Consultation on Harmonised Transmission Tariffs for Gas

21 June 2018



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 our proposals for implementing changes to the NI gas transmission charging regime. These changes are required to implement an EU Regulation on establishing a network code on harmonised transmission tariffs for gas, by 31 May 2019.

Audience

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

Consumer Impact

There is likely to be a transfer in transmission cost recovery from power stations to domestic and industrial gas consumers, which we estimate will increase domestic gas bills by less than one percent.

The changes are necessary to ensure compliance with European Gas Regulations and in particular the Tariff Network Code.

Contents

Acronyms and Glossary

ACER	Agency for the Cooperation of Energy Regulators
BGTL	Belfast Gas Transmission Limited, a TSO
BAL NC	Network Code on Gas Balancing of Transmission Networks
CAM NC	Network Code on Capacity Allocation Mechanism
CRU	Commission for Regulation of Utilities, which regulates gas in the Republic of Ireland
CWD	Capacity Weighted Distance – a kind of reference price methodology
EU	European Union
EUNCs	European Network Codes
FOIA	Freedom of Information Act
GDN	Gas Distribution Network (includes Phoenix Natural Gas Ltd, firmus Energy Ltd and SGN Natural Gas Ltd)
GDPR	General Data Protection Regulations
GMO NI	Gas Market Operator Northern Ireland
GNI (UK)	Gas Networks Ireland (UK), a TSO
INT NC	Network Code on Interoperability and Data Exchange Rules
IP	Interconnection Point
LNG	Liquified Natural Gas
NC	Network Code
NI	Northern Ireland
NRA	National Regulatory Authority – this is an EU definition and refers to the Utility Regulator in Northern Ireland

Ofgem	The Office of Gas and Electricity Markets, which regulates gas in Great Britain
PTL	Premier Transmission Limited, a TSO
PSA	Postalised System Administration
TAR NC	Network Code on Harmonised Transmission Tariff Structures for Gas
TSO	Transmission System Operator GNI (UK), PTL, BGTL and WTL. WTL is not a TSO (Transmission System Operator) as defined by the European Commission but it is referred to as a TSO in this document for simplicity.
UR	Utility Regulator
WTL	West Transmission Limited, a TSO

1. Introduction

Purpose of this paper

1.1. 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") which mandates the development of European network codes ("EUNCs") covering areas such as tariffing, capacity allocation and interoperability in each member state.

1.2. This consultation is regarding EU Regulation 2017/460, the Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC").

1.3. This is the fourth network code ("NC") in the gas sector, following the NCs on capacity allocation mechanism ("CAM NC")[1], gas balancing of transmission networks ("BAL NC"), and inter-operability and data exchange rules ("INT NC").

1.4. This paper summarises the changes that we propose to make to achieve compliance with European legislation, and in particular the TAR NC, by 31st May 2019.

1.5. The European requirements summarised in the paper are:

- Use of a consistent and transparent Reference Price Methodology which ensures cost-reflectivity and predictability for network users
- Defining of transmission and non-transmission services
- Rules about recovery of transmission services revenue
- The calculation of reserve prices for standard capacity products
- Review of multiplier and seasonal factors

1 The CAM NC was published on 14 October 2013. This was repealed by an updated CAM NC published on 16 March 2017.

- Increased transparency of transmission tariff structures through increased requirements for publishing information.

1.6. When we undertook the changes required to implement the Network Code on Capacity Allocation Mechanisms (which are further explained from paragraph 2.13 onwards), we took account of the requirements in the draft TAR NC so some of the required changes have already taken place.

Overview of proposals

1.7. We consider that the requirements within this Regulation are already largely delivered by the Northern Ireland postalised tariff regime by means of applying the postage stamp cost allocation methodology.

1.8. As many of the requirements of the TAR NC have already been implemented in recent years, we consider that the main change that will be required is to amend the capacity commodity split, so that the transmission services revenue is predominantly recovered through a capacity charge.

1.9. In addition to some minor adjustments and increased transparency arrangements, we are proposing to amend the capacity commodity split for recovery of transmission services revenue, from 75:25 to 95:5. This will require modifications to the transmission licences.

Structure of this paper

1.10. The paper has the following sections:

- Section 2: Regulation 2017/460 – Network Code on harmonised transmission tariff structures for gas (“TAR NC”)
- Section 3: Considerations in the Implementation of the TAR NC

The next four sections include the areas that we are required to consult upon.

- Section 4: Proposed Reference Price Methodology
- Section 5: Allowed Revenue of TSOs
- Section 6: Commodity-based and Non-Transmission Tariffs
- Section 7: Multiplier and Seasonal Factors

- Section 8: Publication Requirements
- Section 9: Proposals to Implement the TAR NC
- Section 10: Next Steps

1.11. These sections are complemented by a number of appendices and annexes.

1.12. We are required to submit a consultation document using a template provided by ACER (the Agency for the Cooperation of Energy Regulation). The completed template is attached at Annex 1.

Equality Considerations

1.13. As a public authority, the Utility Regulator (UR) has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

i. persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;

ii. men and women generally;

iii. persons with disability and persons without; and

iv. persons with dependants and persons without.

1.14. The UR must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.

1.15. In the development of its policies the UR also has a statutory duty to have due

regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas. Some of the above equality categories will therefore overlap with these vulnerable groupings.

1.16. In order to assist with equality screening of the proposals contained within this consultation paper, the UR requests that respondents provide any information or evidence in relation to the needs, experiences, issues and priorities for different groups which they feel is relevant to the implementation of any of the proposals. Furthermore, the UR welcomes any comments which respondents might have in relation to the overall equality impact of the proposals.

Responding to this consultation

1.17. We welcome any representations to this paper, including the specific consultation questions that we have raised, which are summarised in Appendix 1. The deadline for responses to the matters raised in this paper by no later than 12 noon on 30 August 2018. Responses should be sent to:

Jillian Ferris

Networks Compliance Branch

Utility Regulator

Queens House

14 Queens Street

Belfast BT1 6ER

Gas_networks_responses@uregni.gov.uk

1.18. The Utility Regulator's preference would be for responses to be submitted by e-mail.

1.19. 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, please provide also a non-confidential version suitable for publication.

1.20. 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. 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.

1.21. The Utility Regulator has published a privacy notice for consumers and stakeholders which sets out the approach to data retention in respect of consultations. This can be found at https://www.uregni.gov.uk/privacy-notice or, alternatively, a copy can be obtained by calling 028 9031 1575 or by email at info@uregni.gov.uk.

1.22. This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office of the Utility Regulator, which will be happy to assist.

2. Regulation 2017/460 – Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC")

Overview

2.1. The European Union (EU) adopted the third legislative package in July 2009 to further the development of the Single European Gas Market. A key element of the third legislative package for gas is Regulation (EC) 715/2009 ("the Gas Regulation") which mandates the development of European Network Codes ("EUNCs") covering areas such as tariffing, capacity allocation and interoperability in each member state.

2.2. This consultation is regarding the Network Code on harmonised transmission tariff structures for gas, which is abbreviated to "TAR NC". It was published on 17 March 2017 with the objectives of contributing to market integration, enhancing security of supply and promoting interconnection between gas networks.

2.3. This Regulation sets out rules on the application of a reference price methodology, the associated consultation and publication requirements as well as the calculation of reserve prices for standard capacity products.

2.4. When we undertook the changes required to implement the Network Code on Capacity Allocation Mechanisms, we took account of the requirements that were included in the draft TAR NC. Therefore, some of the requirements have already been implemented, specifically, defined rules for cost allocation between entry and exit points, the setting of reserve prices including multipliers and seasonal factors for non-annual capacity products, and

revenue reconciliation.

2.5. The TAR NC stipulates an obligation to consult on the proposed reference price methodology.

2.6. The TAR NC requires that we consult annually on the seasonal multiplier factors to be applied to the non-annual capacity products.

2.7. To increase the transparency of transmission tariff structures, the TAR NC sets out the requirements for publishing information related to the determination of the revenues of transmission system operators and the derivation of transmission tariffs. These requirements should enable Network Users to understand the transmission tariffs, the costs underlying those tariffs and to forecast them to a reasonable extent.

2.8. It is our view that the NI postalised tariff regime already largely complies with the requirements of the TAR NC.

2.9. However, we consider that we will need to change the capacity commodity split which determines the allocation of the required transmission revenue in the postalised tariff regime, as the TAR NC permits commodity charges by exception only.

