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Agency Report

Analysis of the Consultation Document on the Gas Transmission Tariff Structure

for Northern Ireland

NRA: UREGNI
TSO: GMO NI (Gas market operator)

19 October 2018

Contents

1. ACER conclusion

(1) The Utility Regulator for the electricity, gas, water and sewerage industries in Northern Ireland ('UREGNI') proposes a postage stamp methodology. In addition, they propose a 95%/5% split between capacity charges and commodity charges. There are no discounts (in the absence of storage activities) and no non-transmission charges.

(2) The Agency, after having completed the analysis of the consultation documents pursuant to Article 27(2) of the NC TAR, concludes that:

- The consultation document contains the required information listed in Article 26(1) of the NC TAR;
- The proposed Reference Price Methodology ("RPM") is not compliant with the principle of cost-reflectivity set out in Article 7(b) of the NC TAR, as it does not take into consideration distance as a cost driver, nor does UREGNI adequately motivate its choice to disregard distance;
- The proposed RPM does not comply with the principle of avoiding undue cross-subsidies as set out in Article 7(c) of the NC TAR, because the RPM, not complying with the cost-reflectivity criterion, creates cross-subsidies from network users connected in the north-east of the transmission network to the benefit of those connected in the distant areas in the north-west and south of the transmission network. There are no cross-subsidies between intra-system users and cross-system users, since there are no cross-system flows. The RPM is non-discriminatory as all users pay the tariffs based on the RPM;
- The proposed RPM is compliant with respect to the requirement of transparency as set out in Article 7(a) of the NC TAR, allowing network users to reproduce and anticipate tariffs, e.g. through the simplified tariff model spreadsheet that is published on the web page of the Gas Market Operator for Northern Ireland ("GMO NI");
- The requirements with respect to volume risk and cross-border trade are not applicable to Northern Ireland due to the lack of cross-system use;
- The requirements for setting commodity-based charges are met.

(3) The Agency recommends that UREGNI includes the following missing elements in its final decision referred to in Article 27(4) of NC TAR:

- An adequate reasoning on how the proposed RPM takes into account the principle of cost-reflectivity, the specificities of the Northern Ireland gas system, the comparison with the CWD methodology and the impacts of system expansion on lowering costs for all gas users;
- If such reasoning could not be provided, the Agency recommends that UREGNI switch to a distance-related RPM;
- The Agency invites UREGNI to consider including more explicit information in its final decision on how the RPM takes into account the multi-TSO gas system in Northern Ireland and remarks that according to Article 10(5) of NC TAR a separate consultation shall be conducted on an effective inter-transmission system operator compensation mechanism in parallel to the consultation referred to in Article 26 of NC TAR, which is the subject of the current Agency's analysis;
- The Agency invites UREGNI to provide a more elaborate justification for the proposed level of the commodity charges, e.g. with estimates based on historic variable costs;
- The Agency invites UREGNI to consider the effects of lowering the share of the commodity charges on different customer groups when it implements this change in the tariff methodology;

- The Agency invites UREGNI to elaborate on the entry-exit split calculation as required by Article 26(1)(b);
- The Agency invites UREGNI to come to a consistent and unique labelling of the entry point referred to at times as Twynholm and at other times as Moffat.

2. Introduction

(4) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a network code on harmonised transmission tariff structures for gas (NC TAR).

(5) Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies for all entry-exit systems[1]. This Report presents the results of the analysis of the Agency for the transmission system of Northern Ireland.

(6) On 22 June 2018, UREGNI forwarded the consultation documents to the Agency. The consultation was launched on 21 June 2018 and remained open until 30 August 2018. On 11 October 2018, the consultation responses and their summary were published on the UREGNI web page[2]. The Agency has taken these into consideration for this analysis. Within five months following the end of the final consultation, and pursuant to Article 27(4) of the NC TAR, UREGNI shall take and publish a motivated decision on all the items set out in Article 26(1).

