



Notice under Article 14(8) of the Gas (Northern Ireland) Order 1996

Modifications of Gas Conveyance Licences to
Implement Decision on Harmonised Transmission
Tariff

Decision Paper

11 April 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, Markets and Networks. 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 the decision for modifications to the high pressure gas conveyance licences to achieve compliance with the European Regulation on harmonised transmission tariffs for gas.

The modifications will implement new obligations on the consultation and publication of the seasonal multiplier factors. These factors apply to non-annual entry capacity products to incentivise suppliers to make more use of the network in the summer and shift demand away from the winter peak.

Secondly, the modifications will change the capacity commodity split, which reflects how the costs of the network are recovered from network users, following our decision in December 2018.

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
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 Directive, 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 the decision regarding modifications to facilitate compliance with the requirements of EU Regulation 2017/460, the Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC"). This decision will affect the high pressure gas conveyance licences, which are:
- a) Belfast Gas Transmission Limited (BGTL)
 - b) GNI (UK) Limited (GNI (UK))
 - c) Premier Transmission Limited (PTL)
 - d) West Transmission Limited (WTL)
- 1.3 BGTL, PTL and WTL form part of the Mutual Energy Limited (MEL) group of companies.

Harmonised Transmission Tariff Structures for Gas

- 1.4 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.
- 1.5 We subsequently published the [responses](#) in October 2018 and our [Decision](#) in December 2018. This was followed by the [consultation](#) on proposed licence modifications on 15 February 2019.

Decision

- 1.6 The modifications will be made to the licence conditions as consulted on, without any further amendment. The changes are summarised in Table 1

and will become effective 56 days after the date of this publication, which is 6 June 2019.

Document Structure

- 1.7 This consultation paper is structured in a number of sections, as follows:
- a) Section 1 – Introduction. This provides an overview of the purpose and structure of this decision document.
 - b) Section 2 – Modifications regarding publication requirements. This section describes the requirements in the TAR NC regarding the seasonal multiplier factors which need to be implemented through licence modifications.
 - c) 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.
 - d) Section 4 – Responses and Next Steps. This includes a summary of the responses received and the timescale for making the modifications.
 - e) Annex A shows the changes to the BGTL licence
 - f) Annex B shows the changes to the GNI (UK) licence
 - g) Annex C shows the changes to the PTL licence
 - h) Annex D shows the changes to the WTL licence
 - i) Annex E is the response from GMO NI
 - j) Annex F is the response from GNI (UK)
 - k) Annex G represents the notice under Article 14(8) of the Gas (Northern Ireland) Order 1996 of our decision to proceed with licence modifications
- 1.8 Annexes A to D set out, for each licence holder, the licence modifications as tracked changes to the current licence conditions. Within the annexes, deletions are indicated by red text that has been struck through, while additions are indicated by red text which is underlined.
- 1.9 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. Email: Gas_networks_responses@uregni.gov.uk

2. Publication of Seasonal Multiplier Factors

Background

- 2.1 Seasonal multiplier factors apply to non-annual entry capacity products, for example monthly or daily capacity bookings, by applying a multiplier which either increases or decreases the relevant proportion of the annual tariff. The factors reflect the seasonality of gas flows during the year and are set to incentivise suppliers to make more use of the network in the summer and shift demand away from the winter peak. The tariff for a non-annual capacity product is calculated by multiplying the annual tariff by the appropriate seasonal multiplier. These have been included in the gas transmission charging regime since October 2015.
- 2.2 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.
- 2.3 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.
- 2.4 In our [decision paper](#) on the TAR NC, 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.
- 2.5 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.
- 2.6 We published our first [annual consultation](#) on the seasonal multiplier factors on 31 January 2019.
- 2.7 The licence modifications to the conveyance licences, which are summarised below, and shown in full in Annexes A to D, incorporate the following:
- a) A change in the current definition of the Gas Product Multipliers and Time Factors.

- b) A new obligation on the TSOs to provide the approved Gas Product Multipliers and Time Factors table to the PSA each year.
- c) A new obligation on the TSOs to publish the Gas Product Multipliers and Time Factors table annually alongside the tariff publications

Licence Modifications

2.8 To implement and embed the requirements we proposed four separate licence modifications, which are summarised in the following paragraphs. These will now proceed without any amendment from the consultation document.

