

**Notice under Article 14(2) of the Gas
(Northern Ireland) Order 1996**

**Proposed Modification of Gas
Conveyance Licences to Implement
Decision on Harmonised
Transmission Tariff**

Consultation Paper

15 February 2019



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 proposal for modifications to the high pressure gas conveyance licences to implement our decision on achieving compliance with the European Regulation on harmonised transmission tariffs for gas.

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

Implementation of our decision on harmonised gas transmission tariffs is likely to entail 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.

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Acronyms and Glossary

BGTL	Belfast Gas Transmission Limited, a TSO
CRU	Commission for Regulation of Utilities, which regulates gas in the Republic of Ireland
EU	European Union
FOIA	Freedom of Information Act
GMO NI	Gas Market Operator Northern Ireland
GNI (UK)	GNI (UK) Limited, a TSO
MEL	Mutual Energy Limited, owner of PTL, BGTL and WTL
PTL	Premier Transmission Limited, a TSO
PSA	Postalised System Administrator
TAR NC	Network Code on Harmonised Transmission Tariff Structures for Gas
TSO	Transmission System Operator GNI (UK), PTL, BGTL and WTL. WTL is not a TSO (Transmission System Operator) as defined by the European Commission but it is referred to as a TSO in this document for simplicity.
UR	Utility Regulator
WTL	West Transmission Limited, a TSO

1. Introduction

Purpose of this Consultation

- 1.1. The Utility Regulator's (UR) principal objective in carrying out the duties associated with our gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland, and to do so consistently with our fulfilment of the objectives set out in the European Gas Directive¹, and by having regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003.
- 1.2. In line with these duties this document sets out for consultation our proposals to modify the high pressure gas conveyance licences. The licences affected by the proposed changes are:
 - Belfast Gas Transmission Limited (BGTL)
 - GNI (UK) Limited (GNI (UK))
 - Premier Transmission Limited (PTL)
 - West Transmission Limited (WTL)

BGTL, PTL and WTL form part of the Mutual Energy Limited (MEL) group of companies.

- 1.3. The proposed modifications will facilitate compliance with the requirements of [EU Regulation 2017/460](#), the Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC").

Tariff Network Code

- 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

¹ Directive 2009/73/EC of the European Parliament and the Council of 13 July concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC.

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. We subsequently published the [responses](#) in October 2018 followed by our [Decision](#) in December 2018.

Overview of Proposed Licence Modifications

- 1.3. Table 1 provides an overview of the licence modifications and licence holders impacted by the proposed modifications as well as the main driver for the proposed change and the section of this consultation document in which the proposed modification is discussed in more detail.

Table 1 – Overview of proposed licence modifications

Name	BGTL	GNI (UK)	PTL	WTL	Main driver for modification	Section
Definition of Gas Product Multipliers and Time Factors Table	2A.1.1	2A.1.1	2A.1.1	2A.1.1	Seasonal multipliers to be consulted on and published annually	2
Duty to provide forecasts for postalised charges	2A.2.3, insert (h)	2A.2.3, insert (h)	2A.2.3, insert (h)	2A.2.3, insert (h)	Seasonal multipliers to be published annually	2
Year End Postalised charges	2A.2.6.3	2A.2.6.3	2A.2.6.3	2A.2.6.3	Removal of statement regarding publication and updating of the Factors Table	2
Publication of Postalised Charges	2A.2.7, insert (d)	2A.2.7, insert (d)	2A.2.7, insert (d)	2A.2.7, insert (d)	Seasonal multipliers to be published annually	2
Commodity Percentage	2A2.5.2(a)	2A2.5.2(a)	2A2.5.2(a)	2A2.5.2(a)	Amend percentages to reflect decision	3
Capacity Percentage	2A2.5.3(b)	2A2.5.3(b)	2A2.5.3(b)	2A2.5.3(b)	Amend percentages to reflect decision	3
Capacity Percentage	2A2.6.3(b)	2A2.6.3(b)	2A2.6.3(b)	2A2.6.3(b)	Delete explanation of capacity percentage	3