Reading guide

(7) Chapter 3 presents the analysis on completeness, namely if all the information in Article 26(1) has been published. Chapter 4 focusses on compliance, namely whether the RPM complies with the requirements set out in Article 7 of the NC TAR, whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) and the criteria for setting non-transmission tariffs as set out in Article 4(4) are met. Chapter 5 includes other comments. This document contains two annexes, respectively the legal framework and a list of abbreviations.

3. ACER analysis: completeness

3.1 Has all the information referred to in Article 26(1) been published?

(8) Article 27(2)(a) of the NC TAR requires the Agency to analyse whether all the information referred to in Article 26(1) of the NC TAR has been published.

(9) Article 26(1) of the NC TAR requires that the consultation document be published in the English language, to the extent possible. The Agency confirms that the consultation document was published in English.

(10) Overall, the information in Article 26(1) of the NC TAR has been properly published.

[1] With the exception of Article 10(2)(b), when different RPMs may be applied by the TSOs within an entry-exit zone.

[2] https://www.uregni.gov.uk/publications/consultation-responses-harmonised-transmission-tariffs-gas.

ACER ANALYSIS OF THE CONSULTATION DOCUMENT OF NORTHERN IRELAND

Table 1 Checklist information Article 26(1)

Article	Information	Published: Y/N/NA
26(1)(a)	the description of the proposed reference price methodology	Yes
26(1)(a)(i) **26(1)(a)(i)(1)** **26(1)(a)(i)(2)**	the indicative information set out in Article 30(1)(a), including: • the justification of the parameters used that are related to the technical characteristics of the system • the corresponding information on the respective values of such parameters and the assumptions applied	Yes
26(1)(a)(ii)	the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	Not applicable
26(1)(a)(iii)	the indicative reference prices subject to consultation	Yes
26(1)(a)(iv)	the results, the components and the details of these components for the cost allocation assessments set out in Article 5	Yes
26(1)(a)(v)	the assessment of the proposed reference price methodology in accordance with Article 7	Yes
26(1)(a)(vi)	where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)	Yes
26(1)(b)	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	Yes
26(1)(c)(i) **26(1)(c)(i)(1)** **26(1)(c)(i)(2)** **26(1)(c)(i)(3)**	where commodity-based transmission tariffs referred to in Article 4(3) are proposed • the manner in which they are set • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the indicative commodity-based transmission tariffs	Yes
26(1)(c)(ii) **26(1)(c)(ii(1)** **26(1)(c)(ii)(2)** **26(1)(c)(ii)(3)** **26(1)(c)(ii)(4)**	where non-transmission services provided to network users are proposed: • the non-transmission service tariff methodology therefor • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3) • the indicative non-transmission tariffs for non-transmission services provided to network users	Not applicable
26(1)(d)	the indicative information set out in Article 30(2);	Yes
26(1)(e) **26(1)(e)(i)** **26(1)(e)(ii)** **26(1)(e)(iii)** **26(1)(e)(iv)**	where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity: • the proposed index; • the proposed calculation and how the revenue derived from the risk premium is used • at which interconnection point(s) and for which tariff period(s) such approach is proposed • the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed	Not applicable

4. ACER analysis: compliance

4.1 Does the RPM comply with the requirements set out in Article 7?

(11) Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed RPM complies with the requirements set out in Article 7 of the NC TAR. This article refers to Article 13 of Regulation (EC) 715/2009 and lists a number of requirements to take into account when setting the RPM. As these overlap, in the remainder of this chapter, the Agency will take a closer look at the five elements listed in Article 7 of the NC TAR.

(12) Since the concepts of transparency, cost-reflectivity, non-discrimination, cross-subsidisation and cross-border trade are closely related[3], the Agency concludes with an overall assessment.

4.1.1 Transparency

(13) **Article 7(a)** of the NC TAR requires that the RPMs aim at ensuring that network users can reproduce the calculation of reference prices and their accurate forecast.