2.10. To ensure compliance, we propose to change the capacity commodity split from 75:25 to 95:5. As the domestic and industrial gas sector has usage which is more weather-related than that of power stations, leading to a higher capacity booking relative to volume of gas used, it is likely that some cost recovery would move from electricity customers to gas customers.

Network codes required by the Gas Regulation

2.11. The Gas Regulation requires a number of European network codes ("EUNCs") to be agreed. The objective of the EUNCs is to harmonise rules for the flow of gas across the European Union, particularly with respect to cross-

border network issues and market integration, and to ensure the application of the principles of non-discrimination, effective competition and efficient functioning of the market. The EUNCs are an integral part of the Gas Regulation and there are interactions between the Gas Regulation and the EUNCs and between EUNCs.

2.12. The TAR NC is the fourth network code in the gas sector. Key changes that have been implemented so far on all four of those EUNCs are outlined below.

Capacity allocation mechanisms ("CAM NC")

2.13. To comply with the CAM NC dated 14 October 2013, a number of changes were made to the transmission charging regime. These included defined rules for cost allocation between entry and exit points; the setting of reserve prices including multipliers and seasonal factors for non-annual capacity products, and revenue reconciliation.

2.14. **Entry capacity charges** were introduced into the postalised regime from October 2015.

2.15. Further to that, and at the same date, TSOs began to offer **non-annual entry capacity products** - quarterly, monthly, daily and within day capacity.

2.16. Responsibility for exit capacity booking has remained with GDNs (Gas Distribution Network Operator), while Suppliers book entry capacity and participate in the auctions for entry capacity.

2.17. The first **entry capacity auctions** commenced for daily and monthly capacity in November 2015, for annual capacity in March 2016 and for quarterly capacity in June 2016.

2.18. In 2017, timelines/ways for annual yearly and quarterly capacity auctions were changed and rules concerning incremental capacity were updated as a result of the implementation of the amended CAM NC.

2.19. **Seasonal multiplier factors** have been applied when setting gas entry non-annual capacity tariffs from 1 October 2015, with the aim of incentivising the use of the network in the summer and shifting demand away from the winter peak.

2.20. We are required to further consult on the seasonal multiplier factors in this consultation and they are discussed in Section 7.

Gas balancing of transmission networks ("BAL NC")

2.21. The purpose of this NC is to ensure that rules on gas balancing of transmission networks facilitate gas trading across balancing zones and contribute to market liquidity. The general principle is that network users shall be responsible for balancing their portfolios to minimise the need for TSOs to undertake balancing actions.

2.22. Balancing costs are treated separately to transmission services due to the neutrality mechanism under the BAL NC. This means that TSOs should not make or lose any money as a result of carrying out residual balancing, and that the differences in cost relating to such activities should be payable to, or recoverable from, the relevant users. This does not form part of the TAR NC workstream.

2.23. The TSOs are responsible for meeting these requirements and they are working with the GMO NI to develop an enduring solution. We have been in discussions with the GMO NI and, at this stage, we are satisfied that work is underway to ensure compliance within the required timescale.

Interoperability and data exchange rules ("INT NC")

2.24. To facilitate commercial and operational cooperation between adjacent

transmission system operators, the INT NC addressed interconnection agreements, units, gas quality, odourisation and data exchange. It set out to provide rules and procedures to reach an appropriate level of harmonisation towards efficient gas trading and transport across gas transmission systems in the Union.

2.25. Agreements already in place covered the TSO to TSO requirements of the INT NC and were amended where necessary.

Harmonised Tariff Structures for Gas ("TAR NC")

2.26. Article 13(1) and 13(2) of the Gas Regulation states that tariffs and the methodologies used to calculate them, are required to:

- Be transparent;
- Reflect actual costs incurred;
- Be applied in a non-discriminatory manner;
- Facilitate efficient gas trade and competition;
- Avoid cross-subsidies between shippers;
- Maintain incentives for investment;
- Maintain or create interoperability for transmission networks; and
- Avoid restricting market activity or distorting trade across borders of different transmission systems.

2.27. The TAR NC sets out EU-wide rules to ensure that these Articles are implemented.

2.28. Although this consultation covers most of the required areas of TAR NC, we consulted on and implemented some changes early in order to ensure compliance could be met by the effective date of 31st May 2019.

2.29. Article 32 of the TAR NC requires that from 2019 onwards the Reserve Prices for transmission entry capacity to be allocated by auction must be published

at least one month before the auction date, which is 1st July. This meant that the dates for tariff setting in the postalised tariff regime needed to be earlier than was stated in the conveyance licences. Following consultation[2], the modifications to conveyance licences[3], which became effective from 15th January 2018, ensure that the postalised tariff can be published by 31 May each year.

2.30. These modifications mean that when participants take part in the July auctions for annual entry capacity in the following gas year, they will know with certainty what price they will be required to pay for that capacity, as the postalised tariff will already have been published.

2.31. The rest of this consultation paper covers the other elements of TAR NC that must be consulted on and implemented before the deadline of 31 May 2019.

Definitions in TAR NC

2.32. The Regulation uses a series of defined terms, some of which have the same meaning as terms that are already defined in TSO Licences and the Transmission Network Code. We have listed those defined terms in Table 1, along with the location if the equivalent term is already defined elsewhere.

Table 1 - Definitions

Defined Terms in TAR NC	Equivalent Term used already in NI	Location of definition of equivalent term
Reference Prices	Forecast Postalised Annual Capacity Charge	TSO Licence
Reference Price Methodology	Not specifically defined	defined in paragraph 4.2 of this paper
Non-price cap regime	This is the regime in NI,	None

2 https://www.uregni.gov.uk/consultations/consultation-notice-proposal-modify-all-gas-conveyance-licences
3 https://www.uregni.gov.uk/news-centre/decision-paper-postalised-tariff-conveyance-licences-published

	and means that allowed revenue is set for the TSOs with a forecast tariff and year end reconciliation	
Price cap regime	We do not have a price cap regime in NI. This would set a maximum tariff based on target revenue which would not be adjusted and has no year end reconciliation	None
Transmission Services	Gas transmission services	Used in Transmission Network Code, but not specifically defined
Non-transmission Services	Not used as NI has no non-transmission services	None
Transmission Tariff	Postalised Charges	TSO Licence
Non-transmission tariff	Not used as NI has single postalised tariff	None
Transmission Services Revenue	Forecast Required Revenue	TSO Licence
Allowed revenue	Allowed Revenue	TSO Licence
Regulatory Period	Review Date, defined as five years	TSO Licence
Tariff Period	Gas Year	TSO Licence
Target revenue	Not used as this is relevant for price cap regimes only	None
Cost Driver	This term is not used but it means inputs to tariff calculations	
Auction Premium	Auction Premium	TSO Licence and Transmission Network Code
Homogeneous group of points	NI Network	Transmission Network Code
Cluster of entry or exit points	Effectively this is the “NI Network” as the entry and exit points are treated as a cluster for the RPM	Transmission Network Code
Intra-system network use	Not applicable in NI	Defined in paragraph

		4.20
Cross-system network use	Not applicable in NI	Defined in paragraph 4.20
Multiplier	Gas Product Multipliers and Time Factors	Combined with seasonal factor and explained in Charging Methodology Statement
Seasonal factor	Gas Product Multipliers and Time Factors	Combined with multiplier and explained in Charging Methodology Statement
Fixed Payable Price	Not applicable in NI	Defined in paragraph 6.10
Floating Payable Price	Forecast Postalised Annual Capacity Charge	Defined in paragraph 6.11 Transmission Network Code
Regulatory Account	Postalised PoT	TSO Licence

3. Considerations in the Implementation of the TAR NC

Implementation requirements

3.1. We consider that the implementation of TAR NC should meet a number of requirements, which are outlined below.

3.2. Meet our statutory duties. Our principal objective in carrying out our gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in NI. We do so consistently with our fulfilment of the objectives set out in the European Gas Directive, and by having regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003.

3.3. Implement European Legislative requirements: the transmission tariff structure will need to be fully compliant with the TAR NC, with Article 13 of Regulation (EC) 715/2009 (Tariffs for access to networks) and consistent with the EUNCs which have been already implemented, as outlined between paragraphs 2.13 and 2.25.