Document Structure

1.4. This consultation paper is structured in a number of sections, as follows:

- Section 1 – Introduction. This provides an overview of the purpose and structure of this consultation document. It sets out how to respond to the licence consultation as well as equality considerations.
- Section 2 – Modifications regarding publication requirements. This section describes the requirements in the TAR NC concerning consultation and publication of the seasonal multiplier factors, which need to be implemented through licence modifications.
- Section 3 – Modifications regarding capacity commodity split. This section describes how the UR decision on the capacity commodity split will be implemented in licence conditions.
- Section 4 – Next Steps. This outlines the indicative timetable for the next steps of the modification process
- Annex A shows the proposed changes to the BGTL licence
- Annex B shows the proposed changes to the GNI (UK) licence
- Annex C shows the proposed changes to the PTL licence
- Annex D shows the proposed changes to the WTL licence
- Annex E represents the notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 of our licence modification proposal

1.5. Annexes A to D set out, for each licence holder, the proposed licence modifications as tracked changes to the current licence conditions. Within the annexes, proposed deletions are indicated by red text that has been struck through, while proposed additions are indicated by red text which is underlined.

Responding to this Consultation

- 1.6. The purpose of this notice is to bring the proposed modifications to the attention of persons likely to be affected by them, and to invite representations or objections in connection thereto. In line with Article 14(3) of the Order, any representations or objections with respect to the proposed modifications may be made on or before 12.00 noon on 21 March 2019 to:

Jillian Ferris

Utility Regulator

Queens House

14 Queens Street

Belfast BT1 6ED

Email: Gas_networks_responses@uregni.gov.uk

cc'ed to jillian.ferris@uregni.gov.uk

- 1.7. The Utility Regulator's preference would be for responses to be submitted by e-mail.
- 1.8. Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, please provide also a non-confidential version suitable for publication.
- 1.9. As a public body and non-ministerial government department, the Utility Regulator is required to comply with the Freedom of Information Act ("FOIA"). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable

under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this. In particular, if asking the Utility Regulator to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.

- 1.10. The Utility Regulator has published a privacy notice for consumers and stakeholders which sets out the approach to data retention in respect of consultations. This can be found at <https://www.uregni.gov.uk/privacy-notice> or, alternatively, a copy can be obtained by calling 028 9031 1575 or by email at info@uregni.gov.uk.
- 1.11. 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.

Equality Considerations

- 1.12. As a public authority, the Utility Regulator (UR) has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:
 - i. persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
 - ii. men and women generally;
 - iii. persons with disability and persons without; and
 - iv. persons with dependants and persons without.
- 1.13. The UR must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.
- 1.14. In the development of its policies the UR also has a statutory duty to have due regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low

incomes and individuals residing in rural areas. Some of the above equality categories will therefore overlap with these vulnerable groupings.

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

2. Publication of Seasonal Multiplier Factors

Background

- 2.1. 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 the [consultation document](#) and stated that much of this information is [already published](#) by the GMO NI on its website.
- 2.2. Article 28(2) of the TAR NC requires that the seasonal multiplier factors are consulted upon in every tariff period, which means annually. The seasonal multiplier factors, called the [Gas Product Multipliers and Time Factors](#), are currently published by UR and are only updated when required.
- 2.3. In our [decision paper](#), we stated that we intended to propose a licence modification to remove the requirement to publish the factors on the UR website, therefore allowing it to be published on the GMO NI website along with the other transparency documents. The modification would also amend the term “periodically” to “annually” to reflect the new obligation.
- 2.4. Since we published the decision paper, we have agreed a process with GMO NI to ensure that the annual process takes place. UR will carry out the annual consultation process and will provide GMO NI with the approved Gas Product Multipliers and Time Factors Table in time for the factors to be included in the annual postalised tariff calculations.
- 2.5. We published our first [annual consultation](#) on the seasonal multiplier factors on 31 January 2019.
- 2.6. The proposed licence modifications to the conveyance licences, which are

summarised below, and shown in full in Annexes A to D, incorporate the following:

- A change in the current definition of the Gas Product Multipliers and Time Factors.
- A new obligation on the TSOs to provide the approved Gas Product Multipliers and Time Factors table to the PSA each year.
- A new obligation on the TSOs to publish the Gas Product Multipliers and Time Factors table annually alongside the tariff publications

Proposed Licence Modifications

2.7. To implement and embed the requirements we have proposed four separate licence modifications.

2.8. Firstly, the definition of the Gas Product Multipliers and Seasonal Factors Table will change to make it clear that it will be consulted annually by UR, it will be approved by UR and published by the Licensee.