(14) In the subsequent paragraphs, the Agency discusses, first, the simplified tariff model that is made available to calculate and predict tariffs based on the proposed RPM, and second, the information that is related to the multi-TSO setting in Northern Ireland.

Agency reflections on the simplified tariff model

(15) GMO NI makes publicly available on its website[4] a simplified tariff model (in spreadsheet format), as required by Article 30(2)(b) of the NC TAR. The spreadsheet allows users to change values for all parameters that determine the reference prices. The main parameters are the allowed revenues, the split between capacity and commodity charges and the forecast of capacities and volumes at the two entry points and five exit points that make up the gas transmission system. The outputs include the postage stamp tariffs for annual entry and exit capacities, the commodity charge and the tariff for virtual reverse flow.

(16) Furthermore, the tool also displays the non-annual tariffs for entry points, reflecting the seasonal factors and multipliers that have to be consulted following Article 28(1) of NC TAR[5]. These multipliers are reported in points 7.1 to 7.8 of the consultation document.

(17) All simulated tariffs are displayed for the next five tariff periods and allow the comparison of the proposed tariff period and the remaining tariff periods of the regulatory period[6].

[3] The principle of cost-reflectivity is related to the principles of cross-subsidisation and non distortion of cross-border trade. Tariffs that are fully cost-reflective do not result in any form of cross-subsidisation (and hence they do not distort cross-border trade), as they charge users for the exact costs they cause to the system. Following this reasoning, tariffs that are less cost-reflective may result in cross-subsidisation between users.

[4] http://gmo-ni.com/assets/documents/Annex-1-Forecast-Tariff-Spreadsheet.xlsx, last accessed September 2018.

[5] Only the annual capacity product is offered at exit points.

[6] The tariff period in Northern Ireland is the Gas Year. According to the licenses of the gas TSOs, the regulatory period (“Review date”) started in October 2017 for 5 years.

Agency reflections on how the multi-TSO setting is considered

(18) The operation of the Northern Ireland gas system is in the hands of GMO NI, which is a collaboration of four TSOs. The four TSOs are Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL), West Transmission Limited (WTL) and GNI (UK) Limited.

(19) The tariff methodology for Northern Ireland serves to collect revenues on behalf of the four TSOs, requiring that the forecasted tariffs are based on distinct forecasted allowed revenues and that the actual revenues are redistributed appropriately *ex post* among the different TSOs.

(20) Information on these aspects is sparsely included in the consultation document's "summary of key features of postalisation" at the end of its section 3. More information can be found in the two explanatory notes[7,8], which include information on the forecasted allowed revenues of the four TSOs and the reconciliation process, respectively.

(21) **Agency conclusions on transparency**

(22) The Agency considers that network users would be able to reproduce the calculation of reference prices by using the provided tool. The Agency further considers that network users would be able to forecast the reference prices.

(23) The Agency recommends that UREGNI add information on the forecasted[9] entry-exit split to the spreadsheet to improve transparency, as required by Article 26(1)(b). This split can be calculated from the forecasted allowed revenue, the forecasted postalised tariffs and the forecasted entry and exit capacity bookings.

(24) The Agency invites UREGNI to consider including more explicit information in its final decision on how the RPM takes into account the multi-TSO context in Northern Ireland, for instance, by drawing attention to the fact that the forecasted allowed revenues are based on allowed revenue formulas per TSO and by explaining how the redistribution of revenues among TSOs happens.

(25) Additionally, the Agency remarks that Article 10(5) of the NC TAR requires NRAs who face a multi-TSO gas system to conduct a consultation[10] on the principles of an effective inter-transmission system operator compensation mechanism.

(26) The Agency considers the consultation document compliant with respect to transparency.

4.1.2 Cost-reflectivity

(27) **Article 7(b)** of the NC TAR requires the RPM to take into account the actual costs incurred for the provision of transmission services, considering the level of complexity of the transmission network.

