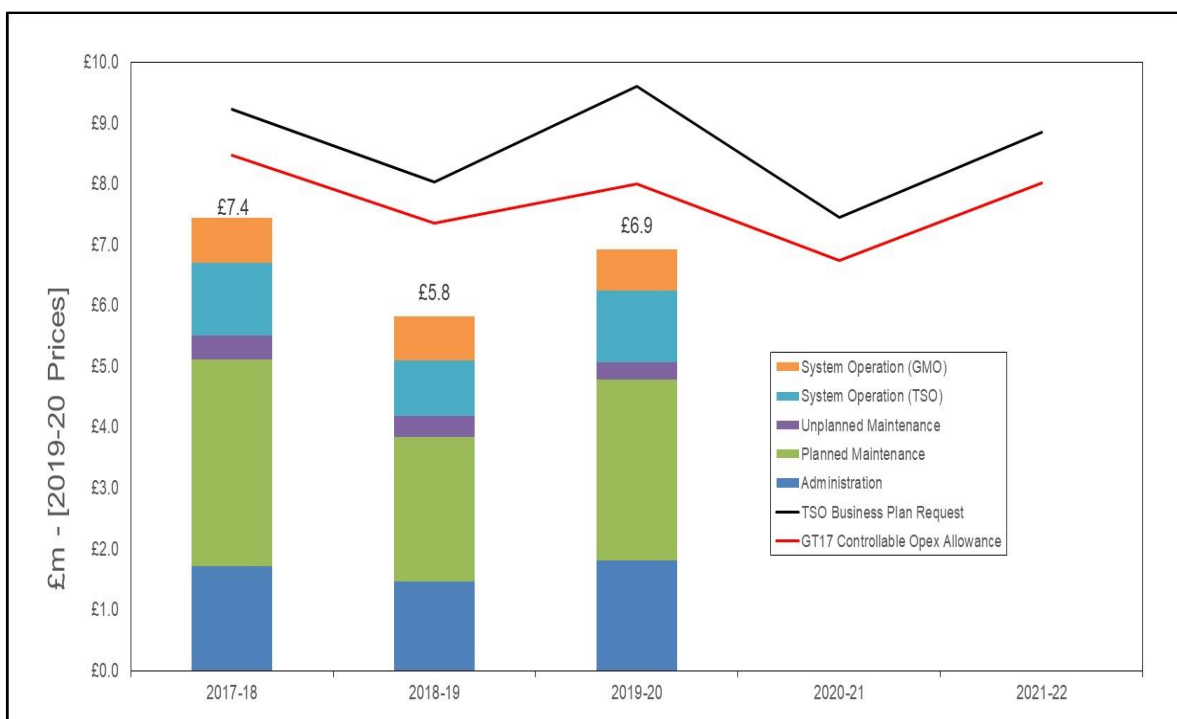
2.9 The graph indicates that GNI (UK) has been reasonably successful in restricting overall cost growth in real terms. This is a welcome outcome, though we are keen to see delivery of agreed network upgrades. We will continue to monitor progress against spend and outputs as the price control progresses.

### 3. MEL Performance

#### Controllable Opex

- 3.1 The graph below details MEL cost by opex category and in comparison to both the GT17 allowance and the TSO business plan request.

**Figure 3.1 – MEL controllable opex in real terms**



- 3.2 The chart indicates that MEL has managed to outperform GT17 allowances to date.

**Figure 3.2 – MEL controllable opex: actual vs allowance**

Cost Category	2017-18	2018-19	2019-20	Total (Y1 to Y3)
MEL BP Request (£m)	9.23	8.03	9.62	<b>26.88</b>
FD Allowance (£m)	8.49	7.36	8.01	<b>23.86</b>
Actual Spend (£m)	7.45	5.83	6.94	<b>20.22</b>
Differential (£m)	-1.04	-1.53	-1.07	<b>-3.641</b>
Variance (Under) / Over (%)	-12.2%	-20.8%	-13.4%	<b>-15.3%</b>

*All figures in 2019-20 prices*

- 3.3 Controllable opex is on average c. £1.2m or 15% below the FD allowances per annum. This is a welcome outcome which MEL has highlighted a number of reasons for, including:

- Use of new techniques for sub-sea inspections which allowed an unmanned vehicle to be used to visually inspect the lough crossings.
- A favourable insurance market.

- c) More work being undertaken by additional internal engineering staff rather than reliance on external support.