2A.1.1 Definitions

Gas Product Multipliers and Time Factors Table	A table published on the Authority's website approved <u>periodically annually by the Authority following consultation</u> , setting out the Capacity Products to be offered by the DPOs and the weightings for Capacity Products to be used in the calculation of the Postalised Charges. <u>The updated Table shall be published by the Licensee.</u>
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2.9. Secondly, we intend to remove the single mention within a licence condition that the Gas Product Multipliers and Time Factors Table will be published by UR. This is shown below:

2A.2.6.3 Year End Postalised Capacity Charges

- (a) The Total Weighted Year-End Capacity bookings for Gas Year “t” for all Firm Capacity products “p” held by Gas

Suppliers listed in the Gas Product Multipliers and Time Factors Table for all time periods “d” in Gas Year “t”, shall be calculated according to the following formula:

$$TWC_t = \sum[YEQ_{pdt} \times W_{pdt}]$$

Where:

“TWC_t” is the Total Weighted Year-End Capacity bookings for Gas Year “t”

“YEQ_{pdt}” is the total outturn year-end capacity booking for Capacity Product “p” in time period “d” of Gas Year “t”

“W_{pdt}” is the product weighting for Capacity Product “p” in time period “d” of Gas Year “t” in accordance with the Gas Product Multipliers and Time Factors Table ~~posted by the Authority on its website and updated from time to time.~~

2.10. Thirdly, we propose a licence modification to place a new, additional duty on the GMO NI to provide the approved Table to the PSA. This will happen after the UR has conducted the annual consultation, considered the responses and decided on the annual factors.

2A.2.3 Duty to provide forecasts and information relating to the calculation of the Postalised Charges

2A.2.3.1

h) Not later than the fifteenth Business Day in April, the Licensee shall provide the approved Gas Product Multipliers and Time Factors Table to the PSA once it has received the updated Table from the Authority.

2.11. Finally, the Gas Product Multipliers and Time Factors Table needs to be added to the obligation to publish the postalised charges, as shown below:

2A.2.7 Publication of Postalised Charges

Subject to any contrary requirements in this Condition 2A, the Licensee shall publish in such form and manner as the Authority may direct:

- (a) no later than 31st May each year the Forecast Postalised Charges, or revised Forecast Postalised Charges as calculated under Condition 2A.2.5.3, in respect of the next Gas Year and each of the following four Gas Years, a statement of such charges; and
- (b) no later than 3 Business Days after notification to it by the PSA of the Year-End Postalised Charges in respect of a Gas Year, a statement of the Year-End Postalised Charges; and
- (c) no later than 3 Business Days after notification to it by the Authority of any amendments to Forecast Postalised Charges required under Condition 2A.2.5.7, a statement of the amended charges; and
- (d) no later than 31st May each year, the Gas Product Multipliers and Time Factors Table.

2.12. These proposed modifications are shown in full in Annexes A to D.

Reasons and Effects

2.13. Article 28(2) of the TAR NC requires that the seasonal multiplier factors are consulted upon in every tariff period, which means annually. The proposed

change in the definition of the term Gas Product Multipliers and Time Factors Table embeds this requirement in the licences.

- 2.14. Furthermore, as per our decision on TAR NC, the Gas Product Multipliers and Time Factors Table will in future be published by the GMO NI, rather than UR, so that publications related to gas transmission charges can all be accessed in one central location. We consider the proposed licence drafting to be reflective of this change. It is consistent with the improved transparency of information which was undertaken by the GMO NI since its inception in October 2017.
- 2.15. These proposed modifications place two new obligations on Licensees, which we anticipate will be complied with by the GMO NI. The first obligation would be to provide the Gas Product Multipliers and Seasonal Factors Table to the PSA (2A.2.3.1(h)). The second obligation would be to publish the Table at the same time as the tariff publications (2A.2.7(d)). We consider that neither of these obligations would be onerous on the Licensees.

3. Capacity Commodity Split

Background

- 3.1. The capacity commodity split refers to the allocation of transmission services revenue between capacity and commodity when determining the respective gas transmission tariffs. The existing capacity commodity split in the Northern Ireland transmission network is 75:25, which means that 75% of the transmission services revenue is collected through the capacity charge, and 25% through the commodity charge.
- 3.2. Article 4(3) of the TAR NC states that the transmission services revenue shall be recovered by capacity based transmission tariffs with the exception of a flow-based charge to recover costs driven by the flow of gas.
- 3.3. Most of the costs of delivering a transmission service are fixed and will not change if the volume of gas changes within year. One key variable cost is compressor fuel costs, which is volume related. In the [gas transmission price control](#), known as GT17, compressor fuel costs comprised around 2% of transmission services revenue. We provided analysis in our [decision paper](#) to demonstrate why we consider that no more than 5% of transmission services costs are variable.
- 3.4. In our [consultation](#), we proposed to amend the capacity commodity split from 75:25 to 95:5 so that it would apply from the tariff year starting 1 October 2019.
- 3.5. Following consideration of the responses to the consultation, we decided to introduce a three year transition period to implement the change. This will postpone any change by one year and implement the change in two steps.
- 3.6. 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.

