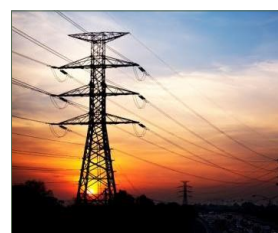


Decision on Harmonised Transmission Tariffs for Gas

17 December 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

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



Our vision

To ensure value and sustainability in energy and water.



Our values

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

Abstract

This paper sets out our decisions following our proposals for changes required to implement an EU Regulation on harmonised transmission tariffs for gas, by 31 May 2019.

The main change is that the capacity commodity split will move from 75:25 to 95:5. To address the main issues raised by network users, we have introduced a transition period for this change, to prevent sudden changes which may adversely impact on end consumers.

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.

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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
ESB GT	ESB Generation and Trading
EU	European Union
EUNCs	European Network Codes
feDL	firmus energy Distribution Limited
feSL	firmus energy Supply Limited
FOIA	Freedom of Information Act
GDN	Gas Distribution Network (includes Phoenix Natural Gas Ltd, firmus Energy Distribution 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
ISEM	Integrated Single Electricity Market, introduced in October 2018
LNG	Liquified Natural Gas

MEL	Mutual Energy Limited, owner of PTL, BGTL and WTL
NC	Network Code
NI	Northern Ireland
NRA	National Regulatory Authority – this is an EU definition and applies to the Utility Regulator in Northern Ireland
Ofgem	The Office of Gas and Electricity Markets, which regulates gas in Great Britain
PPB	Power NI Power Procurement Business
PoT	The postalisation bank account
PNGL	Phoenix Natural Gas Ltd
PTL	Premier Transmission Limited, a TSO
PSA	Postalised System Administration
RPM	Reference Price Methodology
SOA	Single Operator Agreement
SSE	SSE Airtricity
SSO	Single System Operator
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. Purpose of this Paper

- 1.1. In June 2018, the Utility Regulator published a [consultation](#) to meet the requirements of [EU Regulation 2017/460](#), the Network Code on Harmonised Transmission Tariff Structures for Gas (“TAR NC”). The TAR NC was published on 17 March 2017 with the objectives of contributing to market integration, enhancing security of supply and promoting interconnection between gas networks.
- 1.2. The Consultation Paper summarised the changes that we propose to make to achieve compliance with the TAR NC, by 31st May 2019.
- 1.3. In this paper, we provide comments on the responses that we received to the consultation both from respondents and from ACER, we provide our decision and outline the next steps.
- 1.4. 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. Background

- 2.1. In accordance with Articles 26 and 28 of the TAR NC, we published a consultation paper on 21 June 2018 to consult on the following topics:
- Use of a consistent and transparent Reference Price Methodology (RPM) 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
 - Increased transparency of transmission tariff structures through increased requirements for publishing information.
- 2.2. It is our view that the NI postalised tariff regime already largely complies with the requirements of the TAR NC.
- 2.3. In addition to some minor adjustments and increased transparency arrangements, we consulted on changing the capacity commodity split which determines the allocation of the required transmission revenue in the postalised tariff regime. This is because the TAR NC permits commodity charges by exception only, which means only those variable costs which are driven by the volume of gas flowed.
- 2.4. We proposed 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.
- 2.5. This consultation closed on 30 August and generated eight responses from interested parties.
- 2.6. Article 26(3) requires that we [publish the consultation responses](#) received and their summary, which we did on 11th October 2018. This was followed by the Agency for the Cooperation of Economic Regulators' (ACER) [publication of](#)

[the conclusion of its analysis](#) under Article 27(2) on whether our consultation paper met the requirements of Article 26, on 23rd October 2018. Article 27(4) of TAR NC then requires that we publish our motivated decision on the items in Article 26(1) within five months of the end of the consultation. This Decision Paper fulfils that requirement.

- 2.7. Under Article 10(5), we are required to: “conduct a consultation on the principles of an effective inter-transmission system operator compensation mechanism” and to consider its consequences on tariff levels. We will issue a separate consultation to meet this requirement.
- 2.8. With regard to the elements of the consultation required by Article 28, regarding seasonal multipliers, there is no required timescale for publishing our decision, but it must show that we have considered the position of the NRAs of directly connected Member States. As our neighbours, RoI and GB, have not yet published their decisions at time of writing, we have made our decision with consideration of our discussions with them, the relevant consultation documents and the responses to our Consultation Paper.
- 2.9. This Paper addresses the issues raised by respondents and ACER and sets out our decision on those items which relate to Articles 26 and 28. It is our Decision Paper under Article 27(4) of TAR NC.

3. Summary of Responses

- 3.1. In our consultation we noted that we would publish all consultation responses unless respondents requested otherwise. As no respondent asked us not to publish their response, we have published all the [responses](#) received along with a summary on our web-site.
- 3.2. In the following sections we summarise the key issues raised in response to the Consultation Paper and indicate how we have addressed the issues in our Decision.
- 3.3. We have not responded to feedback which broadly supported our approach or that touches on the roles and responsibility of the respondent themselves. Nor have we provided commentary on wider policy issues which are not directly influenced by the outcome of the decision.
- 3.4. We received eight responses from interested parties from gas transmission operators, gas distribution operators and gas shippers which supply both power generators and end use gas consumers. The respondents were:
- ESB Generation and Trading (ESB GT)
 - firmus energy Supply Ltd (feSL)
 - Gas Market Operator NI (GMO NI)
 - Gas Networks Ireland (UK) Ltd (GNI (UK))
 - Mutual Energy Limited (MEL)
 - Power NI Power Procurement Business (PPB)
 - Phoenix Natural Gas Ltd (PNGL)
 - SSE Airtricity (SSE)
- 3.5. The main comments have been:
- GMO NI, MEL and GNI support our proposal to continue using postalisation as it is appropriate for the nature and size of the NI gas network and is underpinned by a detailed financial and legal structure (see Annex 1 –

Features of Postalisation for more information).

- PNGL considers that the proposed change to the capacity commodity split: “will have detrimental impact on gas consumers and the continuing development of the gas networks and therefore do not support the proposal”. They also state that: “any decision which alters the approach to apportionment of costs has to take into consideration all aspects of cost recovery.”
 - Specifically, the move to capacity commodity split of 95:5 increases the required level of credit support that PNGL will need to provide causing the need for additional expense.
 - The higher capacity proportion combined with the current practice of commodisation of capacity charges by GDNs (Gas Distribution Network Operators) heightens the impact any new exceptional peaky connections (for example power generators seeking to generate only at peak times) may have on the rest of the customer base. PNGL seeks further discussion on this before a decision is made.
 - These comments are addressed in section 8.
- SSE is critical that the consultation does not provide adequate analysis or a sufficient impact assessment. Additional analysis is provided between paragraphs 8.24 to 8.35 and between paragraphs 9.12 and 9.18.
- feSL states that the change to the capacity commodity split exacerbates the impact of the surplus entry capacity they are holding. They state that:

“any changes resultant from this consultation should be considered as part of any overall review of the current tariff arrangements in place to recover the necessary costs required to fund the TSO operational activities.”

This comment is addressed in section 8.

- ESB GT states that more consideration should be given to the cross border aspects of TAR NC, specifically around alignment with RoI, which is addressed in paragraphs 4.46 and 9.21. They are seeking short term exit capacity products, which is addressed in paragraph 11.17.
- PPB states that postalisation does not ensure non-discrimination and prevent undue cross-subsidy, and that insufficient analysis was shown to substantiate the ongoing use of postalisation, which is addressed in section 4. They also seek short term exit capacity products, which is addressed in paragraph 11.17.

3.6. The ACER has analysed our Consultation Paper to ensure that it meets all the elements required in Article 26. They have [published their report](#) which recommends the following:

- An adequate reasoning on how the proposed RPM takes into account the principle of cost-reflectivity, the specificities of the NI gas system, the comparison with the CWD methodology and the impacts of system expansion on lowering costs for all gas users. This is provided in Section 4, Section 7 and Annex 2 - Topology of NI gas transmission network.
- UR should provide more explicit information on how the RPM takes into account the multi-TSO gas system in NI – we will publish a separate consultation on this topic in Q1 2019.
- UR should provide a more elaborate justification for the proposed level of commodity charges – this is provided in Section 0
- UR should consider the effects on different customers when it implements the lowering of the share of the commodity charges – this is provided in Section 8
- UR should elaborate on the entry-exit split calculation as required by Article

26 (1)(b) – this is provided in paragraph 8.36

- UR should be consistent in its labelling of the entry point as Moffat – this is explained at paragraph 15.2

4. Proposed Reference Price Methodology

Decision: To provide additional information to meet questions raised by ACER and respondents. To proceed with postalisation as the Reference Price Methodology

Summary of Topic

- 4.1. We stated in the Consultation Document that we consider that the postalised tariff regime meets the requirements of a RPM in Article 7 of the TAR NC and that no change to the postalised regime is required.
- 4.2. Article 26(1)(a)(v) of the TAR NC required 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.
- Enabling network users to reproduce the calculation of reference prices and their accurate forecast (transparency).
 - Taking into account the actual costs incurred for the provision of transmission services (cost reflectivity).
 - Ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5.
 - Ensuring that significant volume risk related 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.

In Question 1, we asked for views on whether the postalised regime meets the requirements of a Reference Price Methodology, as outlined in paragraph 4.5 [of the Consultation Document]. We asked if respondents consider that the postalised regime enables network users to reproduce the calculation of reference prices and a forecast for future years?

Responses to Consultation

4.3. Most respondents (GMO NI, GNI (UK), MEL, PNGL and ESB GT) indicate that they consider the postalised regime meets the requirements.

4.4. Some respondents do not agree, however. feSL says that:

“We believe the current Entry Capacity issues need to be resolved before further upward pressure is placed on the capacity element of recovery.”
Further: “We do not believe the current postalised regime (in its present format) meets the aforementioned requirements”. They request that: “the UR either revisits the obligation to book Entry Capacity, to the extent determined by the initial entitlement – until the end of September 2020, or postpone the implementation of the 95:5 split until such time as the five year entitlement period concludes (i.e. 30 Sep 2020)”.

4.5. MEL, GNI (UK) and the GMO NI support the maintenance of the current Reference Price Methodology to comply with the TAR NC. The GMO NI and MEL stated:

“We strongly support the view that the postage stamp cost allocation methodology is the most suitable method given the nature and size of the NI gas network. The straightforward nature of a postalised network also aids replication of tariffs for network users to enhance predictability year on year....

“Any movement away from postalisation would be a lengthy and costly process, requiring a change in government policy and legislation along with significant changes to the network codes and transmission licences”.

