



Notice under Article 14(2) of the Gas (Northern Ireland) Order 1996

Consultation on Proposed Tidy- up Modifications to Gas High- Pressure Conveyance Licences

11 April 2019



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



Our vision

To ensure value and sustainability in energy and water.



Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.



Abstract

This paper sets out our proposal for technical/housekeeping modifications to the high pressure gas conveyance licences to address a number of known drafting issues. The proposed modifications are relating to a range of licence areas.

Audience

This document is likely to be of interest to regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

Consumer impact

Overall, the proposed licence modifications are non-substantial and designed to enhance accuracy, clarity and transparency of licence drafting.



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Glossary

BGTL	Belfast Gas Transmission Limited, a TSO
ECA	Economic Consulting Associates
FOIA	Freedom of Information Act
GMO NI	Gas Market Operator Northern Ireland
GNI (UK)	Gas Networks Ireland (UK), a TSO
LIBOR	London Interbank Offered Rate
MEL	Mutual Energy Limited
PTL	Premier Transmission Limited, a TSO
PSA	Postalised System Administrator
RPI	Retail Price Index
SSO	Single System Operation
TAR NC	Network Code on Harmonised Transmission Tariff Structures for Gas
TSO	Transmission System Operator GNI (UK), PTL, BGTL and WTL. WTL is not a TSO (Transmission System Operator) as defined by the European Commission but it is referred to as a TSO in this document for simplicity.
UR	Utility Regulator
VAT	Value Added Tax
WTL	West Transmission Limited, a TSO



1 Executive Summary

1.1 This document sets out for consultation our proposals to modify the high pressure gas conveyance licences. The licensees affected by the proposed changes are:

- Belfast Gas Transmission Limited (BGTL)
- Premier Transmission Limited (PTL)
- West Transmission Limited (WTL)
- GNI (UK) Limited (GNI (UK))

BGTL, PTL and WTL form part of the Mutual Energy Limited (MEL) group of companies.

1.2 The proposed modifications are technical/housekeeping modifications aimed at addressing a number of matters:

- Licence tidy-up following implementation of changes to achieve compliance with the [Network Code on Harmonised Transmission Tariff Structures for Gas](#) (TAR NC)
- Correction of known licence formulae issues
- Licence tidy-up following implementation of the Gas Market Operator Northern Ireland (GMO NI) for 1 October 2017

1.3 We consider that the proposed licence modifications will enhance accuracy, clarity and transparency of licence drafting.

2 Introduction

Purpose of this Consultation

- 2.1 The Utility Regulator's (UR) principal objective in carrying out the duties associated with our gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland, and to do so consistently with our fulfilment of the objectives set out in the European Gas Directive¹, and by having regard to a number of matters, as set out more fully in the Energy (Northern Ireland) Order 2003.
- 2.2 In line with these duties this document sets out for consultation our proposals to modify the high pressure gas conveyance licences. The licensees affected by the proposed changes are:
- Belfast Gas Transmission Limited (BGTL)
 - Premier Transmission Limited (PTL)
 - West Transmission Limited (WTL)
 - GNI (UK) Limited (GNI (UK))
- BGTL, PTL and WTL form part of the Mutual Energy Limited (MEL) group of companies.
- 2.3 The licence modification proposal is aimed at addressing a number of matters:
- Licence tidy-up following implementation of changes to achieve compliance with the [Network Code on Harmonised Transmission Tariff Structures for Gas](#) (TAR NC)
 - Correction of known licence formulae issues
 - Licence tidy-up following implementation of the Gas Market Operator Northern Ireland (GMO NI) for 1 October 2017
- 2.4 We consider that the proposed licence modifications are non-substantial and will enhance accuracy, clarity and transparency of licence drafting.

Overview over Licence Conditions Impacted by Proposed Modifications

- 2.5 Table 1 provides an overview over the licence conditions and licence holders impacted by the proposed modifications as well as the main driver for the proposed change and the chapter of this consultation document in which the proposed modification is discussed in more detail.