3.7. 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

Proposed Licence Modifications

3.8. The proposed licence modification are summarised below and are set out in full in Annexes A to D.

2A.2.5.2(a) Forecast Postalised Commodity Charge

“Commodity Percentage” means 25% up to 30 September 2020, then 15% from 1 October 2020 and 5% from 1 October 2021.

2A.2.5.3(b) Forecast Postalised Annual Capacity Charge

“Capacity Percentage” means 75% until 30 September 2020, then 85% from 1 October 2020 and 95% from 1 October 2021.

2A.2.6.3(b) Year-End Postalised Capacity Charges

~~“Capacity Percentage” means 75%.~~

Reason and Effects

3.9. We have decided that we must make this change to comply with the TAR NC, which states that transmission services revenue shall be recovered by capacity based transmission tariffs with limited exceptions.

3.10. To implement our decision, we consider that we need to make licence modifications to conditions 2A.2.5.2(a) and 2A.2.5.3(b) to amend the capacity and commodity percentages. This ties in with the definitions in condition 2A.1.1:

“Capacity Percentage”	shall have the meaning ascribed to that term in Condition 2A.2.5.3(b);
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“Commodity Percentage”	shall have the meaning ascribed to that term in Condition 2A.2.5.2(a);
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3.11. We considered that the setting out of the Capacity Percentage in condition 2A.2.6.3(b) was therefore redundant and can be deleted.

3.12. We explored the potential impact on consumers of this change in both the consultation paper and the decision paper. In the consultation paper, we estimated the change in the capacity commodity split from 75:25 to 95:5 could move 3 - 5% of transmission services revenue from power stations to gas consumers. For typical domestic consumers, this would be an increase of around £2 - £4 per year, which is less than one percent.

3.13. We noted that this would vary from year to year as the relationship between capacity and volume varies (which is also known as load factor), and that it would also vary between forecast and actual capacity and volume.

3.14. We provided additional analysis in the decision paper. This showed that the five year postalisation forecasts indicate a convergence of the load factors of the two customer groups (power generation sector and gas distribution sector), which largely eliminates the forecast transfer of cost from power stations to gas consumers following the change in the capacity commodity split. However, we also recognised that forecasts are only an indication of

what might happen.

- 3.15. We recognised that our analysis forecasts a small price increase for gas consumers, but we decided that this change is justified in order to comply with the TAR NC.

4. Next Steps

- 4.1. This paper represents the Utility Regulator’s proposals on modifications to the four high pressure gas conveyance licences. Table 2 summarises the next steps and associated timelines for the licence modification process. We note that the timelines are indicative at this stage and may be subject to change.
- 4.2. Once we have considered responses, we will issue our notice of decision. The licence modifications will become effective 56 days after that notice of decision.

Table 2 – Indicative timelines

Next Steps	Indicative Date
End of statutory consultation on notice of proposal to modify gas conveyance licences closes	21 March 2019
Decision to modify gas conveyance licences published	Mid April 2019
Licence modification effective date	Mid June 2019

5. Annexes

- 5.1. Table 3 below provides an overview of the annexes to this consultation document.
- 5.2. Annexes A to D set out, for each licence holder, the proposed modifications tracked against the current licence drafting. Within the annexes, proposed deletions are indicated by red text that has been struck through, while proposed additions are indicated by red text that has been underlined.
- 5.3. As the modifications are proposed to apply to the standard conditions in Section 2A, they are identical across the four licences.
- 5.4. Annex E represents the notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 of our licence modification proposal.

Table 3 – Overview of Annexes

Annex reference and name
<u>Annex A - Proposed BGTL licence modifications</u>
<u>Annex B - Proposed GNI (UK) licence modifications</u>
<u>Annex C - Proposed PTL licence modifications</u>
<u>Annex D - Proposed WTL licence modifications</u>
<u>Annex E - Notice under Article 14(2) of the Gas (Northern Ireland) Order 1996</u>