- 4.6. MEL comments that postalisation has been successfully operating since 2004 and it facilitated 100% bond debt financing, and that:
- “this low cost of finance has been secured by having a stable regulatory environment, a key feature of which is the postalised tariff regime”.
- 4.7. MEL also states: “Given the positive response of investors to postalisation via the mutual model (most recently in the early financing of “Gas to the West”), a change away from this could risk future investments and the goodwill built up by successful operation of postalisation since 2004.”
- 4.8. While PNGL is supportive of the continuation of the postalisation regime, they state that:
- “The TAR NC requirement of ensuring non-discrimination and limiting cross-subsidy across transmission network users must apply to all elements of the NI transmission tariff regime”...“Amendments to capacity commodity split should not be considered in isolation of all other regime components.”
- 4.9. SSE considers that insufficient analysis was provided in the consultation document to allow a stakeholders’ review. Specifically:
- “It isn’t possible to establish whether the proposed tariff methodology is equitable in terms of network cost recovery across different types of users. It is this feedback that should drive the UR in determining an equitable tariff methodology that is balancing in terms of cost recovery across all network users”.
- 4.10. ESB GT: “agrees that the postalised regime meets the TAR NC requirements” and welcomes the transparency and accessibility of the spreadsheet model and documentation. However, they make the point that varying methodologies and level of charges between regions: “could incentivise Shippers to flow gas to one destination market over another” and seek further information on why we propose to align on seasonal multiplier factors with RoI but not on capacity

commodity split.

- 4.11. ESB GT states that: “cross border aspects of TAR should not always be dismissed as irrelevant in the Northern Irish context.”
- 4.12. PPB states that they have previously expressed concerns with postalisation as “consumers who only use a subset of the gas transmission system [are] being charged for the full transmission system”. Further, they consider that means it does not: “satisfy the requirement of ‘Ensuring non-discrimination and preventing undue cross-subsidy’”.
- 4.13. PPB further states that the variation in tariff between the forecast for the 2018/19 tariff which was included in the 2017/18 tariff publication and the published 2018/19 tariff highlights “that forecasting for future years is very difficult given the evident volatility”.

UR Decision and Effect

- 4.14. ACER indicates that we need to provide an adequate reasoning on how postalisation meets the requirements of TAR NC, while several respondents ask for additional explanation on the reason behind postalisation.
- 4.15. The rest of this section will provide explanation and analysis around our decision to continue to use postalisation. Specifically:
- Clarity on how postalisation meets the criteria for a RPM as outlined in Article 7 of TAR NC, listed in paragraph 4.16
 - Background to postalisation, from paragraph 4.22
 - Explanation of how debt financing has created savings, from paragraph 4.27
- 4.16. Our explanation is grouped within the five requirements of a RPM outlined in Article 7 of the TAR NC:
- **Transparency** – enabling network users to reproduce the calculation of

reference prices and their accurate forecast

- **Cost reflectivity** – taking into account the actual costs incurred for the provision of transmission services, having taken consideration of the complexity of the transmission network
- **Non-discrimination** – ensuring non-discrimination and preventing undue cross-subsidisation including by taking into account the cost allocation assessment set out in Article 5
- **Cross subsidisation** – 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
- **Cross border trade** - ensuring that the resulting reference prices do not distort cross-border trade

4.17. The specific matters arising from the responses received will be dealt with in the paragraphs listed below:

- Initial Entitlement of Entry Capacity - raised by feSL – will be dealt with in section 8 on the Capacity Commodity split, from paragraph 8.17.
- Absence of market reflective data – raised by feSL. This is provided mainly under Cost Reflectivity, from paragraph 4.41
- Insufficient analysis – SSE. This is provided mainly under Cost Reflectivity, from paragraph 4.23
- Does not satisfy non-discrimination and cross-subsidy – PPB. This is provided mainly under Cross-Subsidy, from paragraph 4.48
- Not aligning methodology and charges between regions – ESB GT. This is discussed from paragraph 4.46
- Tariff variations between years – PPB. This is explained in the postalised tariff [Explanatory Note](#).

Transparency

- 4.18. In the Consultation Document, we explained that we considered the transparency requirements were, broadly, being met. Specifically, the [simplified tariff spreadsheet](#) allows users to replicate the tariff and assess how it might change under different assumptions up to five years in the future. We will ensure there is more information on the entry exit split, both within the spreadsheet and in the Explanatory Note.
- 4.19. ACER states that we need to provide greater explanation on how the RPM takes account of a multi-TSO network and specifically that TAR NC requires, under Article 10(5), that we consult on “the principles of an effective inter-transmission system operation compensation mechanism...and its consequence on the tariff levels.” We will issue a separate consultation to meet this requirement.
- 4.20. Some of the comments from the respondents and ACER indicate that it would be beneficial to provide more information on how postalisation actually operates. Annex 1 – Features of Postalisation outlines the key features of postalisation, including the regulatory and contractual structures underpinning it.

Cost Reflectivity

- 4.21. The TAR NC requires that the RPM should be both cost reflective and non-discriminatory, however for a linear gas pipeline like the NI transmission network, it is impossible to fully meet these two aims. Postalisation is non-discriminatory as every user is treated equally, however it is not cost-reflective, as some network users need their gas to travel further and use more of the pipeline than other users. The common tariff, which means that all network users pay the same regardless of distance, is the main feature of

the postage stamp cost allocation methodology and we will explain why we consider it is acceptable to continue to use a cost allocation methodology which allows some customers to cross-subsidise others. Firstly, we provide a history of how postalisation was chosen. Secondly, we provide a comparison of what charges would have been had postalisation not enabled the network extensions. Thirdly, we provide a summary of the topology of the NI gas transmission network at Annex 2 - Topology of NI gas transmission network, and finally, we provide an analysis on the results of the CWD counterfactual at section 7.

History of how postalisation was chosen in the first place

4.22. Before 2001, gas charging was integrated across transmission, distribution and supply. Postalisation was introduced as a mechanism to facilitate network extensions beyond the Belfast area with the aim of extending fuel choice across Northern Ireland and targeting environmental savings. It also allowed for a multi-TSO system and contributed towards the separation of charging between transmission, distribution and supply.

4.23. It is clear from NI Assembly papers from that period, that it was a key aim of Government to provide equality of opportunity to natural gas to other parts of Northern Ireland. [The Report on the Energy Inquiry](#), published in 2002, outlines clearly why it was considered important to extend the network:

“Extending gas pipelines to the north-west and the south-east underpins equitable social and economic development across Northern Ireland and is essential infrastructure no different from roads or, indeed, electricity supply. Benefits include reducing fuel poverty, improving health and the environment and promoting economic development.”

4.24. The Energy Inquiry report concluded with a series of recommendations to be integrated into the Energy Bill.

“5.6 The Committee supports the provision of a gas pipeline to the north-west and the conversion of Coolkeeragh Power Station to a combined cycle gas turbine.

“5.7 Any postalisation of both gas and electricity costs must be borne equally and equitably by all commercial and domestic consumers.”

4.25. [The Energy \(Northern Ireland\) Order 2003](#) sets the legal framework to implement postalisation, specifically in Article 14 which states that the principal objective of the Department and the Authority in carrying out their respective gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland. Specifically, they should have regard to:

“(c) the need to secure that the prices charged in connection with the conveyance of gas through designated pipe-lines (within the meaning of Article 59) are in accordance with a common tariff which does not distinguish (whether directly or indirectly) between different parts of Northern Ireland or the extent of use of any pipe-line”

4.26. This is further explained in Section 4 of the accompanying [Explanatory and Financial Memorandum](#),:

“creating enabling provisions to implement the concept of “postalisation” of gas conveyance charges to facilitate the extension of the gas industry in Northern Ireland by a major gas infrastructure project. Postalisation is essential to enable this project to proceed”.

4.27. Postalisation created a stable environment to allow for the mutualisation of some pipelines, so that they were 100% debt financed at a much lower rate than would be available for equity financed projects, with a traditional risk

profile.

- 4.28. The PTL and BGTL pipelines have been mutualised since 2004, while the funding package for the WTL pipeline was agreed in [July 2018](#). NI gas users underwrite the mutualised pipelines in return for significant savings in the form of a reduced cost of capital.
- 4.29. The postalised structures ensure that the actual required revenues of PTL, BGTL and WTL are recovered from all gas customers. The end of year reconciliation adjusts the tariff for actual volumes and actual required revenue to ensure that actual costs are recovered from all users. This, in practice, means that all NI gas users pay for the mutualised pipelines in all circumstances, including the cost of other users' non-payment of tariffs, if any.
- 4.30. The extract from the postalised tariff Explanatory Note in Figure 1 on page 38 shows the low rate of finance which has been achieved.
- 4.31. In August 2018, we [announced](#) the savings that will result due to the early refinancing of the Gas to the West project:

“The financing deal secured by WTL means that the cost of debt repayments will be around 35% less than they were expected to be when WTL won the Gas to the West tender in 2014. This amounts to an additional saving of about £50m in present value terms over and above the customer savings already expected from the bidding process.”

Equitable, social, economic development and environmental improvements

- 4.32. Postalisation aimed to provide equitable treatment by making natural gas available to more parts of Northern Ireland. This would provide social and economic development and environmental improvements. Improved fuel choice brings benefits such as reducing fuel poverty, improving health and

promoting economic development.

- 4.33. The environmental improvements are significant, as highlighted in the [Northern Ireland Environmental Statistics Report](#) published in May 2018 by Northern Ireland Environment Agency. The Report states, with regard to sulphur dioxide:

“The marked reduction in this pollutant over recent years (89% less in 2016 compared with 2001) is linked to the expansion of the mains natural gas network in Northern Ireland, with an increasing amount of uptake of natural gas as a heating fuel. Uptake of this fuel has reduced the use of oil and solid fuel (coal) (which produce higher amounts of SO₂) in the domestic and industrial sectors.”

- 4.34. The report also states that, with regard to greenhouse gases:

“Most sectors showed a decreasing trend since the base year, the largest decreases were in the energy supply, residential and waste sectors. They were driven by improvements in energy efficiency, fuel switching from coal to natural gas, which became available in the late 1990s, and the introduction of methane capture and oxidation systems in landfill management.”

Comparison of charges if network extensions hadn't happened

- 4.35. In addition to the aims of equitable social and economic development and environmental improvements, there was an implicit aim to drive a net charging benefit from the additional customers which would arise from the network extensions. Not only would there be additional customers from the new pipelines but there would be an increased take up of gas in the existing areas as the higher number of customers create a ripple effect to those in the existing gas area.

4.36. To test that, we adjusted the postalised tariff for this year (18/19) as if the network extensions had not happened and volumes in the Belfast area had experienced slower growth as a result. To allow comparison between the years which have been analysed, the capacity commodity split of 95:5 is used throughout. Table 1 shows that the charges are higher now than they would have been so the price benefits are not yet being felt.

Table 1 – Comparison of 18/19 tariffs if network extensions had not happened

	2018/19 Postalised year	2018/19 no NW SN W & 10% lower Belfast
FORECAST POSTALISED ANNUAL TARIFFS		
Commodity Charge (£ per kWh)	0.0001804	0.0001831
Auction reserve prices - Annual Entry capacity charge (£ per kWh) Moffat & Gormanston	0.36210	0.31629
Annual Exit capacity charge (£ per kWh)	0.36210	0.31629

4.37. However, the long term forecasts indicate that customers will benefit from lower prices. We used the ten year volume forecasts from the [2018 Gas Capacity Statement](#), which indicate that volumes are forecast to continue growing. These forecasts are compared to the FRRs from the fifth year of the current Postalised Tariff spreadsheet (as the FRRs have only been forecast for five years) to calculate a postalised tariff and compare that to what the tariff would be if the network extensions had not happened and there had been slower growth in the Belfast area. The results are shown in Table 2 below.