## Repex

3.4 MEL spend on their GT17 repex programme is detailed below.

**Figure 3.3 – MEL repex: actual vs allowance**

Repex Project	FD Allowance (Y1 to Y3) £000s	Actual Spend (Y1 to Y3) £000s	% Variance (Under) / Over Budget
SCADA <sup>3</sup> Refresh	872	0	0%
Boiler house Replacement	625	822	31%
Ballylumford Water Bath Heaters	89	3	-97%
Panel PLC <sup>4</sup> Replacement	380	400	5%
Fire Detection System - Kiosks	217	0	-100%
Transformer Replacement	71	0	-100%
Lagging Replacement	51	23	-56%
Replacement / Overhaul of Valves	151	105	-31%
UPS <sup>5</sup> & UPS Battery Replacement	72	11	-84%
Other Items	456	144	-68%
Outputs not in GT17	303	1,296	328%
<b>Totals</b>	<b>3,286</b>	<b>2,803</b>	<b>-15%</b>

*All figures in 2019-20 prices*

- 3.5 The repex is currently under budget by £0.5m (-15%) against an allowance of £3.3m for the first three years of the price control. MEL has reported some good progress against GT17 targeted outputs including:
- Knocknagoney boiler house replacement delivered.
  - PLC panels have been replaced alongside five of eight fire detection systems, which were undertaken at the same time. The costs of these projects are recorded together.
  - All UPS systems have been updated but work is ongoing on battery replacements.
- 3.6 MEL has indicated that certain projects have cost much less than expected due to in-house engineering team experience and project management. Other projects such as the SCADA refresh have yet to be undertaken
- 3.7 It is notable that significant cost has been incurred on outputs not foreseen at GT17 such as work on the SNIP pipeline. MEL has subsequently asked for two BCO (Budgeted Controllable Opex) revisions for the gas years 2018-19 and 2019-20 to cover some of this expenditure. In

<sup>3</sup> SCADA = Supervisory Control and Data Acquisition.

<sup>4</sup> PLC = Programmable Logic Controller.

<sup>5</sup> UPS = Uninterruptible Power Supply.

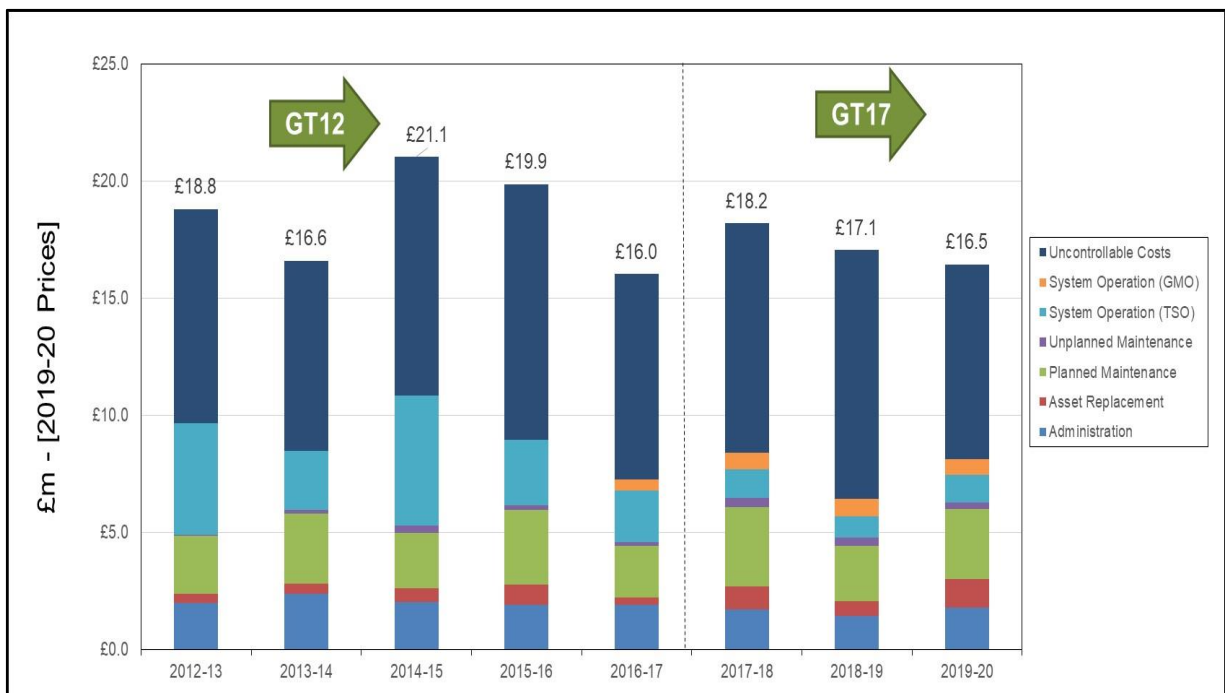
spite of this activity, the TSO is still under the repex budget.