2.9 Firstly, the definition of the Gas Product Multipliers and Seasonal Factors Table will change to make it clear that it will be consulted on 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>

2.10 Secondly, we will 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.~~

- 2.11 Thirdly, we proposed 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.

2.12 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.

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. The licence drafting is consistent with the improved transparency of information which was undertaken by the GMO NI since its inception in October 2017.
- 2.15 The modifications place two new obligations on Licensees, which we anticipate will be complied with by the GMO NI. The first obligation will be to provide the Gas Product Multipliers and Seasonal Factors Table to the PSA (2A.2.3.1(h)). The second obligation will be to publish the Table at the same time as the tariff publications (2A.2.7(d)). We consider that neither of these obligations will be onerous on the Licensees.

Responses and Decision

- 2.16 We received two responses to the consultation, from GMO NI and GNI (UK). The GMO NI provided input during the drafting of the modifications and the TSOs were also specifically asked for their views before the consultation. In its response, the GMO NI agreed that the proposed modifications appear reasonable and GNI (UK) stated it had no further comments. No further responses were received. The responses are included as Annex E and Annex F.
- 2.17 The proposed modifications will therefore proceed to be implemented unchanged.
- 2.18 These modifications are shown in full in Annexes A to D.

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. 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.
- 3.3 In our [consultation](#) on the TAR NC, 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.
- 3.4 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.
- 3.5 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.
- 3.6 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**

Licence Modifications

- 3.7 The licence modifications that we proposed 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% <u>up to 30 September 2020, then 15% from 1 October 2020 and 5% from 1 October 2021.</u>
2A.2.5.3(b)	Forecast Postalised Annual Capacity Charge
	“Capacity Percentage” means 75% <u>until 30 September 2020, then 85% from 1 October 2020 and 95% from 1 October 2021.</u>
2A.2.6.3(b)	Year-End Postalised Capacity Charges
	“Capacity Percentage” means 75%.

Reason and Effects

- 3.8 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.
- 3.9 To implement our decision, we proposed 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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- 3.10 We considered that the setting out of the Capacity Percentage in condition 2A.2.6.3(b) was therefore redundant and can be deleted.
- 3.11 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.
- 3.12 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.
- 3.13 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.
- 3.14 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.

Responses and Decision

- 3.15 We received two responses, as outlined in paragraph 2.16. The modifications will proceed unchanged from the consultation.

4. Conclusion

- 4.1 This paper represents the Utility Regulator's final decision on licence changes to the four high pressure gas conveyance licences, to facilitate European compliance.
- 4.2 No objections were received, so the modifications will proceed unchanged from the consultation dated 15 February 2019.
- 4.3 The revisions will take effect 56 days¹ from the date of publication. The modifications will become effective on 6 June 2019.

Name	BGTL	GNI (UK)	PTL	WTL	Main driver for modification
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
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
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
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
Commodity Percentage	2A2.5.2(a)	2A2.5.2(a)	2A2.5.2(a)	2A2.5.2(a)	Amend percentages to reflect decision
Capacity Percentage	2A2.5.3(b)	2A2.5.3(b)	2A2.5.3(b)	2A2.5.3(b)	Amend percentages to reflect decision
Capacity Percentage	2A2.6.3(b)	2A2.6.3(b)	2A2.6.3(b)	2A2.6.3(b)	Delete explanation of capacity percentage

Table 1 - Overview of Licence Modifications

¹ This figure is dependent upon no challenges to the modifications being made.

5. Annexes

- 5.1 Table 2 provides an overview of the annexes to this consultation document.
- 5.2 Annexes A to D set out, for each licence holder, the finalised modifications tracked against the current licence drafting. Within the annexes, deletions are indicated by red text that has been struck through, while additions are indicated by red text that has been underlined.
- 5.3 As the modifications will apply to the standard conditions in Section 2A, they are identical across the four licences.
- 5.4 The two responses received are included as Annex E and Annex F, while Annex G represents the notice under Article 14(8) of the Gas (Northern Ireland) Order 1996 of our decision to proceed.

<u>Annex A - BGTL licence modifications</u>
<u>Annex B - GNI (UK) licence modifications</u>
<u>Annex C - PTL licence modifications</u>
<u>Annex D - WTL licence modifications</u>
<u>Annex E – Response from GMO NI</u>
<u>Annex F – Response from GNI (UK)</u>
<u>Annex G - Notice under Article 14(8) of the Gas (Northern Ireland) Order 1996</u>

Table 2 - Overview of Annexes