Table 2 – comparison of 27/28 tariff if network extensions had not happened

	2027/28	2027/28
	Base Case	no NW SN W & 10% lower Belfast
FORECAST POSTALISED ANNUAL TARIFFS		
Commodity Charge (£ per kWh)	0.0001705	0.0001868
Auction reserve prices - Annual Entry capacity charge (£ per kWh) Moffat & Gormanston	0.2266062	0.24276
Annual Exit capacity charge (£ per kWh)	0.2266062	0.24276

4.38. This shows that the 2027/28 tariff is forecast to be lower than the No Network Extensions scenario (22.6 ppkWh compared to 24.3ppkWh), which indicates that, in addition to the equitable treatment and the environmental benefits, there is also a long-term price benefit to gas consumers. Note also that long term prices are forecast to reduce in both scenarios.

Summary of Cost Reflectivity

4.39. TAR NC allows for the continuing use of postage stamp cost allocation methodology where it can be seen that it is beneficial to customers. Postalisation has enabled the network extensions which have brought gas to more households in Northern Ireland, increasing their choice of fuel and providing the opportunity to use natural gas, which is less polluting and contributes to environmental savings. These network extensions increase costs initially but are forecast to increase gas volumes in the long term leading to lower prices.

4.40. Fifteen years after the start of postalisation, it continues to meet its aims of providing equitable treatment, environmental savings and moving towards lower charges for everyone.

Non Discrimination

4.41. The charges are non-discriminatory as all network users pay the same.

Cross Subsidy

4.42. The TAR NC refers mainly to cross-subsidy as meaning the transfer of cost recovery between intra- and cross-system use, which would occur when gas transits through a region on its way to another region. As the NI network has no cross system use, there is no relevant cross-subsidy. However, using postalisation as the cost allocation methodology does lead to a cross-subsidy for intra-system use, between those network users who use a relatively short distance of pipeline and those network users who use a relatively long distance of pipeline. This is related to the earlier paragraphs regarding Cost Reflectivity.

4.43. The level of cross subsidy is illustrated in section 7 on the CWD counterfactual which shows how charges compare if the distance travelled is considered. The cross subsidy is counteracted by the benefits of postalisation, which will be outlined in the summary at the end of this section, see paragraph 4.51.

4.44. We continue to hold the view that the cross-subsidy inherent in postalisation allows for equitable treatment of all potential network users across Northern Ireland by facilitating network extensions. These network extensions have allowed a greater amount of the population to have access to natural gas and to allow greater environmental benefits as network users switch to gas from more polluting fossil fuels, see paragraph 4.35. In addition to those environmental benefits and equitable treatment, the long term network charges are forecast to be lower as a result of additional network users contributing more revenue than the pipelines costs, see paragraph 4.38.

Cross Border Trade

4.45. As all the gas which enters the NI Network is used within NI, with no gas passing through to another region, the NI Network has no cross border trade.

Alignment with RoI

4.46. The CRU in RoI has published its [consultation document](#) on the implementation of TAR NC. It is proposing to maintain the capacity commodity split at 90:10. However, it is proposing to incorporate shrinkage cost into the transmission services revenue, instead of keeping it as a cost paid directly by shippers. This effectively increases the capacity commodity split.

4.47. As the cost base and the volume forecasts which underpin the annual tariffs are different, we did not consider that fully aligning the capacity commodity split would achieve any benefits.

4.48. As we stated in our Consultation Document, we consider there is insufficient benefit in fully aligning the capacity commodity split with the RoI, for the following reasons:

- The base charges between the two regions are already different¹
- The NI network has insufficient flow-based charges to justify recovering 10% of transmission revenue through commodity charges, see section 0

4.49. The seasonal multipliers, which are applied to the charges for non-annual capacity bookings, should incentivise Shippers to make more use of the network in the summer and shift demand away from the winter peak. We consider that differing factors across the Ireland gas network have the potential to influence short-term decisions by Shippers beyond the seasonal affect for which they are intended. Keeping the factors aligned across Ireland

¹ 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.

ensures that these factors only provide a seasonal signal and not a perverse signal to Shippers to choose one region over another.

Benefits of Postalisation

4.50. In summary, postalisation provides a number of benefits to the NI gas consumer, including:

- The single tariff across Northern Ireland ensures equal treatment and non-discrimination between gas users
- It has enabled network extensions to allow gas to be available to a greater number of people and businesses, therefore providing long-term economic and environmental benefits, paragraph 4.32
- The network extensions are forecast to deliver a net benefit which will result in lower prices to all in the long term
- It has facilitated mutualised pipelines with reduced cost of capital which mean lower tariffs for all
- It is simple to understand, is well administered and works smoothly

CONCLUSIONS

4.51. In conclusion, we have decided to continue to use postalisation as the RPM for the charging methodology for the NI Network:

- Simple network and simple tariff. Easy to replicate. Has been used in NI for over 15 years, it is well understood, well administered and works smoothly
- This method allows the network to grow – additional pipelines are paid for by everyone which reduces the impact of the additional cost. The network extensions are forecast to provide a net benefit as revenue from the additional customers begins to offset the pipeline costs

- It provides equitable social and economic development across NI as well as environmental improvements
- Although it is not fully cost reflective and has an element of cross subsidy, the CWD counterfactual in section 7 demonstrates that the end prices would not be not significantly different if distance were a cost driver
- All customers have the same charges, so there is no discrimination

5. Potential Discounts to Capacity Charges

Decision: Future tariff publications to make it clear that there would be a discount of 50% of capacity charges for storage facilities. Although there is no forecast requirement for interruptible capacity, the published tariff documents should state the probability of interruption.

Summary of Topic

- 5.1. The TAR NC requires for discounts in two specific set of circumstances – for both storage facilities and for interruptible capacity. The requirements are different and are outlined below.
- 5.2. 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 facilities were to become available.
- 5.3. Article 16 specifies how to calculate the discount for an interruptible capacity charge and allows for an ex-post discount as an alternative to calculating the discount in advance (ex-ante). In the Consultation Document, we stated that, as there is no forecast requirement for interruption, the ex-ante calculation would result in zero discount, so any discount would be ex-post.
- 5.4. The amount of compensation required to be paid in the case of an ex-post interruption is set out in Article 16(4), as three times the reserve price for daily standard capacity products for firm capacity. We proposed that we would use the ex-post method until and unless interruption becomes probable.

Responses to Consultation

- 5.5. PNGL said they: “would like to understand how UR envisage this being applied to DSO exit points as the current regime has not been developed to

support this type of initiative.”

UR Decision and Effect

- 5.6. Although there is currently no storage in NI, future tariff publications should state the required discount.
- 5.7. While there is no forecast requirement for interruptible capacity, no interruptible capacity product will be offered. Future tariff publications should state the likelihood of interruption and make it clear that no discount is offered. Should interruptible capacity be required, we would expect to discuss with the relevant stakeholders how the ex post discount as set out in Article 16(4) would be applied.
- 5.8. We will discuss the additions to the publications with the GMO NI so that the changes can be made in advance of the tariff publication for Gas Year 19/20.

Licence Modification Required

- 5.9. None required

6. Indicative Reference Prices

Decision: The indicative reference prices have been prepared according to the requirements of the TAR NC. The entry exit split will be explained in future tariff publications.

Summary of Topic

6.1. As part of the description of the proposed RPM, 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 [postalised tariff](#) for 18/19 which is published by the GMO NI. The indicative reference prices shown below were calculated following the postalised tariff formula.

Table 3 – 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

In Question 1 of the Consultation Document, we asked for the views about the indicative reference prices provided in Table 3.

Responses to Consultation

- 6.2. The GMO NI, GNI (UK) and MEL agree that the indicative reference prices matched those published by the GMO NI on 31 May 2018. GMO NI states that they intend, in future, to note the entry and exit points to which these prices apply in their publication and encourage us to do the same.
- 6.3. SSE states that “there has been no methodology, assumptions or inputs provided” and that a model which could flex key inputs “would assist stakeholders in reaching more informed conclusions”.

- 6.4. PPB states that “the tariff in NI is simply presented as the new tariff without consultation”.
- 6.5. ESB GT also mentions the variation in tariff between 2017/18 and 2018/19. They observe that an increasing tariff would be exacerbated by a change in capacity commodity split, for low load factor customers. They further observe that there are a number of factors interacting to cause the recent increase in annual tariff and the varying amount of the year end reconciliation, which may make “domestic fuel switching less attractive, and the investment in network extension less viable”.

UR Decision and Effect

- 6.6. We had included, at paragraph 4.17 of the Consultation Document, a hyperlink to the GMO NI website for the published tariff. This included the [simplified tariff spreadsheet](#), which allows users to view the inputs, try different inputs and assess the impact. The spreadsheet follows the methodology for the tariff calculation is set out in Part 2A of the TSO licences. ACER confirmed this would allow network users to reproduce the calculation of the reference prices and forecast future prices.
- 6.7. The [Explanatory Note](#) explains the tariff variation between 17/18 and 18/19.
- 6.8. In future tariff publications, we will make clear the entry and exit points that the tariff apply to. In addition, the entry exit split arising from the forecast tariff should be shown along with a statement that the actual entry exit split will be calculated ex-post.
- 6.9. Apart from the two points in the previous paragraph, the reference prices have been published to meet the TAR NC requirements.

Licence Modification Required

6.10. None required.

7. Cost Allocation Assessment

Decision: No further action required after further explanation provided

Summary of Topic

- 7.1. 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. We provided the analysis in the consultation document and indicated that we considered it demonstrated compliance with the TAR NC.
- 7.2. We further provided the counterfactual with an alternative cost allocation methodology, the Capacity Weighted Distance (CWD) method.

Responses to Consultation

- 7.3. SSE made some comments on the counterfactual with the Capacity Weighted Distance methodology (CWD), which was provided in Annex 2 of the Consultation Document:
- No virtual reverse flow products were included.
 - They sought clarification about the distinction between Moffat and Twynholm:

“The purpose of the Tariff Network Code is to develop a methodology that recovers the revenues associated with the TSO Regulated Asset Base (RAB). We understand this to be from the Twynholm IP [sic]. However, indicative tariffs in this paper have been calculated from the Moffat IP. Clarity on this would be helpful.”
 - They note that Gormanston has been excluded from the analysis but that it ought to have a tariff calculated.

