

## **Licence Modifications pursuant to the GD17 Final Determination and other regulatory decisions**

**15 September 2016**

Phoenix Natural Gas Ltd. ("**PNGL**") is the largest natural gas distribution business in Northern Ireland, being the owner and operator of the Licence for the distribution of natural gas in the Greater Belfast Area and Larne.

We are responsible for the development of the pipeline network and also for providing a 24/7 operational and transportation service platform to Gas Suppliers.

PNGL welcomes the opportunity to respond to the licence modifications presented by the Utility Regulator ("**UR**") for consultation following its GD17 Final Determination and other regulatory decisions ("**the Consultation**").

PNGL has made a number of comments on the drafting of UR's proposed licence modifications as part of the GD17 price control review and, where these have been given due consideration, we have not repeated these here. This response reflects PNGL's comments on additional drafting proposed by UR in the Consultation which PNGL did not have advance sight of, and have therefore not been considered by UR in its September 2016 drafting.

PNGL currently operates under an uncertainty mechanism framework and has operated under such a framework for a number of price controls. The arrangements have, in the past, been detailed in the price control determination and supported by a model which calculates the appropriate adjustment. The uncertainty mechanism framework ensures the adjustment also includes the impact of the allowed cost of capital from the date of the difference in expenditure to the date that the adjustment is made<sup>1</sup>. PNGL supports the uncertainty mechanism and its application for the GD17 price control period. PNGL also understands UR's preference that the mechanism is enshrined in licence.

However PNGL has a number of concerns with UR's proposed licence modifications. Our concerns relate to drafting of the technical terms within licence rather than the calculation itself given that PNGL currently operates under an uncertainty mechanism framework and both PNGL and UR are in agreement as to its application. PNGL would therefore ask UR to consider the following in advance of its final decision:

1. We believe the reference to "*m-2*" in Condition 2.3.14 i.e.

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<sup>1</sup> Paragraph 9.6 of UR's GD17 Final Determination

*"UAC<sub>B,t</sub> the Best Available Uncertainty Mechanism Capex Adjustment in respect of each Formula Year t from t=m-2 to t=n as calculated by the Licensee:  
[...]*

*UAO<sub>B,t</sub> the Best Available Uncertainty Mechanism Opex Adjustment in respect of each Formula Year t from t=m-2 to t=n, as calculated by the Licensee:"*

and in Conditions 2.3.17 and 2.3.19:

$\sum_{t=m-2}^{t=n} UAC_{B,t}$  is the summation of the Best Available Uncertainty Mechanism Capex Adjustments for each Formula Year t in the period comprising Formula Years t = m-2 to t = n.

$\sum_{t=m-2}^{t=n} UAO_{B,t}$  is the summation of the Best Available Uncertainty Mechanism Opex Adjustments for each Formula Year t in the period comprising Formula Years t=m-2 to t=n."

should be to "m-1". Essentially PNGL actualised costs up to and including 2014 as part of the GD17 price control. m for GD17 is 2016, therefore as part of GD23 PNGL will actualise costs from 2015 i.e. m-1.

The same principles applied for GD14 i.e. PNGL actualised costs up to and including 2011 as part of the GD14 price control. m for GD14 was 2013, therefore as part of GD17 PNGL actualised costs from 2012 i.e. m-1.

**Can UR confirm that these references should be to m-1?**

- The adjustment to DAV (Condition 2.3.17) follows the same principle. The calculation of DAV is made at the end of each Formula Year and the uncertainty adjustment applied at the start of a price control period i.e. in opening 2023 TRV in respect of GD17. Condition 2.3.17(b):

*"for Formula Year t = n+1 be calculated as follows:*

$$DAV_{B,t} = DAV_{B,t-1} + C_{B,t} - D_{B,t} + \sum_{t=m-2}^{t=n} UAC_{B,t}$$

should therefore apply "for Formula Year t = n" (i.e. 2022) as this would mean that closing 2022 DAV (or opening 2023 DAV) would be increased by the GD17 uncertainty adjustment.

All other years are then calculated as  $DAV_{t-1} + C_t - D_t$ .

Condition 2.3.17(a):

*"for each of the Formula Years  $t = n+2$  to  $t=q...$ "*

should therefore read:

*"for each of the Formula Years excluding  $t = n$ " (i.e. 2022).*

**Can UR confirm?**

3. The uncertainty adjustments for 2015 and 2016 are dealt with under the GD14 Final Determination. The definition of each adjustment in Condition 2.3.23 refers to the *"Final Determination"* as *"the document of that title published by the Authority on 15 September 2016 for the purposes of the Review relating to the period commencing with  $t=2017$ "*. This may be appropriate as the licence modifications specifically apply to GD17 with the GD14 uncertainty mechanism actualised in accordance with the GD14 Final Determination.

**Can UR confirm that 2015 and 2016 will be adjusted in accordance with the GD14 Final Determination? For transparency PNGL would suggest that the definition of Best Available Uncertainty Mechanism Capex and Opex Adjustments in Condition 2.3.15 state that these start on 1 January 2017 in line with the definition of the Best Available Uncertainty Mechanism Rate of Return Adjustment.**

4. Condition 2.3.18 of PNGL's licence states:

*" $Q_{B, t}$  and  $CC_{B, t}$  are treated as a pass-through and are corrected to actuals at the end of each Review Period as described in condition 2.3.23."*

For transparency PNGL would have expected working capital and capital creditors to be listed within the uncertainty mechanism in the GD17 Final Determination<sup>2</sup>.

**Can UR confirm that the working capital and capital creditors adjustment will continue to be made via the GD17 uncertainty mechanism?**

PNGL welcomes further engagement with UR on its proposed licence modifications in advance of publication of its decision.

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<sup>2</sup> Pages 268 and 269 of UR's GD17 Final Determination