3.4. Although we expect the United Kingdom to have exited the European Union by the implementation date, we anticipate that we will still need to comply with this legislation.

3.5. Implementation by 31 May 2019: to ensure that we could meet this timescale, we implemented licence modifications to pull forward the postalisation tariff publication date. This is further explained from paragraph 2.26 onwards. We will need to make further licence modifications to implement the required changes in the capacity commodity split.

3.6. We consider that the changes proposed in this consultation document can be made to meet the implementation deadline.

3.7. Consistent with the common tariff requirement: The transmission charging regime, called postalisation, is based upon a 'common tariff' and is set out in primary legislation. There hence is a requirement to work within the existing 'common tariff' requirements in NI legislation where this is compatible with European legal requirements.

3.8. Consider the impact on different customer groups: The TAR NC requires that transmission services costs are recovered from capacity charges with some exceptions. This will mean a change in the capacity commodity split within the current postalised tariff. As usage in the gas sector is more weather-related than that of the power stations, meaning a higher capacity booking relative to commodity, this will result in some cost recovery moving from electricity customers to gas customers.

3.9. Consider directly connected Member States: We are required to consult with the regulatory authorities of the Republic of Ireland and Great Britain, specifically with regard to the seasonal multiplier factors (Article 28 of the TAR NC and discussed in Section 7). We are in contact with the CRU (Commission for Regulation of Utilities) and Ofgem (Office for Gas and Electricity Markets) as each region prepares to consult and ensure compliance. We have previously stated our intention to align seasonal multiplier factors with the CRU[4], so if they decide to change theirs, we intend to also change ours to ensure all-island consistency.

3.10. Consider the impact on TSOs: The transparency requirements mean that a significant amount of information must be published at key dates annually. It is our opinion that the GMO NI already publishes links to most of the required pieces of information. The GMO NI and the TSOs will need to continue to work together to ensure ongoing compliance.

4 https://www.uregni.gov.uk/publication/decision-seasonal-factors-multipliers-gas-year-20152016

Summary of current transmission charging regime

3.11. As this consultation is regarding the harmonisation of transmission charging mechanisms across the EU, it is useful to summarise the system of transmission charging which is used in Northern Ireland.

3.12. The transmission charging regime in Northern Ireland is based on a common tariff, called postalisation. The principle of postalisation was approved by the NI Executive and Assembly in September 2001 and was implemented in NI on 1 October 2004[5]. Postalisation is based on a postage stamp charging methodology and means that the charge for transporting gas along designated pipelines will be the same irrespective of where the gas is offtaken for final use.

3.13. Pipelines subject to the common (i.e. postalised) tariff are designated by the Department for the Economy ("DfE")[6] under Article 59 of the Energy Order. The high pressure pipelines designated to date for this purpose are as follows:

- SNIP (Scotland to NI Pipeline)
- BGTP(Belfast Gas Transmission Pipeline)
- NWP (North West Pipeline)
- SNP(South North Pipeline)
- Gas to the West (Maydown to Strabane section of this Pipeline)

3.14. As construction of the Gas to the West Pipeline progresses, further sections may be designated by DfE and form part of the postalised network.

5 https://www.uregni.gov.uk/news-centre/implementation-and-operation-postalisation-system-natural-gas-tranmission-ni
6 Previously known as the Department of Enterprise Trade and Investment ("DETI").

Summary of key features of postalisation

- Common tariffs for designated pipelines as outlined in legislation
- Exit point payment mechanism – shipper relationship is with the TSO at the exit point
- Shipper payments go into a bank account held in trust (PoT) and there is a Postalised System Administrator to administer the process
- Revenue transfers between the TSOs to and from the PoT
- TSOs are not exposed to capacity or volume risk as shippers pay based on their actual volumes/capacity at the end of the year
- Under or over recovery is dealt with by end of year reconciliation
- Bad debt ultimately recovered from all gas suppliers – credit committee to manage this
- The actual costs of the mutualised pipelines (PTL, BGTL and, shortly, WTL) are recovered via the end of year reconciliation thus facilitating the underwriting of mutualised pipelines by all gas users.
- Detailed legal and financial structure underpins the postalised system in the form of licences, network codes, contracts and other financial arrangements, e.g. for the PoT to be held in trust.

4. Proposed Reference Price Methodology

Overview

4.1. In sections 4, 5 and 6 we consider the elements of the TAR NC which are related to the principles of tariff setting:

- Proposed Reference Price Methodology – Section 4
- Revenue and Splits – Section 5
- Transmission and Non-Transmission Tariffs – Section 6
- Changes in Transmission Tariffs – Section 5
- Fixed Payable Price Approach – Section 6

Proposed Reference Price Methodology

4.2. The Reference Price Methodology ("RPM") means the methodology applied to the part of the transmission services revenue to be recovered from capacity-based transmission tariffs with the aim of deriving reference prices.

4.3. A general requirement is to apply the same RPM at all the entry and exit points within an entry-exit system. For a multi-TSO entry-exit system, the same RPM should apply jointly to all TSOs by default.

4.4. The TAR NC specifies the requirements for an RPM and we are required to consult on how our proposed RPM meets such requirements. We are also required to compare the resulting indicative reference prices to a capacity weighted distance ("CWD") counterfactual.

4.5. The requirements are outlined in Article 7 of the TAR NC:

- Enabling network users to reproduce the calculation of reference prices and their accurate forecast

- Taking into account the actual costs incurred for the provision of transmission services, having taken consideration of the complexity of the transmission network
- Ensuring non-discrimination and preventing undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5
- Ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system
- Ensuring that the resulting reference prices do not distort cross-border trade

4.6. A Reference Price Methodology, effectively, is a Cost Allocation Methodology after the capacity commodity split has been applied to find the capacity charge element. In October 2014, we consulted on cost allocation methodologies as part of the consultation on the introduction of entry charges into the Northern Ireland postalised regime for gas, to meet the requirements of the CAM NC. In our Conclusions paper, published on 5th February 2015, we decided to maintain the postage stamp charging methodology, on which the postalised tariff is currently based, as it meets the requirements of the Regulation 715/2009, it is already enshrined in NI legislation and it has worked effectively since its introduction in 2004.

4.7. **We consider that the postalised tariff regime meets the requirements of a Reference Price Methodology in the TAR NC and that no change to the postalised regime is required**.

Justification for parameters used in RPM

4.8. We are required to **provide justification for the parameters applied in the RPM, information on the values of these parameters and information on**

the assumptions applied. The parameters to be used in the proposed RPM are listed in Article 30(1)(a) of the TAR NC: :

- Technical capacity at entry and exit points and associated assumptions
- Forecasted contracted capacity at entry and exit points and associated assumptions
- The quantity and the direction of the gas flow for entry and exit points and associated assumptions, such as demand and supply scenarios for the gas flow under peak conditions
- The structural representation of the transmission network with an appropriate level of detail
- Additional technical information about the transmission network, such as the length and the diameter of pipelines and the power of compressor stations

4.9. The Utility Regulator already requires TSOs to provide information on technical aspects of the transmission network annually through the Gas Capacity Statement. This is published by GMO NI. It is our view that this demonstrates that we have justified the parameters listed in Article 30(1)(a) and set out their values as well as the assumptions applied..

4.10. We have attached a map of the NI transmission network, prepared by MEL, at Appendix 2.

Question 1: We are interested in respondents' views on whether the postalised regime meets the requirements of a Reference Price Methodology, as outlined in paragraph 4.5. Specifically, do respondents consider that the postalised regime enables network users to reproduce the calculation of reference prices and a forecast for future years?

Potential discounts to capacity charges

4.11. Article 26(1)(a)(ii) of the TAR NC requires that we consult on the proposed

adjustments for points with storage, LNG facilities and infrastructure ending isolation of a Member State, which are outlined in Article 9.

4.12. In order to prevent the double charging of gas to and from any storage facilities, Article 9 of the TAR NC requires that a discount of at least 50% should be applied to capacity charges for storage facilities. Although we have no storage facilities in NI, we recognise that we would need to implement such a discount if such facilities were to become available.

4.13. Article 9 of the TAR NC further allows for discounts to be applied to LNG facilities or infrastructure ending isolation of a Member State. As neither of these apply in NI and the discount is optional, no action is required.

