Forecast Postalised Tariff 2019/20 – 2023/24

Postalised Tariff Explanatory Note

May 2019

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 2019/20 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 2020/21 to 2023/24 are included for indicative purposes only.

2 Summary

The capacity tariff for 2019/20 has decreased marginally by 0.98% compared to the GY 2018/19 forecast figures.

The forecast 2019/20 commodity tariff is also lower than the 2018/19 tariff by 4.42%.

The FRR has increased marginally by 0.02% with a 4.64% 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 £117m 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 is based on the repayment of c£202.5m debt at a rate of -0.608% (including over £80m to finance intermediate pressure pipelines owned by SGN Natural Gas and Phoenix Natural Gas) plus forecast operating expenditure.

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.

3.4 Capacity Commodity Split

The capacity commodity split for 19/20 is 75:25 as in previous years. The split will change to 85:15 for 20/21 and to 95:5 for 21/22.

4 Difference between the forecast 2018/19 Annual Tariff and forecast 2019/20 Annual Tariff

As can be seen from Table 1 the 2019/20 capacity tariff has decreased marginally when compared to the 2018/19 figure. There is a decrease in costs for WTL due to commencement of early financing at a lower rate than anticipated, however this is offset by cyclical costs such as seabed survey's due in 19/20.

There is also a marginal decrease of 1.51% in total Entry forecast capacity bookings. Total forecast Exit capacity bookings have increased by 0.15%.

Table 1: Annual Forecast Tariffs

Annual Forecast Tariffs	2018/19	2019/20	Difference
Entry Capacity Charge (£ per kWh/d booked)	0.28587	0.28307	-0.98%
Exit Capacity Charge (£ per kWh/d booked)	0.28587	0.28307	-0.98%
Commodity Charge (£ per kWh)	0.0009019	0.0008620	-4.42%

Table 2: Capacity Charge Calculation

Capacity Charge	2018/19	2019/20	Difference
Total Entry & Exit forecast capacity bookings	162,075,769	163,703,832	1.00%
Total capacity forecast required revenue[1]	46,332,641	46,339,661	0.02%
	0.28587	0.28307	-0.98%

The forecast 2019/20 commodity tariff is also lower than the 2018/19 tariff by -4.42%.

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 2019/20 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.

[1] Total FRR for 19/20 is £61,785,099. The capacity proportion is 75% therefore £46,332,641.
[2] https://www.uregni.gov.uk/news-centre/decision-published-seasonal-multiplier-factors

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 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 -1.51% in the forecast entry capacity figures for 2019/20 compared to 2018/19.

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

Entry Annual Capacity	2018/19	2019/20	Difference
Ballylumford and Coolkeeragh Power Station	31,486,000	31,886,000	1.27%
NI Distribution Market	35,959,925	34,543,484	-3.94%
Total Moffat Entry Booked Capacity	67,445,925	66,429,484	-1.51%

Table 4 shows that there has been an overall increase of 0.15% in the forecast exit capacity figures for 2019/20 compared to 2018/19.

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

Exit Annual Capacity	2018/19	2019/20	Difference
Ballylumford Power Station	24,320,000	23,600,000	-2.96%
Coolkeeragh Power Station	18,766,000	18,766,000	0%
Phoenix Distribution Market	34,129,823	34,129,823	0%
Firmus energy Distribution Market	10,676,000	10,751,000	0.70%
SGN Distribution Market	2,164,008	2,940,475	35.88%
Total Exit Point Booked Capacity	90,055,831	90,187,301	0.15%

Volumes

Table 5: Forecast Exit Commodity Volumes (kWh)

	2018/19	2019/20	Difference
Ballylumford Power Station	4,931,346,000	5,273,070,000	6.93%
Coolkeeragh Power Station	5,275,800,000	5,475,000,000	3.78%
Phoenix Distribution Market	4,525,660,997	4,650,344,036	2.76%
Firmus energy Distribution Market	1,731,892,823	1,823,468,428	5.29%
SGN Distribution Market	658,837,577	696,672,000	5.74%
Total Forecast Volumes	17,123,537,397	17,918,554,464	4.64%

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 Entry-Exit Split

The split of revenue to be received from capacity tariffs at all entry points and the revenue from capacity tariffs at all exit points is calculated ex post. It is not a predetermined split therefore is not required as an input to the tariff setting process.

The split of revenue from entry and exit capacity tariffs is determined as an output of the forecast tariff calculation process based on the forecast booking of exit capacity and entry capacity in a gas year.

Table 6: Entry-Exit Split

Entry/exit split	2019/20
Forecast Capacity entry proportion	44.91%
Forecast capacity exit proportion	55.09%

4.3 Required Revenues

The total required revenue forecasted for 2019/20 is £61,786,215 (in 2019/20 prices) compared to last year's 2018/19 figure of £61,776,854 (in 2018/19 prices). This is an increase of 0.02%. Table 7 provides a review of the previous years' FRR for comparison.

[3] 25% reflects the split of total FRR to be collected by commodity charges.

Table 7: Forecast Required Revenue

Forecast Required Revenue (FRR)	PTL £	BGTL £	GNI(UK) £	WTL £	Total £
FRR 2018/19	25,195,784	7,781,567	18,701,179	10,098,324	61,776,854
FRR 2019/20	26,443,585	8,553,923	18,782,083	8,006,624	61,786,215
Increase from FRR 2018/19	1,247,801	772,356	80,904	-2,091,700	9,361
% Change from FRR 2018/19	4.95%	9.93%	0.43%	-20.71%	0.02%

PTL's 2018/19 FRR has increased by 4.95% compared to 2017/18. However, the budgeted controllable opex (BCO) element of the FRR is 6.1% lower than the shadow price control BCO for 18/19 as published by UR on 1st August 2017[4].

BGTL's FRR 2018/19, has increased by 9.93% and the BCO element of the FRR is 25.7% higher than the shadow price control BCO for 18/19 as published by UR on 1st August 2017.

West Transmission Limited's FRR has decreased by 20.71%. The commencement of early financing resulted in a lower rate than was anticipated. The BCO element of the FRR is 20.4% higher than the shadow price control BCO for 18/19 as published by UR on 1st August 2017.

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

Overall, Table 8 below shows the total MEL BCO is £0.5m or 5.3% greater than the shadow price control BCO.

Table 8: MEL Shadow Price Control BCO against FRR BCO[5]

MEL	PTL £'000	BGTL £'000	WTL £'000	Total £'000
Shadow Price Control (SPC) BCO	5,807	1,871	1,870	9,548
Updated FRR BCO	5,450	2,351	2,252	10,053
Increase in BCO from SPC	-357	480	382	505
% Change in BCO from SPC	-6.1%	25.7%	20.4%	5.3%

[4] https://www.uregni.gov.uk/sites/uregni/files/media-files/2017-08-01%20GT17%20final%20determination%20-%20redacted%20-%20final_0.pdf

[5] March 2019 prices

5 Forecast Postalised Tariff for years 2020/21-2023/24

Table 9: Forecast Tariffs GY+1 – GY+4

	2020/21	2021/22	2022/23	2023/24
Entry Capacity Charge (£ per kWh/d booked)	0.34933	0.29191	0.29204	0.29294
Exit Capacity Charge (£ per kWh/d booked)	0.34933	0.29191	0.29204	0.29294
Commodity Charge (£ per kWh)	0.0005114	0.0001545	0.0001532	0.0001538

The forecast tariffs for the years 2020/21 to 2023/24 are provided in the Table 9 for indicative purposes only. As mentioned above in paragraph 3.4 the capacity commodity split for 20/21 will change to 85:15 and to 95:5 for 21/22.