



Decision Paper

Electricity Licence Fee Methodology

15 April 2011

1 Contents

2	Introduction	3
2.1	Current Practice on Licence Fees in the Utility Regulator	4
2.1.1	Utility Regulator Electricity Licences	4
2.1.2	Utility Regulator Gas Licences	4
2.1.3	Utility Regulator Water Licences	5
2.1.4	Consumer Council for Northern Ireland	5
2.2	Methodology Options from the Consultation	5
2.3	Consultation Responses	6
3	Electricity Licence Fee Methodology Decision	6
	Annex 2 - New Determination	7

The Utility Regulator issued a public consultation on 01 October 2010 on the electricity licence fee methodology, which is an interim solution at present. The consultation laid out the current NI methodology and provided outlines of methodologies used in RoI and GB.

We had identified a number of considerations to take into account in arriving at any licence fee methodology. As a reminder these were:

- Cost reflectivity - licence fee charges should reflect the full costs incurred by the Utility Regulator as set out in the “payment of fees” condition in each licence and individual licensees should bear an appropriate proportion of those costs;
- To encourage the active use of licences and reflect the principle that obtaining a licence indicates an intention to use, accept and adhere to responsibilities that come with holding a licence;
- Current industry structure - we will want to consider the impact of recent changes to the structure of the industry e.g. we now have more small licence holders with the increasing focus on renewables, changes in company structure and ownership, licencable activity created for the SEM (e.g. SEMO);
- Transparent and understandable - the licence fee methodology should be straightforward to apply and easily understood by stakeholders; and
- Harmonisation: given SEM we will want to, where possible, avoid any unnecessary inconsistencies with CER’s licence fee methodology.

2.1 CURRENT PRACTICE ON LICENCE FEES IN THE UTILITY REGULATOR

The consultation set out the current practice in licence fee methodology for electricity, gas and water in the Utility Regulator. This reminder of the comparison between the industries allows the new methodology to be contrasted against the current practice also.

2.1.1 UTILITY REGULATOR ELECTRICITY LICENCES

The Utility Regulator, in accordance with the licence fee condition included in all licences, calculates electricity licence fees so as to recover the allowable cost of regulation each year. The practice since the inception of the organisation has been that, of the total costs to be recovered, 1/3 is payable by transmission and distribution licensees, 1/3 by supply licensees and 1/3 by generation licensees. It should be noted that regulated businesses can recover licence fees as part of their regulated entitlement. There are minimum fixed charges for all licensees whether they are active or not. A copy of the current determination detailing this is attached at Annex 2. Generation costs were historically based on contracted capacity however; the 2009/10 determination changed this to Declared Net Capacity (DNC) for 2 reasons:

- 1) “contracted capacity” is a term peculiar to generators who were a party to generating unit agreements since 1992. The term is not applicable to any new entry since then; and
- 2) This terminology is recognised by the industry.

2.1.2 UTILITY REGULATOR GAS LICENCES

Gas directorate recovers its costs of regulation each year via licence fees also. The current practice is 80% of the fee liability falls to conveyance licence holders, with 20% to supply licensees. There is a fixed charge of £50,000 on conveyance licensees that participate in distribution, which is deducted from the total costs recoverable. A de-minimis amount of £1000 has been charged to suppliers and ‘dormant’ licence holders.

However a review has recently been carried out, with a new methodology being subsequently proposed. It is suggested that all supply licence holders would pay a fixed fee of £1500 (to increase annually based upon the Retail Price Index (RPI)). The remaining

licence fee net of the fixed annual supply charges would be apportioned between the conveyance licence holders who participate in transmission activities on the basis of the total forecast volumes transmitted in that year.

2.1.3 UTILITY REGULATOR WATER LICENCES

This is a somewhat more straight forward affair, as apportionment is not required due to having only the one company, NI Water, who pay the total fee associated with the cost of regulation.

2.1.4 CONSUMER COUNCIL FOR NORTHERN IRELAND

The Utility Regulator is also required to recover the Consumer Council's Northern Ireland (CCNI) electricity, gas and water related costs each year. DETI approves and then notifies the Utility Regulator of the amount of CCNI related costs which need to be recovered each year and this amount is factored into the licence fee calculations before we issue the invoices. In electricity, CCNI costs were historically paid by NIE supply business. However, now that there is no longer a Public Electricity Supply company, CCNI costs are apportioned across all electricity supply licence holders on the same basis as our licence fee calculation i.e. using supply volumes. Gas directorate are proposing a change to CCNI cost recovery for gas matters; in that they are recovered from distribution licence holders, with apportionment based on forecast gas volumes distributed in the year to which the fees relate. For CCNI water related costs charges are applied to NI Water within their licence fee.