4.14. Article 16 of the TAR NC allows for discount for interruptible capacity products, which could be either entry or exit products. The ex-ante discount would be calculated as a product of the probability of interruption and an estimate of the economic value of a capacity product for interruptible capacity. As there have never been any capacity constraints on the NI transmission network and there is no forecast requirement for interruption, the formula would calculate zero discount.

4.15. Article 16(4) allows for an ex-post discount instead of an ex-ante discount, whereby network users are compensated after the actual interruption has occurred. The ex-post compensation paid for each day on which an interruption occurred shall be equal to three times the reserve price for daily standard capacity products for firm capacity.

4.16. This is the method that we propose to use, until and unless interruption becomes probable.

Indicative reference prices

4.17. Article 26(1)(a)(iii) of the TAR NC requires that we provide indicative reference

prices which are subject to consultation. As the reference price is equal to the reserve price for yearly firm capacity, this is available in the forecast postalised tariff, for 17/18 and with the forecast tariff for next year which are published by the GMO NI. These indicative reference prices are calculated following the postalised tariff formula.

Table 2 – Indicative Reference Prices for 18/19

Forecast Postalised Capacity Charge for 18/19	ppkWh per day booked
Annual Entry Capacity Charge	0.28587
Annual Exit Capacity Charge	0.28587

Question 2: We are interested the views of respondents about the indicative reference prices provided in Table 2.

Cost allocation assessment

4.18. Article 26(1)(a)(iv) of the TAR NC requires that we consult on the result and components of a cost allocation assessment on the transmission services revenue to be collected through capacity and commodity charges, as set out in Article 5.

4.19. As explained in paragraph 4.6 above, we previously consulted on cost allocation methodologies and decided to maintain the postage stamp charging methodology, on which the postalised tariff is currently based.

4.20. We are now required to indicate the degree of cross subsidisation between intra-system and cross-system network use based on the proposed RPM. Cross-system means transporting gas within an entry-exit system to customers connected to another entry-exit system, while intra-system is where gas is transported to customers within the same entry-exit system. We are required to ensure that the volume risk of transporting across a cross-system does not get assigned to the customers within (intra) that entry-exit

system. As all gas flows into the NI transmission network are used within NI (an intra-system), and none passes through NI to exit elsewhere, this is not an issue.

4.21. We are required, nevertheless, to demonstrate the level of any cross-subsidisation by following a set of formulae and providing justification if the cost allocation ratio exceeds 10%. The GMO NI has carried out this analysis and it is included in Appendix 3. The formula takes the difference between the ratio for intra-system and the ratio for cross-system, multiplies that difference by two, which is then divided by the sum of the two ratios.

4.22. For example, if we assume cross-system capacity ratio of 0.33, compared to the intra system capacity ratio from Appendix 3 of 0.3677, then the formula result would be:

$$\frac{2 \times (0.3677-0.33)}{(0.3677+0.33)} = 10.8\%$$, indicating a potential cross subsidy

Alternatively, if the two ratios were equal:

$$\frac{2 \times (0.3677-0.3677)}{(0.3677+0.3677)} = 0$$, indicating no cross subsidy

4.23. In the calculation at Appendix 3, the cross-system ratio is zero because cross-system volumes are zero. This leads to a formula result of 2, summarised below:

$$\frac{2 \times (0.3677- 0)}{(0.3677+0)} = 2$$

4.24. The formula does not provide for zero cross-system flows. The numerator is high as there is no cross-system ratio to be subtracted, and the denominator is low as the sum comprises only one ratio instead of two. This leads to a

result higher than the 10% limit stated in Article 5(6). We are satisfied that the result from the formula is because of zero cross-system flows and not cross-subsidy.

4.25. **We consider that this complies with TAR NC.**

Assessment of the proposed RPM

4.26. Article 26(1)(a)(v) of the TAR NC requires us to provide an assessment that the proposed RPM is in accordance with Article 7, which requires that the RPM complies with Article 13 of the Gas Regulation. The specific aims are listed below, followed by our response:

4.27. **Enabling network users to reproduce the calculation of reference prices and their accurate forecast.** As part of the postalised tariff publication, a simplified spreadsheet is produced which allows network users to replicate the tariff.

4.28. **Taking into account the actual costs incurred for the provision of transmission services.** The actual costs of providing transmission services are shown as part of the annual reconciliation which is published by the GMO NI.

4.29. **Ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5**. As explained in paragraph 4.21, there is no cross-subsidy between intra-system and cross-system volumes, as there are zero cross-system volumes.

4.30. **Ensuring that significant volume risk related to transports across an entry-exit system is not assigned to final customers within that entry-exit system (intra-system).** With zero cross-system volumes, this is not relevant.

4.31. **Ensuring that the resulting reference prices do not distort cross-border trade.** With zero cross-system volumes, this is not relevant.

RPM counterfactual with capacity weighted discount

4.32. The TAR NC requires that, if we propose a RPM other than the CWD RPM, we use the latter as a counterfactual for comparison.

4.33. A CWD RPM means that the transmission charges vary with the distance between the entry and exit points.

4.34. The GMO NI has carried out the analysis required and it is set out at Annex 2. As expected, transmission charges would be lower at an exit point which is close to the entry point, and charges would be higher at an exit point which is further away. It should be remembered that postalisation, which equalises transmission charges across NI regardless of distance, was a key element in the decision to take gas to the North West and to convert Coolkeeragh Power Station to gas[7]. The higher gas volumes that resulted from such extensions to the transmission pipeline network had the effect of reducing transmission charges to all network users.

7 https://www.uregni.gov.uk/publications/proposals-postalised-tariff-system-ni-natural-gas-transmission-system

5. Allowed Revenue of TSOs

Overview

5.1. As previously outlined, an RPM is a Cost Allocation Methodology after the capacity commodity split has been applied to find the capacity charge element. As outlined in paragraph 4.6, we propose to maintain the postalisation tariff regime as the Cost Allocation Methodology. Article 26 (1)(b) requires us to consult on the components of the RPM:

- The indicative allowed and/or target revenue of the TSOs and the transmission service revenue. These are agreed as part of the postalisation process and are published in the Explanatory Note.
- The ratios used to allocate the transmission services revenue:
    - Capacity commodity split, meaning the breakdown between the revenue from capacity-based transmission tariffs and the revenue from commodity-based transmission tariffs, discussed from paragraph 5.9 onwards
    - entry-exit split, meaning the breakdown of revenue from capacity-based transmission tariffs at all entry points and the revenue from capacity based transmission tariffs at all exit points, discussed in paragraph 5.6
    - intra-system/ cross system split, meaning the breakdown between revenue from intra-system network use at both entry points and exit points and the revenue from cross-system network use at both entry and exit points, already discussed in Section 4 from paragraph 4.20 onwards.

5.2. Determining the reference price is a straightforward process once those items have been decided upon. The calculation of the reference price is essentially

a matter of inputting the data into the existing postalisation formulae along with the forecast capacity/volume information.

5.3. The application of multipliers and seasonal factors is then used to calculate the reserve price for non-annual capacity products (see discussion of multipliers and seasonal factors in Section 7).

Target revenue

5.4. To meet the requirement in Article 26 (1)(a)(i), which references Article 30(1)(b), the Allowed Revenue for each TSO and the indicative transmission service revenue (which is also known as Postalised Allowed Cost and is calculated as the sum of the Allowed Revenues) are both published by the GMO NI as part of the postalised tariff process. The Explanatory Note, which is prepared by the Utility Regulator and published by GMO NI, includes the the previous year's revenue alongside the current year's revenue.

5.5. **We consider that this complies with the requirement and we propose not to make any changes.**

Entry-exit split

5.6. As outlined in the consultation paper on the introduction of entry charges in October 2014, it is our view that an ex ante entry-exit split is not in keeping with the current postalised system and therefore the entry-exit split should continue to be an output from the reconciliation process. **This continues to be our view and we consider that this complies with the TAR NC. We propose to make no change to the current arrangements.**

Intra-system network use

5.7. As explained from paragraph 4.20 above, there is no cross-system network use in NI.

5.8. With respect to the components discussed so far, we consider that the NI postalised system is compliant and that no changes are necessary. However, the capacity commodity split does not meet the requirements of TAR NC and will need to be changed. This is discussed in the following sections.

