Utility Regulator
ELECTRICITY GAS WATER

Forecast Postalised Tariff 2011/12 – 2015/16

Utility Regulator Explanatory Note

September 2011

1 Introduction

1.1 Pursuant to condition 2A.4.3.1 (b) of the Gas Conveyance licences granted to BGE (UK), Premier Transmission Limited and Belfast Gas Transmission Limited, the Postalisation System Administrator ("PSA") has completed its annual calculation of the forecast postalised tariff for 2011/12 and the following four gas years.

1.2 This note explains what the inputs of calculating the postalised tariff are based on and explains any differences from the 2010 forecasts.

1.3 It should be noted that the forecasts for the gas years 2012/13 to 2015/16 are included for indicative purposes only.

2 Inputs

2.1 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 £107,012,500 bond at a rate of 2.461% as well as forecast Operating Expenditure.

The PTL Allowed Revenue is reduced for the forecast payment made by Stranraer.

(ii). BGE (Northern Ireland)

The BGE (NI) Allowed Revenue is based on capital expenditure of circa £175m and allowed operating expenditure set as part of the BGE (NI) 2007/08 – 2011/12 Price Control Determination.

Following the 2007/08 to 2011/12 BGE (NI) Price Control Review, BGE (NI)'s Capital Expenditure is recovered at a constant real amount at a rate of return of 6.19% (vanilla[1]).

(iii). Belfast Gas Transmission Limited (BGTL)

The BGTL Allowed Revenue is based on the repayment of the £109,000,000 bond at a rate of 2.387% plus forecast operating expenditure.

2.2 Capacity

The capacity figures for the two power stations and the two distribution markets are based upon the actual and/or forecast capacity requirements.

2.3 Volumes

Volume figures are based on the end customer's best estimate using the number of customers, load factors and generation output assumptions.

3 Difference between 2010 Forecast and 2011 Forecast of the 2011/12 Tariff

	2010 forecast of 2011/12 tariff	2011 forecast of 2011/12 tariff	Difference
Capacity Charge (£ per Kwh/d booked)	0.32590	0.40648	24.73%
Commodity Charge (£ per Kwh)	0.0006061	0.0006323	4.32%

As can be seen from the table above, the key difference between the 2010 and the 2011 forecast of the 2011/12 tariff is the increase in the capacity charge. This is due to a reduction in the 2011 forecast capacity figures for the power sector and an increase in forecast required revenues. A review of the capacity, volumes and forecast required revenues is provided below:

[1] A vanilla rate of return is the post-tax return on equity and pre-tax return on debt.

3.1 Capacity and Volumes

Overall the 2011 capacity figures for the gas year 2011/12 have decreased by 9.05% compared to capacity figures forecast in 2010. The overall reduction applies to both power and distribution sectors.

The capacity bookings in the power sector have reduced by 15.46% compared to 2010 forecast figures. The decrease is attributed to a reduction in the capacity bookings for Ballylumford powerstation. This is due to legacy capacity contracts ceasing and new contract options being exercised.

The capacity bookings in the distribution sector have increased by 3.87% compared to 2010 forecast figures.

Overall the 2011 forecast gas volumes for the gas year 2011/12 have increased by 8.75% compared to volumes forecast in 2010. The forecast increase applies to both power and distribution sectors.

Volumes within the power sector have increased by 12.40% compared to 2010 forecasts. The 2011 forecast figures have been updated to reflect revised forecasts and are similar to actual volumes recorded for the 2010/11 gas year.

Overall volumes within the distribution sector remain in line with the 2010 estimates.

3.2 Required Revenues

The total forecast required revenue for 2011/12 compared to 2010 forecasts has increased overall from £36,972,057 (in 10/11 prices) to £41,940,953 (in 11/12 prices). The changes are largely due to an increase in operating expenditure including ongoing and one-off operational costs and capital costs.

4. Difference between the forecast 2010/11 Tariff and forecast 2011/12 Tariff

	2010/11	2011/12	Difference
Capacity Charge (£ per Kwh/d booked)	0.31252	0.40648	30.06%
Commodity Charge (£ per Kwh)	0.0005613	0.0006323	12.65 %

The table above shows an increase between the forecast 2010/11 and 2011/12 tariffs for both the capacity and commodity charges.

The increase in the 2011/12 forecast capacity tariff compared to the 2010/11 forecast capacity tariff is due to a decrease in the overall capacity bookings combined with an increase in the total required revenues. The reasons for the capacity reduction and increase in required revenues are stated above.

The increase in the 2011/12 forecast commodity tariff compared to the 2010/11 forecast commodity tariff is due to the increase in forecast required revenues for 2011/12. Forecast volumes for 2011/12 have increased compared to 2010/11 estimates however the greater increase in forecast required revenues has resulted in a higher forecast commodity tariff.

5. Forecast Postalised Tariff for years 2012/13 – 2015/16

	2012/13	2013/14	2014/15	2015/2016
Capacity Charge (£ per Kwh/d booked)	0.36782	0.37418	0.36915	0.37831
Commodity Charge (£ per Kwh)	0.0005683	0.0005856	0.0005759	0.0005979

The forecast tariffs for the years 2012/13 to 2015/16 are provided in the table above for indicative purposes only.