Forecast Postalised Tariff 2018/19 – 2022/23

Postalised Tariff Explanatory Note

June 2018

1 Introduction

Pursuant to condition 2A.4.3.1 (b) of the Gas Conveyance licences granted to Gas Networks Ireland (UK), Premier Transmission Limited, Belfast Gas Transmission Limited and West Transmission Limited, the Postalisation System Administrator ("PSA") has completed its annual calculation of the forecast postalised tariff for 2018/19 and the following four gas years.

The Utility Regulator reviews the inputs to the tariff calculation (the Forecast Required Revenues (FRRs) and the forecast volume and capacity figures as submitted by the Transmission System Operators (TSOs)). It should be noted that accurate forecasting is an integral part of the tariff setting process.

This note explains what the inputs for calculating the postalised tariff are based on and explains any differences from the previous year's forecasts. It should also be noted that the forecasts for the gas years 2019/20 to 2022/23 are included for indicative purposes only.

2 Summary

The capacity tariff has increased by 28.59% which is a significant increase compared to the GY 2017/18 forecast figures. The main factor driving this change is the increase in the WTL FRR (as explained in 4.2 below). However, there is also a 22.65% decrease in total Entry forecast capacity bookings which is contributing to the increase in the capacity tariff from 2017/18.

The forecast 2018/19 commodity tariff is also higher than the 2017/18 tariff by 4.1%. This is due to an increase in the FRR by 16.33% and also an 11.75% increase in the forecast volumes.

3 Inputs

3.1 Forecast Required Revenues

(i). <u>Premier Transmission Limited (PTL)</u>

The calculation of the PTL Forecast Required Revenue is based upon the existing licence formula where the figures are made up of the repayments on the £107m bond at a rate of 2.461% as well as forecast Operating Expenditure.

The PTL Forecast Required Revenue is reduced for the forecast payment made by Stranraer.

(ii). Gas Networks Ireland (UK) (GNI (UK)

The GNI (UK) Forecast Required Revenue is based on capital expenditure of circa £122m and an allowance for controllable and uncontrollable operating expenditure as part of the GNI (UK) 2017/18-2021/22 Price Control Determination. GNI (UK)'s Capital Expenditure is recovered at a constant real amount at a rate of return of 2.01% (vanilla).

(iii). Belfast Gas Transmission Limited (BGTL)

The BGTL Forecast Required Revenue is based on the repayment of the £109m bond at a rate of 2.387% plus forecast operating expenditure.

(iv). West Transmission Limited (WTL)
The WTL Forecast Required Revenue requirement is based on of indicative financing costs on the assumption that early financing of this project takes place in July 2018. These costs are based on the latest information available, however, these costs may vary in line with changes in market rates and depend on the timing of the transaction.

3.2 Capacity

The forecast capacity figures for the two power stations and the three distribution markets are based upon the actual and/or forecast peak-day capacity requirements. The forecast entry capacity bookings for each product, both annual and non-annual, are submitted by suppliers using the relevant entry point.

3.3 Volumes

Volume figures are based on end customer's best estimate using the number of customers, load factors and electricity generation output assumptions and are submitted by suppliers.

4 Difference between the forecast 2017/18 Annual Tariff and forecast 2018/19 Annual Tariff

As can be seen from Table 1 the 2018/19 capacity tariff has increased significantly compared to the 2017/18 figure. The main factor driving this change is the increase in the WTL FRR (as explained in 4.2 below). However, there is also a 22.65% decrease in total Entry forecast capacity bookings which is contributing to the increase in the capacity tariff from 2017/18. Total forecast Exit capacity bookings have increased by 4.66%.