Capacity commodity split – type of cost allowed as commodity

5.9. The capacity commodity split refers to the allocation of transmission services revenue between capacity and commodity when determining the respective gas transmission tariffs. The existing capacity commodity split in the Northern Ireland transmission network is 75:25, which means that 75% of the transmission services revenue is collected through the capacity charge, and 25% through the commodity charge.

5.10. Article 4(3) of the TAR NC states that the transmission services revenue shall be recovered by capacity based transmission tariffs, with only two possible exceptions. These exceptions allow for part of the revenue to be recovered by a commodity transmission tariff under a specific set of circumstances:

- A **flow based charge** which is levied for the purpose of covering the costs mainly driven by the quantity of the gas flow
- A **revenue recovery charge** which is levied for the purpose of managing revenue under- and over-recovery

Commodity charge – revenue recovery charge

5.11. Under- or over-recovery of revenues is currently managed through the bullet payment, which is a single payment following the end of year reconciliation. It is included in the December invoice after the end of the gas year. The alternative is a revenue recovery charge, which would spread the revenue recovery over the following year as a commodity charge. The current bullet payment method ensures that the under- or over-recovery is fully recovered within a few months of the end of the year, which provides certainty of revenue to the mutualised TSOs.

5.12. **We consider that the bullet payment process operates satisfactorily, so do not propose to change it.**

Commodity charge – flow based charge

5.13. The flow based charge can only recover variable costs driven by the volume of gas flowed. Most of the costs of delivering a transmission service are fixed and will not change if the volume of gas changes within year. One key variable cost is compressor fuel costs, which is volume related. In the gas transmission price control, known at GT17, compressor fuel costs comprised around 2% of transmission services revenue. Along with some small variation in other costs, we consider that no more than 5% of transmission services costs are variable.

5.14. In order to comply with the TAR NC, therefore, the capacity commodity split will need to change from the current split of 75:25.

Capacity commodity split – our proposal

5.15. We have considered some options for the capacity commodity split. Firstly, we considered allocating 100% of cost to capacity, with no commodity charge.

However, in recognition of the fact that there are some costs which are variable with the flow of gas, we have dismissed this option.

5.16. We have also considered a capacity commodity split of 90:10. This would be consistent with the cost allocation split which the CRU is currently using and, as we understand, is minded to continue within the Republic of Ireland, subject to their consultation process on TAR NC. However, as the base charges between the two regions are already different[8], we consider that there is little benefit to be gained from aligning the capacity commodity split. Furthermore, we do not consider that the NI network has sufficient flow-based charges to justify 10% of transmission revenue being recovered through commodity charges.

5.17. Ofgem follows the principle of collecting TSO costs through capacity charges, with commodity charges used for System Operator costs and revenue recovery. The GB TSO, National Grid, is consulting on network code changes required to implement the TAR NC. It is our understanding that this may result in a capacity commodity split in the region of 97:3. However, this is subject to the outcome of the consultation process.

5.18. We consider that the extent of the flow based costs in the Northern Ireland network indicates that a 95:5 split is appropriate.

5.19. **We therefore propose to amend the capacity commodity split to 95:5.** We consider that this will comply with the TAR NC, as it meets the requirement for the transmission services revenue to be recovered by a capacity-based transmission tariff with the exception of a flow-based charge to recover costs driven by the flow of gas. In the following section, we explore the impact on consumers.

8 The gas transmission networks in the Republic of Ireland and Northern Ireland are largely separate, with separate TSOs, separate legal and regulatory processes, along with separate distribution networks. This results in different transmission tariffs.

Impact of change in capacity commodity split on consumers

5.20. Although we must ensure that the NI regime is compliant with the TAR NC, it is important that we consider the potential impact of the proposed change to the capacity commodity split on gas consumers in Northern Ireland.

5.21. The gas that flows into Northern Ireland through the transmission network is used by two main customer groups: power stations use gas for electricity generation, and gas consumers, who use gas for heating and industrial processes.

5.22. The pattern of use for these two customer groups is somewhat different, as gas consumers tend to have higher winter peaks and lower summer troughs than power stations. In addition, gas distribution companies are obliged to book capacity for a 1 in 20 winter. These two factors combine so that gas consumers have a higher capacity booking relative to gas usage (commodity) than power stations.

5.23. This means that increasing the capacity element of the cost recovery will push a higher proportion of transmission services revenue towards gas consumers. We have considered the impact of these charges, particularly for domestic consumers.

5.24. Our analysis shows that, using data from the 18/19, 17/18 and 16/17 postalised tariff calculations, the change in the capacity commodity split from 75:25 to 95:5 would move 3 - 5% of transmission services revenue from power stations to gas consumers. This is not a constant amount as the relationship between capacity and volume varies from year to year, and from forecast to actual.

5.25. As the GDNs pass on the capacity element of the postalised charge as a

commodity charge[9], this means that the additional capacity element will be passed through to gas consumers proportional to their use and not their capacity booked.

5.26. We estimate this will increase the transmission charge for domestic and industrial gas consumers by around 5%. For domestic consumers, specifically, the transmission charge makes up around 10% of their gas bill, and this would be an increase of around £2 - £4 per year, which is less than one percent on a typical energy bill.[10]

5.27. Currently under the Single Electricity Market structure power generators can pass through commodity charges as short run marginal costs, however the rules for the ISEM new market will be different and this will be in place prior to this change being implemented. Therefore we do not anticipate any significant disadvantage for generators due to this change. It is also worth stating that irrespective of impact on generators, the TAR NC is clear that we must make a significant reduction to the commodity element of the tariff.

5.28. **We recognise that the findings of the consumer impact analysis indicate a small price increase for consumers, but we consider that our proposal to comply with the TAR NC is justified.**

Impact of change in capacity commodity split on TSOs

5.29. As the current capacity commodity split is included in the transmission licences, we will need to modify the licences to effect the change. This is discussed further in Section 9.

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9 https://www.phoenixnaturalgas.com/assets/general/PNGL_Transmission_Exit_Capacity_Charge_Statement_Oct_17_to_Sep_18.pdf and https://www.firmusenergy.co.uk/publications/category/postalised-capacity-charges/specific/transmission-exit-capacity-charge-2018 and https://sgnnaturalgas.co.uk/index.php/documents/sgn-natural-gas-postalised-exit-capacity-charges-17-18/

10 Using the current Airtricity domestic credit tariff of 5.871ppkWh (inc VAT) for the first 2000 kWh and 4.023ppkWh (inc VAT) thereafter, and typical consumption of 12,500 kWh per year.

5.30. We intend to carry out a separate licence modification consultation following our decision at the end of this consultation process.

Question 3: We welcome views on our proposal to change the capacity commodity split to 95:5. Are there any other factors regarding this change that we should consider?

6. Commodity-based and Non-Transmission Tariffs

Criteria for setting commodity based charges

6.1. As explained in paragraph 5.10, Article 4(3) sets out the criteria to allow part of the transmission services revenue to be recovered through a commodity based transmission tariff. Where such a tariff is used, we are obliged, under Article 26(1)(c)(i) to set out:

- The manner in which it is set
- The share of the allowed or target revenue forecasted to be recovered from such a tariff
- The indicative commodity based transmission tariff

6.2. Article 4(3) sets out the criteria which must be met for a flow-based charge. It must be:

- Levied for the purpose of covering the costs mainly driven by the quantity of gas flows
- Calculated on forecast or historical flows, and be the same at all entry points and exit points
- Expressed in monetary terms or in kind

6.3. The indicative commodity based tariff is published, as part of the tariff publication, which takes place by 31 May in the year preceding the gas year in which it will apply[11]. The information published includes an explanation of how the tariff has been set and the amount of allowed revenue to be recovered from the commodity element. This is expanded within the Section 8, which concerns the requirements for published information.

6.4. The table below shows the tariff for 18/19 alongside a recalculated version

11 http://gmo-ni.com/assets/documents/Standardised-Section-for-TSO-website.pdf

showing the proposed capacity commodity split of 95:5.

Table 3 - Forecast Tariff for 2018/19

	forecast tariff for 2018/19	
	at 75:25	at 95:5
FORECAST POSTALISED ANNUAL COMMODITY & CAPACITY TARIFFS		
Commodity Charge (£ per kWh)	0.0009019	0.0001804
Auction reserve prices - Annual Entry capacity charge (£ per kWh)	0.28587	0.36210
Annual Exit capacity charge (£ per kWh)	0.28587	0.36210
Auction reserve price - VRF Charge (£ per Kwh)	0.00010	0.00010

Question 4: We are interested in respondents' views on whether the proposed commodity charge meets the requirements outlined in paragraph 6.2, specifically, that the charge would be set to recover the costs mainly driven by the quantity of gas flows.