¹ Directive 2009/73/EC of the European Parliament and the Council of 13 July concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC.

Table 1: Overview over licence conditions impacted by proposed modifications and main drivers

Name	BGTL	PTL	WTL	GNI (UK)	Main driver for modification	Chapter of consultation document
Conveyance Charges, Other Terms for the Conveyance of Gas and the Provision of Conveyance Services, Disapplication, Allowed Operating Expenditure				2.2.22(c)(ii)(C)	Correction of known licence formulae issues	4
Capitalised Interest			6.5.6	2.2A2(b)	Correction of known licence formulae issues	4
Grants Received			6.5.7	2.2A2(c)	Correction of known licence formulae issues	4
Debt Interest				2.2A2(d)	Correction of known licence formulae issues	4
Opex Nominal LIBOR ² Adjustment				2.2A3	Correction of known licence formulae issues	4
Network Code	2.4	2.4	2.4	2.4	Tidy-up following GMO NI implementation	5
The Postalisation System Administrator, The PSA's functions	2A.4.3.1(d)	2A.4.3.1(d)	2A.4.3.1(d)	2A.4.3.1(d)	Tidy-up following GMO NI implementation	5
Tariff Notification Date	2A.4.3.1(i)	2A.4.3.1(i)	2A.4.3.1(i)	2A.4.3.1(i)	Tidy-up following implementation of TAR NC	3

² London Interbank Offered Rate.

Document Structure

2.6 This consultation paper is structured in a number of chapters as follows:

- *Chapter 1 Executive Summary* provides a high-level summary of the main reasons for and effects of the proposed licence modifications
- *Chapter 2 Introduction* provides an overview over the purpose and structure of this consultation document as well as the licence conditions impacted by the proposed modifications; it also sets out details on how to respond to the licence consultation as well as equality considerations
- *Chapter 3 Tidy-up Following Implementation of TAR NC* describes the related licence modification proposal
- *Chapter 4 Correction of Known Licence Formulae Issues* describes the related licence modification proposal
- *Chapter 5 Tidy-up Following Implementation of the GMO NI* describes the related licence modification proposal
- *Chapter 6 Next Steps* sets out the indicative timetable for the next steps of the licence modification process
- Annex A shows the proposed changes to the BGTL licence
- Annex B shows the proposed changes to the PTL licence
- Annex C shows the proposed changes to the WTL licence
- Annex D shows the proposed changes to the GNI (UK) licence
- Annex E represents the notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 of our licence modification proposal

2.7 Annexes A to D set out, for each licence holder, the proposed licence modifications as tracked changes to the current licence conditions. Within the annexes proposed deletions are indicated by red text that has been struck through, proposed additions are indicated by red text that is underlined.

2.8 Chapters 3 to 5 each contain a section setting out the background to the proposed modifications, a section explaining the modification proposal and a section setting out the related reasons and effects.

Responding to this Consultation

2.9 The Utility Regulator welcomes industry and stakeholder views and comments on the outlined licence modifications proposals and their effect. Any representations or objections with respect to the proposals may be made on or before 12 noon on 15 May 2019 to:

Veronika Gallagher

Utility Regulator

Queens House

14 Queens Street

Belfast BT1 6ED

Email: Gas_networks_responses@uregni.gov.uk with cc to veronika.gallagher@uregni.gov.uk

2.10 The Utility Regulator's preference would be for responses to be submitted by e-mail.

- 2.11 Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, the Utility Regulator will also ask respondents to supply the redacted version of the response that can be published.
- 2.12 As a public body and non-ministerial government department, the Utility Regulator is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this. In particular, if asking the Utility Regulator to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.
- 2.13 The Utility Regulator has published a privacy notice for consumers and stakeholders which sets out the approach to data retention in respect of consultations. This can be found at <https://www.uregni.gov.uk/privacy-notice> or, alternatively, a copy can be obtained by calling 028 9031 1575 or by email at info@uregni.gov.uk.
- 2.14 This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office of the Utility Regulator, which will be happy to assist.