UR Decision and Effect

- 7.4. We recognise that the counterfactual with CWD was provided without any explanation and we intend to add some explanation here.
- 7.5. To put it in context, we have included some information on the topology of the NI gas transmission network at Annex 2.
- 7.6. Article 26 (a)(vi) requires that we compare our chosen RPM with the CWD, which should be prepared according to Article 8. This counterfactual therefore compares what the indicative prices would be if distance were considered as a driver. The counterfactual was prepared by the GMO NI following the requirements of Article 8, which did not require the inclusion of virtual reverse flow products. As explained in the notes to Annex 2 of the Consultation Document, no tariff could be calculated for Gormanston Exit as there was no Forecast Contracted Capacity.
- 7.7. Annex 2 of the Consultation Document concluded with the following table:

Table 4 – Summary Table from CWD Counterfactual

Annual Capacity Tariff (£ per kWh/d)			Capacity Weighted Distance Tariffs				
Gas Year	Postalised System Tariff (applicable to all entry and exit points)	Moffat Entry Point	Belfast Exit Point	Ten Towns Exit Point	Maydown Exit Point	Ballylumford Exit Point	Coolkeeragh Exit Point
2019-20 Forecast Annual Tariff	£0.37	£0.42	£0.30	£0.36	£0.41	£0.26	£0.42

- 7.8. It is useful to consider the proportional change in these tariffs compared to the postalised tariff. The table below compares the total capacity charge (entry plus exit) at the five exit points:

Table 5 – Comparison between CWD and Postalisation

Total Capacity Charge Entry plus Exit £ per kWh	Belfast Exit Point	Ten Towns Exit Point	Maydown Exit Point	Ballylumford Exit Point	Coolkeeragh Exit Point
CWD	£0.72	£0.78	£0.83	£0.67	£0.84
Postalisation	£0.74	£0.74	£0.74	£0.74	£0.74
CWD compared to Postalisation	-2%	6%	13%	-8%	14%

7.9. This comparison shows that the exit point with the shortest distance from Moffat, which is Ballylumford power station, would have a CWD tariff 8% lower than the postalised tariff, while the longest distance, which is Coolkeeragh power station, would have a tariff 14% higher.

7.10. The Belfast Exit Point, which supplies the PNGL area, would have a tariff 2% lower than the postalised tariff. The Ten Towns Exit Point, which supplies the feDL distribution area, would have a tariff 6% higher, while the Maydown Exit Point, which supplies some of the new Gas to the West customers, would have a tariff 13% higher.

7.11. Although this indicates some cross subsidy between network users, the transmission charge is a small percentage of the final price for consumers (we estimate around 10% for domestic gas consumers and 3% for domestic electricity consumers), therefore the cross subsidy is less than one percent of the final price. We consider this is an acceptable level when compared to the benefits of network extension outlined in section 4.

7.12. The NI network starts at Moffat, which is the Interconnector Point (IP), while Twynholm is the start of the SNIP, this is further explained at Annex 2 - Topology of NI gas transmission network. It is important to note that Twynholm is not an IP.

7.13. The transmission services revenue includes all of the costs of the NI network, which is the sum of the FRRs of the TSOs. Figure 1 shows an extract from

the current Postalised Tariff [Explanatory Note](#) to show how the costs for this year's postalised tariff have been compiled.

Figure 1 – extract from Postalised Tariff for 18/19 Explanatory Note

3.1 Forecast Required Revenues

(i). Premier Transmission Limited (PTL)

The calculation of the PTL Forecast Required Revenue is based upon the existing licence formula where the figures are made up of the repayments on the £107m bond at a rate of 2.461% as well as forecast Operating Expenditure.

The PTL Forecast Required Revenue is reduced for the forecast payment made by Stranraer.

(ii). Gas Networks Ireland (UK) (GNI (UK))

The GNI (UK) Forecast Required Revenue is based on capital expenditure of circa £122m and an allowance for controllable and uncontrollable operating expenditure as part of the GNI (UK) 2017/18-2021/22 Price Control Determination. GNI (UK)'s Capital Expenditure is recovered at a constant real amount at a rate of return of 2.01% (vanilla).

(iii). Belfast Gas Transmission Limited (BGTL)

The BGTL Forecast Required Revenue is based on the repayment of the £109m bond at a rate of 2.387% plus forecast operating expenditure.

(iv). West Transmission Limited (WTL)

The WTL Forecast Required Revenue requirement is based on of indicative financing costs on the assumption that early financing of this project takes place in July 2018. These costs are based on the latest information available, however, these costs may vary in line with changes in market rates and depend on the timing of the transaction.

7.14. The cost allocation assessment and counterfactual with CWD were both carried out in accordance with TAR NC requirements. The counterfactual shows the element of cross-subsidy which exists in the postalisation model, however, as explained in Section 4, the benefits of postalisation are significant and continue to provide benefit to the NI gas consumer.

Licence Modification Required

7.15. None required.

8. Capacity Commodity Split

Decision: To amend the capacity commodity split from 75:25 to 95:5 over a three year transition period. The capacity commodity split will be:

- 19/20 postalised tariff year – continue to be 75:25
- 20/21 postalised tariff year – change to 85:15
- 21/22 postalised tariff year – change to 95:5

Summary of Topic

- 8.1. In the Consultation Document, we proposed 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.
- 8.2. We explored the potential impact on consumers of this change and concluded that 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. We noted that this would vary from year to year as the relationship between capacity and volume varies, and that it would also vary between forecast and actual capacity and volume.

In Question 2 of the Consultation Document, we asked for views on our proposal to change the capacity commodity split to 95:5. We asked if there were any other factors regarding this change that we should consider?

Responses to Consultation

- 8.3. This question generated the greatest amount of interest.
- 8.4. feSL acknowledges the requirement for the capacity proportion to increase considerably, however, as outlined in response to Question 1, states that: “we believe the current Entry Capacity issues need to be resolved before further

upward pressure is placed on the capacity element of recovery”.

- 8.5. GMO NI and GNI (UK) agree that it would be difficult to justify maintaining the current capacity commodity split, however they state that the impact of changing the capacity commodity split on NI network users: “should be carefully considered by UR”.
- 8.6. They also say that: “this transfer of costs can fluctuate depending on the load factor of a particular user in any year”.
- 8.7. MEL says that: “based on the existence of volume drive costs, their level, and compliance requirements, the proposed 95:5 split seems appropriate.” MEL also states that the impact of this change should be monitored over time as load factors vary and any transfer of cost could potentially be more marked.
- 8.8. PPB states that the consultation should have included an analysis of historic variable costs. It also states: “it would also have been useful to understand the volatility of these variable costs as a result of, for example, commodity price variations.”
- 8.9. PNGL considers that there are a number of reasons why the proposed change would be detrimental:
 - They consider that: “cost reflectivity cannot be allowed to take precedent over provision of a regime which encourages and supports the development of a growing natural gas industry in NI.” Therefore, this proposal to further increase the capacity element: “is not considered helpful”.
 - The UR estimate of transfer of costs between gas end users and power stations is based on forecasts and hence has the potential to be exceeded with; “the potential to impact growth especially at a time when Distribution System Operators (DSOs) are investing in network extensions and entering new towns which have no previous gas usage experience.”
 - As the gas distribution companies book exit capacity on behalf of their

shippers, they must provide credit support to GMO NI to meet Network Code requirements. The higher capacity charges arising from the amended capacity commodity split mean that: “the Required Level of Credit Support will exceed the Maximum Allowed Unsecured Credit”, entailing additional costs for PNGL. PNGL notes that this could be mitigated through review of the Maximum Allowed Unsecured Credit but that they understand GMO NI considers the current levels to be appropriate.

- The distribution operators charge capacity charges on a commodity basis. PNGL considers that this does not facilitate adequate cost recovery for customer with high capacity booking and low volumes and PNGL: “would welcome more detailed dialogue before any decision is taken with regards this consultation.”

8.10. SSE accepts that UR does not have much discretion regarding the capacity commodity split, but say they would have expected an impact assessment including analysis of scenarios to provide the rationale for choosing 95:5.

8.11. SSE goes on to ask for justification why we did not propose to align the capacity commodity split with Rol.

8.12. SSE also proposes that we consider changing the entry exit split away from 50:50, with a bias towards entry, on the basis that suppliers have more flexibility at entry: “to ameliorate a disadvantage that would be unequally borne by domestic customers, when coupled with the increase in capacity charges.”

8.13. ESB GT considers that there are several factors concerned with the introduction of the Integrated Single Electricity Market (ISEM) that should be considered regarding the proposed capacity commodity split:

- While ESB GT agrees that small end-user gas demand is weather driven and therefore has relatively high capacity bookings, they point out that some

power generators already do not run at baseload, but rather operate to cover peaks in electricity demand. Changes in how we generate and use electricity means that the predictability of power plant operations will reduce. ESB GT states that the UR analysis is: “too simplistic and short term in its outlook”.

- They consider that the proportionate increase in capacity costs: “could be managed more efficiently at Exit through short-term and seasonal products”
- With regard to ISEM, ESB GT says that: “an increase in capacity costs could cause a change in the position of plant within the CRM (Capacity Remuneration Mechanism) auction ranking”. Further, they make the point that plant are bidding into auctions one and four years ahead of delivery, so “changes to gas capacity costs must be transparent and made in a timely manner”.
- ESB GT also say that it was: “not made clear why alignment is justifiable for multipliers but not the capacity commodity split.”

8.14. We have summarised these comments into the following key areas:

- Timing- based concerns:
 - Increased capacity charges for those holding additional capacity under the Initial Entitlement of Entry Capacity, answered at paragraph 8.17
 - Increased credit support to be provided by the GDNs under the postalised regime, paragraph 8.20
 - Impact on those bidding into the ISEM market, paragraph 8.21
- Impact on different customer types
 - Impact on the growth of the number of gas consumers, paragraph 8.39
 - Consider the impact across all network users, paragraph 8.24
 - Consider changing the entry exit split, paragraph 8.36

- Using non-annual Exit Capacity products to manage the impact, paragraph 11.17
- Additional information sought
 - More information on historic costs of flow based charges, section 0
 - Alignment with RoI, paragraph 4.46

UR Decision and Effect

- 8.15. We have considered the comments made and have decided to implement our proposal to amend the capacity commodity split from 75:25 to 95:5. We consider that we must make this change to comply with the TAR NC, which states that commodity charging can only recover variable costs driven by the volume of gas flowed. We will provide more detail in section 0 to show why we consider we can justify 5%.
- 8.16. We have decided to introduce a transition period to address the timing based concerns which were raised by a number of respondents.

Timing Based Concerns

- 8.17. Initial Entitlement of Entry Capacity - To comply with the network code on capacity allocation mechanisms (the CAM NC), booking of Entry Capacity by gas suppliers was introduced. It was decided, following a consultation process in summer of 2014, that suppliers would receive an Initial Entitlement corresponding to the firm exit capacity which was held on their behalf by the GDN. The Initial Entitlement was for an initial period of five years which expires by October 2020. feSL was supportive of this at the time and stated, in their response of 29 August 2014, that this “is a fair and reasonable approach to allocation”.
- 8.18. However, the feSL requirement for capacity has changed since then. They

state that when customers switch suppliers, the gas suppliers cannot reduce their capacity booking, so that “the entry capacity required is now double booked...by the original supplier, and... the new supplier.” They go on to say that: “any Suppliers burdened with surplus entry capacity may be unable to effectively compete in the marketplace.”

