



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

Decision on Tidy-up Modifications to  
Gas High-Pressure Conveyance  
Licences

24 June 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 our decision on technical/housekeeping modifications to the high pressure gas conveyance licences to address a number of known drafting issues. The modifications relate to a range of licence areas and will be implemented unchanged from the consultation.

## 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

Overall, the proposed licence modifications are non-substantial and designed to enhance accuracy, clarity and transparency of licence drafting.



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## Glossary

BGTL	Belfast Gas Transmission Limited, a TSO
ECA	Economic Consulting Associates
GMO NI	Gas Market Operator Northern Ireland
GNI (UK)	Gas Networks Ireland (UK), a TSO
LIBOR	London Interbank Offered Rate
MEL	Mutual Energy Limited
PTL	Premier Transmission Limited, a TSO
PSA	Postalised System Administrator
SSO	Single System Operation
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
VAT	Value Added Tax
WTL	West Transmission Limited, a TSO



## Executive Summary

On 11 April 2019 we [consulted](#) on proposals to modify the high pressure gas conveyance licences. This document sets out our related decision.

The licensees affected by the changes are:

- Belfast Gas Transmission Limited (BGTL)
- Premier Transmission Limited (PTL)
- West Transmission Limited (WTL)
- GNI (UK) Limited (GNI (UK))

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

The modifications are technical/housekeeping modifications aimed at addressing a number of matters:

- Licence tidy-up following implementation of changes to achieve compliance with the [Network Code on Harmonised Transmission Tariff Structures for Gas \(TAR NC\)](#)
- Correction of known licence formulae issues
- Licence tidy-up following implementation of the Gas Market Operator Northern Ireland (GMO NI) for 1 October 2017

We have received consultation responses from [MEL](#) and [GNI \(UK\)](#). Both were supportive of the proposed modifications.

Our decision hence is to proceed with the modifications unchanged from what had been set out in the consultation document. The modifications will become effective on 19 August 2019.

We consider that the licence modifications are non-substantial and will enhance accuracy, clarity and transparency of licence drafting.

# 1. Introduction

## Purpose of this Decision

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 we published, on 11 April 2019 a [consultation](#) on proposals to modify the high pressure gas conveyance licences. This document sets out our related decision.

1.3 The licensees affected by the changes are:

- Belfast Gas Transmission Limited (BGTL)
- Premier Transmission Limited (PTL)
- West Transmission Limited (WTL)
- GNI (UK) Limited (GNI (UK))

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

1.4 The modifications are technical/housekeeping modifications aimed at addressing a number of matters:

- Licence tidy-up following implementation of changes to achieve compliance with the [Network Code on Harmonised Transmission Tariff Structures for Gas](#) (TAR NC)
- Correction of known licence formulae issues
- Licence tidy-up following implementation of the Gas Market Operator Northern Ireland (GMO NI) for 1 October 2017

1.5 We consider that the licence modifications are non-substantial and will enhance accuracy, clarity and transparency of licence drafting.

## Consultation Responses and Decision

1.6 We have received consultation responses from [MEL](#) and [GNI \(UK\)](#). Both

were supportive of the proposed modifications.

- 1.7 Our decision hence is to proceed with the modifications unchanged from what had been set out in the consultation document. The modifications will become effective on 19 August 2019.
- 1.8 Table 1 provides an overview over the licence conditions and licence holders impacted by the modifications as well as the main driver for the change and the chapter of this decision document in which the modification is discussed in more detail.