Equality Considerations

- 2.15 As a public authority, the Utility Regulator has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:
- i. persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
 - ii. men and women generally;
 - iii. persons with disability and persons without; and
 - iv. persons with dependants and persons without.
- 2.16 The Utility Regulator must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.
- 2.17 In the development of its policies the Utility Regulator also has a statutory duty to have due regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas. Some of the above equality categories will therefore overlap with these vulnerable groupings.
- 2.18 In order to assist with equality screening of the proposals contained within this consultation paper, the Utility Regulator requests that respondents provide any information or evidence in relation to the needs, experiences, issues and priorities for different groups which they feel is relevant to the implementation of any of the proposals. Furthermore, the Utility Regulator welcomes any comments which respondents might have in relation to the overall equality impact of the proposals.

3 Tidy-up Following Implementation of TAR NC

Background

- 3.1 In October 2017, we [consulted](#) on the modification of gas conveyance licences to facilitate publication of postalised transmission tariffs prior to 31 May of each year and facilitate compliance with the TAR NC. On 20 November 2017 we published the related [decision](#). It has become clear since that at the time, one licence condition setting out a relevant timeline had been missed out and not included in the licence modifications. We consider it timely to follow-up on this matter now.
- 3.2 The present consultation documents sets out our proposal for the required licence modification.

Proposed Licence Modifications

- 3.3 We propose, in condition 2A.4.3.1(i) of all four high pressure conveyance licences, to change the timelines for the calculation and notification of upstream tariffs from “*no later than the 17 Business Day in July*” to “*no later than the 20 Business Day in April*”.
- 3.4 The proposed licence modifications are set out in detail in Annexes A to D.

Reasons and Effects

- 3.5 The proposed change to condition 2A.4.3.1(i) of all four high pressure licences is designed to bring the licence drafting in line with the timelines for publication of the postalised transmission tariff as set out in our related [decision](#) paper published in November 2017. This change is consequential to the decision on amended timelines for the tariff setting process made at the time and required to maintain consistency with other related conditions within the licences.
- 3.6 We consider that this proposed modification will have minimal impact and will help to enhance accuracy, clarity and transparency of licence drafting.

4 Correction of Known Licence Formulae Issues

Background

- 4.1 As part of the licence modification process³ undertaken in 2018 with respect to the WTL conveyance licence to facilitate pre-construction financing by WTL, a number of formulae issues were identified with respect to the WTL conveyance licence. As some of the formulae are also contained in similar form in the GNI (UK) conveyance licence, we have engaged independent experts Economic Consulting Associates (ECA), who had reviewed the WTL licence formulae, to also undertake a review of the formulae contained in the GNI (UK) conveyance licence, with specific focus on the formulae in condition 2.2
- 4.2 We now consider it timely to follow-up on the findings of the review of the GNI (UK) licence formulae and the licence modifications proposed below are designed to address this.
- 4.3 As part of the review of licence formulae in the GNI (UK) licence, some issues were identified that are also relevant to the WTL licence and we propose to address these as well.

Proposed Licence Modifications

Allowed Operating Expenditure

- 4.4 In condition 2.2.22(c)(ii)(C) of the GNI (UK) licence, the upper limit of the sigma sign in the formula for the calculation of Allowed Opex Expenditure in Gas Year t is $t = -1$. We propose to change this to -1 :

$$AOE_t = \left(\sum_{t=-5}^{t=-1} AOE_t \right) \times 0.2$$

Capitalised Interest

- 4.5 We propose to amend condition 2.2, Annex A, Number 2, paragraph (b) of the GNI (UK) licence as follows:

- Changing the formula for the calculation of the present value for capitalised interest for pipeline p by:
 - Connecting the two sigma formula terms with a plus rather than a minus sign;
 - Introducing a new variable r as counter for the product terms, different from the m one used as counter for the sigma terms;
 - Changing the index of the CIR and m terms from m to r to reflect the new index used for the product term;
 - Changing the limits of the first product term from $m=h$ to 0 to $r=m$ to -1 ;
 - Changing the limits of the second product term from $m=1$ to N to $r=1$ to m ;
 - Changing the upper limit of the first sigma sing from 0 to -1 ;

So that the formula becomes:

$$CI^P = \sum_{m=i}^{-1} \left(CE_m^P \cdot \prod_{r=m}^{-1} (1 + CIR_r) - CE_m^P \right) + \sum_{m=1}^N \left(CE_m^P \cdot \prod_{r=1}^m (1 + rn_r)^{-1} - CE_m^P \right)$$

³ For further details see the related [consultation paper](#), published on 28 March 2018 and [decision paper](#), published on 9 May 2018.