The proposal for a RPM based on a postage stamp and disregarding distance

(28) UREGNI proposes to use a postage stamp methodology without an *ex ante* entry-exit split as the RPM, considering that postage stamp-based tariffs are well known, having been used in Northern

[7] http://gmo-ni.com/assets/documents/1819-Postalised-Tariff-Explanatory-Note-V0.1.pdf

[8] http://gmo-ni.com/assets/documents/Reconciliation-Explanatory.pdf

[9] The effective entry-exit split may differ from the forecasted split as the effective capacity bookings are known only *ex post*.

[10] The consultation referred to in Article 10.5 of NC TAR shall be conducted in parallel to the consultation referred to in Article 26 of NC TAR; the latter only is the subject of the current Agency's analysis.

Ireland since 2004, and that they comply with the national legal requirement in Northern Ireland to have a “common tariff” for all. The principle of the common tariff was laid down in Article 12(2)(c) of the Energy Bill adopted by the Northern Ireland Assembly in 2002 as “the need to secure that the prices charged in connection with the conveyance of gas through designated pipe-lines […] are in accordance with a common tariff which does not distinguish (whether directly or indirectly) between different parts of Northern Ireland or the extent of use of any pipe-line”.

(29) UREGNI explained in a bilateral meeting[11] with the Agency that the main motivation for using the postage stamp methodology is to support the continuing development of the Northern Ireland gas network to connect more and more remote customers to the still very young network[12]. For instance, the choice to disregard distance for the transmission tariffs was an important factor in the decision to expand the network to the North West connecting a (converted) gas power plant and a distribution zone. The connection of new customers and the resulting higher gas volumes from the expansion had the effect of reducing charges for all network users as indicated in point 4.34 of the consultation document.

(30) UREGNI additionally points out that there are currently no discounts foreseen for storage facilities, as there are at present no storage operations. When a storage facility were to become operational, UREGNI would apply discounts in line with Article 9 of the NC TAR.

Agency reflections on the proposed RPM based on postage stamp

(31) The Agency is of the view that the reference to a national law from 2002 requiring a “common tariff” is, in itself, not a sufficient motivation to disregard distance in the RPM, as required by the NC TAR. In the subsequent paragraphs, the Agency examines the Northern Ireland’s specific circumstances, such as the size of the gas market and the topology of the gas system, and the results of the comparison with the CWD methodology, which could support the justification for a postage stamp methodology or offer arguments against that choice.

The Northern Ireland gas market and gas system

(32) The Northern Ireland gas market is a small market with volumes amounting to approximately 16 TWh per year[13] (or 1.64 bcm/year)[14].

(33) The Northern Ireland gas system is a simple system consisting of five main pipelines having two entry points, Twynholm (also labelled Moffat in the consultation document, which is the upstream point in the Great Britain system where the gas comes from) and Gormanston[15], and five exit points, which are the gas power stations Coolkeeragh and Ballylumford, and the three exit points Belfast, Ten Towns and Maydown, which are related to gas distribution zones. The system can be considered a peripheral one, having no gas transiting the system to other gas markets (at the moment) and consisting of just over 400 km of transmission pipelines with current gas flows running east to west.

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[11] Bilateral conversation of 1 August 2018 between UREGNI and the Agency.

[12] Pipeline gas was introduced in Northern Ireland in 1996 (https://www.northernireland.gov.uk/topics/energy/gas).

[13] GMO NI, 2017. Northern Ireland Gas Capacity Statement 2017/18 – 2026/27.

[14] Estimated with a GCV of 35.17 MJ/m^3.

[15] The entry point Gormanston forms the connection with Ireland for physical flow from Ireland to Northern Ireland. It is currently not used by the market and has for that reason forecasted capacity bookings of 0.

