

Forecast Postalised Tariff 2014/15 – 2018/19

Utility Regulator Explanatory Note

August 2014

1 Introduction

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 2014/15 and the following four gas years.

This note explains what the inputs of calculating the postalised tariff are based on and explains any differences from the 2013 forecasts.

It should be noted that the forecasts for the gas years 2015/16 to 2018/19 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 £142m¹ and an allowance for controllable and uncontrollable operating expenditure as part of the BGE(NI) 2012/13-2016/17 Price Control Determination. BGE (NI)’s Capital Expenditure is recovered at a constant real amount at a rate of return of 5.83% (vanilla²).

¹ As at 1st October 2013

² A vanilla rate of return is the post-tax return on equity and pre-tax return on debt.

(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 peak-day capacity requirements. The powerstations and distribution companies submit their capacity figures based upon data supplied by the gas suppliers operating within their respective networks.

2.3 Volumes

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

3 Difference between the forecast 2013/14 Tariff and forecast 2014/15 Tariff

	2013/14	2014/15	Difference
Capacity Charge (£ per Kwh/d booked)	0.43186	0.45013	4.23%
Commodity Charge (£ per Kwh)	0.0009590	0.0009841	2.62%

As can be seen from the table above there is a small increase in the 2014/15 forecast capacity tariff compared to the 2013/14 figure. This is due to a 6.7% increase in forecast required revenues (explained in section 3.2 below). Forecast capacity bookings have increased from 2013/14 to 2014/15, however the increase has not been enough to offset the increase in revenues.

The 2014/15 commodity tariff has slightly increased compared to the 2013/14 tariff. This is due to the increase in required revenues as noted above. Commodity flows are forecast to increase but, as with the capacity tariff, the increase has not been enough to offset the increase in revenues.

A review of the capacity, volumes and forecast required revenues is provided below.

3.1 Capacity and Volumes

Volumes

Overall the 2014 forecast gas volumes for the gas year 2014/15 have increased by 3.99% compared to volumes forecast for 2013/2014.

The forecast increase is due to an increase in demand at Coolkeeragh powerstation compared to 2013/14 forecasts. The increase is based upon operating estimates including expected scheduling forecasts within the SEM. Notably the forecasts are in line with the expected actual volumes for 2013/14. Ballylumford forecast volume is the same as last year's forecast.

Overall forecast volumes within the distribution sector are similar to 2013/14 figures. There is a forecast decrease of volumes within the Belfast distribution area and an increase in the 'Ten Towns' distribution area. This variation has resulted in overall volumes remaining at the same levels.

Capacity

There has been an overall increase of 2.38% in the forecast capacity figures for 2014/15 compared to 2013/14. This has been driven by the distribution sector which has an increased capacity booking of 5.87% compared to 2013/14 figures. There has been no increase in forecast capacity bookings in the power sector.

3.2 Required Revenues

The total required revenue forecasted for 2014/15 is £49,700,997 (in 2014/15 prices) compared to last year's 2013/14 figure of £46,575,502 (in 2013/14 prices). This is an increase of 6.71%. The table below provides a review of previous years' FRRs for comparison.

Required Revenue, £	PTL	BGTL	BGE(NI)	Total
FRR 2011/12	18,140,340	6,791,167	17,009,445	41,940,952
FRR 2012/13	20,162,771	7,040,850	18,263,239	45,466,860
FRR 2013/14	20,834,296	7,457,184	18,284,022	46,575,502
FRR 2014/15	24,776,560	7,118,791	17,805,645	49,700,997
Increase from FRR 2013/14	3,942,264	-338,393	-478,377	3,125,495
% Change from FRR 2013/14	18.92%	-4.54%	-2.62%	6.71%

The 14/15 FRR figures for all the TSOs include a figure for costs to cover the work required to implement the EU Third Internal Energy Package (IME3). The figures included in the 2014/15 FRR for IME3 costs are indicative only and will be reviewed by the Utility Regulator when all costs for IME3 have been submitted by the TSOs. The review will include the provisional IME3 allowances provided in the 2013/14 FRR.

There is a notable increase in PTL's 2014/15 FRR compared to 2013/14. This is mainly due to two one off-items. Firstly, PTL's contribution to a number of large capital works being carried out on the BGE(UK) network in Scotland. PTL are apportioned relevant costs for these works under the Transportation Agreement between PTL and BGE(UK). Secondly, the cost of upgrade to PTL's capacity booking system (GTMBS) to ensure continued system support and also to incorporate the changes required under IME3 for 2015.

BGE(NI)'s FRR is in line with their price control determination. There is a slight reduction in BGTL's 2014/15 FRR compared to 2013/14.

4 Comparison between 2013/14 Tariff Forecast made in 2012 and 2013

	2013 forecast of 2014/15 tariff	2014 forecast of 2014/15 tariff	Difference
Capacity Charge (£ per Kwh/d booked)	0.42353	0.45013	6.28%
Commodity Charge (£ per Kwh)	0.0008974	0.0009841	9.66%

We have also included a comparison between the 2014/15 tariff forecast made in 2013 and this year's forecast for 2014/15. As noted in the table above, there is a small percentage increase in the capacity charge. This is due to the fact that the FRRs for 2014/15 forecast in 2013 are lower than the revenue forecasts this year. The forecast made in 2012 for the 13/14 gas year did not include the capital works in Scotland.

The increase in the commodity charge is mainly due to the higher FRR figure in this year's figures. There is a slight variance in forecast commodity flows between the two years but the difference in revenues is the key driver for the increase.

5 Forecast Postalised Tariff for years 13/14-2016/17

	2015/16	2016/2017	2017/18	2018/19
Capacity Charge (£ per Kwh/d booked)	0.42257	0.42695	0.42081	0.41352
Commodity Charge (£ per Kwh)	0.0009709	0.0008666	0.0008539	0.0008476

The forecast tariffs for the years 2015/16 to 2018/19 are provided in the table above for indicative purposes only.