



# Consultation on Revised Gas Licence Fee Methodology – Gas Storage.

April 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 consultation sets out the Utility Regulator proposal to make suitable arrangements for the recovery of licence fees from gas storage licence holders. At present, there is only one such person: a company called Islandmagee Energy Limited (**IMEL**). The proposals involve amending our published paper on electricity and gas licence fee methodologies (2016). If implemented, our proposals would provide the basis for levying licence fees on future holders of a gas storage licence.

## Audience

This consultation will be of interest to licenced utility companies, primarily in the Gas sector.

## Consumer impact

No material impact on consumers is anticipated by the proposals in this consultation.



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## Glossary

Acronym	Explanation	Detail
CCNI	The Consumer Council for Northern Ireland	Non-departmental public body providing free independent support and advice for consumers and business in NI.
GB	Great Britain	England, Scotland and Wales collectively.
IMEL	Islandmagee Energy Limited	Company holding a gas storage licence from October 2018 (NI 059776). IMEL changed name from IMSL in October 2018.
IMSL	Islandmagee Storage Limited	Previous name of IMEL up to 2018
NI	Northern Ireland	One of the four countries of the United Kingdom along with England, Scotland and Wales.
UK	United Kingdom	United Kingdom of Great Britain and Northern Ireland.
Gas Order	The Gas (NI) Order 1996	Legislation regulating gas related activities in NI
UR	The Northern Ireland Authority for Utility Regulation	The regulator for the gas, electricity and water industries in Northern Ireland.

# Document Structure

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

- **Chapter 1 - Background and Introduction.**

This chapter provides an overview of the consultation.

- **Chapter 2 – Proposed changes**

This Chapter sets out the proposed changes to our published licence fee methodology (2016) by reference to shown amendments in document at Annex 1.

- **Chapter 3 – Reasons and effects of the proposed changes**

This Chapter explains the reasons for and consequences of the proposed changes.

- **Chapter 4 – Responding to consultation, next steps and timeline**

This Chapter explains how persons interested may respond to the consultation. It further explains anticipated next steps and a general timeline.

- **Annex 1 – Provides a mark-up of the gas licence fee methodology with proposed changes shown tracked.**

# 1. Introduction and Background

- 1.1 A gas storage [licence](#) (**IMEL's gas storage licence**) was issued to IMEL in October 2012. IMEL was at that time known as Islandmagee Storage limited (**IMSL**). IMEL's gas storage licence was granted under Article 8(1)(b) of the Gas Order.
- 1.2 IMEL's gas storage licence authorises the activity of gas storage at a proposed gas storage facility (**the proposed facility**) at Islandmagee, County Antrim, Northern Ireland. The proposed facility has not yet been constructed. At present there are no other holders of a gas storage licence.
- 1.3 Condition 1.10 of IMEL's gas storage licence provides for the payment of a licence fee by IMEL. This licence fee is calculated in accordance with the terms of Condition 1.10.
- 1.4 Those terms include provision for the licence fee to be calculated by reference to what are called the Principles (again, as defined in Condition 1.10).
- 1.5 Condition 1.10 defines these "principles" as  

the principles determined by the Authority for the purposes of this Condition generally, following consultation with the Licensee and with others likely to be affected by the application of such principles and as notified to the Licensee in writing.'
- 1.6 The principles set out in C 1.10 are similarly defined in the licences of others holding licences authorising other gas related activities; for example gas supply companies. They are given expression in published methodologies for "gas" licence fees.
- 1.7 The UR published its last methodology document on gas licence fees in September 2016<sup>1</sup>. This methodology did not extend to the activity of gas storage. It follows that the UR is not satisfied that it has yet determined principles for gas storage licence holders like IMEL. That means that the UR is not satisfied that it is able to levy a licence fee on gas storage licence holders like IMEL (or other future gas storage licence holders).
- 1.8 The UR presently considers that it is appropriate to determine the applicable principles for gas storage licence holders in order to provide the requisite basis for levying licence fees on those holding gas storage licences, to include IMEL.
- 1.9 The proposals set out in this document – if implemented - will act as a determination of the principles within Condition 1.10 and for gas licence holders

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

generally. Without those – or other like changes - there will be no available basis upon which to levy licence fees upon those holding gas storage licences.



