

Decision paper on revised electricity and gas licence fee methodologies



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.

The infographic consists of three colored boxes with white arrows pointing to the right, set against a green background. The top-left box is purple and contains the text 'Our mission' and 'To protect the short and long term interests of consumers of electricity, gas and water'. The top-right box is blue and contains the text 'Our vision' and 'To ensure value and sustainability in energy and water.'. The bottom box is dark green and contains the text 'Our values' followed by a bulleted list of four items: 'Be a best-practice regulator.', 'Be professional.', 'Be a collaborative, co-operative and learning team.', and 'Be motivated and empowered to make a difference.'

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.
- Be professional.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

This paper sets out the decision in respect of the revised licence fee methodologies for gas and electricity, outlined at annex 1 and 2 respectively, as previously consulted on. These have been revised to take account of changes required as a result of the new Licence Modifications and Appeals Regulations, to incorporate charging for Demand Side Units (DSU's) and Aggregated Generating Units (AGU's), to confirm the basis on which electricity generator and supply licence holders will be charged and to clarify the UR costs to be charged. The main changes in respect of both electricity and gas are outlined in the body of this paper.

Audience

This will primarily be of interest to gas and electricity licence holders, current or future.

Consumer impact

Utility Regulator costs of regulation are charged to licence holders. This paper deals with how Utility Regulator costs are apportioned between individual electricity and gas licence holders and aims to ensure a fair allocation among regulated companies. The licence fee methodology is not likely to have a significant impact on the amounts ultimately charged to consumers. In terms of the costs of regulation the Utility Regulator aims to operate efficiently and ensure value for money throughout the work that it undertakes.

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Introduction

Background

1. The Utility Regulator incurs costs in the regulation of the electricity, gas and water and sewerage industries. Annual costs of the Utility Regulator are split between electricity, gas and water and recovered from licence holders in the respective sectors. Fees are issued annually to all licence holders based on an estimated cost position early in the financial year with an adjustment for actual costs made in the following year. All licence holders pay a fee whether that is through a granting charge or annual fee applied.
2. Conditions in all licences permit the Utility Regulator to recover costs from licence holders. The costs of gas and electricity regulation are split between licence holders in each sector based on agreed methodologies. For gas the methodology was last reviewed in 2012/13 and for electricity this was revised in 2011/12.
3. The costs of electricity regulation have previously been split equally between transmission, generation and supply licence holders. These costs have then been further allocated to individual licence holders based on Declared Net Capacity for generators, supply volumes for supply licence holders and to the main transmission licence holder net of SONI, SEMO and Moyle licence fees. All licence holders have been subject to a minimum annual fee. New licencees pay a granting fee in the year the licence is issued and an annual fee from 1 April thereafter. The electricity licence fee methodology made provision for costs of Competition and Markets Authority (CMA) referrals to be charged to individual licence holder or groups of licence holders at the UR discretion.

4. In terms of recovering the costs of gas regulation, all gas supply licence holders previously paid a minimum of £1,500 uplifted annually for RPI. The balance of costs has previously been charged to conveyance licence holders participating in transmission activities. The gas methodology also made provision for the costs of CMA referrals to be charged to individual licence holders or groups of licence holders at the UR discretion.
5. The Utility Regulator also recovers the energy costs of the Consumer Council of Northern Ireland (CCNI) from electricity and gas licence holders. These are charged to supply licence holders and conveyance licence holders that participate in distribution activities respectively.
6. Methodologies for gas and electricity have been revised to clarify the basis of electricity licence charges for AGUs and DSUs, to update how charges will now be allocated on the basis of capacity, and to ensure the allocation of CMA related costs in line with the requirements of the Licence Modification and Appeals Regulations 2015. Section 2 of the paper highlights the main changes from the previous methodologies. The revised electricity and gas methodologies are attached at annex 1 and 2.

Summary of Changes

Gas Methodology

7. The principles in the gas methodology remain unchanged in that supply companies will continue to pay a minimum fee uplifted annually for RPI with the balance of costs split between conveyance licence holders engaging in transmission activities on the basis of forecast volumes. Conveyance licence holders engaging in distribution activities will continue to pay the CCNI costs using forecast volumes to allocate between licence holders.

8. The primary change is in relation to the CMA (previously Competition Commission) section. That has been removed as a result of the new Licence Modifications and Appeals Regulations. Clarification is now provided in respect of other costs that the UR may have the discretion to charge to individual or groups of licence holders if that is considered more appropriate. That is consistent with the electricity licence fee methodology. Some further clarification is also provided in relation to the Utility Regulator costs to be recharged and the treatment of part-year licence holders.