- Making an insertion into the definition of CIP clarifying that this is the present value of capitalised interest for pipeline p at *the start of* $m=1$;
- Clarifying that the definition of “*is February 2002, the first month from which Capitalised Interest will be charged*” now refers to $m=i$ rather than to H ;
- Updating the definition for the capitalised interest rate term CIR so that it refers to month r rather than month m ;
- Inserting three additional definitions as follows:
 - “ $m=1$ is the month in which the First Operational Commencement Date occurs;
 - $N=300$ is the 300th month after the First Operational Commencement Date;
 - rn_r is the regulatory allowed nominal monthly weighted average rate of return in month r .”

4.6 We furthermore propose to amend condition 6.5.6 of the WTL licence as follows:

- Changing the formula for the calculation of the present value for capitalised interest by:
 - Changing the index of the CIR and rn terms from m to r to reflect the new index used for the product term;
 - Changing the limits of the first product term from $r=i$ to m to $r=m$ to -1 ;
 - Changing the upper limit of the first sigma sing from 0 to -1 ;

So that the formula becomes:

$$CI = \sum_{m=i}^{-1} \left(CE_m \cdot \prod_{r=m}^{-1} (1 + CIR_r) - CE_m \right) + \sum_{m=1}^N \left(CE_m \cdot \prod_{r=1}^m (1 + rn_r)^{-1} - CE_m \right)$$

- Replacing 0 with $m=0$ as the term which “*is the month in which the First Operational Commencement Date occurs*”;
- Updating the definition for the capitalised interest rate term CIR so that it refers to month r rather than month m ;
- Updating the definition for the regulatory allowed nominal weighted average rate of return rn so that it refers to month r rather than month m . This proposed change also extends to the formula provided as part of this definition for the calculation of rn as well as to the related definition and calculation of the monthly RPI (Retail Price Index) rate of inflation i .

Grants Received

4.7 We propose to amend condition 2.2, Annex A, Number 2, paragraph (c) of the GNI (UK) licence as follows:

- Changing the formula for the calculation of the present value of any grants received for pipeline p by:
 - Introducing a new variable r as counter for the product terms, different from the m one used as counter for the sigma terms;
 - Changing the index of the CIR and rn terms from m to r to reflect the new index used for the product term;
 - Changing the limits of the first product term from $m=j$ to 0 to $r=m$ to -1 ;

- Changing the limits of the second product term from $m=1$ to N to $r=1$ to m ;
- Changing the upper limit of the first sigma sign from 0 to -1 ;
- Introducing a new summand $AMGR_0^p$;

So that the formula becomes:

$$G^P = \sum_{m=j}^{-1} \left(AMGR_m^p \prod_{r=m}^{-1} (1 + CIR_r) \right) + AMGR_0^p + \sum_{m=1}^N \left(AMGR_m^p \prod_{r=1}^m (1 + rn_r)^{-1} \right)$$

- Making an insertion into the definition of G^P clarifying that this is the present value of any financial contribution from any public or private resources, including grants received in relation to pipeline p at the start of $m=1$;

- Changing the definition for j so that it reads:

“ $m=j$ is the first month in which an amount of capital grant is received by the Licensee, where that month is before the month in which the First Operational Commencement Date occurs;”

- Inserting four additional definitions as follows:

“ $m=1$ is the month in which the First Operational Commencement Date occurs;

$N=300$ is the 300th month after the First Operational Commencement Date;

CIR_r is the Capitalised Interest Rate for month r being a weighted average of the one month LIBOR + 0.5% and the one month EURIBOR +0.5%, weighted according to the percentage of CE financed in each currency, as at the first business day of each month; and

rn_r is the regulatory allowed nominal monthly weighted average rate of return in month r .”