## 2. Proposed Changes

- 2.1 We intend to amend the present gas methodology statement in the terms of the Annex 1. All proposed amending text is indicated by red underline.
- 2.2. It will be seen that we propose to levy an ordinary licence fee (or fixed licence fee/charge)<sup>2</sup> of £2,000 per annum increasing each year by the Retail Prices Index. By “ordinary” we mean such licence fee as does not include specific provision under the alternative basis part of the principles/gas methodology.

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<sup>2</sup> See the language used in the [gas methodology statement](#)

### 3. Reasons and Effects

- 3.1 This change in the gas licence fee methodology will enable the UR to invoice IMEL (and any future gas storage licences) for an appropriate licence fee. That licence fee will be used to defer costs incurred by the authority in relation to gas related activities. We presently consider that this proposal will enhance overall equity in the licence fee arrangements applicable to gas licence holders.
- 3.2 As mentioned in Chapter 2 (and as shown in Annex 1) our proposal is to levy an ordinary licence fee of £2,000 per annum. Again, this would be exclusive of any licence fee attributable to the implementation of the alternative basis of the gas methodology/principles.
- 3.3 The proposed ordinary licence fee for gas storage licence holders is broadly equivalent to that charged (now) to gas supply licence holders. It will be noted that the amounts set out in the published 2016 gas methodology/principles fall to be updated annually by the Retail Prices Index. The same will apply to the proposed ordinary licence fee for holders of a gas storage licence (like IMEL).
- 3.4 We intend to keep the issue of licence fees for holders of gas storage licence holders under review. We may return to the matter following further review.
- 3.5 The published methodology/principles – if amended as proposed – will result in an insubstantial benefit to the holders of the gas conveyance licences participating in transmission given that the balance of gas related regulatory costs payable by those persons will fall to be reduced by the (fixed licence fee charge) amount then payable by the holders of gas storage licences. Initially, that reduction will be in the amount of £2,000 per annum.
- 3.6 All of the licenced gas *suppliers* will pay the same (existing) licence fees. Conveyance licence holders who participate in distribution activities will continue to pay a fee that covers the CCNI's estimated costs in respect of gas issues. It is in that sense that we do not consider that there is any material impact on gas consumers.
- 3.7 This new requirement for payment of the gas storage licence fee will apply from **1 April 2022**: see condition 1.10.1 of the IMEL gas storage licence. It will uplift each following year by the applicable Retail Prices Index.

## 4. Next Steps, Timelines and Responding to the Consultation.

### Responding to this Consultation

- 4.1 The UR welcomes industry and stakeholder views and comments on the outlined modifications proposals and their effect. Any representations or objections with respect to the proposals may be made by email to the following addresses on or before **27 May 2022**:

Email: [Gas\\_networks\\_responses@uregni.gov.uk](mailto:Gas_networks_responses@uregni.gov.uk) with cc to [ruairi.mccann@uregni.gov.uk](mailto:ruairi.mccann@uregni.gov.uk)

- 4.2 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 UR will also ask respondents to supply the redacted version of the response that can be published.
- 4.3 As a public body and non-ministerial government department, the UR 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 UR to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.
- 4.4 The UR 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>. Alternatively, a copy can be obtained by calling 028 90311575 or by email at [info@uregni.gov.uk](mailto:info@uregni.gov.uk).
- 4.5 This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office of the UR. We shall be pleased to assist.

### Next Steps

- 4.6 The UR shall consider all responses to this consultation. A final decision will then be taken having due regard to those responses. Our decision document will be published. We anticipate that this will happen in **June/July 2022**.

# 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”.