Table 2. Northern Ireland transmission pipelines (source: GMO NI Gas Capacity Statement 2017/18 – 2026/27, available at http://gmo-ni.com/transparency/ni-gas-capacity-statement-nigcs-for-the-period-2017-18-to-2026-27)

Pipeline	From… to…	Distance [km]
SNIP	Twynholm to Ballylumford	135
BGTP	Ballylumford to Belfast via Carrickfergus	35
NWP	Carrickfergus to Coolkeeragh (also connecting Maydown)	112
SNP	Gormanston to Ballyalbanagh (close to Carrickfergus)	156
GttW	*under development*	/

(34) The Northern Ireland gas market is a relatively small market, which may suggest that the advantage of a simple tariff methodology, such as postage stamp, outweighs the costs of administering a more complex methodology that considers distance. However, the Agency is of the view that the current Northern Ireland gas system topology is of such simplicity that the relations between capacity bookings and distance are clear and relevant. For instance, it is clear that the use of the exit point Coolkeeragh in the North West corresponds to using a larger part of the pipeline system than the use of the exit point Ballylumford in the North East, with gas in both cases coming from Twynholm in the North East. In this context, distance is relevant for cost-reflectivity. Additionally, the calculation of tariffs based on the CWD methodology is fairly trivial for the simple Northern Ireland gas system.

The comparison of the postage stamp methodology and the CWD methodology

(35) Annex 2 to the Northern Ireland consultation document offers the comparison between the postage stamp tariffs and the results from the application of the CWD methodology, considering as the main parameters the forecasted allowed revenues, the forecasted capacities[16], a distance matrix, a 50%/50% entry-exit split (for the CWD methodology, no *ex ante* entry-exit split for the postage stamp methodology) and a 95%/5% split between capacity and commodity charges. The counterfactual annual capacity tariffs according to the CWD methodology range between £0.256 per kWh/d (for exit Ballylumford) and £0.423 per kWh/d (for exit Coolkeeragh), corresponding to a CWD methodology tariff spread of 65%. Comparing the postage stamp methodology and the CWD methodology, the differentials amount to a 30% higher tariff for Ballylumford exit point and a 15% lower tariff for Coolkeeragh exit point. Table 3 provides an overview of the tariffs according to both methodologies and the corresponding absolute and relative differentials per entry and exit point.

Table 3 Comparison of forecasted tariffs (per kWh/d) according to the CWD methodology and the proposed postage stamp methodology for gas year 2019-20 (Agency elaboration based on Annex 2 to the consultation document)

	Twynholm (entry)	Belfast (exit)	Ten Towns (exit)	Maydown (exit)	Ballylumford (exit)	Coolkeeragh (exit)
CWD tariffs	£0.418	£0.300	£0.363	£0.411	£0.256	£0.423
postage stamp tariff	£0.368	£0.368	£0.368	£0.368	£0.368	£0.368
Premium/discount compared to CWD	-£0.051	£0.068	£0.004	-£0.043	£0.112	-£0.056
Relative difference	-14%	18%	1%	-12%	30%	-15%

[16] The forecasted capacities are based on expected reserved capacity and expected commodity use of gas (http://gmo-ni.com/tariffs/future-tariffs). The entry point Gormanston was considered with forecasted capacity 0.

(36) The consultation document acknowledges the different tariff treatment for exit points close to the entry point and for those that are more remote using an RPM that disregards distance. It highlights that the principle of sharing costs equally over all customers, regardless of location, has been key to support the development of the gas system to the area of Coolkeeragh and Maydown.

(37) The Agency understands the reasoning of UREGNI that, notwithstanding the relevance of distance as a cost driver, the postage stamp methodology fits in a context of network expansion where the distortions of disregarding distance are compensated by higher gas volumes, lowering the charges for all users.

(38) The Agency, however, is of the view that a proper analysis of both impacts is missing in the consultation document. The Agency recommends that UREGNI include such analysis in its final decision, in order to take a motivated decision on the RPM to be used in Northern Ireland.

Agency conclusion on cost-reflectivity

(39) The Agency considers the RPM proposed in the consultation document not compliant with the requirement of cost-reflectivity set out in Article 7(b) of the NC TAR.

(40) The Agency is of the view that the choice to disregard distance in the RPM is not adequately motivated in the consultation document and recommends that UREGNI elaborate in its final decision how the principle of cost-reflectivity, and the specific national circumstances such as the (expanding) size and specific topology of the gas system are taken into account.