- 8.19. UR is aware that feSL considers the existing mechanisms to dispose of excess capacity to be unsatisfactory. However, we do acknowledge that the change in the capacity commodity split would increase the cost to suppliers who hold excess capacity in the last year of the Initial Entitlement period, being the 19/20 Gas Year.
- 8.20. Secondly, we appreciate the issue facing the GDNs around the increased credit support which would be required as a result of higher capacity proportion and which may take some time to resolve.
- 8.21. Finally, we recognise that power generators are seeking regulatory certainty as they bid into the SEM market.
- 8.22. In recognition of the concerns around the practical issues and the desire for predictability, we have decided to introduce a three year transition period to implement the change in the capacity commodity split. This will postpone any change by one year and implement the change in two steps. The capacity commodity split would therefore be as follows:
- 19/20 postalised tariff year – continue to be 75:25
 - 20/21 postalised tariff year – change to 85:15
 - 21/22 postalised tariff year – change to 95:5
- 8.23. This transition period will allow the Initial Entitlement Entry Capacity period to expire, it provides additional time to the GDNs to prepare for the credit support required under postalisation, and provides a longer implementation period for power generators submitting ISEM bids.

Impact on different customer types

- 8.24. Several respondents sought additional information on the impact that would be caused by any change to the capacity commodity split. In the Consultation Document we explained that the gas which flows through the transmission network is used by two main customer groups: power stations who use gas for electricity generation and gas consumers, who use gas for heating and industrial processes.
- 8.25. We explained that, as gas consumers tend to have higher winter peaks and lower summer troughs than power stations, and that distribution companies must book exit capacity to meet a 1 in 20 winter, gas consumers tend to have a higher capacity booking relative to gas usage (commodity) than power stations. This is also known as a low load factor.
- 8.26. We explained that we had analysed the impact on the gas consumers using data from the 18/19, 17/18 and 16/17 postalised tariff calculations. The analysis showed that the impact was not a constant amount as the relationship between capacity and volume varies from year to year and from forecast to actual.
- 8.27. Across those years, we estimated that the change to the capacity commodity split would increase transmission charges to domestic and industrial gas consumers by around 5%, varying from 3% to 6%. For typical domestic consumers, this would be an increase of around £2 - £4 per year.
- 8.28. As the gas distribution companies pass on the transmission charge as a commodity charge, the impact is felt by all gas consumers proportionally to their consumption.
- 8.29. To provide the additional information requested by respondents, we have compared the [five year forecast tariffs](#) which were published on 31 May this year, with what they would have been had they been calculated using 95:5,

and apportioned these between the two customer groups (power generators and gas consumers).

Table 6 – Forecast Postalised Tariff as published 31 May 2018

as published	Postalised Year	Year 2	Year 3	Year 4	Year 5
FORECAST POSTALISED ANNUAL COM & CAP TARIFFS					
Commodity Charge (£ per kWh)	0.0009019	0.0008707	0.0008467	0.0008645	0.0008490
Auction reserve prices - Annual Entry capacity charge (£ per kWh) Moffat & G'ton	0.28587	0.29028	0.26018	0.27145	0.26712
Annual Exit capacity charge (£ per kWh)	0.28587	0.290280	0.26018	0.271448	0.26712
Auction reserve price - VRF Charge (£ per Kwh)	0.00010	0.00010	0.00010	0.00010	0.00010

Table 7 – Forecast Postalised Tariff recalculated for 95:5 split

recalculated for 95:5	Postalised Year	Year 2	Year 3	Year 4	Year 5
FORECAST POSTALISED ANNUAL COM & CAP TARIFFS					
Commodity Charge (£ per kWh)	0.0001804	0.0001741	0.0001693	0.0001729	0.0001698
Auction reserve prices - Annual Entry capacity charge (£ per kWh) Moffat & Gormanston	0.36210	0.36769	0.32956	0.34383	0.33836
Annual Exit capacity charge (£ per kWh)	0.36210	0.367688	0.32956	0.343835	0.33836
Auction reserve price - VRF Charge (£ per Kwh)	0.00010	0.00010	0.00010	0.00010	0.00010

Table 8 – Comparison of revenue recovery between sectors

	£	2018/19	2019/20	2020/21	2021/22	2022/23
	Postalised year	Year 2	Year 3	Year 4	Year 5	
Forecast Transmission Services Revenue	61,776,854	61,130,852	60,222,508	61,201,127	60,810,179	
75:25 capacity commodity split						
Revenue from Power Generation Sector	31,578,662	29,842,174	33,360,845	32,646,633	32,147,158	
Revenue from Gas Distribution Sector	30,198,192	31,288,678	26,861,663	28,554,494	28,663,021	
95:5 capacity commodity split						
Revenue from Power Generation Sector	30,179,777	28,104,227	33,031,555	32,228,915	31,731,769	
Revenue from Gas Distribution Sector	31,597,077	33,026,625	27,190,953	28,972,212	29,078,410	
Transfer of recovery of transmission services revenue from power sector to gas distribution	1,398,885	1,737,948	329,290	417,718	415,389	
% of revenue recovery transferred to gas distribution	2.3%	2.8%	0.5%	0.7%	0.7%	

8.30. Table 8 illustrates that the transfer of costs between the power generation sector and the gas distribution sector is forecast to be below 3% in first two years then is set to reduce to 0.5% and it is worth explaining why that appears to be happening.

8.31. As explained in paragraph 8.25 above, the impact of a change in the capacity commodity split depends on the relationship between capacity booking and forecast volumes, also known as the load factor. The more similar the load factors of the two customer groups (power generation sector and gas

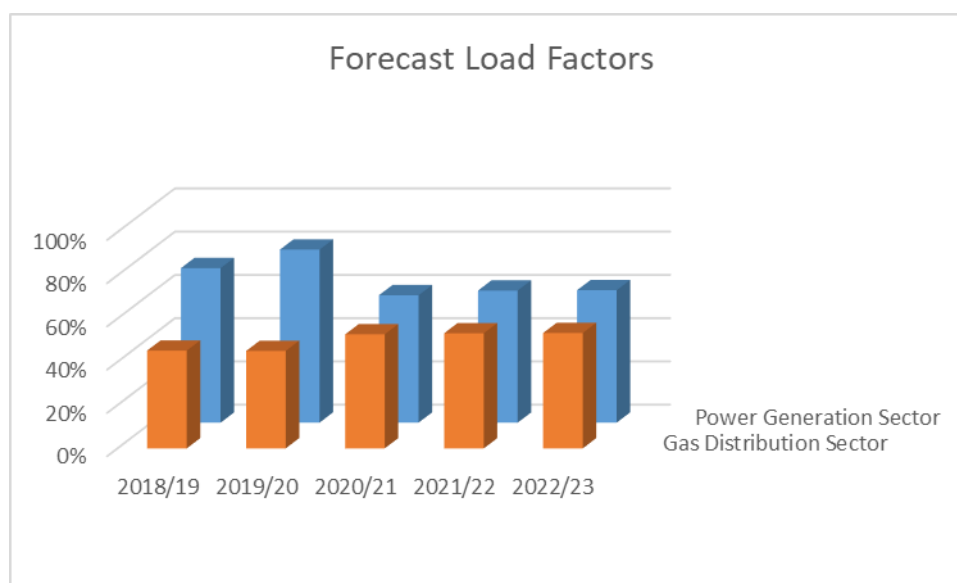
distribution sector), the lower the transfer of cost between groups would be.

8.32. Table 9, below, uses the forecast capacity and commodity in the postalised tariff to calculate the load factors of the two customer groups. The load factors, calculated as the average day (annual volume forecast divided by 365) divided by the peak day requirement (calculated as the average of the entry and exit capacity forecasts), are then illustrated in a bar chart.

Table 9 – Comparing load factors using forecast capacity and commodity

	kWh	2018/19 Postalised year	2019/20 Year 2	2020/21 Year 3	2021/22 Year 4	2022/23 Year 5
Average daily volume						
Power Generation Sector		27,964,784	28,602,318	27,985,414	27,106,438	27,190,356
Gas Distribution Sector		18,949,018	19,486,493	20,730,254	21,382,174	21,866,369
Average peak day capacity						
Power Generation Sector		39,130,589	35,745,371	47,489,544	44,379,268	44,400,642
Gas Distribution Sector		41,907,296	43,227,000	39,308,820	40,168,739	40,967,313
Forecast Load Factor						
Power Generation Sector		0.71	0.80	0.59	0.61	0.61
Gas Distribution Sector		0.45	0.45	0.53	0.53	0.53

Figure 2 – Forecast Load Factors



8.33. The table and bar chart show a narrowing of the forecast load factors, which appears to be caused by a change in how power generators are forecasting their entry capacity bookings. It is likely these forecasts will change as we get nearer to the time, but these provide a useful illustration that the impact on

the different customer groups will vary from year to year and there are no absolutes in this calculation.

- 8.34. A couple of the respondents mentioned that the move to ISEM would lower the load factor for power stations. As explained above, if the power stations have a similar load factor to gas consumers, there is little transfer of costs between customer groups, as indicated in Table 8, which means minimal impact on the two consumer groups.
- 8.35. Our analysis has been limited to the two customer groups of power generation and gas distribution, to reflect how the postalisation forecasts are provided. Although load factors vary within the gas consumer sector, particularly between industrial processes and domestic consumers, the fact that the Gas Distribution Networks (GDNs) charge the postalised tariff to their consumers on a commoditised basis means that all gas consumers are treated as though they use the average capacity, and therefore have the average load factor, for this sector. Therefore, there is no difference in the impact between the different types of gas consumers.
- 8.36. The entry exit split is not set ex-ante, and is calculated as part of the reconciliation process. The same capacity tariff is applied at entry and exit, although the forecast capacity differs between them. Although there may be merit in considering moving to an ex-ante split, and adjusting the split between entry and exit, our analysis shows that this would not make any noticeable difference to recovery between the two customer groups in the next two years. This is shown in Table 10, which recalculates the 19/20 tariff for an ex-ante split of 50:50 and for 70:30 and shows how the entry and exit capacity charges would change as a result. The forecast capacity revenue between the two customer groups is relatively unchanged.
- 8.37. The entry exit split arising from the forecast tariff will be shown in future tariff

publications along with a statement that the actual entry exit split will be calculated ex-post.

8.38. With regard to non-annual Exit Capacity products, this is answered in paragraph 11.17.

Table 10 – tariff recalculated for different entry exit split

Using forecasts from 18/19 published tariff, for 19/20 year amended for 95:5 capacity commodity split	2019/20	2019/20	2019/20
entry split	not allocated	50%	70%
exit split	ex ante	50%	30%
FORECAST POSTALISED ANNUAL CAPACITY TARIFFS			
Auction reserve prices - Annual Entry capacity charge (£ per kWh) Moffat & Gormanston	0.36769	0.41826	0.58557
Annual Exit capacity charge (£ per kWh)	0.36769	0.328024	0.196815
Capacity Revenue from power sector	26,286,253	26,383,846	26,706,694
Capacity Revenue from gas distribution sector	31,788,056	31,690,464	31,367,616

8.39. With regard to the comment that the change to the capacity commodity split would hamper connections growth, we do not consider that there is evidence that the change would have an adverse effect on the growth of connections to the gas network.

Additional information sought by respondents

8.40. We have provided the requested additional information on historic variable costs in section 0. With regard to alignment with RoI, see paragraph 4.46 for our response on alignment between NI and RoI.

