

# Biomethane Modifications to Gas Conveyance Licences

## I. Introduction

This response is on behalf of Mutual Energy (“MEL”), which owns three of the four licenced gas TSOs in Northern Ireland: Premier Transmission Ltd (“PTL”), Belfast Gas Transmission Ltd (“BGTL”) and West Transmission Ltd (“WTL”). MEL welcomes the opportunity to comment on the proposed modifications to the gas conveyance licences of these entities as set out in the consultation.

We are generally supportive of the proposed modifications, which represent a necessary step to ensure that Northern Ireland’s gas conveyance framework is equipped to accommodate renewable gas injection from Gas Delivery Facilities, particularly relating to biomethane. Whilst the framework will now be able to accommodate such injection, we recognise that the modifications are being made in the context of the existing policy background and anticipate that additional licence changes may well be required if tangible policy support for injection of biomethane (and/or other renewable gases) emerges. In that case it will be important that any necessary modifications are implemented promptly and effectively to enable delivery on the back of such support.

## 2. Comments on proposed modifications

Noting that the proposed licence modifications are effectively consistent across each of our licencees, we comment in turn below on the more material proposals. following the updated numbering in “Appendix E Premier Transmission Limited Proposed Licence Modifications”.

### 2.1. Condition 2.3.1

We note the clarification made to this condition around the inclusion of the definition of a Pipe-Line System and the commentary in the consultation paper (2.37 and 2.38) indicating that reverse compression facilities do not constitute GDFs, to the extent that they are part of a Pipe-Line System. Combined with the requirement of condition 2.3.21 to review each Statement on each occasion Condition 2.3 is modified, our interpretation of the effect is that a review of the existing Connection Charging Methodology Statement (“CCMS”) may be triggered by these modifications that requires it to consider connections involving reverse compression. This is not a minor endeavour as such a connection would have more in common with a GDF than a standard connection and we would suggest that such a review should be triggered by a direction from the Authority, similar to the process proposed to trigger the production of a Statement of connection charges and terms for connection of a category or type of Gas Delivery Facility to the Network (“GDF Statement”).

## 2.2. Condition 2.3.2

This condition requires the licensee to prepare a Statement of connection charges and terms for connection of a category or type of Gas Delivery Facility to the Network (“GDF Statement”) when so directed by the Authority. We note that the category or type of Gas Delivery Facility (“GDF”) may be described or referenced to the relevant type or blend of gas to be introduced to the network by the GDF. We suggest there should be certainty that the direction will as a minimum describe the relevant type or blend of gas to be introduced, along with other descriptors that may assist the licensee in efficiently producing a useful GDF Statement.

## 2.3. Condition 2.3.5

We welcome the proposal to replace ‘28 days’ with ‘6 months’ in part (a) of this condition, which represents a more realistic time line to respond to connection requests. We suggest that this condition could be further enhanced by adding the words “in accordance with the requirements of the Connection Charging Methodology Statement” after the words “receiving a request”. In practice there will usually be informal engagement on potential connections that may not constitute a ‘request’ under this condition so it would be helpful to include this more formal requirement to provide clarity on timing for both licensees and parties who are interested in connecting to the network.

We suggest that ‘28 days’ is replaced with ‘6 months’ in part (c) of this condition to maintain consistency with part (a) and to provide a realistic time line to respond to relevant connection requests. While this would mean that such connection requests could take longer to process in aggregate, it seems efficient for the Authority’s assessment and the licensees work to be carried out sequentially, given the requirement for Authority approval of the connection. It would further be beneficial to add an ‘unless otherwise approved by the Authority’ conditional clause to cover scenarios where timings such as these contained in the licence cannot be met for reasons outside of the licensees control.

We wish to highlight that in cases contemplated by Condition 2.3.5 we would anticipate being able to deliver a concept design and feasibility study within 6 months which would include an indicative cost within a margin of error. It is important to note that this cannot be expected to constitute a final firm connection offer cost.

## 2.4. Condition 2.3.12

We note that the proposed scope of the GDF Statement is, understandably, significantly broader than the Connection Charging Methodology Statement applicable to other types of connection. We note in particular the requirement for the GDF Statement to address charges associated with maintenance and repair and the Licensee’s operational costs i.e. ongoing costs beyond the initial costs of making the connection. While we appreciate that this drafting is likely driven by the existing ‘producer pays’ policy background and an objective of recovering connection related costs from GDF Operators, the practicalities of administering the charging of such ongoing costs to connectees within the postalised system are unclear. For example, today maintenance and operational costs will feed into the Licensees forecast and actual required revenue and will be

recovered via capacity charges which are subject to credit procedures under the NI Network Gas Transmission Code. If ongoing operational costs are to be charged directly to connectees it is not clear how the recovery of these costs would feed into the mechanics of the postalisation arrangements, given that all such costs incurred by mutualised entities are effectively Eligible Pass-Through Costs.

We would anticipate that both the costs and associated site specific charges could be accounted for in Forecast and Actual Required Revenues with the expectation that they would net off and the costs would therefore not be socialised, in line with policy. However, it is important to note that the risk of non-payment of these costs needs to be recognised<sup>1</sup> and that they ultimately would be socialised where a connectee defaults, in order to avoid undermining mutualised financing arrangements i.e. they would be recovered as eligible pass-through costs where there is no offsetting amount received from the connectee. Whilst the GDF Statement could include credit arrangements to reduce this risk of unplanned socialisation, given the long timeframes over which operational costs associated with a connection may be incurred some residual risk will remain. The Authority will need to ensure that charging arrangements included in the GDF Statement are compatible with postalisation and mutual financing arrangements.

