

**Decision published pursuant to
Article 14(8) of the Gas
(Northern Ireland) Order 1996**

**Modification of Gas
Conveyance Licences –
Postalised Transmission Tariff
Published Prior to 31 May**

**Decision Paper
20th November 2017**



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

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

This paper gives notice of the decision of the Utility Regulator to modify gas conveyance licences such that postalised transmission charges are published on or before 31 May each year. The principle modifications will be made to the four licences held by Premier Transmission Ltd, Belfast Gas Transmission Ltd, West Transmission Ltd and GNI (UK) Ltd. In addition supporting modifications are required in the three licences held by SGN Naturals Gas Ltd, Phoenix Natural Gas Ltd and Firmus Energy (Distribution) Ltd.

Audience

This decision is likely to be of interest to the licence holders affected, other regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

Consumer Impact

The modifications will permit network users to base their capacity booking decisions on timelier tariff information. The modifications will also insure compliance with the EU Tariff Network Code. There will be no increase in costs to consumers as a consequence of these modifications.

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ACRONYMS AND GLOSSARY

BGTL	Belfast Gas Transmission Limited
FE	Firmus energy (Distribution) Limited
FOIA	Freedom of Information Act
GMO NI	Gas Market Operator Northern Ireland
GNI (UK)	Gas TSO operating in Northern Ireland
MEL	Mutual Energy Limited
NI	Northern Ireland
PNGL	Phoenix Natural Gas Limited
PSA	Postalised System Administration
PTL	Premier Transmission Limited
SGN	SGN Natural Gas Limited
TSO	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

DECISION PUBLISHED PURSUANT TO ARTICLE 14(8) OF THE GAS (NORTHERN IRELAND) ORDER 1996

In pursuance of its powers under Article 14(1) of the Gas (Northern Ireland) Order 1996 (as amended) (the "Order") the Northern Ireland Authority for Utility Regulation (hereafter referred to as the Utility Regulator) hereby publishes in accordance with Article 14(8) its decision to proceed with the making of modifications to the various conditions of the gas conveyance licence granted to (the "Licences");


- BGE (UK) Ltd on 12th February 2002,
- Premier Transmission Ltd on 1st January 1996,
- Belfast Gas Transmission Ltd on 25th January 2008,
- Northern Ireland Energy Holdings on 11th February 2015,
- Phoenix Natural Gas Ltd on 5th September 1996,
- Bord Gais Eireann on 25th March 2005, and
- Scotia Gas Northern Ireland Ltd on 11th February 2015.

In accordance with Article 14(8) of the Gas Order:

1. Section 1 of this Decision Paper states the effect of the modifications.
2. Section 2 of this Decision Paper states how the Utility Regulator has taken account of any representations made to the notice published by it pursuant to Article 14(2) of the Gas Order, on 6th October 2017. It also states the reasons for any differences between the modifications previously consulted on and the final text of the modifications

The modifications shown in Annexes 1-7 to this Decision Paper shall have effect from 15 January 2018.

Dated this 20th November 2017.



Jenny Pyper
Chief Executive

For and on behalf of the Northern Ireland Authority for Utility Regulation

1 Introduction

- 1.1 The Utility Regulator's principal objective in carrying out the duties associated with its gas functions is to promote the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland, and to do so consistently with the fulfilment of its 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 our decision to modify various conditions of the gas conveyance licence granted to (the "Licences").
- BGE (UK) Ltd on 12th February 2002 – now known as GNI (UK),
 - Premier Transmission Ltd on 1st January 1996 (PTL),
 - Belfast Gas Transmission Ltd on 25th January 2008 (BGTL),
 - Northern Ireland Energy Holdings on 11th February 2015– now known as West Transmission Ltd (WTL),
 - Phoenix Natural Gas Ltd on 5th September 1996 (PNGL),
 - Bord Gais Eireann on 25th March 2005 – now known as firmus Energy (Distribution) Ltd (FE); and
 - Scotia Gas Northern Ireland Ltd on 11th February 2015 – now known as Scotia Gas Networks Northern Ireland Ltd (SGN).
- 1.3 For the reasons set out in Section 2 of this Decision Paper we consider that the modifications set out in the notice published by the Utility Regulator pursuant to Article 14(2) of the Gas Order, on 6th October 2017 should be made with the additional drafting amendments as highlighted in Annexes 1-7. These additional drafting amendments do not materially impact on the effect of the modifications as set out below.