8.41. The TAR NC is clear that we must change the capacity commodity split as only flow based costs may be included in commodity charges. As those charges are not forecast to exceed 5%, see paragraph 9.18, we consider that the capacity commodity split should change to 95:5.

Decision to introduce transition period

8.42. As a result of the comments received, we have decided to introduce a three year transition period. This is explained from paragraph 8.22.

8.43. **Introducing this transition period allows us to address the main issues raised by network users by preventing sudden changes which may adversely impact on end consumers. On balance, this is the right approach for the NI transmission network as it will prevent avoidable additional costs for network operators which would result in higher tariffs. We understand that this approach has been proposed by other Member States, for example, Romania.**

Licence Modification Required

8.44. We will need to make licence modifications to conditions 2A.2.5.3(b) and 2A.2.5.2(a) to amend the capacity and commodity percentages. These will be drafted and consulted on in Q1 2019.

9. Criteria for Commodity Based Charges

Decision: Proceed with commodity charge element of 5%.

Summary of Topic

9.1. Article 4(3) sets out the criteria to allow part of the transmission services revenue to be recovered through a commodity based transmission tariff. We were 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

9.2. We outlined the required information in the consultation document.

In Question 3 of the Consultation Document, we asked for views on whether the proposed commodity charge meets the requirements outlined in paragraph 6.2 [of the Consultation Document], specifically, that the charge would be set to recover the costs mainly driven by the quantity of gas flows.

In Question 4, we asked respondents if the information published alongside the postalised tariff provides the information listed in paragraph 6.1 [of the Consultation Document]?

Responses to Consultation

Question 4:

9.3. PNGL states that it would be useful to understand the costs associated with gas throughput in RoI which has determined their higher commodity element.

9.4. PPB refer to their previous comments regarding the lack of detailed forecasts

provided for commodity costs.

- 9.5. ESB GT sought information about why the figure of 5% was chosen, and specifically why not 10%, as is used in RoI. They do, however, agree that: “rounding to a stable percentage has the benefits of being understood and stable, even if the revenue figure it is calculated with is not.”
- 9.6. ESB GT also states that, although we propose not to change the bullet payment method of reconciliation, the possibility of a flow based revenue recovery charge: “may have been relevant for explicit review...especially in the context of a change in the capacity commodity split.”
- 9.7. SSE states UR has: “not shared or indicated that a technical assessment of compression gas costs, which are the primary flow-based charge, has been completed”.
- 9.8. Although the GMO NI supports a reduction in the commodity element, it states that the TSOs may be in a better position to comment on appropriateness of the 5% commodity level.

Question 5:

- 9.9. PPB would welcome additional detail on the assumptions around quantities of Short Term products.
- 9.10. GMO NI and the TSOs acknowledge that the publication of the simplified tariff model alongside the tariffs should provide the information required by the TAR NC.
- 9.11. SSE broadly agrees but notes that: “the details are high-level and would benefit from additional granularity.”

UR Decision and Effect

- 9.12. We outlined in the Consultation Document that the TAR NC allows for under

or over recovery of revenues to be collected through a revenue recovery charge. We stated that we consider that the current single bullet payment, which is recovered within a few months of the end of year, should continue as it provides certainty of revenue for the mutualised TSOs. We continue to have the view that the current process continues to be satisfactory.

- 9.13. Several respondents sought additional information about the rationale for choosing 5% as the commodity percentage. The TAR NC is clear that the flow based charge can only recover variable costs driven by the volume of gas flowed. In the Consultation Document, we referred to compressor fuel costs being the main variable cost.
- 9.14. The compressor fuel costs arise on the section of pipeline operated by GNI (UK) Ltd, between the start of the NI transmission network at Moffat and where the gas flows into the SNIP at Twynholm. The compressors are operated by GNI (UK) to meet the pressure requirements of gas entering both the RoI and NI network depending on the upstream pressure from the GB network and are charged according to an agreement between the TSOs.
- 9.15. To provide some analysis of the historic cost, we have taken the actual compressor fuel costs which were stated in the [gas transmission price control](#) (known as GT17) and compared it to the Actual Required Revenue (ARR) from the annual postalisation year-end reconciliations.

Table 11 – Historic Compressor Fuel Costs

<i>expressed in 18/19 prices, £000s</i>	GAS YEAR 2012-13	GAS YEAR 2013-14	GAS YEAR 2014-15	GAS YEAR 2015-16	GAS YEAR 2016-17	GAS YEAR 2017-18
Actual Compressor Fuel Costs	1,441	1,094	936	910	1,045	1,480
ARR from postalised tariff reconciliation	51,589	50,585	54,092	52,773	48,580	52,036
Compressor fuel as percentage of total ARR	2.8%	2.2%	1.7%	1.7%	2.2%	2.8%

9.16. Compressor fuel is forecast to cost around £1m a year in the [gas transmission price control](#) (known as GT17) over the next five years, as shown on page 40 of the [Final Determination](#). As it is difficult to predict how much compressor fuel will be needed, this is treated as an Uncontrollable Cost in the transmission price control.

9.17. This is compared to the FRR for the next five years² to estimate the percentage of transmission services revenue.

Table 12 – Forecast Compressor Fuel Costs

<i>expressed in 18/19 prices, £000s</i>	GAS YEAR 2018-19	GAS YEAR 2017-19	GAS YEAR 2018-20	GAS YEAR 2017-20
Forecast Compressor Fuel Costs	1,045	1,058	1,063	1,052
FRR from annual postalised tariff model	61,777	61,131	60,223	61,201
Compressor fuel as percentage of total FRR	1.7%	1.7%	1.8%	1.7%

² The FRRs for the next five years were taken from the tariff spreadsheet for the 18/19 year on the GMO NI website, <http://gmo-ni.com/tariffs/future-tariffs>

- 9.18. This analysis indicates that the compressor fuel costs have varied from 1.7% to 2.8% in recent years and are forecast at 1.7%. As the compressor is used for gas flowing into Northern Ireland and the Republic of Ireland, and because it is dependent on the pressure upstream of Moffat, costs will continue to vary in the future. In addition, the total FRRs (the denominator) may change in the future for some currently unforeseen reason, which would alter the percentage even if compressor costs are constant. For example, the 17/18 year end postalised reconciliation shows that the compressor fuel costs were £1.431m (against forecast of £1.038m) compared to actual required revenues of £50.3m (against forecast of £54.9m), which means that variable costs were 2.8% instead of 1.9%. We therefore consider that 5% gives flexibility for variations of expenditure as well as robustness that it meets the TAR NC requirement. Therefore, we conclude that no more than 5% of transmission services costs are variable.
- 9.19. Regarding information on assumptions around Short Term products, the [simplified tariff spreadsheet](#) shows the breakdown of forecast non-annual Entry Capacity bookings.
- 9.20. With regard to the request for further information on the equivalent costs in RoI, the CRU published its [consultation document](#) shortly before this Paper was completed, so we have not yet considered if their costs are comparable.
- 9.21. As we stated in our Consultation Document, we consider there is insufficient benefit in fully aligning the capacity commodity split with the RoI, and this is further explained from paragraph 4.46.

Licence Modification Required

- 9.22. See from paragraph 8.44 for information on modifications.

10. Transmission and Non-Transmission Tariffs

Decision: Continue to classify all services as transmission services.

Summary of Topic

10.1. Article 4 of the TAR NC requires that services must be considered to be either transmission or non-transmission, to comply with the set criteria. We proposed in the Consultation Document to continue to classify all services as transmission services.

In Question 5 of the Consultation Document, we asked for views on whether the services provided by TSOs include an element of non-transmission services, or should the services continue to be solely classified as transmission services?

Responses to Consultation

10.2. GMO NI, GNI (UK), MEL, PPB ESB GT and PPB agree with classifying all services as transmission services.

10.3. SSE seeks clarity on how the costs of the Transportation Agreement between PTL and GNI (UK) at the entry to the SNIP are treated. They further recommend that any new commercial gas pipeline with a new entry point should be deemed to receive non-transmission services: “to ensure that those using such a new entry point pay for such infrastructure.”

UR Decision and Effect

10.4. The costs of the Transportation Agreement are included in the postalisation costs and charged across all customers.

10.5. The postalised regime recovers the costs of the transmission network through

the required revenues of the TSOs, which are collected through the postalised transmission charges. As outlined in section 4, this has enabled network extensions as these costs are recovered across all consumers. Every network extension is subject to public consultation before it is approved.

- 10.6. As all costs are included in the transmission charges, this means that the service provided by TSOs is classified as a transmission service. We consider that the service provided by the TSOs meets the criteria outlined in Article 4 of the TAR NC, as the costs are driven by the technical capacity and are part of the regulated asset base.

Licence Modification Required

- 10.7. None required.

11. Multiplier and Seasonal Factors

Decision: Continue to offer seasonal multiplier factors which meet the aspects listed in Article 28(3)(a) of the TAR NC. Maintain alignment with Republic of Ireland which will include making small amendments to ensure full compliance with TAR NC.

Summary of Topic

11.1. The Consultation Document explained the background to the seasonal multiplier factors that are offered on non-annual entry capacity products. 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

11.2. There is a further requirement in Article 28 to hold a yearly consultation on these factors.

11.3. We considered that the current seasonal multiplier factors meet the aspects listed in Article 28(3)(a) and specifically will deliver a balance between facilitating short term gas trade while providing long term signals for investment.

11.4. 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 ISEM.

11.5. We sought respondents' on two questions on this subject.

In Question 6 of the Consultation Document, we sought views on experiences of the seasonal multiplier factors for non-annual entry capacity in the last two Gas Years.

In Question 7, we asked for views regarding 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?

Responses to Consultation

11.6. All of those who responded to questions 7 and 8 were supportive of the continued use of seasonal multiplier factors and of continued alignment with the Republic of Ireland.

11.7. MEL states that non-annual entry capacity products: "appear to encourage longer term capacity booking which should (always subject to accurate forecasts) reduce volatility in the annual reconciliation process to the benefit of all parties." MEL says they would anticipate that any proposal to make significant change should be on a coordinated basis.

11.8. PPB agrees that NI should align the seasonal multiplier factors with those in RoI but considers that NI: "should have influence over the derivation of the factors such that they are reflective of circumstances in both jurisdictions." Further, it notes the: "derivation of the factors must not merely be an arbitrary process but must be based on a set of justifiable principles."

11.9. ESB GT states that: "the availability of within year products at Entry...has been useful to Shippers".

- 11.10. ESB GT welcomes the proposal to continue alignment of the seasonal multiplier factors with RoI. They said: “misalignment of multipliers could result in impacts on cross-border flows, in the sense of diversion to an alternative market rather than transit.”
- 11.11. With regard to investment, ESB GT states that: “the needs of the largest user group need to be given significant attention...Without this group, the cost recovery burden from any additional investment would increase significantly for small gas users and be a barrier to fuel switching”
- 11.12. Both ESB GT and SSE ask that non-annual capacity products are offered at exit as well as entry.
- 11.13. SSE says: “if UR are considering whether an investment environment is based on long term signals, then it should also acknowledge that CWD [capacity weighted distance cost allocation methodology] has the effect of providing locational signals to large gas users.”
- 11.14. SSE also states that: “it would be prudent for the UR to take the opportunity of the tariff review methodology as an opportunity to review how best to “future proof” gas demand at an aggregate level in Northern Ireland”

UR Decision and Effect

- 11.15. We welcome the positive feedback from the respondents. We have decided to continue to apply seasonal multiplier factors on the non-annual entry capacity products to meet the requirements of the TAR NC, and to continue to align with the factors offered in the Republic of Ireland.
- 11.16. We recognise that the current factors are slightly above the limits allowed under TAR NC, and we note that the CRU is [proposing](#) amendments which will bring their factors within the TAR NC limits. We intend to facilitate the first annual consultation on these factors, which will propose mirroring the CRU

amendments, so that the factors can be set in time for the postalised tariff for Gas Year 19/20.