We also anticipate that the GDF Statement may need to account for complex scenarios beyond a simple direct connection for the use of a single party. For example, if it needs to consider the connection of a hub, a connection involving reverse compression<sup>2</sup> or gathering lines there may be costs that need to be shared between different developers/producers. This is further complicated where a second party wishes to access a connection where 100% of the capital expenditure and ongoing operating costs have been paid by another party. While these are not unsolvable problems, they are not straightforward in the absence of policy and where the agreement of multiple GNOs is required. We would appreciate clarity of the Utility Regulators expectations on the extent to which these points can or should be addressed in a GDF Statement as they will be critical in estimating how long is required to produce a GDF Statement (and update the existing statement). We would estimate that a minimal scope update to the existing connection policy covering the three MEL licensees could potentially be done in c.4 months but requirements to align with other GNOs (and it is our view that a single GNO should not make a connection offer for a GDF without consulting other impacted GNOs) or attempt to address complex policy issues would take significantly longer which we cannot reasonably estimate without more certainty. Similar to above, we suggest that any timing contained in a direction requiring the production of a GDF Statement should be subject to an 'unless otherwise approved by the Authority' conditional clause to cover unanticipated scenarios where timings cannot be met.

## 2.5. Condition 2.3.17

In general terms, we can see that Calorific Value Management Statement(s) ("CVMS") may bring value in terms of transparency and consistency of approach. There would appear to be merit in

<sup>1</sup> Connection costs are currently required to be paid in advance but this is obviously not practical for ongoing operational costs.

<sup>2</sup> We note that consultation paragraph 2.38 explains that reverse compression facilities do not constitute GDFs (although they are listed as a type of GDF at paragraph 3.283) but this issue will need to be addressed even if not in the GDF Statement.

having a single CVMS across NI to ensure further consistency for developers but this would take more time to achieve the required alignment. As with other proposed modifications we note that the requirement to prepare and submit a CVMS is subject to an Authority Direction. As mentioned in the consultation paper, there is some overlap/interaction between this requirement and the Future Billing Methodology (FBM”) work being under taken by the GNOs. We would suggest that the issuing of a direction requiring a CVMS should not precede the completion of the FBM phase I options assessment, which should be a useful input to the direction.

We note that the licence modifications do not reference a specific standard but a reasonable and prudent operator would expect to provide a credible and robust statement that points to relevant standards. We envisage that the Authority will then need to establish its own arrangements for monitoring ongoing compliance with the CVMS and associated metering arrangements – we observe that this is likely to require independent resource to actively monitor compliance (either within the Authority or outsourced) rather than a ‘self-certification’ type procedure.

## 2.6. Condition 2.13: Network Forecasts

We note the Authority anticipates “the practical implications of the proposed modifications [to Condition 2.13] to be limited.” To that end, we would expect that the historic approach to producing the NI Gas Capacity Statement (“NIGCS”) would still meet the requirements of the updated condition, which simply clarifies the types of connectees who may wish to use the information therein.

We also note that the need to comply with the Network Forecast conditions has not been triggered for distribution network operators so the Authority’s view is that these conditions do not need to be updated in the relevant licences. Whilst we are content that these conditions as they stand are currently only triggered in the transmission licences, we would suggest that to ensure that the information made available to prospective GDF connectees via the TSOs is of sufficient usefulness, UR should consider whether any further policy or direction is required to enhance the collaboration that takes place between distribution and transmission network operators in the production of the NIGCS/Gas Adequacy Statement or to require additional coordinated information be produced that would be of use of prospective GDF connectees. We are mindful that management of GDFs connecting to distribution networks with knock on effects on the transmission network will likely require coordinated network planning with a scope well beyond historic arrangements.

## 2.7. Conveyance charging arrangements

We note that the proposed modifications appear to be effective in extending entry charging arrangements to gas introduced to the network via GDFs and that this is in line with the business rules for Non-IP (Interconnection Point) Entry Points drafted by GMO. We would note that these business rules may be subject to further refinement as the biomethane industry develops in Northern Ireland (e.g. if there were to be congestion at Gas Delivery Points) and these could lead to further licence modifications being required.

As mentioned above at 2.4, we are somewhat uncertain on the implications of potentially charging GDF connectees directly for ongoing operational costs associated with their connection under the postalised regime. Whilst clarifying the mechanics of this are a separate issue as raised above, there seems to be a potential risk of cross subsidisation where gas entering the network through a GDF is subject to entry tariffs (i.e. contributing to operating costs associated with other entry points) whilst

the connectee is also obliged to directly pay operating costs associated with that connection. We recognise that the methods by, and principles on, which charges will be determined are to be included in the GDF Statement but would welcome guidance and clarification on these points.

### 3. Summary

Mutual Energy and its gas TSO subsidiaries support the Utility Regulator's objective of ensuring that the gas conveyance licence framework in Northern Ireland can accommodate renewable gas injection. The proposed modifications represent an important enabling step. However, the practical implementation of these provisions — particularly those concerning the development of connection charging methodology statements — will require careful coordination between the Authority and other GNOs to ensure compatibility with existing postalised arrangements and mutualised financing structures. It will also be essential that future licence or code changes are developed promptly if or when government policy and market activity on biomethane or other renewable gases progress. Mutual Energy remains committed to working constructively with the Authority and industry partners to support the safe, efficient and equitable integration of renewable gas into Northern Ireland's gas networks.