4.8 We furthermore propose to amend condition 6.5.7 of the WTL licence as follows:

- Changing the formula for the calculation of the present value for grants received in respect of the network by:

- Changing the index of the CIR and rn terms from m to r to reflect the new index used for the product term;
- Changing the limits of the first product term from $r=p$ to m to $r=m$ to -1 ;
- Changing the limits of the first sigma sign from $m=p$ to 0 to $m=p$ to -1 ;
- Introducing a new summand $AMGR_0$;

So that the formula becomes:

$$G = \sum_{m=p}^{-1} \left(AMGR_m \prod_{r=m}^{-1} (1 + CIR_r) \right) + AMGR_0 + \sum_{m=1}^N \left(AMGR_m \prod_{r=1}^m (1 + rn_r)^{-1} \right)$$

- Replacing 0 with $m=0$ as the term which “is the month in which the First Operational Commencement Date occurs”;

- Inserting two additional definitions as follows:

“ CIR_r is the Capitalised Interest Rate for month r , being $(1 + LIBOR + 0.5\%)^{(1/12)} - 1$ where LIBOR is the annual LIBOR rate at the first business day of each month;

rn_r is the regulatory allowed nominal weighted average rate of return in month r .”

Debt Interest

4.9 In condition 2.2, Annex A, Number 2, paragraph (d) of the GNI (UK) licence we propose to modify the formula for the calculation of debt interest by adding a subscript m to the g term:

$$DI_m = (OAV_m) \cdot (g_m) \cdot (rdn_m)$$

4.10 We furthermore propose to add definitions for the terms OAV_m and g_m as follows:

" OAV_m is the opening asset value in month m

g_m is the level of financial gearing as determined by the Authority to apply at and with effect from each Review Date; as notified to the Licensee by the Authority"

Opex Nominal LIBOR⁴ Adjustment

4.11 In in condition 2.2, Annex A, Number 3 of the GNI (UK) licence we propose to modify the formula for the calculation of the opex nominal LIBOR adjustment by putting brackets around the $LIBOR^{Apr}_{t-1} + 2\%$ term:

$$IAL = IA * (LIBOR^{Apr}_{t-1} + 2\%)$$

General

4.12 The proposed licence modifications are set out in detail in Annexes C and D.

Reasons and Effects

Allowed Operating Expenditure

4.13 The proposed change to the formula for the calculation of Allowed Opex Expenditure in Gas Year t in condition 2.2.22(c)(ii)(C) of the GNI (UK) licence is designed to align the formula drafting with the usual mathematical notation which does not repeat the index and equal sign in the upper limit of a sigma term.

4.14 We consider the proposed change to be cosmetic only, helping to enhance accuracy, clarity and transparency of licence drafting but with no practical impact otherwise.

Capitalised Interest

4.15 The capitalised interest formula contained in the GNI (UK) and WTL licences is designed to calculate the value of capitalised interest at the month in which the First Operational Commencement Date occurs. This is done by upscaling capitalised interest on capital expenditure incurred before the First Operational Commencement Date, and descaling capitalised interest on capital expenditure incurred after the First Operational Commencement Date accordingly. This is reflected in the respective GNI (UK) and WTL repayment models.

4.16 There is a historic difference between the GNI (UK) and WTL models in that for GNI (UK) the capitalised interest is calculated as per the start of the month in which the First Operational Commencement Date occurs, and hence the month in which the capitalised interest is neither upscaled nor descaled is the month immediately prior to the month in which the First Operational Commencement Date occurs. In contrast, for WTL the capitalised interest is calculated as per the month in which the First Operational

⁴ London Interbank Offered Rate.

Commencement Date occurs, and the month in which the capitalised interest is neither upscaled nor descaled is the month in which the First Operational Commencement Date occurs.