- 11.17. With regard to the requests for non-annual capacity at Exit, UR consulted and [published its decision](#) in 2016 and stated: “The outcome of the review therefore does not support the introduction of such products into the existing gas regime at this time.”
- 11.18. We are not actively considering this as part of this consultation process.
- 11.19. Further, we do not consider that it necessary to review our tariff review methodology as outlined earlier in this document. We are satisfied that the postalised tariff regime meets the requirements of the TAR NC.
- 11.20. We agree with the comments regarding coordinating with CRU as they work through their consultation and decision process for TAR NC. We have had a number of discussions with CRU as, in addition to the regular contact we already have, we have an obligation in Article 28 (1) of the TAR NC to “conduct a consultation with the national regulatory authorities of all directly connected Member Stakes”.

Licence Modification Required

- 11.21. Article 28(2) of the TAR NC requires that the seasonal multiplier factors are consulted upon in every tariff period. We will need to make licence modifications to outline this annual consultation and publication process as part of the tariff setting process. These will be drafted and consulted on in Q1 2019.

12. Publication Requirements

Decision: To make the improvements to the published documents as outlined in paragraph 12.2 below. This requires licence modifications to ensure annual publication of the seasonal and multiplier factors.

Summary of Topic

12.1. 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. We listed these in Table 6 of the consultation document and stated that much of this information is already published by the GMO NI on its website.

12.2. We stated in the Consultation Document that we consider some minor changes are necessary to completely meet the requirements of the TAR NC, specifically:

- The simplified tariff model required by Article 30(2)(b) to be published by the GMO NI. This has subsequently been published and is [now available](#) on the GMO NI website.
- The seasonal multiplier factors, which were published by UR in 2015 called the [Gas Product Multipliers and Time Factors](#), need to be published annually following the annual consultation on the factors, as required by Article 28(2) of the TAR NC.
- The existing documents should include an assessment of the probability of interruption, as required by Article 29(b). This will be added to one of the existing publications.
- Although not specifically included as a requirement, we intend to ensure that the requirement to offer a 50% discount on entry and exit capacity charges for storage facilities is included in one of the existing publications.
- The entry exit split arising from the forecast tariff should be shown along

with a statement that the actual entry exit split will be calculated ex-post.

In Question 8 of the Consultation Document, we asked respondents to share their view as to whether the transmission charges publications listed in Table 6 of the Consultation Document were 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.

Responses to Consultation

- 12.3. PPB and MEL agree that the publications are sufficient.
- 12.4. ESB GT notes that GMO NI and UR are responsible for different publications and say that it would be useful to have: “a single route of access to all the data and a clear timetable for publication.”
- 12.5. SSE says: “There is no model available to review in order to see how the indicative tariff is constructed.” They request further information: “in order to make a considered response.”
- 12.6. PPB states that: “The one issue that has caused difficulty is the volatility of tariffs”, which, “makes it difficult for users to budget gas transportation costs to a reasonable level of accuracy.”
- 12.7. GMO NI notes that the publications should provide transparency and are willing to consider publishing further information if it would improve transparency further.
- 12.8. PNGL asks why, with the UK’s upcoming departure from the EU, the UR considers the NI gas industry needs to comply with this Regulation.

UR Decision and Effect

- 12.9. We welcome the positive comments and we agree with ESB GT that a single

source of information is preferable. We will work with the GMO NI to ensure that this happens.

12.10. We will engage with the GMO NI to agree the required amendments to the publications as outlined in paragraph 12.2.

12.11. The model which shows how the indicative tariff is constructed is the Simplified Tariff Model which is published alongside the published tariff on the GMO NI website³. Also on the GMO NI website, at the same hyperlink, is the Explanatory Note which explains the assumptions in the tariff and how they have changed from year to year.

12.12. To implement the proposal on the seasonal multiplier factors requires two actions:

- Firstly, we will propose a licence modification to require the TSOs to publish the factors annually, therefore allowing it to be published on the GMO NI website along with the other transparency documents.
- Secondly, we will engage with the GMO NI to ensure that processes are in place to ensure that the factors are consulted on annually. We anticipate that the time to hold this consultation will be during the postalisation tariff setting, between April and May each year.

12.13. With regard to PNGL's question about departure from the EU, at this time, we continue to be obliged to comply with the Regulation.

Licence Modification Required

12.14. The required modifications are discussed at paragraph 11.21.

³ Simplified Tariff Spreadsheet available at the GMO NI website - <http://gmo-ni.com/tariffs/explanatory-notes>

13.Next Steps

- 13.1. As outlined in the consultation document, we consider that the NI transmission charging regime is already largely compliant with the TAR NC. The main change to ensure compliance is to amend the capacity commodity split, which will need to be implemented through modifications to the TSO licences.
- 13.2. Article 28(2) of the TAR NC requires that the seasonal multiplier factors are consulted upon in every tariff period. We will need to make licence modifications to outline this annual consultation and publication process as part of the tariff setting process.
- 13.3. The four transmission licences are held by Belfast Gas Transmission, GNI (UK), Premier Transmission, and West Transmission.
- 13.4. These will be drafted and consulted on in Q1 2019.

Indicative timetable

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

Table 13 - Summary of the timetable for the work

Indicative Date	Task	Responsible
Q 1 2019	Consultation on licence modifications	UR
Q 1 2019	Consultation on inter TSO compensation mechanism	UR
Q 2 2019	Publish decision on licence modifications and inter TSO compensation mechanism	UR
Q 2 2019	Seasonal multiplier annual consultation process	UR/ TSOs
May 2019	Compliance with TAR NC	All

14. Annex 1 – Features of Postalisation

- 14.1. The NI transmission network is owned and managed by four TSOs, it is operated as a single system, in a single zone with a single transmission tariff.
- 14.2. The postalised regime is designed to ensure that the TSOs receive all of their required revenue. The transmission services revenue, which is used to determine the tariff, is the sum of the TSOs' required revenues. Tariff payments are made into a joint bank account (the PoT) which are distributed to TSOs following licence formulae until all of their required revenue has been received. This is expanded from paragraph 14.4.
- 14.3. The four TSOs have implemented a contractual joint venture arrangement to jointly operate the market facing commercial arrangements, known as the Gas Market Operator for Northern Ireland or GMO NI. This is further explained from paragraph 14.9 below.

Key Features of Postalisation

- 14.4. The postalised charging regime is based on an exit point payment mechanism where suppliers pay entry and exit capacity charges and commodity charges based on their booked entry and exit capacity and volumes transported. A supplier pays the same tariff, regardless of how far the gas has travelled. The NI Network comprises four separate pipelines (see section on topology from paragraph 15.1) operated as one and a supplier pays the same tariff if they use more than one pipeline. For example, to bring gas to Coolkeeragh means using the PTL, BGTL and GNI UK pipelines, but single tariff applies.
- 14.5. The postalised tariffs are charged to all users at their exit point irrespective of where they exit or what pipelines they use.

- 14.6. The postalised charging regime is managed on an annual cycle. Forecast Postalised Charges are set, ahead of the Gas Year, based on estimated TSO costs and the forecast capacity and commodity quantities for the forthcoming Gas Year. These Forecast Postalised Charges are applied in invoices during the Gas Year. Following the Gas Year, once the TSO actual costs along with the actual quantities of capacity booked and commodity flowed are known, a reconciliation calculation is carried out in order to determine the 'actual' unit price for the Gas Year, and a reconciliation charge/ payment is made after the end of the Gas Year to make up for any differences.
- 14.7. This means that the TSOs are not exposed to either capacity or volume risk as suppliers will eventually pay all of the TSO required revenues.
- 14.8. Similarly bad debt would be recovered, ultimately, from all gas suppliers.

Regulatory and contractual structures underpinning postalisation

- 14.9. The current postalised system has a number of distinct features including a detailed regulatory structure which ensures that each TSO receives its allowed costs through the collection of a common tariff. This complexity is necessary to manage the exit point payment mechanism, to mitigate the risk to revenue transfers between the TSOs, and to mitigate the risks to shippers of bad debt. These are:
- A Postalised System Administrator (PSA) to administer the Postalised system, e.g. to calculate forecast tariffs, calculate the year-end reconciliation payments or repayments, and verify all payments into the bank account.
 - A bank account held in trust (the PoT) into which all postalised transmission charges and debt recoveries are paid, and from which distributions are made to each TSO, and, in the event of an over recovery, via the TSO to

suppliers.

- A shipper credit committee to manage debt and credit issues
- The disbursement account which holds payments and receipts which arise through separate network code charges. As the TSOs are 'revenue neutral' to these code charges, any surplus in this account is redistributed to all suppliers on a monthly basis using a 'disbursement' process.

14.10. Detailed regulatory and contractual arrangements underpin postalisation in NI, composed of:

- Common licence conditions. The PTL, BGTL, GNI (UK) and WTL Transmission Licences require them to take all reasonable steps to establish, maintain in force and comply with arrangements which ensure there is the common provision of services and systems by all TSOs to any person using any part of the system of high pressure gas pipelines in Northern Ireland, known as "Single System Operation Arrangements".
- Single System Operator Agreement (SSO) – the TSOs entered into the SSO for the purposes of ensuring:
 - that there is proper co-ordination and co-operation between them so as to ensure the safe and efficient operation of the NI Network;
 - to facilitate arrangements so that the NI Network will be a single balancing zone;
 - to facilitate implementation of certain arrangements contemplated by the NI Network Gas Transmission Code, particularly to set up the Gas Market Operator for Northern Ireland (GMO NI) and that they will carry out the business of the GMO NI in conjunction with each other.
- System Operator Agreement (SOA) sets out how the SSO arrangements will be delivered and agreed that:

- the NI Network Gas Transmission Code provides the basis on which the TSOs will interact with the Shippers who are party to the Code. The GMO NI manages and maintains the NI Network Gas Transmission Code on behalf of the TSOs and provides a single interface for Shippers
- each TSO continues to be responsible for providing access to its own network and retains primary responsibility for providing services to Shippers
- where the NI Network Gas Transmission Code references the Transporter then this will be read as meaning all of the TSOs acting together
- NI Network Gas Transmission Code
 - The terms which contractually enable the Transporter to charge Shippers are contained in this Code. It clarifies how the charging terms in the Network Code relate to the charging obligations set out in the Licence.
 - It sets common rules at transmission level, including relating to suppliers providing credit security for their postalisation payments and the procedures for dealing with non-payments on the system, the alignment of invoicing cycles and information provision requirements
- GMO NI provides a single point of contact for all commercial activities and carries out the administration of charging on behalf of the TSOs. This single point of contact and single code eliminates duplication and improves efficiency. This ensures that the costs of operating the network, which are included in the transmission services revenue and recovered through the tariffs, are lower for customers than they would otherwise have been.