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

1.4 The effect of the various modifications is as follows:

- Facilitate compliance with the EU Tariff Network Code;
- Provide network users with more timely information on the level of postalised transmission tariffs prior to annual entry capacity auctions;
- Align the timing of the tariff setting process across the licence holders;
- Require Distribution Network Operators to develop demand forecasts within a timeframe which facilitates the achievement of the purposes set out above.

1.5 The various conditions modified in each licence are set out in the Table 1 below.

Table 1: Licence Modification Overview – Postalised Transmission Tariff

Section Name	GNI (UK)	PTL	BGTL	WTL
Revenue Restriction During the Period of Designation		3.1.2	3.1.2	4.3.2
Application of the Revenue Determination Formula during Revenue Recovery Period	2.2.1.1			
Duty to provide forecasts and information relating to the calculation of the Postalised Charges	2A.2.3	2A.2.3	2A.2.3	2A.2.3
Publication of Postalised Charges	2A.2.7	2A.2.7	2A.2.7	2A.2.7
PSA Functions	2A.4.3	2A.4.3	2A.4.3	

Table 2: Licence Modification Overview – Distribution Network Operators

Section Name	FE	PNGL	SGN
Exit Capacity Booking	2.12	2.13	2.19

1.6 A notice under Article 14(2) of the Gas Order proposing the modifications and seeking comments from interested parties was published by the Utility Regulator on 6th October 2017. The consultation closed on 3rd November 2017 and generated five responses from ;

- Mutual Energy Ltd
- Gas Market Operator (Northern Ireland)
- Phoenix Natural Gas Ltd
- Firmus Energy (Distribution) Ltd
- Scotia Gas Networks Northern Ireland Ltd

2 Consideration of Responses Received

- 2.1 As noted in section 1 we received five responses to the statutory consultation notice published on 6th October 2017. While all respondents recognised the need for modification to facilitate compliance with the EU Tariff Network Code, a number of concerns were raised. We set out below the substantive issues raised by these respondents and our considered response to them.

Increased Regulatory Burden in First Quarter of Calendar Year

- 2.2 All three Distribution Network Operators (PNGL, FE, SGN) were concerned that the modifications would further concentrate the regulatory burden into the first three months of the calendar year.

Our Response

- 2.3 We do not accept this to be a valid concern. Firstly the current drafting of the licence imposes deadlines in February and March, the modified licence simply shifts these to January and February. These deadlines are all in the first quarter of the calendar year. Secondly there is nothing in the licence which prevents the licence holders discharging their duties in advance of the deadlines stipulated, for example in the final quarter of the previous calendar year.

Greater Inaccuracy in Forecasting Postalised Tariff

- 2.4 Two Distribution Network Operators (FE, SGN) along with the GMO NI were concerned that the revised earlier timetable for setting the postalised tariff would reduce the accuracy of data used to calculate the tariff. Both FE and PNGL noted

that the accuracy of the postalised tariff had substantially reduced in recent years and that this had led to large bullet payments following the end of the Gas Year. Firmus Energy suggested that gas suppliers should be provided with regular updates on the likely scale of any bullet payments throughout the Gas Year and that the Utility Regular should give consideration as to how this might best be achieved.

- 2.5 Mutual Energy raised a specific issue with regard to the forecasting of the West Transmission required revenue prior to raising of the debt finance to fund the construction of the new network having been completed. Stating that the existing timetable would see the postalised tariff being set after this financing process had been completed they requested that the licence modification be postponed for a year.