- 4.17 The review of the licence formulae indicated that the current drafting in both the WTL and GNI (UK) licences does not align with this policy intent and the respective repayment models of the two transmission system operators, but that the repayment models themselves work in line with policy intent. The proposed licence modifications are designed to address the underlying issues and bring the licence drafting in line with policy intent and repayment models.
- 4.18 Specifically, the proposed change of the sign connecting the two sigma formula terms from a minus to a plus sign in the WTL licence serves to ensure that the capitalised interest on capital expenditure incurred before and after the First Operational Commencement Date are indeed added up.
- 4.19 The proposed introduction of a new variable r as counter for the product terms in the GNI (UK) licence, and the proposed changes to the product term limits in the GNI (UK) and WTL licences serve to ensure that the product terms can upscale or descale as required.
- 4.20 The proposed changes to the index of the CIR and m terms are consequential changes to ensure consistency with the product term counters in the GNI (UK) and WTL licences.
- 4.21 The proposed change in the upper limit of the first sigma term in both the GNI (UK) and WTL licences is designed to reflect the fact that there is one month in which neither upscaling nor descaling of capitalised interest will be required.
- 4.22 The proposed changes to the definitions in the WTL and GNI (UK) licences are designed to ensure that all terms used as part of the capitalised interest formula are properly defined and tie-in with the proposed new drafting of the capitalised interest formulae.
- 4.23 We consider that the proposed changes enhance accuracy, clarity and transparency of licence drafting and ensure the licence drafting accurately reflects policy intent. We consider furthermore that no consequential changes to the repayment models will be required as a result, and that the proposed changes hence have no practical impact otherwise.

Grants Received

- 4.24 The grants received formula contained in the GNI (UK) and WTL licences is, in its structure, similar to the capitalised interest formula, and so are the reasons for and effects of the proposed related changes.
- 4.25 The grants received formula contained in the GNI (UK) and WTL licences is designed to calculate the value of grants received at the month in which the First Operational Commencement Date occurs. This is done by upscaling grant payments received before the First Operational Commencement Date, and descaling grant payments received after the First Operational Commencement Date accordingly. This is reflected in the respective GNI (UK) and WTL repayment models.
- 4.26 There is a historic difference between the GNI (UK) and WTL models in that for GNI (UK) the value of grants received is calculated as per the start of the month in which the First Operational Commencement Date occurs, and hence the month in which the grant payments are neither upscaled nor descaled is the month immediately prior to the month in which the First Operational Commencement Date occurs. In contrast, for WTL the value of grants received is calculated as per the month in which the First Operational Commencement Date occurs, and the month in which the grant payments are neither upscaled nor descaled is the month in which the First Operational Commencement Date occurs.
- 4.27 The review of the licence formulae indicated that the current drafting in both the WTL and GNI (UK) licences does not align with this policy intent and the respective repayment models of the two transmission system operators, but that the repayment models themselves work in line with policy

intent. The proposed licence modifications are designed to address the underlying issues and bring the licence drafting in line with policy intent and repayment models.

- 4.28 Specifically, the new summand proposed to be introduced into the grants received formula in the GNI (UK) and WTL licences represents the grant payments in the month in which neither upscaling nor descaling occurs.
- 4.29 The proposed introduction of a new variable r as counter for the product terms in the GNI (UK) licence, and the proposed changes to the product term limits in the GNI (UK) and WTL licences serve to ensure that the product terms can upscale or descale as required.
- 4.30 The proposed changes to the index of the CIR and m terms are consequential changes to ensure consistency with the product term counters in the GNI (UK) and WTL licences.
- 4.31 The proposed change to the upper limit of the first sigma term in both the GNI (UK) and WTL licences is designed to reflect the fact that there is one month in which neither upscaling nor descaling of capitalised interest will be required.
- 4.32 The proposed changes to the definitions in the WTL and GNI (UK) licences are designed to ensure that all terms used as part of the grants received formula are properly defined and tie-in with the proposed new drafting of the grants received formulae.
- 4.33 We consider that the proposed changes enhance accuracy, clarity and transparency of licence drafting and ensure the licence drafting accurately reflects policy intent. We consider furthermore that no consequential changes to the repayment models will be required as a result, and the proposed changes hence have no practical impact otherwise.