(41) The Agency points out that the forecasted entry-exit split is one of the elements of the RPM and invites UREGNI to elaborate on how it treats this split in its final decision on the RPM.

(42) The Agency additionally recommends that UREGNI and GMO NI consistently label the entry point Twynholm as ‘Twynholm’, to avoid confusion with the label ‘Moffat’.[17]

4.1.3 Cross-subsidisation

(43) **Article 7(c)** of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation.

Agency reflections on non-discrimination

(44) The Agency finds that the proposed RPM is non-discriminatory because all network users in the same situation pay the same tariffs stemming from the RPM for the network services.

Agency reflections on the cross-subsidisation between intra-system and cross-system users

(45) UREGNI states that there are no cross-system flows in Northern Ireland. Therefore, there is no cross-subsidisation between intra-system users and cross-system users and the CAA indicator that is defined in Article 5 of the NC TAR is meaningless.

Agency reflections on the cross-subsidisation based on location

(46) The proposed RPM introduces cross-subsidisation from network users who are located in the North-East, close to the entry point Twynholm, to network users in the North-West and the South

[17] Alternatively, the concerned entry point could be labelled uniquely and consistently as ‘Moffat’.

of the country. The former use a small part of the system, whereas the latter use the system for moving gas over longer distances.

Agency reflections on cross-subsidisation between distribution level gas users and gas power stations

(47) The Agency also assessed if there is undue cross-subsidisation between other groups of users. The Agency notes that in its consultation document. UREGNI acknowledges that the proposed change from the current 75%/25% split between capacity charges and commodity charges to a split of 95%/5% will have as the result that distribution level network users will contribute relatively more to the allowed revenues and power stations less. UREGNI clarifies that such cross-subsidy occurs because distribution level gas suppliers are required to book capacity on an annual basis for a “1 in 20 winter”, whereas their volumes significantly fluctuate following a pattern of winter peaks and summer lows. Distribution level customers are thus negatively affected by a higher proportion of capacity based charges.

(48) With respect to potential cross-subsidisation between distribution level gas users and gas power stations as a consequence of the postage stamp methodology, the Agency is of the view that there is no conclusive evidence of cross-subsidisation. In the absence of distance as a cost driver in the RPM, the lower exit tariff (comparing the postage stamp methodology-based tariff and the CWD methodology-based tariff) for the Coolkeeragh power plant is mirrored by a higher exit tariff for the Ballylumford power plant, meaning that costs are not clearly shifted from one customer group to another.

Agency conclusion on cross-subsidisation

(49) The Agency considers the RPM proposed in the consultation document not compliant with the requirement to avoid undue cross-subsidisation, as long as UREGNI does not offer an adequate motivation for disregarding distance.

(50) The Agency provides further arguments on the compliance of the commodity charges in section 4.2.

4.1.4 Volume risk

(51) **Article 7(d)** of the NC TAR requires that the RPM ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.

(52) In Northern Ireland there are no cross-system flows; therefore, volume risk as defined above is deemed not relevant in the consultation document.

(53) The Agency considers the consultation document compliant in this respect.

4.1.5 Cross-border trade

(54) **Article 7(e)** of the NC TAR requires that the RPM ensures that the resulting reference prices do not distort cross-border trade.

(55) In Northern Ireland there are no transit flows; therefore, UREGNI deems this aspect not relevant for Northern Ireland.

(56) The Agency considers that the reference prices do not distort cross-border trade and considers the consultation document compliant in this respect.

4.1.6 Conclusion on the compliance of the proposed RPM with the requirements of Article 7

(57) The Agency finds that the RPM proposed by UREGNI in its consultation document is not compliant with respect to the requirements of cost-reflectivity and cross-subsidisation as set out in Article 7 of the NC TAR. UREGNI may achieve compliance by including an adequate motivation on the principle of cost-reflectivity and the choice for a particular RPM.

