

## **Forecast Postalised Tariff 2021/22 – 2025/26**

### **Postalised Tariff Explanatory Note**

#### **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 2021/22 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 where possible any differences from the previous year’s forecasts. It should also be noted that the forecasts for the gas years 2022/23 to 2025/26 are included for indicative purposes only.

#### **2 Summary**

The capacity tariff for 2021/22 is significantly higher than the 2020/21 tariff (+17%) whilst the forecast commodity tariff for 2021/22 is correspondingly lower (-66%). As was the case in the derivation of last year’s forecast tariffs, these large opposite movements are a result of the change in the capacity commodity split since the capacity, volumes and FRR figures are relatively stable compared to previous years.

#### **3 Inputs**

##### **3.1 Forecast Required Revenues**

###### **(i). Premier Transmission Limited (PTL)**

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 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 linked to the Retail Price Index with no additional interest premium applied to the nominal value (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 exit 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 2021/22 is 95:5 which varies from the 85:15 split of 2020/21 and the 75:25 split of preceding years. The split will remain 95:5 for all successive years.

## **4 Difference between the forecast 2020/21 Annual Tariff and forecast 2021/22 Annual Tariff**

The 2021/22 tariffs vary substantially from 2020/21. Decreases in total forecast capacity and forecast commodity volumes combined with an increase in the total FRR, primarily driven by the higher BGTL FRR requirement (see Section 4.3) would have contributed to both a higher capacity and higher commodity

tariff in isolation. However, the updated capacity commodity split from 85:15 to 95:5 has ultimately driven the significant magnitude of the increased capacity tariff and the decreased commodity tariff. Tables 2 and 3 show the corresponding shares of revenue that must now be recovered through each type of product compared to previously; with an even greater proportion of revenue now required to be collected through capacity products than commodity.

Table 1: Annual Forecast Tariffs

| Annual Forecast Tariffs                    | 2020/21   | 2021/22   | Difference |
|--|-----------|-----------|------------|
| Entry Capacity Charge (£ per kWh/d booked) | 0.31648   | 0.36965   | +16.80%    |
| Exit Capacity Charge (£ per kWh/d booked)  | 0.31648   | 0.36965   | +16.80%    |
| Commodity Charge (£ per kWh)               | 0.0005160 | 0.0001768 | -65.75%    |

Table 2: Capacity Charge Calculation

| Capacity Charge  | 2020/21     | 2021/22     | Difference |
|--|-------------|-------------|------------|
| Total Weighted Entry & Exit forecast capacity bookings (kWh/d) | 162,618,693 | 158,124,943 | -2.76%     |
| Total capacity forecast required revenue (£)                   | 51,465,495  | 58,450,824  | +13.57%    |
| Capacity Tariff (£ per kWh)                                    | 0.31648     | 0.36965     | +16.80%    |

Table 3: Commodity Charge Calculation

| Commodity Charge                              | 2020/21        | 2021/22        | Difference |
|---|----------------|----------------|------------|
| Total forecasted commodity (kWh)              | 17,601,895,715 | 17,404,748,756 | -1.12%     |
| Total commodity forecast required revenue (£) | 9,082,146      | 3,076,359      | -66.13%    |
| Commodity Tariff (£ per kWh)                  | 0.0005160      | 0.0001768      | -65.75%    |

## 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<sup>1</sup> 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 entry products to be applied in Auctions. Reserve prices for each product are calculated by applying the relevant product multiplier.

### 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 4 shows that there has been a decrease of 9.78% in the total forecast entry capacity figures for 2021/22 compared to 2020/21, driven by a movement away from daily products into annual and quarterly products.

Table 4: Moffat Entry Point Forecast Capacity (kWh/day)

| Weighted Entry Capacity | 2020/21    | 2021/22    | Difference |
|-------------------------|------------|------------|------------|
| Annual Capacity         | 49,815,000 | 51,418,000 | +3.22%     |
| Quarterly Capacity      | 697,969    | 863,383    | +23.70%    |
| Monthly Capacity        | 1,043,491  | 1,043,491  | 0.00%      |
| Daily Capacity          | 20,235,420 | 11,447,481 | -43.43%    |
| Total Entry             | 71,791,879 | 64,772,355 | -9.78%     |

Table 5 shows that there is an overall increase of 2.78% in the forecast exit capacity figures for 2021/22 compared to 2020/21 with increases across every Distribution exit point reflecting network growth.