**Table 1: Overview over licence conditions impacted by modifications and main drivers**

Name	BGTL	PTL	WTL	GNI (UK)	Main driver for modification	Chapter of consultation document
Conveyance Charges, Other Terms for the Conveyance of Gas and the Provision of Conveyance Services, Disapplication, Allowed Operating Expenditure				2.2.22(c)(ii)(C)	Correction of known licence formulae issues	3
Capitalised Interest			6.5.6	2.2A2(b)	Correction of known licence formulae issues	3
Grants Received			6.5.7	2.2A2(c)	Correction of known licence formulae issues	3
Debt Interest				2.2A2(d)	Correction of known licence formulae issues	3
Opex Nominal LIBOR <sup>1</sup> Adjustment				2.2A3	Correction of known licence formulae issues	3
Network Code	2.4	2.4	2.4	2.4	Tidy-up following GMO NI implementation	4
The Postalisation System Administrator, The PSA's functions	2A.4.3.1(d)	2A.4.3.1(d)	2A.4.3.1(d)	2A.4.3.1(d)	Tidy-up following GMO NI implementation	4
Tariff Notification Date	2A.4.3.1(i)	2A.4.3.1(i)	2A.4.3.1(i)	2A.4.3.1(i)	Tidy-up following implementation of TAR NC	2

<sup>1</sup> London Interbank Offered Rate.

## Document Structure

- 1.9 This decision paper is structured in a number of chapters as follows:
- *Chapter 1 Introduction* provides an overview over the purpose and structure of this decision document, the responses received as well as our decision and the licence conditions impacted thereby
  - *Chapter 2 Tidy-up Following Implementation of TAR NC* provides some background to the related licence modifications and sets out the consultation responses received, our modification decision as well as the associated reasons and effects
  - *Chapter 3 Correction of Known Licence Formulae Issues* provides some background to the related licence modifications and sets out the consultation responses received, our modification decision as well as the associated reasons and effects
  - *Chapter 4 Tidy-up Following Implementation of the GMO NI* provides some background to the related licence modifications and sets out the consultation responses received, our modification decision as well as the associated reasons and effects
  - *Chapter 5 Conclusions* summarises our decision on tidy-up modifications to the gas high-pressure conveyance licences
  - *Annex A* shows the changes to the BGTL licence
  - *Annex B* shows the changes to the PTL licence
  - *Annex C* shows the changes to the WTL licence
  - *Annex D* shows the changes to the GNI (UK) licence
  - *Annex E* represents the notice under Article 14(8) of the Gas (Northern Ireland) Order 1996 of our licence modification decision
- 1.10 Annexes A to D set out, for each licence holder, the licence modifications as tracked changes to the current licence conditions. These modifications are unchanged from what had been set out in the consultation document. Within the annexes deletions are indicated by red text that has been struck through, additions are indicated by red text that is underlined.

## 2. Tidy-up Following Implementation of TAR NC

### Background

- 2.1 In October 2017, we [consulted](#) on the modification of gas conveyance licences to facilitate publication of postalised transmission tariffs prior to 31 May of each year and facilitate compliance with the TAR NC. On 20 November 2017 we published the related [decision](#). It has become clear since that at the time, one licence condition setting out a relevant timeline had been missed out and not included in the licence modifications.

### Change and Effect

- 2.2 In our consultation paper we proposed to change, in condition 2A.4.3.1(i) of all four high pressure conveyance licences, the timelines for the calculation and notification of upstream tariffs from “*no later than the 17 Business Day in July*” to “*no later than the 20 Business Day in April*”.
- 2.3 This modification will bring the licence drafting in line with the timelines for publication of the postalised transmission tariff as set out in our related decision paper published in November 2017. This change is consequential to the decision on amended timelines for the tariff setting process made at the time and required to maintain consistency with other related conditions within the licences.
- 2.4 We expect that this modification will have minimal impact and will help to enhance accuracy, clarity and transparency of licence drafting.

### Responses and Decision

- 2.5 In their consultation response, GNI (UK) have confirmed that they are in agreement with the proposed modification. They noted that the proposed change is reflective of the existing timelines for publication of the postalised transmission tariff.
- 2.6 MEL have also confirmed that they are content with the changes proposed in the consultation paper.
- 2.7 Our decision is to amend all four high pressure gas conveyance licences in line with the consultation drafting. The final text is provided in Annexes A to D of this decision paper.