Electricity Methodology

9. The methodology has been revised to take account of the Licence Modification and Appeals Regulations and the previous sections on CMA costs have therefore been removed. Provision is also made, as with the gas licence fee, to charge certain fees to individual or groups of licence holders where that is considered more appropriate.
10. The previous methodology did not make any provision for the charging of annual licence fees to AGU's and DSU's. While there was a mechanism for charging generation licence holders that could not be applied in its current form to DSU's and AGU's. In addition, the charging for generation licence holders was based on the Utility Regulator being able to confirm DNC to Land and Property Services (LPS) information. However given that the LPS have now changed their method for valuing generators the information obtained by the Utility Regulator could no longer be validated in this way.
11. The revised methodology now proposes a charging method for AGU's and DSU's on the basis of capacity. Annual fees will be calculated for these types of licences holders alongside generators; with the basis for all being some form of capacity, as defined in the methodology. That capacity will be deemed to be applicable for the full year unless the operator can verify to the Utility Regulator that this has not been the case. In those cases the Utility Regulator will decide whether a pro rata adjustment is to be applied.

12. The Utility Regulator will continue to obtain capacity information from the licence holders but will seek to verify this data by reference to data held by an authoritative third party.
13. Supply and transmission licence holders will continue to be charged on the same basis as in the previous methodology. Some clarification is provided in the revised methodology in terms of the Utility Regulator costs to be re-charged and the treatment of application fees, granting fees and minimum fees. All electricity licence holders will continue to pay at least the minimum fee whether through the granting fee issued on award of the licence or through their annual licence fee. The proposed methodology also outlines the conditions for a part year licence fee.

Responses to the consultation

14. The revised methodologies were subject to consultation and one response was received in relation to the allocation of the electricity network regulation costs. The consultation suggested an equal split between the main transmission and distribution licence holders. The consultation response suggested allocating a higher proportion to distribution on the basis that such an approach would be more reflective of the size of the two businesses holding the main transmission and distribution licences.

UR Decision

15. Both the asset base and the revenue of the main transmission and distribution licence holders have been considered in the context of the consultation

response. In light of this a decision has been made to allocate 80% of the network regulation costs to the main distribution licence holder and 20% to the main transmission licence holder. These fees are net of any minimum charges to be applied to other transmission and distribution licence holders.

16. All other proposals remain as proposed in the consultation.

Next Steps

17. Licence fees for the 16/17 financial year will be issued in line with this revised methodology.

Annex 1 – Gas Methodology

Gas licence fees for each category of licence will be calculated in accordance with the following methodology.

Supply Licence

Each gas supply licence holders will pay a fixed fee of £1,500 (2012 real) that will increase annually based upon the Retail Price Index (RPI).

Conveyance Transmission Licence

The remaining gas regulatory costs – defined as the amount of the Utility Regulator’s estimate of its costs which will be associated with the regulation of the gas industry in the current financial year (but net of the fixed supply licence charges and any licence application/extension fees received in year) – will be apportioned between gas conveyance licence holders who participate in transmission activities during that year. Each such gas conveyance licence holder will pay a proportion of those costs equal to its *[forecast]* share of the total forecast volumes to be transmitted in that year.

Conveyance Distribution Licence

Conveyance licence holders who participate in distribution activities during the current financial year will pay a fee designed to recover the CCNI’s estimated costs associated with gas issues in respect of that year. Each such gas conveyance licence holder will pay a proportion of those costs equal to its *[forecast]* share of the total forecast gas volumes to be distributed in that year.

Part-Year Licence Holders

Where the holder of a gas licence holds that licence for only part of a financial year – whether because it obtained it after the start of that year, or the licence was revoked before the end of that year – it will pay the fee that would have been payable had it held that type of licence for

the full financial year, but pro-rated to reflect the proportion of the year for which it is actually held.

Adjustment to the previous year's licence fee (if required)

To clarify the Utility Regulator will, as before, make an adjustment to licence fees in respect of each year:

- should actual gas regulatory and/or CCNI costs for the previous year vary from estimated costs;
- should actual gas volumes for the previous year vary from forecasted volumes.

Alternative basis for certain fees

In relation to future activities undertaken by the Utility Regulator in the performance of its functions, where the costs of such activities exceed £5,000 and where the performance of those functions is intended by the Utility Regulator only to affect a particular gas licence holder or group of licence holders, the Utility Regulator may exclude those costs from the gas regulatory costs to be recovered from gas conveyance licence holders who participate in transmission activities and may instead charge them to any such licence holder or group of licence holders in such proportions as the Utility Regulator shall in its discretion determine.