(58) If no adequate motivation can be provided, the Agency recommends UREGNI to consider a distance related methodology.

(59) The Agency further notes that for the particular case of Northern Ireland, the criteria of volume risk and cross-border trade are not applicable due to the absence of cross-system flows.

4.2 Are the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) met?

(60) Article 27(2)(b)(2) of the NC TAR requires the Agency to analyse whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met. The overview of these criteria is provided in Table 4.

(61) The use of commodity-based transmission tariffs is an exception. Only part of the transmission services revenue may be recovered by commodity-based transmission tariffs. UREGNI proposes to continue the application of commodity-based transmission tariffs. They propose, however, to reduce the current share of 25% of the transmission services revenues collected through commodity-based charges to a share of 5%.

(62) The Agency appreciates the considerations expressed in points 5.15 to 5.19 of the consultation document on the share of commodity costs in the adjacent gas systems (Ireland and Great-Britain) and the estimate of variable costs of gas transport in the Northern Ireland gas system to come to an appropriate level of commodity charges.

(63) However, the Agency notes, as explained in paragraph (47), that the lower share of commodity charges is to the detriment of distribution-level network users and other low-load network users such as peak electricity units, and that comparisons to the Irish and British gas markets may not be fully appropriate as those markets are significantly more mature than the Northern Ireland gas market.

(64) Based on the arguments provided in the consultation document, the Agency finds the proposal of a 5% share of transmission services revenues collected through commodity-based charges not necessarily unreasonable, but recommends that a more detailed analysis be included in UREGNI's final decision for the benefit of transparency to network users, for instance explaining which other variable costs than compression fuel cost are considered and how they have been estimated.

(65) Additionally, the Agency notes that the reduction of the share of transmission services revenues collected through commodity-based charges from 25% to 5% is significant and invites UREGNI to consider the effects on different customer groups that were already pointed out in paragraph (47) when it implements the decrease.

(66) UREGNI proposes to apply a flow-based charge to collect the commodity-based part of the allowed revenues. The proposed flow-based charge does meet the criteria set in Article 4(3) of the NC TAR.

(67) The Agency considers the consultation document compliant in this respect.

Table 4 Criteria set in Article 4(3a) of the NC TAR

Criteria	Y/N?
Levied for the purpose of covering the costs mainly driven by the quantity of the gas flow	Yes, compression fuel and some other variable costs
Calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points	Yes, forecasted flows Yes, the same for all entry and exit points
Expressed in monetary terms or in kind	Yes, in monetary terms

4.3 Are the criteria for setting non-transmission tariffs as set out in Article 4(4) met?

(68) Article 27(2)(b)(3) of the NC TAR requires the Agency to analyse whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

(69) This Article is not relevant because the Northern Ireland gas tariff methodology does not make use of non-transmission tariffs.

5. Other remarks

(70) The Northern Ireland tariff methodology has three charges that are outside the scope of the NC TAR. They do not correspond to network costs and are meant to encourage certain shipper behaviour. These charges are "imbalance charges", "scheduling charges" and "unauthorised flow charges", and they are discussed in Part B of the Gas Transmission Charging Methodology Statement[18].

- Imbalance charges are excluded from the allowed revenues by virtue of the joint reading of Articles 3(11), (12) and (15) of the NC TAR.
- Scheduling charges can be considered administrative fees that apply in case of a difference between the final allocation and the nomination at an exit point.
- Unauthorised flow charges are charged in case a shipper flows gas through an exit point where a flow order[19] is in place that restricts capacity at an exit point.

(71) The TSO is revenue neutral with respect to all three charges. Any income associated with these charges is redistributed back to shippers.

[18] http://gmo-ni.com/assets/documents/Charging-Methodology-Statement-201718.pdf

[19] "A Flow Order is issued by a TSO to a Shipper in relation to a D-1 Predicted Capacity Shortfall or Day D Capacity Shortfall instructing those Shippers to adjust their Exit Nominations accordingly." (GMO NI Charging Methodology Statement 2017/18, point 10.2)

Annex 1: Legal framework

(72) Article 27 of the NC TAR reads:

1. Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.