### 3. Correction of Known Licence Formulae Issues

#### Background

- 3.1 As part of the licence modification process<sup>2</sup> undertaken in 2018 with respect to the WTL conveyance licence to facilitate pre-construction financing by WTL, a number of formulae issues were identified with respect to the WTL conveyance licence. As some of the formulae are also contained in similar form in the GNI (UK) conveyance licence, we engaged independent experts Economic Consulting Associates (ECA), who had reviewed the WTL licence formulae, to also undertake a review of the formulae contained in the GNI (UK) conveyance licence, with specific focus on the formulae in condition 2.2
- 3.2 As part of the review of licence formulae in the GNI (UK) licence, some issues were identified that are also relevant to the WTL licence.

#### Change and Effect

##### Allowed Operating Expenditure

- 3.3 In our consultation paper we proposed to align the formula drafting for the calculation of Allowed Opex Expenditure in Gas Year  $t$  in condition 2.2.22(c)(ii)(C) of the GNI (UK) licence with the usual mathematical notation which does not repeat the index and equal sign in the upper limit of a sigma term.
- 3.4 We consider this change to be cosmetic only, helping to enhance accuracy, clarity and transparency of licence drafting but with no practical impact otherwise.

##### Capitalised Interest

- 3.5 The capitalised interest formula contained in the GNI (UK) and WTL licences is designed to calculate the value of capitalised interest at the month in which the First Operational Commencement Date occurs. This is done by upscaling capitalised interest on capital expenditure incurred before the First Operational Commencement Date, and downscaling capitalised interest on capital expenditure incurred after the First Operational Commencement Date accordingly. This is reflected in the respective GNI (UK) and WTL repayment models.
- 3.6 There is a historic difference between the GNI (UK) and WTL models in that

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<sup>2</sup> For further details see the related [consultation paper](#), published on 28 March 2018 and [decision paper](#), published on 9 May 2018.

for GNI (UK) the capitalised interest is calculated as per the start of the month in which the First Operational Commencement Date occurs, and hence the month in which the capitalised interest is neither upscaled nor descaled is the month immediately prior to the month in which the First Operational Commencement Date occurs. In contrast, for WTL the capitalised interest is calculated as per the month in which the First Operational Commencement Date occurs, and the month in which the capitalised interest is neither upscaled nor descaled is the month in which the First Operational Commencement Date occurs.

3.7 The review of the licence formulae indicated that the current drafting in both the WTL and GNI (UK) licences does not align with this policy intent and the respective repayment models of the two transmission system operators, but that the repayment models themselves work in line with policy intent. The licence modifications proposed in the consultation paper were designed to address the underlying issues and bring the licence drafting in line with policy intent and repayment models.

3.8 Specifically:

- the proposed change of the sign connecting the two sigma formula terms from a minus to a plus sign in the WTL licence serves to ensure that the capitalised interest on capital expenditure incurred before and after the First Operational Commencement Date are indeed added up;
- the proposed introduction of a new variable  $r$  as counter for the product terms in the GNI (UK) licence, and the proposed changes to the product term limits in the GNI (UK) and WTL licences serve to ensure that the product terms can upscale or descale as required;
- the proposed changes to the index of the  $CIR$  and  $rn$  terms are consequential changes to ensure consistency with the product term counters in the GNI (UK) and WTL licences;
- the proposed change in the upper limit of the first sigma term in both the GNI (UK) and WTL licences is designed to reflect the fact that there is one month in which neither upscaling nor descaling of capitalised interest will be required;
- the proposed changes to the definitions in the WTL and GNI (UK) licences are designed to ensure that all terms used as part of the capitalised interest formula are properly defined and tie-in with the proposed new drafting of the capitalised interest formulae.

3.9 We consider that these changes will enhance accuracy, clarity and transparency of licence drafting and ensure the licence drafting accurately

reflects policy intent. We consider furthermore that no consequential changes to the repayment models will be required as a result, and that the changes will hence have no practical impact otherwise.