Clarification on base lending rate which will be applied by the Utility Regulator in event of non-payment of licence fee

The Utility Regulator designates the Bank of England Official Bank Rate for the purposes of the following provisions of the condition on payment of fees to the Utility Regulator in the licence of each gas licence holder: "where the Licensee fails to pay the amount of the licence fee as notified to it under paragraph XX above within the 30 day period specified, it shall with effect from the end of that 30 day period pay simple interest on the amount at the rate which is from time to time equivalent to the base lending of an institution designated by the Authority for this purpose".

Annex 2 – Electricity Methodology

Electricity licence fees for each category of licence will be calculated in accordance with the following methodology

Subject to the payment by all electricity licence holders of a minimum annual fee in respect of each licence held by them – one-third of the Utility Regulator's electricity regulatory costs will be charged to the holders of generation licences (the **generation amount**), one-third to the holders of transmission and distribution licences (the **network amount**), and one-third to the holders of electricity supply licences (the **retail amount**).

The total of electricity regulatory costs to be recovered in any financial year is defined as:

- (a) the amount of the Utility Regulator's estimate of its costs which will be associated with the regulation of the electricity industry (including relevant costs associated with the Single Electricity Market) in the current financial year;

minus

- (b) the amount of the Utility Regulator's estimate of fees which will be received in the current financial year:
 - (i) in respect of applications for licences or extensions of licences;
 - (ii) in respect of fees payable in relation to the financial year during which an electricity licence is granted (and identified in the conditions of that licence as such); and

- (iii) by way of any minimum annual fees in respect of electricity licences other than generation, transmission, distribution and supply licences;

plus or minus

- (c) any deficit or surplus in respect of the preceding financial year (being the difference between the Utility Regulator's estimate in accordance with paragraphs (a) and (b) of the electricity related costs and fees in that year and the actual electricity related costs and fees incurred in that year).

Minimum Annual Fee – All Licence Holders

All licence holders will pay a minimum annual fee of £1500 (expressed in [April 2011] prices and to be increased annually thereafter based upon the Retail Price Index (RPI)) in respect of each licence held by them.

However, where a fee calculated for any licence holder in accordance with the following provisions of this methodology is greater than the minimum annual fee, the licence holder shall instead pay that higher fee.

Annual Fee – Generation Licence Holders

The fee payable by any holder of a generation licence in any financial year in respect of that licence shall be the relevant proportion of the generation amount in that year. That fee shall be calculated as follows:

$$\text{Licence Fee} = [\text{GA} \times (\text{DNC} / \text{TDNC})] \pm \text{ADJ}$$

Where:

GA = the generation amount (net of the minimum annual fees payable to the Utility Regulator in that year by those holders of a generation licence which are required to pay only the minimum annual fee).

DNC = the sum of the following:

- (a) In the case of a licence holder which generates electricity under a licence – the total Registered Capacity of all generating stations operated by that licence holder under the licence at the start of the current financial year;
- (b) In the case of a licence holder which acts as a Generator Aggregator under a licence – the total Registered Capacity of all Aggregated Generating Units operated by that licence holder under the licence at the start of the current financial year; and
- (c) In the case of a licence holder which is a Demand Side Unit Operator under a licence – the total Demand Side Unit MW Capacity of all Individual Demand Sites operated by that licence holder under the licence at the start of the current financial year,

(which data the licence holder shall provide to the Utility Regulator by 31 May in the current financial year).

TDNC = the aggregate DNC of all such licence holders.

ADJ = an adjustment in respect of the preceding financial year, being the difference (which may be a positive or negative amount) between:

(i) the fee payable by the licence holder in that year; and

(ii) the fee that would have been payable had DNC for each licence holder, and in consequence TDNC, been calculated in respect of that year by reference to:

(A) in the case of a licence holder which generates electricity under a licence – the total Registered Capacity of all generating stations operated by that licence holder under the licence at the end of that financial year;

(B) in the case of a licence holder which acts as a Generator Aggregator under a licence – the total Registered Capacity of all Aggregated Generating Units operated by that licence holder under the licence at the end of that financial year; and

(C) in the case of a licence holder which is a Demand Side Unit Operator under a licence – the total Demand Side Unit MW Capacity of all Individual Demand Sites operated by that licence holder under the licence at the end of that financial year,

(which data each licence holder shall provide to the Utility Regulator by 31 May in the current financial year)

For these purposes:

- 'Operators of AGUs or DSUs' means the holders of generation licences which are Generator Aggregators or Demand Side Unit operators under the SEM Trading and Settlement Code (as indicated on the face of the generation licences granted to them) acting in their capacity as such.
- 'Registered Capacity', 'Aggregated Generating Unit', 'Demand Side Unit MW Capacity' and 'Individual Demand Site' shall have the meanings given to those expressions in the SEM Trading and Settlement Code, as may be varied from time to time.
- The Utility Regulator may audit data provided to it by the holder of a generation licence by: (i) requiring that licence holder to provide such supporting evidence as the Utility Regulator may reasonably need in order to verify the accuracy of those data; (ii) seeking verification of those data by reference to data held by an authoritative third party; and/or (iii) making such adjustments to those data as are appropriate in order to ensure that the data used for the purposes of calculating licence fees are accurate.

