

Forecast Postalised Tariff 2023/24 - 2027/28

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 2023/24 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 2024/25 to 2027/28 are included for indicative purposes only.

2 Summary

The capacity tariff for GY2023/24 is only slightly higher than the GY2022/23 tariff +1%, whilst the commodity tariff is lower by -5%. The driver for these movements is due to a 12% increase in TSO forecast revenue requirements with a higher forecasted capacity of 11% and commodity volumes increasing by 18%.

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) GT22 (2022/23–2026/27) Price Control Determination. GNI (UK)'s Capital Expenditure will be recovered over the 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.

2.1 Capacity

The forecast capacity figures used in the tariff for all exit and entry points are based on either bookings for upcoming years or in line with forecasts provided for by the relevant shippers at the points.

2.2 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.

2.3 Capacity Commodity Split

The revenue capacity commodity split is 95:5 for 2023/24 and all successive years.

4 Difference between the forecast 2022/23 Annual Tariff and forecast 2023/24 Annual Tariff

The overall forecasted capacity is 11% higher when compared with GY2022/23 forecast capacity and by taking the 12% increase in forecast revenue requirement this has translated to only a slight increase of 1% in the capacity tariff for GY2023/24. The total forecast commodity figure is 18% higher than for GY2022/23, so this has combined with the higher revenue requirements to produce a commodity tariff reduction of -5%.

Table 1: Annual Forecast Tariffs

Annual Forecast Tariffs	2022/23	2023/24	Difference
Entry Capacity Charge (£ per kWh/d booked)	0.43436	0.43714	0.64%
Exit Capacity Charge (£ per kWh/d booked)	0.43436	0.43714	0.64%
Commodity Charge (£ per kWh)	0.0002170	0.0002061	-5.03%

Table 2: Capacity Charge Calculation

Capacity Charge	2022/23	2023/24	Difference
Total Weighted Entry & Exit forecast capacity bookings (kWh/d)	157,054,352	174,256,421	10.95%
Total capacity forecast required revenue (£)	68,218,771	76,174,287	11.66%
Capacity Tariff (£ per kWh)	0.43436	0.43714	0.64%

Table 3: Commodity Charge Calculation

Commodity Charge	2022/23	2023/24	Difference
Total forecasted commodity (kWh)	16,544,971,336	19,451,998,468	17.57%
Total commodity forecast required revenue (£)	3,590,462	4,009,173	11.66%
Commodity Tariff (£ per kWh)	0.0002170	0.0002061	-5.03%

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. 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, new power station and an increase in network usage.

Table 4 shows that there has been an increase of 25.83% in the total forecast entry capacity figures for 2023/24 compared to 2022/23. The main change is a substantial increase in the forecast usage of the daily product. In addition, there is a slight movement away from monthly to annual products.

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

Weighted Entry Capacity	2022/23	2023/24	Difference
Annual Capacity	56,037,000	58,628,000	4.62%
Quarterly Capacity	0	0	0.00%
Monthly Capacity	2,640,385	2,412,394	-8.63%
Daily Capacity	4,363,645	18,287,168	319.08%
Total Entry	63,041,030	79,327,562	25.83%

¹ http://gmo-ni.com/assets/documents/Gas-Product-Multipliers-and-Time-Factors-Table_210201_150625.pdf

Table 5 below shows that there is a slight increase of 0.97% in the total forecast exit capacity figures for 2023/24 compared to 2022/23 with an increase in one of power station points and small decreases across Distribution exit points.

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

Annual Exit Capacity	2022/23	2023/24	Difference
Ballylumford Power Station	22,000,000	24,000,000	9.09%
Coolkeeragh Power Station	18,766,000	18,766,000	0.00%
Kilroot Power Station	0	0	0%
Phoenix Distribution Market	37,250,202	36,435,536	-2.19%
Firmus Energy Distribution Market	12,010,000	11,770,000	-2.00%
SGN Distribution Market	3,987,121	3,957,324	-0.75%
Total Exit Point Booked Capacity	94,013,323	94,928,860	0.97%

Commodity Volumes

Table 6 supports the increase in forecast exit capacity by showing a power station having strong growth in their forecasted commodity with a further increase in commodity coming from the startup of Kilroot power station.

Table 6: Forecast Exit Commodity Volumes (kWh)

	2022/23	2023/24	Difference
Ballylumford Power Station	3,229,290,000	6,457,608,332	99.97%
Coolkeeragh Power Station	5,275,800,000	5,275,800,000	0.00%
Kilroot Power Station	0	52,393,518	100.00%
Phoenix Distribution Market	5,013,466,227	4,896,131,271	-2.34%
Firmus Energy Distribution Market	2,161,328,240	1,920,785,376	-11.13%
SGN Distribution Market	865,086,868	849,279,971	-1.83%
Total Forecast Volumes	16,544,971,336	19,451,998,468	17.57%

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	2023/24
Forecast Capacity entry proportion	45.52%
Forecast Capacity exit proportion	54.48%

4.3 Required Revenues

The total required revenue forecasted for 2023/24 is £80,183,460 compared to last year’s figure of £71,809,233, this is an increase of 12%. 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 2022/23	28,992,645	10,753,034	21,870,433	10,193,120	71,809,233
FRR 2023/24	31,448,600	13,618,053	24,309,838	10,806,969	80,183,460
% Change	8.47%	26.64%	11.15%	6.02%	11.66%

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 rates have had a material upward impact on the Forecast Required Revenues. This has been the main contributing factor to the increases from 2022/23 FRR to 2023/24 FRR. In addition, BGTL forecast an increased level of engineering works from the prior year.

GNI (UK) forecasted revenue requirement (FRR) for the 2022/23 gas year was £21.9m. This was based on GT22 allowances, adjusted for RPI, and was also adjusted to account for ‘Supplemental Income’ pertaining to the SNP Haynestown arrangements of c. £0.2m in 2022/23.

The revenue included for 2023/24 is aligned to the final Price Control determination for this year and has been set at £24.3m. This is based on an FRR of c.£25.2m with an adjustment made to account for ‘Supplemental Income’ of c.£0.9m. The approach to the calculation of Supplemental

Income for is informed by the established approach via the licence arrangements and takes into account what was set for previous periods, this results in a higher Supplemental Income requirement for 2023/24 versus 2022/23.

Inflation projections for 2023/24 are based on current forecast rates for the year, and the revenue has also been adjusted to reflect higher out-turned inflation for the 22/23 year versus original forecasts.

5 Forecast Postalised Tariff for years 2024/25-2027/28

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

	2024/25	2025/26	2026/27	2027/28
Entry Capacity Charge (£ per kWh/d booked)	0.43814	0.47495	0.50487	0.52196
Exit Capacity Charge (£ per kWh/d booked)	0.43814	0.47495	0.50487	0.52196
Commodity Charge (£ per kWh)	0.0002100	0.0002458	0.0002694	0.0002801

The forecast tariffs for the years 2024/25 to 2027/28 are provided for indicative purposes only.