<sup>1</sup> [http://gmo-ni.com/assets/documents/Gas-Product-Multipliers-and-Time-Factors-Table\\_210201\\_150625.pdf](http://gmo-ni.com/assets/documents/Gas-Product-Multipliers-and-Time-Factors-Table_210201_150625.pdf)

Table 5: Exit Point Forecast Annual Capacity (kWh/day)

| Annual Exit Capacity              | 2020/21    | 2021/22    | Difference |
|-----------------------------------|------------|------------|------------|
| Ballylumford Power Station        | 21,500,000 | 23,000,000 | +6.98%     |
| Coolkeeragh Power Station         | 18,766,000 | 18,766,000 | 0.00%      |
| Phoenix Distribution Market       | 35,336,970 | 35,843,052 | +1.43%     |
| Firmus Energy Distribution Market | 11,430,000 | 11,760,000 | +2.89%     |
| SGN Distribution Market           | 3,793,844  | 3,983,536  | +5.00%     |
| Total Exit Point Booked Capacity  | 90,826,814 | 93,352,588 | +2.78%     |

### Commodity Volumes

Table 6 supports the increases in forecast distribution exit capacity by showing general growth in associated distribution volumes although the total is offset by a decrease in Power Generation volumes.

Table 6: Forecast Exit Commodity Volumes (kWh)

|                                   | 2020/21        | 2021/22        | Difference |
|-----------------------------------|----------------|----------------|------------|
| Ballylumford Power Station        | 4,589,730,000  | 4,285,290,000  | -6.63%     |
| Coolkeeragh Power Station         | 5,275,800,000  | 5,275,800,000  | 0.00%      |
| Phoenix Distribution Market       | 4,824,449,176  | 4,808,277,630  | -0.34%     |
| Firmus Energy Distribution Market | 1,943,323,539  | 2,012,809,125  | +3.58%     |
| SGN Distribution Market           | 968,593,000    | 1,022,572,000  | +5.57%     |
| Total Forecast Volumes            | 17,601,895,715 | 17,404,748,756 | -1.12%     |

## 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 7: Entry-Exit Split

| Entry/Exit Split                   | 2021/22 |
|------------------------------------|---------|
| Forecast Capacity entry proportion | 40.96%  |
| Forecast Capacity exit proportion  | 59.04%  |

### 4.3 Required Revenues

The total required revenue forecasted for 2021/22 is £61,527,184 compared to last year's figure of £60,547,642. This is an increase of 1.62%. Table 8 provides a review of the previous years' FRR for comparison.

Table 8: Forecast Required Revenue

| Forecast Required Revenue (FRR) | PTL<br>£   | BGTL<br>£ | GNI(UK)<br>£ | WTL<br>£  | Total<br>£ |
|---------------------------------|------------|-----------|--------------|-----------|------------|
| <b>FRR 2020/21</b>              | 26,015,862 | 8,567,490 | 17,463,254   | 8,501,036 | 60,547,642 |
| <b>FRR 2021/22</b>              | 25,603,708 | 9,830,647 | 17,521,462   | 8,571,367 | 61,527,184 |
| <b>% Change</b>                 | -1.58%     | +14.74%   | +0.33%       | +0.83%    | +1.62%     |

The PTL and WTL forecasted revenue requirements are largely in line with the prior year. The higher 2021/22 BGTL FRR is predominantly the result of increased engineering works scheduled in the year, along with increasing scheduled debt repayments.

GNI (UK) forecasted revenue requirement (FRR) for the 2020/21 gas year was £17.5m. This was tied to GT 17 allowances, adjusted for RPI, and was also adjusted to account for 'Supplemental Income' pertaining to the SNP Haynestown arrangements of c. £1.2m in 2020/21. The revenue included for 2021/22 has been set at £17.5m. This is based on an FRR of c.£18.4m with an adjustment made to account for 'Supplemental Income' of c.£0.9m in 2021/22. The 2021/22 FRR in all other respects is tied to GT17 allowances.'

## 5 Forecast Postalised Tariff for years 2022/23-2025/26

Table 9: Forecast Tariffs GY+1 – GY+4

|   | 2022/23   | 2023/24   | 2024/25   | 2025/26   |
|---|-----------|-----------|-----------|-----------|
| <b>Entry Capacity Charge (£ per kWh/d booked)</b> | 0.37106   | 0.35715   | 0.36123   | 0.36220   |
| <b>Exit Capacity Charge (£ per kWh/d booked)</b>  | 0.37106   | 0.35715   | 0.36123   | 0.36220   |
| <b>Commodity Charge (£ per kWh)</b>               | 0.0001719 | 0.0001629 | 0.0001746 | 0.0001748 |

The forecast tariffs for the years 2022/23 to 2025/26 are provided in Table 9 for indicative purposes only.