

Forecast Postalised Tariff 2022/23 - 2026/27

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 2022/23 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 2023/24 to 2026/27 are included for indicative purposes only.

2 Summary

The tariffs for GY2022/23 are significantly higher than those for GY2021/22 with the capacity tariff increasing by 18%, and the commodity tariff by 23%. The primary driver for these movements is the increased TSO forecast revenue requirements which has been accentuated by the lower forecast commodity volume in the case of the commodity tariff.

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 real 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) 2022/23-2026/27 Price Control Determination. GNI (UK)'s Capital Expenditure will be recovered over the 2022/23 - 2026/27 Price Control period at a constant real amount, at a rate of return of 2.66% (vanilla), based on the final Price Control determination.

(iii). Belfast Gas Transmission Limited (BGTL)

The BGTL Forecast Required Revenue is based on the repayment of the £109m bond at a real 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 revenue capacity commodity split is 95:5 for 2022/23 and all successive years.

4 Difference between the forecast 2021/22 Annual Tariff and forecast 2022/23 Annual Tariff

The increase in both capacity and commodity tariffs has been primarily driven by higher forecast revenue requirements across all four TSO's. The overall forecast capacity only varies slightly from the total for GY2021/22 so a 17% increase in forecast revenue requirement has translated to a direct 18% increase in the capacity tariff. The total commodity figure is 5% lower than for GY2021/22, so this has combined with the higher revenue requirements to produce a commodity tariff increase of 23%.

Table 1: Annual Forecast Tariffs

Annual Forecast Tariffs	2021/22	2022/23	Difference
Entry Capacity Charge (£ per kWh/d booked)	0.36965	0.43436	+17.51%
Exit Capacity Charge (£ per kWh/d booked)	0.36965	0.43436	+17.51%
Commodity Charge (£ per kWh)	0.0001768	0.0002170	+22.78%

Table 2: Capacity Charge Calculation

Capacity Charge	2021/22	2022/23	Difference
Total Weighted Entry & Exit forecast capacity bookings (kWh/d)	158,124,943	157,054,352	-0.68%
Total capacity forecast required revenue (£)	58,450,824	68,218,771	+16.71%
Capacity Tariff (£ per kWh)	0.36965	0.43436	+17.51%

Table 3: Commodity Charge Calculation

Commodity Charge	2021/22	2022/23	Difference
Total forecasted commodity (kWh)	17,404,748,756	16,544,971,336	-4.94%
Total commodity forecast required revenue (£)	3,076,359	3,590,462	+16.71%
Commodity Tariff (£ per kWh)	0.0001768	0.0002170	+22.78%

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 multiplier¹ 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 the 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 slight decrease of 2.67% in the total forecast entry capacity figures for 2022/23 compared to 2021/22. The main change is a movement away from daily products to annual and monthly products.

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

Weighted Entry Capacity	2021/22	2022/23	Difference
Annual Capacity	51,418,000	56,037,000	+8.98%
Quarterly Capacity	863,383	0	-100.00%
Monthly Capacity	1,043,491	2,640,385	+153.03%
Daily Capacity	11,447,481	4,363,645	-61.88%
Total Entry	64,772,355	63,041,030	-2.67%

Table 5 below shows that there is a slight increase of 0.71% in the total forecast exit capacity figures for 2022/23 compared to 2021/22 with increases across every Distribution exit point reflecting network growth.

¹ 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	2021/22	2022/23	Difference
Ballylumford Power Station	23,000,000	22,000,000	-4.35%
Coolkeeragh Power Station	18,766,000	18,766,000	0.00%
Phoenix Distribution Market	35,843,052	37,250,202	+3.93%
Firmus Energy Distribution Market	11,760,000	12,010,000	+2.13%
SGN Distribution Market	3,983,536	3,987,121	+0.09%
Total Exit Point Booked Capacity	93,352,588	94,013,323	+0.71%

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)

	2021/22	2022/23	Difference
Ballylumford Power Station	4,285,290,000	3,229,290,000	-24.64%
Coolkeeragh Power Station	5,275,800,000	5,275,800,000	0.00%
Phoenix Distribution Market	4,808,277,630	5,013,466,227	+4.27%
Firmus Energy Distribution Market	2,012,809,125	2,161,328,240	+7.38%
SGN Distribution Market	1,022,572,000	865,086,868	-15.40%
Total Forecast Volumes	17,404,748,756	16,544,971,336	-4.94%

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	2022/23
Forecast Capacity entry proportion	40.14%
Forecast Capacity exit proportion	59.86%

4.3 Required Revenues

The total required revenue forecasted for 2022/23 is £71,809,233 compared to last year's figure of £61,527,184, this is an increase of 17%. Table 8 provides a review of the previous year FRR for comparison.

Table 8: Forecast Required Revenue

Forecast Required Revenue (FRR)	PTL £	BGTL £	GNI(UK) £	WTL £	Total £
FRR 2021/22	25,603,708	9,830,647	17,521,462	8,571,367	61,527,184
FRR 2022/23	28,992,645	10,753,034	21,870,433	10,193,120	71,809,233
% Change	+13.24%	+9.38%	+24.82%	+18.92%	+16.71%

As a substantial proportion of the required revenue for the Mutual Energy owned businesses (PTL, BGTL and WTL) is capital repayment and interest linked to inflation, the recent high inflation rate has had a material upward impact on the Forecast Required Revenues. The increases from 2021/22 FRR to 2022/23 FRR figures for these businesses include:

	Increase/(decrease)
Finance costs	£3.1m
Gas and carbon prices	£5.2m
Other	(£2.4m)
	£5.9m

GNI (UK) forecasted revenue requirement (FRR) for the 2021/22 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. £0.9m in 2021/22.

The revenue included for 2022/23 is aligned to the final Price Control determination for this year and has been set at £21.9m. This is based on an FRR of c.£22.1m with an adjustment made to account for 'Supplemental Income' of c.£0.2m in 2022/23. The approach to the calculation of Supplemental Income for 22/23 is informed by the established approach

via the licence arrangements and takes into account what was set for previous periods, this results in a lower Supplemental Income requirement for 22/23 versus 21/22.

Inflation projections for 2022/23 are based on current forecast rates for the year, and the revenue has also been adjusted to reflect higher out-turned inflation for the 21/22 year versus original forecasts.

5 Forecast Postalised Tariff for years 2023/24-2026/27

Table 9: Forecast Tariffs GY+1 - GY+4

	2023/24	2024/25	2025/26	2026/27
Entry Capacity Charge (£ per kWh/d booked)	0.40372	0.38554	0.40992	0.41046
Exit Capacity Charge (£ per kWh/d booked)	0.40372	0.38554	0.40992	0.41046
Commodity Charge (£ per kWh)	0.0001939	0.0001915	0.0002118	0.0002093

The forecast tariffs for the years 2023/24 to 2026/27 are provided for indicative purposes only.