Question 5: Do respondents consider that the information published alongside the postalised tariff provides the information listed in paragraph 6.1?

Transmission and non-transmission tariffs

6.5. Article 4 of the TAR NC requires that services must be considered to be either transmission or non-transmission, and sets out the circumstances under which the services must be defined as transmission services, as follows:

- The costs of such service are caused by the cost drivers of both technical or forecasted contracted capacity and distance; and
- The costs of such service are related to the investment in and operation of the infrastructure which is part of the regulated asset base for the provision of transmission services.

6.6. Article 4(4) then offers the option of attributing a service, which does not meet

the criteria above, to non-transmission. In that case, the cost of that non-transmission service would be recovered through a separate tariff and, if it benefits all network users, then the costs must be recovered from all network users.

6.7. The postalised regime recovers the FRRs of the TSOs through transmission charges only at present. That means that, effectively, the service provided by TSOs is classified as a transmission service. We consider that the service provided by the TSOs do meet the criteria outlined in paragraph 6.5, in that the costs are driven by the technical capacity and are part of the regulated asset base. .

6.8. **We propose to continue to classify all services as transmission services.**

Question 6: We welcome respondents' views on whether the services provided by TSOs do include an element of non-transmission services, or should the services continue to be solely classified as transmission services?

Fixed payable price approach

6.9. Article 24 provides an option to charge capacity at interconnection points through either a floating payable price approach or a fixed payable price approach.

6.10. Under the fixed payable price, a Network User may book annual capacity for more than one tariff year, and pay the year one reserve price in all other years (which will be adjusted by a stated indexation and risk premium), even if the reserve price changes in later years. Therefore, different Network Users could be paying different prices depending on when they booked capacity.

6.11. Under the floating payable price, if the Network User books annual capacity

for more than one tariff year, it will pay the reserve price for the year in which the capacity booking applies and will not know that tariff until it is published ahead of the Gas Year. This means that all Network Users pay the same reserve price in the same Tariff Year, regardless of when the annual capacity was booked.

6.12. In both cases, the price may be adjusted for any auction premium. As long as capacity remains unconstrained in Northern Ireland, it is unlikely that there will be an auction premium.

6.13. Article 25 states that under a non-price cap regime, the floating payable price approach must be used for existing capacity.

6.14. **The postalised tariff regime uses the floating payable price approach, so we consider that we are currently compliant with this requirement and do not propose any change.**

7. Multiplier and Seasonal Factors

Current position

7.1. The TAR NC defines “multiplier” as the factor applied to the respective proportion of the reference price in order to calculate the reserve price for a non-annual standard capacity product. It further defines “seasonal factor” as the factor that reflects the variation of demand within the year which may be applied in combination with the relevant multiplier.

7.2. Following the introduction of entry charges to the postalised regime in 2015, and in anticipation of the requirements of the TAR NC, we established multipliers and seasonal factors to apply to short term entry capacity products[12]. These factors were set to incentivise suppliers to make more use of the network in the summer and shift demand away from the winter peak. They were set to provide a balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system. These have been included in the transmission charging regime since 1 October 2015.

7.3. It should be noted that we discussed our approach with the CRU during the 2015 consultation and we agreed that a coordinated approach would be preferable north and south. The seasonal multipliers which were introduced in October 2015, and which are still effective, replicate those seasonal multipliers which are used in the Republic of Ireland. They are set out in Table 4 and Table 5 below.

7.4. The tariff for any of the non-annual capacity products is calculated by multiplying the annual tariff by the appropriate seasonal multiplier.

7.5. If the annual capacity tariff was £1 per kWh/day then over a year £365 would

12 https://www.uregni.gov.uk/publications/seasonalfactors-final-determination

be payable for a kWh of capacity. In respect of monthly capacity for January the tariff would be £112.785 per kWh (£365 multiplied by 30.9% which is the factor for January). Therefore the tariff per kWh/day in January would be £112.785 divided by 31 (the number of days in January), i.e £3.638, compared to £1 for annual capacity.

7.6. Similarly the tariff for monthly capacity in July would be £3.65 per kWh (£365 multiplied by 1%, which is the factor for July) or £0.117 per kWh/day.

Table 4 - Seasonal multipliers for monthly and daily short term capacity tariffs effective since October 2015

Capacity Product		
Month	Monthly	Daily
October	13.2%	0.66%
November	13.2%	0.66%
December	17.6%	1.18%
January	30.9%	2.06%
February	35.3%	2.35%
March	26.5%	1.76%
April	13.2%	0.66%
May	1.0%	0.05%
June	1.0%	0.05%
July	1.0%	0.05%
August	1.0%	0.05%
September	1.0%	0.05%

Table 5 - Seasonal multipliers for quarterly capacity tariffs effective since October 2015

Quarter	Adjustment
October - December	44.0%
January - March	92.7%
April - June	15.2%
July - September	3.0%

7.7. When the factors were introduced, we undertook to review the appropriateness of continuing to applying these factors once the requirements of this TAR NC were known.

7.8. Separately, we stated that we would continue to ensure that the seasonal multiplier factors were consistent with those used in the Republic of Ireland in order to minimise any divergence on the SEM. We consider it is beneficial to continue to keep this alignment to ensure that there is no perverse pricing signal which affects the decisions of all-island electricity generators.

Requirement in the TAR NC

7.9. Article 13 of the TAR NC sets out parameters for multipliers and seasonal factors, specifically:

- For quarterly standard capacity products and for monthly standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 1.5
- For daily standard capacity products and for within-day standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.

- The arithmetic mean of the seasonal factors shall be within the same range of the respective multipliers outlined above.

7.10. Although the current daily capacity products are within the limit of 3, the quarterly and monthly products have an arithmetic mean of 1.55, slightly above the limit of 1.5.

7.11. Article 28(1) of the TAR NC requires us to consult with the NRAs of connected Member States, which are the Republic of Ireland and Great Britain. In addition to the specific three- and bilateral meetings which we have held, we are hence issuing this consultation to the relevant NRAs as well.

7.12. Although the NI gas transmission network is physically connected to the networks of GB and RoI, at South West Scotland, and through the South North Pipeline, the networks are not fully inter-connected. However, the Single Electricity Market is fully connected, which means that gas-power generators can effectively compete for electricity generation contracts across Ireland. For this reason, we consider that it is beneficial to maintain alignment with the CRU with respect to the multiplier factors where possible.

7.13. From our engagement with the CRU, we understand that, as they prepare to undertake a parallel consultation process for TAR NC, they may either slightly amend the factors to more exactly reflect the 1.5 limit, or they will leave them as they are and provide a justification for the slight deviation from the code requirements.

7.14. Whichever approach the CRU decide upon, we intend to maintain our policy of alignment, see paragraph 7.3.

Aspects to be consulted upon

7.15. Article 28(3) of the TAR NC requires that we take into account the views of respondents in the following aspects:

- The balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system
- The impact on the transmission services revenue and its recovery
- The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices
- Situations of physical and contractual congestion
- The impact on cross-border flows
- The impact of the seasonal factors on facilitating the economic and efficient utilisation of the infrastructure
- The need to improve the cost-reflectivity of reserve prices

7.16. We consider that the current seasonal multiplier factors do deliver a balance between facilitating short term gas trade while providing long term signals for investment.

7.17. Article 28(2) of the TAR NC requires that the seasonal multiplier factors are consulted upon in every tariff period, which means annually. We intend to carry out a public consultation to run alongside the postalised tariff setting period, which is March to May, so that any changes can be implemented at the start of the new tariff year, on 1 October.

7.18. As two complete gas years have passed since the introduction of these factors into transmission charges, we are interested to know respondents' views of how these have worked out, specifically with respect to the aspects listed in paragraph 7.15.

Question 7: We are interested in respondents' experience of the seasonal multiplier factors for non-annual entry capacity in the last two Gas Years.

Question 8: We welcome views on the aspects listed in paragraph 7.15, particularly with regard to the balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system. Specifically, do respondents agree with our proposal to maintain alignment with the factors offered in RoI?