Our Response

- 2.6 We accept that setting the postalised tariff earlier has the potential to lead to increased deviation between forecast and actual outcomes. In practice, however, it is difficult to believe that forecasting the variables that comprise the postalised tariff would be adversely impacted by the proposed modifications. The factors which cause deviations, weather system development and power generator behaviour are no more likely to be forecast accurately three months before the commencement of the gas year than six months before.
- 2.7 We recognise that gas market participants would benefit from regular updates as to the likely scale of any bullet payments at the end of the gas year. In the first instance we would encourage the industry to achieve this through either a voluntary agreement by the GMO NI to publish the data. If a voluntary agreement is not put in place then Industry have the option to raise a suitable modification to the Northern Ireland Gas Transmission Code. In the absence of such we will give consideration to suitable licence modification to facilitate this objective.
- 2.8 We believe that West Transmission will have sufficient knowledge to accurately forecast their revenue requirement, they will know the total amount of finance to

be raised and will be aware of market conditions before going to market. We also note that the postalised tariff need not be published until 31st May 2017. This will provided an opportunity for WTL to update their forecasts should any materially different information become available to them.

- 2.9 For these reasons we do not intent to delay the introduction of the revised timetable as suggested by Mutual Energy Ltd.

Interaction with Exit Capacity Booking Arrangements

- 2.10 Two Distribution Network Operators (FE, PNGL) mentioned the apparent mismatch that would now exist in the timing of booking exit capacity under the Northern Ireland Gas Transmission Code and the forecasting of the postalised tariff. Previously the forecast was made after capacity bookings had been confirmed, now however the forecast was being made prior to the booking of capacity.

Our Response

- 2.11 We accept that the proposed modifications will shift forecasting to before rather than after capacity booking processes have been completed. However we note that since 1 October 2015, with the introduction of the 'ratchet mechanism' at exit and capacity auctions at entry simply relying on actual capacity booking to set the postalised tariff has not been a robust methodology. For this reason we do not consider that the revised tariff setting process should result in amending existing capacity booking arrangements.

Modification of Northern Ireland Gas Transmission Network Code

- 2.12 GMO NI expressed concern with the limited time available to bring into effect the required network code modifications. Furthermore they requested that when developing licence modifications that may require consequential modification of the network code there should be earlier engagement with the GMO NI.

Our Response

- 2.13 We acknowledge that the timelines for modification of the Northern Ireland Gas Transmission Code are challenging but consider them to be achievable. To this end we will endeavour to complete our code modification process in a timely manner. Going forward we will ensure early engagement with the GMO NI and other industry stakeholders when developing licence modification proposals.

Compressed Timetable to Respond to Authority Challenge

- 2.14 Mutual Energy which holds three licences, Premier Transmission, Belfast Gas Transmission and West Transmission, was unhappy with the revised timetable as it related to the process by which the Authority challenges the Forecast Required Revenue. Condition 3.1.2 in the PTL and BGTL licence and condition 4.3.2 of the WTL licence. They noted that while the Authority now had longer to challenge the Forecast Required Revenue submitted by the licence holders. The time they had to respond had reduced from two weeks to five Business Days. Mutual Energy noted that in the WTL licence the proposed modification of the equivalent Condition 4.3.2 provided for a response period of ten Business Days.

Our Response

- 2.15 The proposed modifications to the WTL licence reflect our policy position on this matter and we will modify Condition 3.1.2 of the PTL and BGTL licences accordingly.

PSA Functions

- 2.16 Mutual Energy noted that we had omitted to propose modifications to Condition 2A.4.3.1 (b) of the PTL, BGTL, WTL and GNI (UK) which requires the Postalised System Administrator (PSA) to provide the licence holders with the postalised charges by no later than two Business Days before the first Business Day in August. This omission meant that the modified licence would no longer be internally consistent.

Our Response

- 2.17 We will modify Condition 4.3.1 (b) by removing the reference to two Business Days before the first Business Day in August. This will leave a requirement on the PSA to supply the postalised charges within five Business Days of receipt of the necessary information from licence holders. This modification maintains internal consistency of the licence and ensures that the PSA has a singly straightforward deadline to comply with.