Table 1: Annual Forecast Tariffs

Annual Forecast Tariffs	2017/18	2018/19	Difference
Entry Capacity Charge (£ per kWh/d booked)	0.22231	0.28587	28.59%
Exit Capacity Charge (£ per kWh/d booked)	0.22231	0.28587	28.59%
Commodity Charge (£ per kWh)	0.000866	0.000902	4.10%

Table 2: Capacity Charge Calculation

Capacity Charge	2017/18	2018/19	Difference
Total Entry & Exit forecast capacity bookings	179,157,497	162,075,769	-9.53%
Total capacity forecast required revenue[1]	39,827,819	46,332,641	16.33%
	0.22231	0.28587	28.59%

The forecast 2018/19 commodity tariff is also higher than the 2017/18 tariff by 4.1%. This is due to an increase in the FRR by 16.33% but is offset by an 11.75% increase in the forecast volumes.

A review of the annual capacity, volumes and forecast required revenues is provided below. The short term capacity tariffs (auction reserve prices) are included in the 2018/19 Forecast Tariff Spreadsheet.

4.1 Capacity and Volumes

Calculation of capacity price

Exit capacity is available as an annual product only. Entry capacity is available as yearly, quarterly, monthly and daily products (day ahead and within day).

In order to determine the forecast capacity price for each product it is necessary to calculate the "Total Weighted Forecast Capacity" which will be utilised for the forthcoming Gas Year. In order to do this a product multiplier[2] must be applied to the forecast bookings for each product, so that the capacity for each product is on an annual basis, and then these are summed for the entire Gas Year.

The Total Weighted Forecast Capacity is then used to calculate a forecast price for the Gas Year for annual (entry and exit) capacity products by dividing the FRR by the Total Weighted Forecast Capacity.

The Forecast Postalised Annual Capacity Charge is then used as a 'reference price', to determine the reserve price for each of the non-annual

[1] Total FRR for 18/19 is £61,776,854. The capacity proportion is 75% therefore £46,332,640.
[2] https://www.uregni.gov.uk/news-centre/seasonal-factors-final-determination

entry products to be applied in Auctions. Reserve prices for each product are calculated by applying the relevant product multiplier

Annual capacity

The analysis of the forecast capacity data has been reviewed against previous year's capacity usage, while also accounting for future expansion and an increase in network usage.

Table 3 shows that there has been a small decrease of -0.85% in the forecast entry capacity figures for 2018/19 compared to 2017/18.

Table 3: Moffat Entry point forecast annual capacity (kWh/day)

Entry Annual Capacity	2017/18	2018/19	Difference
Ballylumford and Coolkeeragh Power Station	31,339,000	31,486,000	0.47%
NI Distribution Market	36,688,000	35,959,925	-1.98%
Total Moffat Entry Booked Capacity	68,027,000	67,445,925	-0.85%

Forecast annual entry capacity only reduced slightly by -0.85% compared to 17/18 forecasts, however there has been a marked decrease in the actual usage of the daily capacity products and other short term products against forecast in the 17/18 gas year. Total Entry capacity bookings for 2018/19 has reduced by 22.65%.

Table 4 shows that there has been an overall increase of 5% in the forecast exit capacity figures for 2018/19 compared to 2017/18.

Table 4: Exit point forecast annual capacity (kWh/day)

Exit Annual Capacity	2017/18	2018/19	Difference
Ballylumford Power Station	25,000,000	24,320,000	-2.72%
Coolkeeragh Power Station	18,766,000	18,766,000	0%
Phoenix Distribution Market	33,582,405	34,129,823	1.63%
Firmus energy Distribution Market	8,257,512	10,676,000	29%
SGN Distribution Market	440,000	2,164,008	392%
Total Exit Point Booked Capacity	86,045,917	90,055,831	5%

Volumes

Overall the 2018 forecast gas volumes for the gas year 2018/19 have increased by 11.75% compared to volumes forecast for 2017/2018. The forecast demand at Ballylumford power station has increased by 10.18%. There is also a forecast demand increase at Coolkeeragh power station of 13.60%.

Forecast volumes within the distribution sector have increased by 11.49% compared to 2017/18 figures. There is a forecast increase in volumes within the Belfast distribution area of 3.24% and also an increase of 1.41% in the 'Ten Towns' distribution area. Gas to the West is only in its second year as a distribution area therefore forecast bookings for the gas year 2018/19 are low, but increasing.