8. Publication Requirements

8.1. To meet the objective of increasing the transparency of transmission tariff structures, Articles 29 and 30 of the TAR NC set out the information which must be published both before the annual yearly capacity auction and before the tariff period. These are listed in full in Table 6.

8.2. In summary, these include publishing information on the reference price methodology, the required transmission services revenue, the ratios including capacity commodity split, entry exit split and intra-system/ cross-system split. There are also specific requirements publication of information with respect to the change between years and forecast for the remaining years in the regulatory period, which means the price control period. There is a requirement to publish a simplified tariff model which allows network users to calculate the transmission tariff for the current period and to estimate its evolution beyond that period.

8.3. Much of this information is already published by the GMO NI through the postalised tariff regime, specifically:

- The **Forecast Tariff Publication** shows entry and exit capacity charges including non-annual entry products, the commodity tariff and a forecast tariff for the next four years
- The **Explanatory Note** prepared by UR shows the component elements of the tariff including the component parts of allowed revenue, commentary on capacity and commodity forecasts and comparison to previous year's forecasts and tariff
- The Explanatory Note is accompanied by a **simplified tariff model** which is an Excel spreadsheet showing the inputs and the calculations involved in the postalised tariff.
- The **Charging Methodology Statement** sets out how charges are

calculated

- **Quarterly updates** provide data on actual capacity and commodity to provide a forecast towards the **Postalisation Reconciliation Explanatory Note**.

8.4. There are other publications that provide further information, specifically:

- The outcome of the **transmission price control** published in 2017, known as GT17.
- The annual **Gas Capacity Statement** which provides users of the gas transmission network with an assessment of the ability of the transmission network to deliver gas over a number of potential scenarios within the next ten years. It contains information on the parameters which need to be justified for the RPM, which are listed in paragraph 4.8.
- The GDNs publish the transmission tariffs[13] as they will apply in their distribution area.

8.5. Article 31 of the TAR NC states that it is sufficient to have a link to the relevant documents on a suitable website. The GMO NI has already placed a transparency table on its website. We consider that the current range of publications does not completely meet the requirements of the TAR NC and some minor changes are necessary, specifically:

- The simplified tariff model required by Article 30(2)(b) is circulated between TSOs and Shippers, and published by the GMO NI.
- The seasonal multiplier factors were published by UR in 2015, called the **Gas Product Multipliers and Time Factors**, but this publication will need to be updated and published annually following the annual consultation on

13 https://www.phoenixnaturalgas.com/assets/general/PNGL_Transmission_Exit_Capacity_Charge_Statement_Oct_17_to_Sep_18.pdf and https://www.firmusenergy.co.uk/publications/category/postalised-capacity-charges/specific/transmission-exit-capacity-charge-2018 and https://sgnnaturalgas.co.uk/index.php/documents/sgn-natural-gas-postalised-exit-capacity-charges-17-18/

the factors, as required by Article 28(2) of the TAR NC.

- The existing documents do not include an assessment of the probability of interruption, as required by Article 29(b). This will be added to one of the existing documents.
- Although not specifically included as a requirement, we should mention the requirement to offer a 50% discount on entry and exit capacity charges for storage facilities.

8.6. In the table below, we have listed the requirements and the documents which hold the required information. The documents are explained, with hyperlinks where relevant, in the preceding paragraphs.

Table 6 – List of information to be published

TAR NC Ref.	Description	Name of Existing Publication	Responsible Organisation
Art. 29 (a)	Information for standard capacity products for firm capacity (reserve prices, multipliers, seasonal factors and justification.)	Forecast Tariff Publication	GMO NI
		Charging Methodology Statement	GMO NI
		Gas Product Multipliers and Time Factors, prepared by UR	GMO NI
Art. 29 (b)	Information for standard capacity products for interruptible capacity (reserve prices and an assessment of the probability of interruption)	The probability of interruption will be added to the Charging Methodology Statement	GMO NI

TAR NC Ref.	Description	Name of Existing Publication	Responsible Organisation
Art. 30 (1)(a)	Information on parameters used in the applied reference price methodology related to the technical characteristics of the transmission system.	Gas Capacity Statement, prepared by TSOs Forecast Tariff Publication	GMO NI
Art. 30 (1)(b)(i) and (ii)	Information on the allowed target revenue and information on any changes.	Explanatory Note, prepared by UR	GMO NI
Art. 30 (1)(b)(iii)	Information related the following Parameters: types of assets, cost of capital, capital and operational expenditures, incentive mechanisms and efficiency targets, inflation indices.	Price Control documents for TSOs – GT17	Utility Regulator
Art. 30 (1)(b)(iv,v)	Information on the transmission services revenue including capacity commodity split, entry-exit split and intra-system/cross-system split.	Charging Methodology Statement Simplified Tariff Model Intra- and cross-system is not applicable	GMO NI
Art. 30 (1)(b)(vi)	Information related to the previous tariff period regarding the reconciliation of the regulatory account.	Quarterly Updates Reconciliation Explanatory Note, prepared by UR	GMO NI

TAR NC Ref.	Description	Name of Existing Publication	Responsible Organisation
Art. 30 (1)(b)(vii)	Information on the intended use of the auction premium.	The auction premium is not currently used as capacity is not restrained	Not relevant
Art. 30 (1)(c)	Information on transmission and non-transmission tariffs accompanied by the relevant information related to their derivation.	Explanatory Note, prepared by UR Charging Methodology Statement	GMO NI
Art. 30 (2)(a)	Information on transmission tariff changes and trends.	Explanatory Note, prepared by UR	GMO NI
Art. 30 (2)(b)	Information about the used tariff model and an explanation how to calculate the transmission tariffs applicable for the prevailing tariff period.	Simplified tariff model	GMO NI
Art 31 (2)	Information specific to interconnection points: reserve prices, flow based charge, a table showing direction of flow, names of TSOs and whether capacity is firm or interruptible	Will be included in the information already due to be published above	GMO NI

Question 9: We would ask the respondents to share their view as to whether the transmission charges publications outlined in the table above are sufficient to allow Network Users to better understand the transmission tariffs and the costs underlying them, as well as to estimate their potential evolution beyond the current tariff period.

9. Proposals to Implement TAR NC

9.1. In summary, we consider that the NI transmission charging regime is already largely compliant with the TAR NC. The main change that we propose to ensure compliance is to change the capacity commodity split. The current capacity commodity split is stated in the four transmission licences held by Belfast Gas Transmission, GNI (UK), Premier Transmission, and West Transmission. We will therefore need to hold a separate licence modification consultation to reflect the change of the capacity commodity split.

9.2. The conditions that would need to be amended have the same reference number in each licence due to the common conditions for postalisation. The licence conditions that would need to change are outlined in this table.

Table 7 – licence conditions which would require amendment

Section Name	GNI (UK)	PTL	BGTL	WTL
Definition of Capacity Percentage	2A.2.5.3(b)	2A.2.5.3(b)	2A.2.5.3(b)	2A.2.5.3(b)
Definition of Capacity Percentage	2A.2.6.3(b)	2A.2.6.3(b)	2A.2.6.3(b)	2A.2.6.3(b)
Definition of Commodity Percentage	2A.2.5.2(a)	2A.2.5.2(a)	2A.2.5.2(a)	2A.2.5.2(a)

10.Next Steps

10.1. As set out in section 1 the UR welcomes comments on the questions summarised in Appendix 1 along with any general comments on this paper by noon on 30 August 2018.

10.2. Following consideration of the comments received we will finalise our decisions on the steps required to implement the TAR NC into the NI postalised regime with the intention of publishing a decision paper in quarter 4 2018.

Changes to licences

10.3. The change to the capacity commodity split, proposed in paragraph 5.19, will need to be implemented through modifications to the TSO licences, as outlined in Section 9.

Indicative timetable

10.4. A summary of the indicative timetable for the work to ensure compliance with TAR NC is set out below.

Table 8 - Summary of the timetable for the work

Indicative Date	Task	Responsible
June 2018	Publish tariff consultation	UR
Q 3 2018	Two month consultation period	All
Q 4 2018	Decision published	UR
Q 4 2018	Consultation on licence modifications	UR
Q 1 2019	Publish decision on licence modifications	UR
Q 2 2019	Licence modifications effective	UR
May 2019	Full compliance with TAR NC	All

Appendix 1: List of Consultation Questions

Question 1: We are interested in respondents' views on whether the postalised regime meets the requirements of a Reference Price Methodology, as outlined in paragraph 4.5. Specifically, do respondents consider that the postalised regime enables network users to reproduce the calculation of reference prices and a forecast for future years?

