



Revised Gas Licence Fee Methodology – Gas Storage.

Decision Paper

July 2022



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 the Utility Regulator's decision to introduce arrangements for the recovery of a licence fee from gas storage licence holders. At present, there is only one such person: a company called Islandmagee Energy Limited (IMEL). The decision involves amending our published paper on electricity and gas licence fee methodologies (2016).

Audience

This decision will be of interest to licensed utility companies, primarily in the gas sector.

Consumer impact

No material impact on consumers is anticipated by the implementation of this decision.

Contents page

1.	Introduction	3
2.	Responses to the Consultation paper.....	3
3.	Utility Regulator’s Decision	4
4.	Next Steps.....	4
5.	Annex 1 - Revised gas licence fee methodology.....	5

1. Introduction

Consultation Paper

- 1.1 In April 2022, we launched a public [consultation](#) outlining our intention to revise the gas licence fee methodology to include gas storage. Gas storage had not previously been included in the prior gas licence fee methodology¹. The existence of a gas storage licence holder - Islandmagee Energy Limited (IMEL) – underpinned our consultation.
- 1.2 Condition 1.10 of IMEL’s gas storage licence requires it to pay a contribution to the estimated costs of the Authority as calculated in accordance with the ‘Principles’. While strictly defined in the IMEL licence the Principles are, in effect, reflected in the published gas licence fee methodology.
- 1.3 Our consultation set out how we intended to modify the gas licence fees methodology so as to introduce (i) an ordinary²/fixed licence fee of £2,000 p.a to increase annually based on the Retail Prices Index (RPI) and (ii) a potential liability to a licence fee (for gas storage licence holders are – like all other gas licence holders) calculated by reference to the alternative basis provision of the gas licence fee methodology. The revised methodology is included in this decision paper at Annex 1, below.
- 1.4 Our consultation further recorded our intention to implement the requisite changes so as to be effective from 1 April 2022: noting that whilst the changed arrangements would initially only apply to IMEL (as the sole holder of a gas storage licence), they would also apply to any future holder of a gas storage licence.

2. Responses to the Consultation paper

- 2.1 We received one formal response to the consultation. This came from IMEL.
- 2.2 Prior to that response, we received a communication for IMEL requesting clarity on section 3.2 of our consultation. We responded by confirming that the intention behind section 3.2 of the consultation was clear, clarifying (to the extent necessary) that the proposed changes to the published gas licence fee

¹ <https://www.uregni.gov.uk/files/uregni/media-files/Decision%20paper%20on%20revised%20electricity%20and%20gas%20licence%20fee%20methodologies.pdf>

² By “ordinary” we mean such licence fee as does not include specific provision under the alternative basis part of the principles/gas methodology.

methodology would provide for the payment (by the holder of a gas storage licence like IMEL) of an *ordinary* (annual) licence fee **and** any fee attributable to the exercise of the *alternative basis* provision of the gas licence fee methodology.

- 2.3 The IMEL formal consultation response did not object to the proposed changes to the gas licence fee methodology set out in our consultation. Their response is published alongside this paper.

3. Utility Regulator Decision

- 3.1 The proposal to amend the gas licence fee methodology as per the April 2022 consultation was presented to the UR Board at its June 2022 meeting. The formal consultation response from IMEL was considered.
- 3.2 The Board approved the proposed revision to the gas licence fee methodology in respect of gas storage.

4. Next Steps

- 4.1 The gas licence fee methodology stands duly modified. It is intended that the requisite invoices (now to include an invoice to IMEL) will issue – for the 2022/3 year – in August 2022. Invoicing will apply from 1 April 2022 onwards.
- 4.2 The duly modified gas licence fee methodology will be published on the UR's website.

Annex 1 – Revised Gas licence Fee Methodology.

New text introduced is indicated by red underlined.

Annex 1 – Gas Methodology

Gas licence fees for each category of licence will be calculated in accordance with the following methodology.

Supply Licence

Each gas supply licence holders will pay a fixed fee of £1,500 (2012 real) that will increase annually based upon the Retail Price Index (RPI).

Storage Licence

Each Gas Storage licence holder shall pay a fixed fee of £2,000 (2022 real) which shall increase annually based upon RPI.

Conveyance Transmission Licence

The remaining gas regulatory costs – defined as the amount of the Utility Regulator’s estimate of its costs which will be associated with the regulation of the gas industry in the current financial year (but net of the fixed supply licence charges, fixed storage licence charges and any licence application/extension fees received in year) – will be apportioned between gas conveyance licence holders who participate in transmission activities during that year. Each such gas conveyance licence holder will pay a proportion of those costs equal to its [*forecast*] share of the total forecast volumes to be transmitted in that year.

Conveyance Distribution Licence

Conveyance licence holders who participate in distribution activities during the current financial year will pay a fee designed to recover the CCNI’s estimated costs associated with gas issues in respect of that year. Each such gas conveyance licence holder will pay a proportion of those costs equal to its [*forecast*] share of the total forecast gas volumes to be distributed in that year.

Part-Year Licence Holders

Where the holder of a gas licence holds that licence for only part of a financial year – whether because it obtained it after the start of that year, or the licence was revoked

before the end of that year – it will pay the fee that would have been payable had it held that type of licence for the full financial year, but pro-rated to reflect the proportion of the year for which it is actually held.

Adjustment to the previous year's licence fee (if required)

To clarify the Utility Regulator will, as before, make an adjustment to licence fees in respect of each year:

- should actual gas regulatory and/or CCNI costs for the previous year vary from estimated costs;
- should actual gas volumes for the previous year vary from forecasted volumes.

Alternative basis for certain fees

In relation to future activities undertaken by the Utility Regulator in the performance of its functions, where the costs of such activities exceed £5,000 and where the performance of those functions is intended by the Utility Regulator only to affect a particular gas licence holder or group of licence holders the Utility Regulator may exclude those costs from the gas regulatory costs to be recovered from gas conveyance licence holders who participate in transmission activities and may instead charge them to any such licence holder or group of licence holders in such proportions as the Utility Regulator shall in its discretion determine.

Clarification on base lending rate which will be applied by the Utility Regulator in event of non-payment of licence fee

The Utility Regulator designates the Bank of England Official Bank Rate for the purposes of the following provisions of the condition on payment of fees to the Utility Regulator in the licence of each gas licence holder: “where the Licensee fails to pay the amount of the licence fee as notified to it under paragraph XX above within the 30 day period specified, it shall with effect from the end of that 30 day period pay simple interest on the amount at the rate which is from time to time equivalent to the base lending of an institution designated by the Authority for this purpose”.