14.11. The GMO NI manages a range of functions including:

- Market Operations including capacity bookings, nominations and allocations
- Single Code administration and interface with UR on Code and market-related issues.
- Administration of energy balancing charges
- Production of Market Reports – ensuring transparency
- Procurement and administration/operation of a single IT system
- Invoicing function – GMO NI issues invoices to Shippers instead of the TSOs. Shippers make payment into a bank account held in trust (the PoT) which is dispersed by the GMO NI to the TSOs following licence formulae
- First point of contact for new connections

15. Annex 2 - Topology of NI gas transmission network

- 15.1. The NI gas transmission network is a simple linear system, located on the periphery of the European gas network with no cross system flow. Gas flows from the GB National Transmission System (NTS) into the NI network at Moffat. The main entry point is to the east, with a secondary entry point to the south.
- 15.2. The NI Gas Capacity Statement provides an overview of the network and a summary of section 3 of the [2018 Statement](#) explains the Network in simple terms.

Figure 3 – Extract from NI Gas Capacity Statement, 2018

NI Gas Capacity Statement – summary from Section 3

- 3.1 The Moffat Entry Point connects the Northern Ireland and Ireland gas networks to National Grid's National Transmission System (NTS) in Great Britain (GB)... From the connection with the National Grid system at Moffat, the Scottish onshore system (SWSOS) consists of a compressor station at Beattock, which is connected to Brighthouse Bay
- 3.3 Before reaching the Brighthouse compressor station, an offtake station at Twynholm supplies gas to Northern Ireland via the Scotland to Northern Ireland Pipeline (SNIP). The SNIP pipeline has a maximum operating pressure of 75barg, although there is a minimum guaranteed supply pressure into the NI system, of 56barg.
- 3.5 The ...600mm SNIP...has a maximum operating pressure of 75barg. The pipeline is 135km long, runs towards the coast near Stranraer and crosses the Irish Sea to terminate at Ballylumford Power Station, Islandmagee. The SNIP is owned and operated by Premier Transmission Limited.

3.6 The Belfast Gas Transmission Pipeline (BGTP) comprises a further 35kms of 600mm pipeline with a maximum operating pressure of 75barg and runs from Ballylumford via Carrickfergus to Belfast... The North-West Pipeline (NWP) extends a further 112km of 450mm pipeline from Carrickfergus to supply the power station at Coolkeeragh. The NWP is owned and operated by GNI (UK) Ltd...

3.7 A 450mm pipeline connecting the Interconnector System to the NWP was built in 2006. This pipeline, called the South-North Pipeline (SNP), is 156km long and extends from the IC2 (Interconnector 2)2 landfall at Gormanston, Co. Meath in Ireland to Ballyalbanagh on the NWP, approximately 12km west off the Carrickfergus AGI3 (above-ground installation).

15.3. In addition, the construction of 200km of gas pipelines as part of the Gas to the West Project commenced in October 2017. West Transmission Limited (WTL) will own and operate the pipeline.

15.4. The NI network starts at Moffat, which is the Interconnector Point (IP), while Twynholm is the start of the SNIP.

15.5. We have included two maps – the first is the GNI Pipeline Map which shows the current NI transmission network. The second one, which was included in our paper announcing the outcome of the Gas to the West application process in November 2014, also shows the Gas to the West extension.

Figure 4 – GNI Pipeline Map

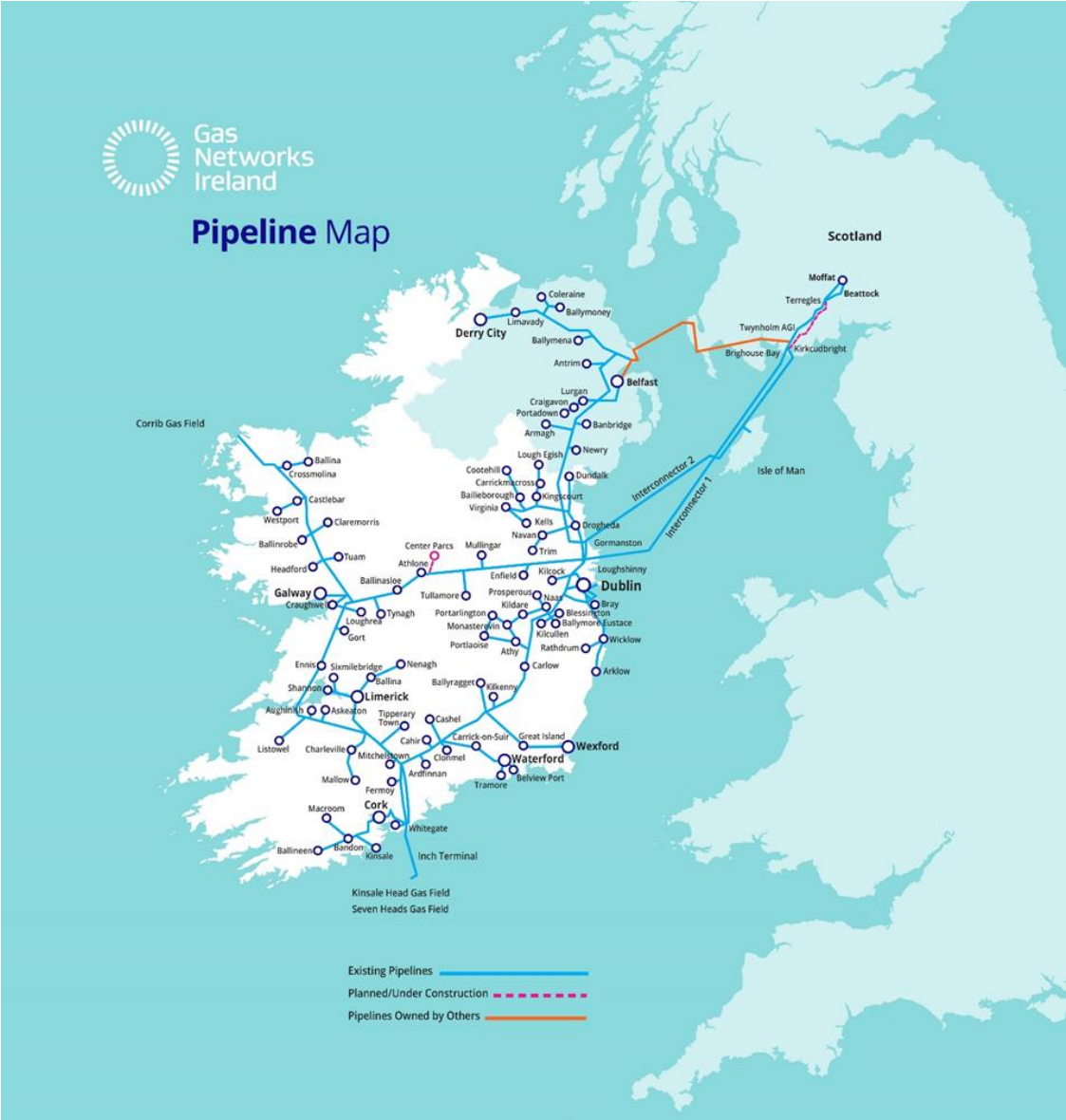
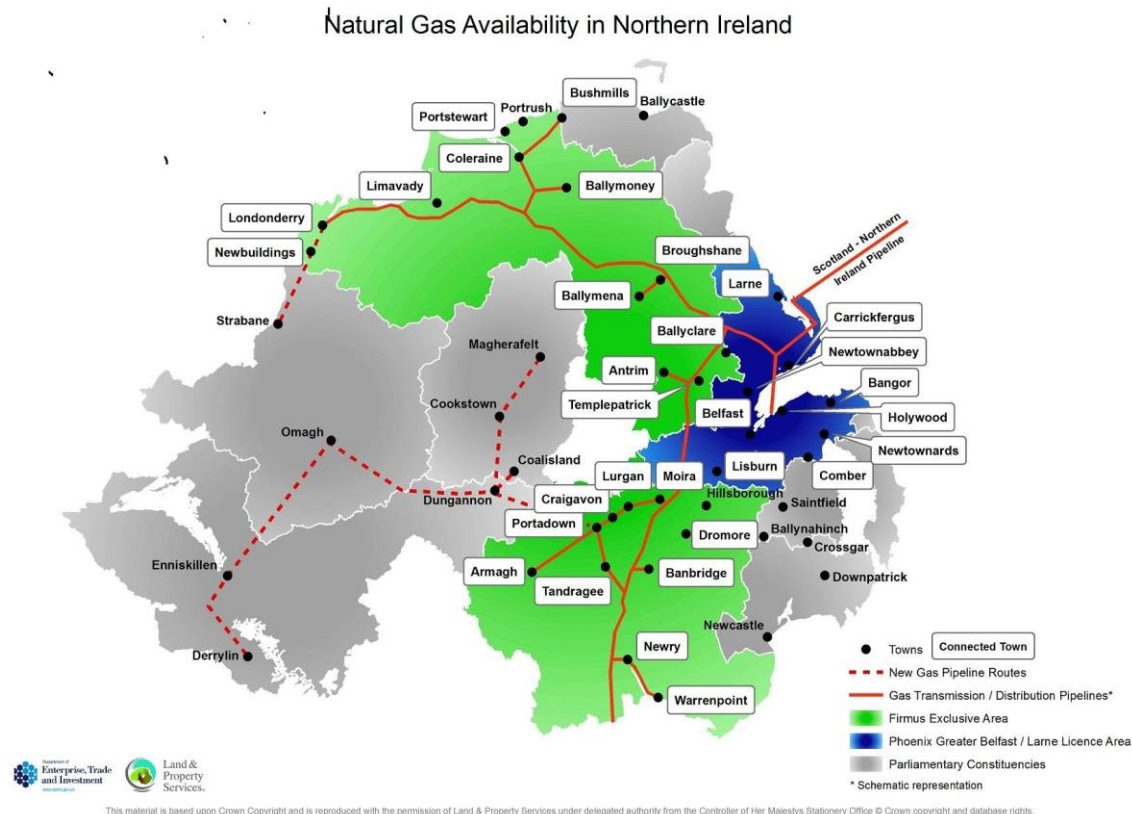


Figure 5 – Map of NI transmission pipeline



15.6. The NI gas network has grown from zero in 1996 through steady growth to 250,000 gas consumers⁴.

15.7. Close to 200,000⁵ properties currently have access to gas but are not yet connected and the planned network extensions of Gas to the West and the East Down extensions will bring gas to an additional 67,000 properties.

⁴ <https://www.uregni.gov.uk/sites/uregni/files/media-files/2018-11-30%20Transparency%20Report%20Q3%202018%20FINAL.pdf>

⁵ Using figures from the [firmus energy annual development plan](#) and the [Phoenix Natural Gas website](#) shows that gas is available to around 435,000 properties