Question 2: We are interested the views of respondents about the indicative reference prices provided in Table 2.

Question 3: We welcome views on our proposal to change the capacity commodity split to 95:5. Are there any other factors regarding this change that we should consider?

Question 4: We are interested in respondents' views on whether the proposed commodity charge meets the requirements outlined in paragraph 6.2, specifically, that the charge would be set to recover the costs mainly driven by the quantity of gas flows.

Question 5: Do respondents consider that the information published alongside the postalised tariff provides the information listed in paragraph 6.1?

Question 6: We welcome respondents' views on whether the services provided by TSOs do include an element of non-transmission services, or should the services continue to be solely classified as transmission services?

Question 7: We are interested in respondents' experience of the seasonal multiplier factors for non-annual entry capacity in the last two Gas Years.

Question 8: We welcome views on the aspects listed in paragraph 7.15, particularly with regard to the balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system. Specifically, do respondents agree with our proposal to maintain alignment with the factors offered in RoI?

Question 9: We would ask the respondents to share their view as to whether the transmission charges publications outlined in the table above are sufficient to allow Network Users to better understand the transmission tariffs and the costs underlying them, as well as to estimate their potential evolution beyond the current tariff period.

Appendix 2: Map of the NI Gas Transmission Network

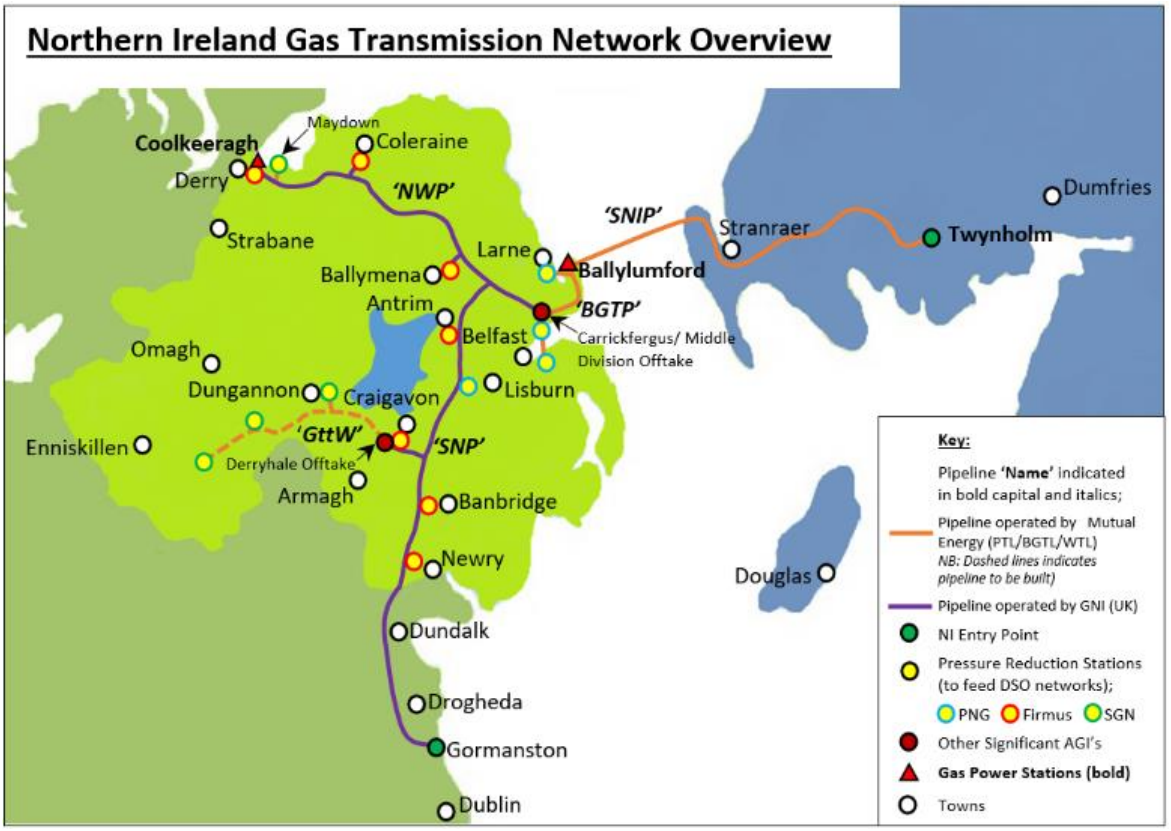

Image supplied by Mutual Energy Ltd

Appendix 3 : Cost Allocation Assessment Calculations

GMO NI has prepared this assessment which is required under Article 5 of the TAR NC and is explained from paragraph 4.21.

Assumptions :

a) Cost driver for revenue recovered by capacity based transmission tariffs is forecasted contracted capacity (Article 5(1)(a)(ii))

b) Cost driver for revenue recovered by commodity based transmission tariffs is amount of gas flows (Article 5(1)(b)(i))

c) No revenue is obtained from cross system network use based on no cross border exit users (Article 5(5))

d) As per forecasts gathered in 2018, no forecast use of VRF Exit Capacity

Reference Formula:

Capacity Assessment:

$$\text{Ratio intra cap} = \frac{\text{Revenue intra cap}}{\text{Driver intra cap}}$$

$$\text{Ratio cross cap} = \frac{\text{Revenue cross cap}}{\text{Driver cross cap}}$$

$$\text{Comp cap} = \frac{2 \times [\text{Ratio intra cap} - \text{Ratio cross cap}]}{\text{Ratio intra cap} + \text{Ratio cross cap}} \times 100\%$$

Commodity Assessment:

$$\text{Ratio intra comm} = \frac{\text{Revenue intra comm}}{\text{Driver intra comm}}$$

$$\text{Ratio cross comm} = \frac{\text{Revenue cross comm}}{\text{Driver cross comm}}$$

$$\text{Comp comm} = \frac{2 \times [\text{Ratio intra comm} - \text{Ratio cross comm}]}{\text{Ratio intra comm} + \text{Ratio cross comm}} \times 100\%$$

Using input data from the Forecast Postalised Tariff for 19/20, the outcome of the formula is as follows:

Capacity assessment

Capacity revenue (£)	58,074,309
Entry share	44%
Exit share	56%

Entry revenues	25,526,133
Exit revenues	32,548,177

Entry revenues dedicated for Intra	25,526,133
Entry revenues dedicated for Cross	**0**
Exit revenues from Intra	32,548,177
Exit revenues from Cross	0
Revenue for Intra	58,074,309
Revenue for Cross	0

Cost driver for Entry Intra	**69,423,442**
Cost driver for Exit Intra	88,521,300
Cost driver for Intra	157,944,742
Cost driver for Entry Cross	**0**
Cost driver for Exit Cross	0
Cost driver for Cross	0

	TEST
Ratio intra	**0.3677**
Ratio cross	**0.0000**
CAA	**200.00%**
justification required	

Commodity assessment

Commodity revenue (£)	3,056,543
Entry share	0
Exit share	100

Entry revenues dedicated for Intra	3,056,543
Entry revenues dedicated for Cross	**0**
Exit revenues from Intra	3,056,543
Exit revenues from Cross	0
Revenue for Intra	6,113,085
Revenue for Cross	0

Cost driver for Entry Intra	**0**
Cost driver for Exit Intra	17,552,415,898
Cost driver for Intra	17,552,415,898
Cost driver for Entry Cross	**0**
Cost driver for Exit Cross	0
Cost driver for Cross	0

	TEST
Ratio intra	**0.0003**
Ratio cross	**0.0000**
CAA	**200.00%**
justification required	

The following annexes are provided as separate documents

Annex 1 - ACER Consultation Template to meet requirement in Article 27

https://www.uregni.gov.uk/sites/uregni/files/media-files/2018-06-21 Annex 1 ACER completed questionnaire.pdf

Annex 2 - Capacity Weighted Distance Counter Factual (prepared by the GMO NI)

https://www.uregni.gov.uk/sites/uregni/files/media-files/2018-06-21 - Annex 2 Counterfactual on capacity weighted distance.pdf