Table 5: Forecast Exit Commodity Volumes (kWh)

	2017/18	2018/19	Difference
Ballylumford Power Station	4,475651,920	4,931,346,000	10.18%
Coolkeeragh Power Station	4,644,029,036	5,275,800,000	13.60%
Phoenix Distribution Market	4,383,767,851	4,525,660,997	3.24%
Firmus energy Distribution Market	1,707,770,098	1,731,892,823	1.41%
SGN Distribution Market	111,952,000	658,837,577	488.50%
Total Forecast Volumes	15,323,170,905	17,123,537,397	11.75%

Calculation of commodity price

The forecast commodity price is calculated by dividing the total FRR (times 25%[3]) by the total forecast annual exit volumes of all shippers.

4.2 Required Revenues

The total required revenue forecasted for 2018/19 is £61,776,854 (in 2018/19 prices) compared to last year's 2017/18 figure of £53,103,758 (in 2017/18 prices). This is an increase of 16.33%. Table 6 provides a review of the previous years' FRR for comparison.

Table 6: Forecast Required Revenue

Forecast Required Revenue (FRR)	PTL £	BGTL £	GNI(UK) £	WTL £	Total £
FRR 2017/18	25,375,458	8,278,161	18,935,196	514,943	53,103,758
FRR 2018/19	25,195,784	7,781,567	18,701,179	10,098,324	61,776,854
Increase from FRR 2017/18	-179,674	-496,594	-234,017	9,583,381	8,673,096
% Change from FRR 2017/18	-0.71%	-6.00%	-1.24%	1861.06%	16.33%

PTL's 2018/19 FRR has marginally decreased by 0.71% compared to 2017/18. However, the budgeted controllable opex (BCO) element of the FRR is 29% greater than the shadow price control BCO for 18/19 as published by UR on 1st August 2017[4]. Approximately 48% of this variance

[3] 25% reflects the split of total FRR to be collected by commodity charges.
[4] https://www.uregni.gov.uk/sites/uregni/files/media-files/2017-08-01%20GT17%20final%20determination%20-%20redacted%20-%20final_0.pdf

relates to projects which were excluded from the BCO and were to be treated as relevant items to be considered at a future date, with the rest identified following the shadow price control process.

BGTL's FRR 2018/19, has decreased by 6% and the BCO element of the FRR is 2% lower than the shadow price control BCO for 18/19 as published by UR on 1st August 2017.

West Transmission Limited's FRR 2018/19 has increased significantly and this is due to the inclusion of indicative financing costs on the assumption that early financing of this project takes place in July 18. These costs are based on the latest information available, however, these costs may vary in line with changes in market rates and depend on the timing of the transaction. The BCO element of the FRR is 20% lower than the shadow price control BCO for 18/19 as published by UR on 1st August 2017.

GNI(UK)'s FRR 2018/19 has decreased by 1.24% and is in line with their price control determination published on the 1st August 2017.

Overall, Table *7* below shows the total MEL BCO is £0.7m or 8.5% greater than the shadow price control BCO.

Table 7: MEL Shadow Price Control BCO against FRR BCO[5]

MEL	PTL £'000	BGTL £'000	WTL £'000	Total £'000
Shadow Price Control (SPC) BCO	4,104	1,689	2,334	8,140
Updated FRR BCO	5,299	1,656	1,880	8,835
Increase in BCO from SPC	1,195	-33	-467	695
% Change in BCO from SPC	29.1%	-1.9%	-19.9%	8.5%

5 Forecast Postalised Tariff for years 2018/19-2021/22

Table 8: Forecast Tariffs GY+1 – GY+4

	2019/20	2020/21	2021/22	2022/23
Entry Capacity Charge (£ per kWh/d booked)	0.29028	0.26018	0.27145	0.26712
Exit Capacity Charge (£ per kWh/d booked)	0.29028	0.26018	0.27145	0.26712
Commodity Charge (£ per kWh)	0.0008707	0.0008467	0.0008645	0.0008490

The forecast tariffs for the years 2019/20 to 2022/23 are provided in the Table 8 for indicative purposes only.

[5] March 2019 prices