- 3.8 Again, it is too early to comment decisively on repex at this stage due to phasing of spend / activity. However, it would seem that MEL is well on track to delivering the majority of GT17 scheduled outputs.

### Total Costs

- 3.9 The chart below details MEL total spend.

**Figure 3.4 – MEL total cost in real terms**



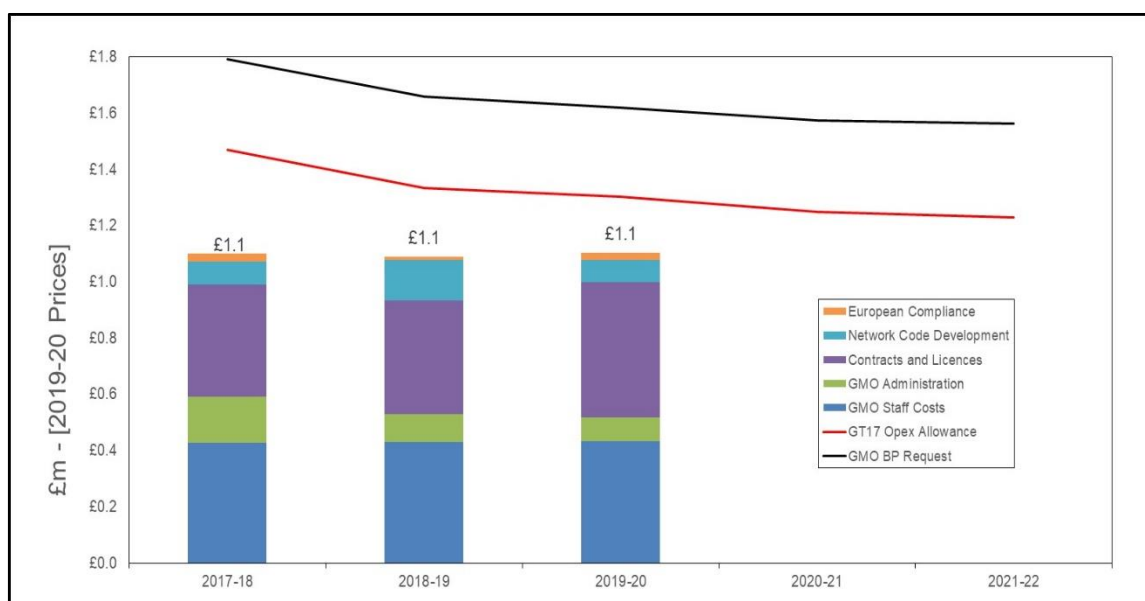
- 3.10 Overall, MEL are below the GT17 forecasts and have had success in terms of cost control. This is a welcome outcome. However, it is somewhat dependent on uncontrollable costs, which are subject to uncertainty and may rise in the future.
- 3.11 As the graph indicates, these pass-through costs make up a large proportion of MEL spend. We will continue to monitor progress against expenditure and outputs as the price control progresses.

## 4. GMO Performance

### Controllable Opex

- 4.1 GMO went operationally live on the 1 October 2017. It is responsible for a variety of gas market operations such as capacity bookings, code administration, invoicing, balancing, market reports etc.
- 4.2 The operator is a joint venture made up of staff from MEL and GNI (UK). Even though costs are covered by the respective TSO, GT17 set a budget for these market activities against which GMO are responsible and report against. Comparison against FD allowance and the business plan request is detailed below.