### Grants Received

- 3.10 The grants received formula contained in the GNI (UK) and WTL licences is designed to calculate the value of grants received at the month in which the First Operational Commencement Date occurs. This is done by upscaling grant payments received before the First Operational Commencement Date, and descaling grant payments received after the First Operational Commencement Date accordingly. This is reflected in the respective GNI (UK) and WTL repayment models.
- 3.11 There is a historic difference between the GNI (UK) and WTL models in that for GNI (UK) the value of grants received is calculated as per the start of the month in which the First Operational Commencement Date occurs, and hence the month in which the grant payments are neither upscaled nor descaled is the month immediately prior to the month in which the First Operational Commencement Date occurs. In contrast, for WTL the value of grants received is calculated as per the month in which the First Operational Commencement Date occurs, and the month in which the grant payments are neither upscaled nor descaled is the month in which the First Operational Commencement Date occurs.
- 3.12 The review of the licence formulae indicated that the current drafting in both the WTL and GNI (UK) licences does not align with this policy intent and the respective repayment models of the two transmission system operators, but that the repayment models themselves work in line with policy intent. The licence modifications proposed in the consultation paper were designed to address the underlying issues and bring the licence drafting in line with policy intent and repayment models.
- 3.13 Specifically:
- the new summand proposed to be introduced into the grants received formula in the GNI (UK) and WTL licences represents the grant payments in the month in which neither upscaling nor descaling occurs;
  - the proposed introduction of a new variable  $r$  as counter for the product terms in the GNI (UK) licence, and the proposed changes to the product term limits in the GNI (UK) and WTL licences serve to ensure that the product terms can upscale or descale as required;
  - the proposed changes to the index of the  $CIR$  and  $rn$  terms are

consequential changes to ensure consistency with the product term counters in the GNI (UK) and WTL licences;

- the proposed change to the upper limit of the first sigma term in both the GNI (UK) and WTL licences is designed to reflect the fact that there is one month in which neither upscaling nor downscaling of capitalised interest will be required;
- the proposed changes to the definitions in the WTL and GNI (UK) licences are designed to ensure that all terms used as part of the grants received formula are properly defined and tie-in with the proposed new drafting of the grants received formulae.

3.14 We consider that these changes will enhance accuracy, clarity and transparency of licence drafting and ensure the licence drafting accurately reflects policy intent. We consider furthermore that no consequential changes to the repayment models will be required as a result, and that the changes will hence have no practical impact otherwise.

#### Debt Interest

3.15 In our consultation paper we proposed the addition of a subscript to the formula for the calculation of debt interest in condition 2.2, Annex A, Number 2, paragraph (d) of the GNI (UK) licence to address an inaccuracy in the current licence drafting. The applicable level of gearing can change over time and the  $m$  subscript proposed to be introduced reflects this.

3.16 We furthermore proposed the addition of definitions for the formulae terms  $OAV_m$  and  $g_m$  to provide clarification on the meaning of these formula terms which is not explicitly contained in the current licence drafting.

3.17 We consider these changes to be cosmetic only, helping to enhance accuracy, clarity and transparency of licence drafting but with no practical impact otherwise.

#### Opex Nominal LIBOR Adjustment

3.18 In our consultation paper we proposed the introduction of the brackets around the  $LIBOR^{Apr}_{t-1} + 2\%$  term in condition 2.2, Annex A, Number 3 of the GNI (UK) licence to address an inaccuracy of the current licence drafting. Without the brackets, due to the mathematical rule that multiplication and division is to be performed before addition and subtraction, it would not be obvious that the 2% shall be added to the LIBOR before the multiplication with the  $IA$  term.

3.19 We consider this change to be cosmetic only, helping to enhance accuracy, clarity and transparency of licence drafting but with no practical impact

otherwise.

## **Responses and Decision**

- 3.20 In their consultation response, GNI (UK) have confirmed that they are in agreement with the proposed modifications. They noted in particular that:
- the proposed change to the Allowed Operating Expenditure formula is of minor nature but will aid clarity by aligning with contemporary mathematical notation;
  - the proposed change to the Debt Interest formula will provide greater clarity of the components of the formula; and
  - the proposed change to the formula for the calculation of the opex nominal LIBOR adjustment will provide accuracy by clarifying the sequencing of the adjustment formula.
- 3.21 MEL have also confirmed that they are content with the changes proposed in the consultation paper.
- 3.22 Our decision is to amend the WTL and GNI (UK) high pressure gas conveyance licences in line with the consultation drafting. The final text is provided in Annexes C and D of this decision paper.