Debt Interest

- 4.34 The proposed addition of a subscript to the formula for the calculation of debt interest in condition 2.2, Annex A, Number 2, paragraph (d) of the GNI (UK) licence is designed to address an inaccuracy in the current licence drafting. The applicable level of gearing can change over time and the m subscript proposed to be introduced reflects this.
- 4.35 The proposed addition of definitions for the formulae terms OAV_m and g_m is designed to provide clarification on the meaning of these formula terms which is not explicitly contained in the current licence drafting.
- 4.36 We consider the proposed changes to be cosmetic only, helping to enhance accuracy, clarity and transparency of licence drafting but with no practical impact otherwise.

Opex Nominal LIBOR Adjustment

- 4.37 The proposed introduction of the brackets around the $LIBOR^{Apr}_{t-1} + 2\%$ term in in condition 2.2, Annex A, Number 3 of the GNI (UK) licence is designed to address an inaccuracy of the current licence drafting. Without the brackets, due to the mathematical rule that multiplication and division is to be performed before addition and subtraction, it would not be obvious that the 2% shall be added to the LIBOR before the multiplication with the IA term.
- 4.38 We consider the proposed change to be cosmetic only, helping to enhance accuracy, clarity and transparency of licence drafting but with no practical impact otherwise.

5 Tidy-up Following Implementation of the GMO NI

Background

- 5.1 On 1 October 2017 the GMO NI went live operationally. Since then, it manages the commercial rules and all trading and transactional aspects of the gas transmission market in Northern Ireland.
- 5.2 As part of the implementation of the GMO NI, a single transmission network code was provided⁵ which replaced the individual transmission network codes previously put in place by the four holders of high pressure gas conveyance licences in Northern Ireland.
- 5.3 In this context, we published a [consultation](#) in March 2017 on gas transmission licence modifications to implement single system operation (SSO), followed by the related [decision](#) in June 2017. This included the introduction of a new licence condition 2.4D *Single Network Code* in the high pressure licences which contains many of the provisions of licence condition 2.4 *Network Code*, with certain differences as appropriate. In the decision paper we noted: “*In the transitional stage of the implementation of the SSO arrangements, the existing provisions in condition 2.4 of the licences will run in parallel with condition 2.4D. A licence modification will be required in due course to delete the provisions of condition 2.4 once they have become obsolete.*”⁶
- 5.4 As the transition to the single transmission network code is now complete, we consider it timely to follow-up on this statement now.
- 5.5 As a further consequence of GMO NI implementation, invoices to shippers are now raised by the GMO NI in its name rather than separately by each TSO (Transmission System Operator). This has entailed implications for the processing of Value Added Tax (VAT). The GMO NI has indicated to us that the current licence drafting does not fully reflect these implications and a proposal on how to rectify this matter is set out below.

Proposed Licence Modifications

- 5.6 We propose to remove current licence condition 2.4 *Network Code* from all four high pressure gas conveyance licences.
- 5.7 We furthermore propose to shorten paragraph (d) of condition 2A.4.3.1 *The Postalised System Administrator, The PSA’s functions* in all four high pressure licences so that it reads “*the calculation of any VAT Distributions due in respect of sums received into the PoT Account from PS Gas Suppliers on the date of calculation of the Monthly Distribution in the relevant month (month “m”).*” and all text thereafter in the current licence drafting is removed from this paragraph.
- 5.8 The proposed licence modifications are set out in detail in Annexes A to D.

Reasons and Effects

Removal of Condition 2.4 Network Code

- 5.9 In preparation of the implementation of the GMO NI, a transition section was introduced in each of the individual transmission network codes of the four NI TSOs. This section set out for the different sections of the respective network codes when they would cease to have effect as part of the transition to the NI Network Gas Transmission Code.
- 5.10 In line with these transition sections, all elements of the individual transmission network codes of the

⁵ This is now known as the NI Network Gas Transmission Code.