**Figure 4.1 – GMO NI controllable opex: actual vs allowance**



**Figure 4.2 – GMO NI controllable opex: actual vs allowance**

Cost Category	2017-18	2018-19	2019-20	Total (Y1 to Y3)
GMO BP Request (£m)	1.79	1.66	1.62	<b>5.07</b>
FD Allowance (£m)	1.47	1.33	1.30	<b>4.11</b>
Actual Spend (£m)	1.10	1.09	1.10	<b>3.29</b>
Differential (£m)	-0.37	-0.24	-0.20	<b>-0.814</b>
Variance (Under) / Over (%)	-25.17%	-18.31%	-15.34%	<b>-19.8%</b>

*All figures in 2019-20 prices*

- 4.3 Costs are below budget by some 20% on a cumulative basis. GMO have highlighted a number of reasons for this performance including:
- a) Administration cost less than anticipated due to pooled corporate services and working from home arrangements.

- b) Enhancement spend on the IT system (contracts and licences) has been deferred to later in the period.
- c) External support costs were lower than expected.

- 4.4 Within the GT17 price control, we undertook a forecast cost-benefit analysis (CBA) of the GMO based on allowances and estimated start-up costs. We would expect to complete such an evaluation at the end of the GT17 period.
- 4.5 However, at this point it would appear that the GMO has been successful in controlling and even reducing system operation costs for the TSOs. It would appear that the TSOs have benefitted from pooling staff resources and sharing IT systems. GMO has delivered below budget and as of July 2020 took on responsibility for postalised tariffs<sup>6</sup> which should facilitate further efficiencies.

### **Key Performance Indicators**

- 4.6 Besides costs, GMO also reports against a number of KPIs. Although no targets were set in the price control, this data provides assurance that the work of GMO is being undertaken in line with expectations.
- 4.7 GMO have recorded virtually 100% compliance every year for the various KPIs including invoices issued on time, queries being responded to and resolved etc. The shared IT system has also proven reliable.
- 4.8 Whilst we have given some consideration to developing a satisfaction metric or canvassing customer opinions, this has yet to be undertaken. However, GMO has proactively undertaken shipper surveys. These indicate that 100% of respondents were generally satisfied with GMO services.
- 4.9 Overall, the implementation of the GMO has proven to be a successful transition.

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<sup>6</sup> Tariffs were previously the responsibility of an external Postalised System Administrator (PSA).

## 5. Conclusions and Next Steps

### Summary Performance and Issues

- 5.1 In overall terms, the first three years of GT17 can be considered successful. GMO has been implemented and has delivered cost savings as well as practical benefits to shippers by way of:
- One point of contact for all queries/issues.
  - Single transmission code and invoicing system.
  - 24-hour telephone service and website.
- 5.2 TSOs have also been effective in delivering below budget and collaborating for the benefit of the industry as a whole. RIGS reporting has commenced and has been useful in providing clarity on costs and outputs. That being said, there remains some concerns and issues. These include the following:
- 1) GNI (UK) has yet to progress much to the funded repex programme.
  - 2) End of year reconciliation payments have been very material on occasion.
- 5.3 Furthermore, GT17 required that the TSOs collaborate to, *“conduct a feasibility study and produce an implementation plan, by no later than 1 October 2019, for the establishment of a single control room for Northern Ireland.”*<sup>7</sup>
- 5.4 This study was complete but concluded that it was not practical at this time given procurement and legal complications. Consequently, MEL have progressed their control room re-tender with expected costs of c. £1.8m included in 2021-22 tariffs. This outcome is understandable but disappointing, particularly in light of the success of the GMO.
- 5.5 We would ask the TSOs and GMO to reflect on these issues and how they can be addressed going forward. Overall, however, performance in the first three years of GT17 can be consider good.

### Next Steps

- 5.6 It is anticipated that the next gas transmission *Cost and Performance Report* will be undertaken post conclusion of the GT17 period. In the meantime there are various regulatory and operational work streams ongoing.
- 5.7 Work has begun on the next price control (GT22) with an [Approach](#) being published in March 2021 and business plans received in the summer. A [consultation](#) has also been undertaken to consider amending the PTL licence. This change aims to reduce reconciliation payment volatility by excluding some unspent capex allowances from the scope of the year-end reconciliation process which will be rolled forward to the next year.
- 5.8 The Haynestown offtake is now operational and work is continuing with GNI (UK) to finalise the enduring charging arrangements. This project should provide supplemental

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<sup>7</sup> See GT17 Final [Determination](#), para 4.48, p39.

income and reduce costs for NI customers in much the same fashion as the Stranraer arrangements.

- 5.9 MEL and GNI (UK) are also working on the Transportation Agreement (TA) which may impact on future costs. It is anticipated that further updates will be provided on these issues and delivery against the GT17 price control in the next iteration of the Cost and Performance Report.