2.2 METHODOLOGY OPTIONS FROM THE CONSULTATION

The consultation presented 4 options for a more permanent NI methodology, these were:

1. Make a determination to apply from 2011/12, applying the methodology used in the current interim determination which includes:

- allowing for the issue of licence fee invoices at the start of the financial year and subsequent adjustment later in year and in the following financial year.
 - setting the de-minimis annual fee amount for “dormant” licences at £1500, (to increase annual based upon the Retail Price Index (RPI)) thus aligning this fee across directorates within the Utility Regulator.
2. Apply CER’s methodology.
 3. Apply Ofgem’s methodology.
 4. Continue the interim arrangements without any change.

2.3 CONSULTATION RESPONSES

A total of 10 responses were received, 1 was marked confidential, the remaining 9 are published along side this decision paper. Option 1 was the preference of 6 respondents (2 of which suggested slight variations and made recommendations for improving the process). Option 3 was the preference of 3 respondents.

3 ELECTRICITY LICENCE FEE METHODOLOGY DECISION

Following careful deliberation, taking into account the considerations and the views of respondents, we will apply option 1 to the electricity licence fee methodology:

1. We will make a determination to apply from 2011/12 fee year, applying the methodology used in the current interim determination which will include:
 - issuing licence fee invoices earlier in the financial year (April – March) and allowing for subsequent adjustment later in year and in the following financial year.
 - setting the de-minimis annual fee amount for “dormant” licences at £1500, (to increase annually based upon the Retail Price Index (RPI)) thus aligning this fee across directorates within the Utility Regulator.
 - applying to holders of the Transmission System Operator Licence, SONI Ltd and SEMO (SEM Operator Licensee) the de-minimis licence fee amount (from section 5 of the consultation).

Licence Fee Determination

Under the Condition on Payment of fees in your licence the Northern Ireland Authority for Utility Regulation (the Utility Regulator) is required to disclose to licensees in writing the method by which it has determined the proportion of the licence fee to be paid by each licensee.

As a result of previous correspondence with electricity licence holders the Utility Regulator has decided that, one-third of its electricity regulatory costs will be charged to the holders of generation licences, one-third to transmission and distribution licensees, and one-third to supply licensees. The total of electricity regulatory costs to be recovered is defined as the amount of the Utility Regulator's estimate of those costs associated with the regulation of the electricity industry (including relevant costs associated with the Single Electricity Market) in the forthcoming year plus or minus any deficit or surplus in respect of the current financial year.

All licence holders will pay a minimum annual fee of £1500 (to increase annually based upon the Retail Price Index (RPI)). Fees additional to the minimum are explained below.

Generation licence holders will also pay an apportionment of the balance of the one-third costs which will be charged to generation licensees. This will be based on the Declared Net Capacity of each generating station or stations as agreed with Land and Property Services. A copy of which agreement shall be forwarded to the Utility Regulator before 31 May each year and each and every time such agreement is amended.

Transmission licensees will pay the minimum annual fee each year. In addition the main transmission licence holder will pay the balance of the one-third costs to be charged to those licensees.

Supply licence holders will also pay an apportionment of the one-third costs to be charged to supply licensees. This will be apportioned on the basis of supply measured in terms of

megawatt hours and based on business activity in the previous year. Supply licensees will be required to provide actual end year (1 April – 31 March) megawatt hour figures on request but by the 31 May each year at the latest so that licence fees can be set and invoices raised.

The General Consumer Council's costs will be met by all supply licence holders apportioned on the basis described above.

The holders of the Transmission System Operator licence and the SEM Operator licence shall be charged an amount equal to the minimum annual fee.

Certain costs will be excluded from the above calculations and will be identified separately in the fee to be paid. These costs are referred to in the Payment of Fees Condition in the licences and include costs incurred by the Competition Commission in connection with references made to it.

In relation to references to the Competition Commission, or any successor body, identifiable external costs incurred by or on behalf of the Utility Regulator of references made under Article 15 of the Electricity (Northern Ireland) Order 1992 will be charged to any licence holder or group of licence holders, who are the subject of or connected with such references, in proportions which the Utility Regulator shall in its discretion determine.

In relation to future activities, other than Competition Commission references, undertaken by the Utility Regulator in the performance of its duties and functions under Articles 4 and 6 of the Order, where the costs of such activities exceed £5,000 and where the performance of those duties and functions is intended by the Utility Regulator only to affect a particular licence holder or group of licence holders, the Utility Regulator may charge to any such licence holder or group of licence holders the costs of such activities in proportions which the Utility Regulator shall in its discretion determine.

If any other situations occur, the Utility Regulator will decide how they are to be dealt with in the context of the licence fee setting method outlined above.