3 Conclusion

- 3.1 The Utility Regulator has considered the representations received fully and remains content that the proposed modifications, as set out in Annexes 1-7 should be made for the reasons outlined in this Decision Paper. We have also concluded that the licence modifications will better facilitate the achievement of our statutory objectives. We are therefore proceeding to make the modifications set out in Annexes 1-7.
- 3.2 This paper represents the Utility Regulator's final decision on changes to the various licence conditions as set out in Table 1 and 2 above.
- 3.3 The modifications have effect from 15th January 2018.

4 Explanation of the Licence Modifications

4.1 The licence modifications which will have effect from 15th January 2018 are shown (in mark-up form) in Annexes 1-7. The effect of the various modifications is as follows:

- Facilitate compliance with the EU Tariff Network Code;
- To provide network users with more timely information on the level of postalised transmission tariffs prior to annual entry capacity auctions;
- Align the timing of the tariff setting process across the licence holders;
- Require Distribution Network Operators to develop demand forecasts within a timeframe which facilitates the achievement of the purposes set out above.

4.2 Table 3 below sets out the revised tariff setting process.

Table 4: Comparison – Existing and Proposed Licence Requirements

Business Day	Licence Condition
15 th day of March	Forecast Revenue Requirement submitted to the Authority <ul style="list-style-type: none"> • PTL & BGTL Condition 3.1.2 (b) • WTL Condition 4.3.2 (b) • GNI (UK) Condition 2.2.1.1 (c) Forecast volumes submitted to the Authority <ul style="list-style-type: none"> • PTL, BGTL, WTL and GNI (UK) Condition 2A.2.3.1 (a)
4 th day of April	Closure of interested parties into estimate of forecast volume <ul style="list-style-type: none"> • PTL, BGTL, WTL and GNI (UK) Condition 2A.2.3.1 (e)
5 th day of April	Authority notice of challenge to Forecast Required Revenue <ul style="list-style-type: none"> • PTL & BGTL Condition 3.1.2 2 (c) • WTL Condition 4.3.2 (c) Authority Notice to amend forecast volumes <ul style="list-style-type: none"> • PTL, BGTL, WTL and GNI (UK) Condition 2A.2.3.1 (e)

Business Day	Licence Condition
15 th day of April	Resubmission of Forecast Revenue Requirement to the Authority <ul style="list-style-type: none"> • PTL & BGTL Condition 3.1.2 2 (c) • WTL Condition 4.3.2 (c) Forecast Required Revenue submitted to the PSA <ul style="list-style-type: none"> • PTL & BGTL Condition 3.1.2 (d) • WTL Condition 4.3.2 (d) • GNI (UK) Condition 2.2.1.1 (e) Forecast volumes submitted to the PSA <ul style="list-style-type: none"> • PTL, BGTL, WTL and GNI (UK) Condition 2A.2.3.1 (f)
20 th day of April	PSA provides licence holders with Postalised Charges <ul style="list-style-type: none"> • PTL, BGTL, WTL and GNI (UK) Condition 2A.4.3.1 (b)
31 st May	Publication of Postalised Charges as calculated by PSA <ul style="list-style-type: none"> • PTL, BGTL, WTL and GNI (UK) Condition 2A.2.7 (a)

4.3 A full explanation of the purpose and effect of these modifications is set out in chapters 2 and 3 of our consultation paper published on 6th October 2017. The drafting changes made as a result of this consultation will ensure that these purposes are better facilitated.

Annexes 1 to 7

In each annex.

- Proposed deletions are indicated by red text which has been struck through.
- Proposed additions are indicated by red text.
- Changes made as a result of the consultation are highlighted in yellow.

Annex Number	Annex Name
Annex 1	GNI (UK) Licence Modifications
Annex 2	PTL Licence Modifications
Annex 3	BGTL Licence Modifications
Annex 4	WTL Licence Modifications
Annex 5	PNGL Licence Modifications
Annex 6	FE Licence Modifications
Annex 7	SGN Licence Modifications