⁶ Utility Regulator: Gas transmission licence modifications to implement Single System Operation, Decision Paper, 9 June 2017, paragraph 3.2.5.

four NI TSOs have ceased to have effect at this stage. Licence condition 2.4 *Network Code*, which related to the individual transmission network codes of the four NI TSOs, has hence become obsolete.

- 5.11 We consider the proposed removal of this licence condition to be a consequential change to the cessation of effect of the individual transmission network codes of the four NI TSOs.
- 5.12 We expect that the proposed modification will have minimal impact and will help to ensure consistency between regulatory arrangements, thus enhancing clarity and transparency of the licence.

Amendment of Condition 2A.4.3.1(d) The Postalised System Administrator, The PSA's functions

- 5.13 We consider the proposed modification to condition 2A.4.3.1(d) to have become necessary as a result of a change in responsibilities for invoicing shippers following implementation of the GMO NI:
- Prior to the GMO NI taking on responsibility for shipper invoicing, the TSOs charged the shippers who used their section of pipeline for their usage and added the appropriate VAT. The shippers then settled the invoices including VAT into the postalised account. When the Postalised System Administrator (PSA) calculated the monthly redistribution amount from the postalised account for each TSO, it took account of the TSO's net forecast revenue requirement proportion and the VAT the TSO had invoiced the shipper. Condition 2A.4.3.1(d) clarified how in case of insufficient funds being paid into the postalised account the VAT repayment for each TSO was to be established.
 - Since October 2017, the GMO NI raises the invoices to shippers in the name and VAT registration number of the GMO NI. The TSOs in turn invoice the GMO NI for their redistribution amount and charge VAT on that amount. The TSO invoices are based on the net amounts the PSA informed them of, calculated from the TSO forecast revenue requirement proportions of the net amount received into the postalised account.
- 5.14 As a result, specific provisions for the calculation of VAT distributions in case of insufficient funds being paid into the postalised account as included in the current drafting of condition 2A.4.3.1(d) are no longer required. Furthermore, as shipper invoices are now raised on a network wide basis by the GMO NI rather than individually by each TSO, the drafting of that condition does not fit any more with the new arrangements, for example in the definition of the term TILm-1⁷.
- 5.15 We therefore consider that the proposed modification of condition 2A.4.3.1(d) is necessary to ensure consistency between licence arrangements and practicalities of invoicing after the implementation of the GMO NI.
- 5.16 We expect that the proposed modification of condition 2A.4.3.1(d) will have minimal impact and will help to enhance accuracy, clarity and transparency of licence drafting.

⁷ TILm-1 = the sum of all amounts including VAT payable for PS Transmission Payments invoiced by the relevant Designated Pipe-line Operator "L" in the preceding month ("m-1").

6 Next Steps

6.1 This paper represents the Utility Regulator’s proposals on modifications to the four high pressure gas conveyance licences. Table 2 summarises the next steps and associated timelines for the licence modification process. We note that that timelines are indicative at this stage and may be subject to change.

Table 2: Indicative timelines for next steps

Next Steps	Proposed Date
Notice of proposal to modify gas conveyance licences published	11 April 2019
Statutory consultation closes	15 May 2019
Notice of decision to modify gas conveyance licences published	End of June 2019
Licence modification effective date	End of August 2019

Annexes

Table 3 below provides an overview over the annexes to this consultation document.

Annexes A to D set out, for each licence holder, the proposed modifications tracked against the current licence drafting.

Annex E represents the notice under Article 14(2) of the Gas (Northern Ireland) Order 1996 of our licence modification proposal.

Table 3: Overview over Annexes

Annex Number	Annex Name
Annex A	Proposed BGTL licence modifications
Annex B	Proposed PTL licence modifications
Annex C	Proposed WTL licence modifications
Annex D	Proposed GNI (UK) licence modifications
Annex E	Notice under Article 14(2) of the Gas (Northern Ireland) Order 1996