- Where the holder of a generation licence does not provide the Utility Regulator with data or supporting evidence by the required date, the Utility Regulator may rely on such alternative data as it may obtain from an authoritative third party.
- Where the holder of a generation licence (or another authoritative third party) notifies the Utility Regulator of the DNC of that licence holder either at the beginning or the end of a financial year, the licence holder shall be deemed to operate the generating stations, Aggregated Generating Units and/or Individual Demand Sites to which that DNC relates at all times during that financial year except where it can demonstrate to the satisfaction of the Utility Regulator that it does not (in which case the Utility Regulator will make an appropriate pro rata adjustment to reflect the part of the year during which it is not operating that generating station).

Annual Fee – Transmission and Distribution Licence Holders

The holder of a transmission licence which is the owner of the largest transmission system in Northern Ireland, and which participates in transmission by making that system available, shall pay 20% of the network amount in each financial year (net of the minimum annual fees payable to the Utility Regulator in that year by the holders of any other transmission licences).

The holder of a distribution licence which is the owner of the largest distribution system in Northern Ireland shall pay 80% of the network amount in each financial year (net of the minimum annual fees payable to the Utility Regulator in that year by the holders of any other distribution licences).

Annual Fee – Supply Licence Holders

The fee payable by any holder of an electricity supply licence in any financial year shall be the relevant proportion of:

- the retail amount in that year,

plus
- the amount notified by the General Consumer Council to the Utility Regulator as likely to be its costs associated with the electricity industry in the current financial year, plus or minus any deficit or surplus in respect of the preceding financial year (being the difference between the General Consumer Council's estimate of its costs in that preceding financial year and its actual costs in that year) – the **GCC amount**.

That fee shall be calculated as follows:

$$\text{Licence Fee} = [(\text{RA} + \text{GCC}) \times (\text{QS} / \text{TQS})] \pm \text{ADJ}$$

Where:

RA = the retail amount (net of the minimum annual fees payable to the Utility Regulator in that year by those holders of a supply licence which are required to pay only the minimum annual fee).

GCC = the GCC amount.

QS = the total quantity of electricity which was supplied by the licence holder under the licence in Northern Ireland in the previous financial year (which data the licence holder shall provide to the Utility Regulator by 31 May in the current financial year).

TQS = the aggregate QS of all electricity supply licence holders.

ADJ = an adjustment in respect of the preceding financial year, being the difference (which may be a positive or negative amount) between:

- (i) the fee payable by the licence holder in that year; and
- (ii) the fee that would have been payable had QS and TQS been calculated in respect of that year by reference to the quantity of electricity which was supplied by each licence holder in Northern Ireland under each licence held by it in that year (which data each licence holder shall provide to the Utility Regulator by 31 May in the current financial year).

For these purposes:

- The Utility Regulator may audit data provided to it by the holder of a supply licence by: (i) requiring that licence holder to provide such

supporting evidence as the Utility Regulator may reasonably need in order to verify the accuracy of those data; (ii) seeking verification of those data by reference to data held by an authoritative third party; and/or (iii) making such adjustments to those data as are appropriate in order to ensure that the data used for the purposes of calculating licence fees are accurate.

- Where the holder of a supply licence does not provide the Utility Regulator with data or supporting evidence by the required date, the Utility Regulator may rely on such alternative data as it may obtain from an authoritative third party.

Annual Fee – Part-Year Licence Holders

Where the holder of an electricity licence ceases to hold that licence during a financial year, it may apply to the Utility Regulator for a reduction in (or rebate on) the fee that would have been payable (or has been paid) by it in respect of the full financial year, and the Utility Regulator may grant such reduction (or rebate), if any, as it considers to be appropriate in all the circumstances of the case.

Alternative Basis for Certain Fees

In relation to future activities undertaken by the Utility Regulator in the performance of its functions, where the costs of such activities exceed £5,000 and where the performance of those functions is intended by the Utility Regulator only to affect a particular electricity licence holder or group of licence holders, the Utility Regulator may exclude those costs from the total electricity regulatory costs to be recovered in the manner indicated above and may instead charge them to any such licence holder or group of licence holders in such proportions as the Utility Regulator shall in its discretion determine.