2. The Agency shall analyse the following aspects of the consultation document:
(a) whether all the information referred to in Article 26(1) has been published;
(b) whether the elements consulted on in accordance with Article 26 comply with the following requirements:
(1) whether the proposed reference price methodology complies with the requirements set out in Article 7;
(2) whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;
(3) whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

3. Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English.
The Agency shall preserve the confidentiality of any commercially sensitive information.

4. Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.

5. The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.

(73) Article 26(1) of the NC TAR reads:

1. One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:
(a) the description of the proposed reference price methodology as well as the following items:
(i) the indicative information set out in Article 30(1)(a), including:

(1) the justification of the parameters used that are related to the technical characteristics of the system;

(2) the corresponding information on the respective values of such parameters and the assumptions applied.

(ii) the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;

(iii) the indicative reference prices subject to consultation;

(iv) the results, the components and the details of these components for the cost allocation assessments set out in Article 5;

(v) the assessment of the proposed reference price methodology in accordance with Article 7;

(vi) where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);

(b) the indicative information set out in Article 30(1)(b)(i), (iv), (v);

(c) the following information on transmission and non-transmission tariffs:

(i) where commodity-based transmission tariffs referred to in Article 4(3) are proposed:

(1) the manner in which they are set;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the indicative commodity-based transmission tariffs;

(ii) where non-transmission services provided to network users are proposed:

(1) the non-transmission service tariff methodology therefor;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);

(4) the indicative non-transmission tariffs for non-transmission services provided to network users;

(d) the indicative information set out in Article 30(2);

(e) where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:

(i) the proposed index;

(ii) the proposed calculation and how the revenue derived from the risk premium is used;

(iii) at which interconnection point(s) and for which tariff period(s) such approach is proposed;

(iv) the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.

(74) Article 7 of the NC TAR reads:

The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:

a) enabling network users to reproduce the calculation of reference prices and their accurate forecast;

(b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;

(c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;

(d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;
(e) ensuring that the resulting reference prices do not distort cross-border trade.

(75) Article 13 of Regulation (EC) No 715/2009 reads:
1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on investments, and, where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities. Tariffs, or the methodologies used to calculate them, shall be applied in a nondiscriminatory manner.
Member States may decide that tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenues arising therefrom are approved by the regulatory authority.
Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.
Tariffs for network users shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the national regulatory authorities. By 3 September 2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths.

2. Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where differences in tariff structures or balancing mechanisms would hamper trade across transmission systems, and notwithstanding Article 41(6) of Directive 2009/73/EC, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles, including in relation to balancing.

(76) Article 4(3) of the NC TAR reads:
3. The transmission services revenue shall be recovered by capacity-based transmission tariffs.
As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:
(a) a flow-based charge, which shall comply with all of the following criteria:
(i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;
(ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;
(iii) expressed in monetary terms or in kind.
(b) a complementary revenue recovery charge, which shall comply with all of the following criteria:
(i) levied for the purpose of managing revenue under- and over-recovery;
(ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;

(iii) applied at points other than interconnection points;

(iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.

(77) Article 4(4) of the NC TAR reads:

4. The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given nontransmission service. Such tariffs shall be as follows:

(a) cost-reflective, non-discriminatory, objective and transparent;

(b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.

Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.

Annex 2: List of abbreviations

Acronym	Definition
ACER	Agency for the Cooperation of Energy Regulators
NRA	National Regulatory Authority
TSO	Transmission System Operator
EC	European Commission
EU	European Union
NC TAR	Network code on harmonised transmission tariff structures for gas
IP	Interconnection Point
RPM	Reference Price Methodology
CWD	Capacity Weighted Distance
CAA	Cost Allocation Assessment
RAB	Regulated Asset Base
UREGNI	Utility Regulator for the electricity, gas, water and sewerage industries in Northern Ireland
GMO NI	Gas Market Operator for Northern Ireland

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