## 4. Tidy-up Following Implementation of the GMO NI

### Background

- 4.1 On 1 October 2017 the GMO NI went live operationally. Since then, it has been managing the commercial rules and all trading and transactional aspects of the gas transmission market in Northern Ireland.
- 4.2 As part of the implementation of the GMO NI, a single transmission network code was provided which replaced the individual transmission network codes previously put in place by the four holders of high pressure gas conveyance licences in Northern Ireland.
- 4.3 In this context, we published a [consultation](#) in March 2017 on gas transmission licence modifications to implement single system operation (SSO), followed by the related [decision](#) in June 2017. This included the introduction of a new licence condition 2.4D *Single Network Code* in the high pressure licences which contained many of the provisions of licence condition 2.4 *Network Code*, with certain differences as appropriate. In the decision paper we noted: *“In the transitional stage of the implementation of the SSO arrangements, the existing provisions in condition 2.4 of the licences will run in parallel with condition 2.4D. A licence modification will be required in due course to delete the provisions of condition 2.4 once they have become obsolete.”* This transitional state is now complete.
- 4.4 As a further consequence of GMO NI implementation, invoices to shippers are now raised by the GMO NI in its name rather than separately by each TSO (Transmission System Operator). This has entailed implications for the processing of Value Added Tax (VAT). The current licence drafting does not fully reflect these implications.

### Change and Effect

- 4.5 In our consultation paper we proposed to remove condition 2.4 *Network Code* from each of the four high pressure gas conveyance licences as a consequential change to the cessation of effect of the individual transmission network codes of the four NI TSOs.
- 4.6 We furthermore proposed to shorten paragraph (d) of condition 2A.4.3.1 *The Postalised System Administrator, The PSA’s functions* in all four high pressure licences so that it reads *“the calculation of any VAT Distributions due in respect of sums received into the PoT Account from PS Gas Suppliers on the date of calculation of the Monthly Distribution in the relevant*

*month (month “m”).”* and all text thereafter in the current licence drafting is removed from this paragraph. This will ensure consistency between licence arrangements and practicalities of invoicing after the implementation of the GMO NI.

- 4.7 We expect that these modifications will have minimal impact and will help to enhance accuracy, clarity and transparency of licence drafting.

## **Responses and Decision**

- 4.8 In their consultation response, GNI (UK) have confirmed that they are in agreement with the proposed modifications. They noted that the proposed changes are reflective of the completed evolution to the operation of a single transmission network code, and of the operation of invoicing by the Postalised System Administrator.
- 4.9 MEL have also confirmed that they are content with the changes proposed in the consultation paper.
- 4.10 Our decision is to amend all four high pressure gas conveyance licences in line with the consultation drafting. The final text is provided in Annexes A to D of this decision paper.

## 5. Conclusions

- 5.1 This paper represents the Utility Regulator's final decision on the tidy-up modifications to the four high pressure gas conveyance licences.
- 5.2 No objections were received; our decision hence is to proceed with the modifications unchanged from what had been set-out in the [consultation](#) document published in 11 April 2019.
- 5.3 The modifications will take effect 56 days<sup>3</sup> from the date of publication. The modifications will become effective on 19 August 2019.

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<sup>3</sup> The figure is dependent upon no challenges to the modifications being made.

# Annexes

Table 2 below provides an overview over the annexes to this consultation document.

Annexes A to D set out, for each licence holder, the modifications tracked against the current licence drafting. These modifications are unchanged from what had been set out in the consultation document.

Annex E represents the notice under Article 14(8) of the Gas (Northern Ireland) Order 1996 of our licence modification decision.

**Table 2: Overview over Annexes**

Annex Number	Annex Name
Annex A	<a href="#">BGTL licence modifications</a>
Annex B	<a href="#">PTL licence modifications</a>
Annex C	<a href="#">WTL licence modifications</a>
Annex D	<a href="#">GNI (UK) licence modifications</a>
Annex E	<a href="#">Notice under Article 14(8) of the Gas (Northern Ireland) Order 1996</a>