



GAS (TARIFF FIXING) (PARAMETERS) REGULATIONS 2022

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Statutory Document No. 2022/0068



Gas Regulation Act 1995

GAS (TARIFF FIXING) (PARAMETERS) REGULATIONS 2022

Approved by Tynwald:

Coming into operation in accordance with regulation 2

The Communications and Utilities Regulatory Authority, having complied with subsection (3) of section 6 of the Gas Regulation Act 1995¹, makes the following Regulations under subsections (2) and (3) of that section.

1 Title

These Regulations are the Gas (Tariff Fixing) (Parameters) Regulations 2022.

2 Commencement

If approved by Tynwald, these Regulations come into operation —

- (a) for the purposes of enabling tariffs to be fixed for the period from April 2022 to December 2022, on the day after these Regulations are approved by Tynwald;
- (b) for all other purposes, on 1 April 2022².

3 Expiry

These Regulations cease to have effect 5 years after they come into operation.

4 Interpretation

(1) In these Regulations —

“**the Act**” means the Gas Regulation Act 1995;

“**annual review**” means a review —

¹ Under section 6(3) of the Gas Regulation Act 1995 the Communications and Utilities Regulatory Authority may impose conditions in connection with parameters set by it by regulations under section 6(2) of that Act, but before exercising that power must consult with the public gas supplier on whom it proposes to impose the conditions and take into consideration any feedback received in the course of that consultation.

² Tynwald procedure – approval required (see section 6(2) of the Gas Regulation Act 1995).

- (a) in respect of a relevant period; and
- (b) which is carried out in the year immediately preceding that in which the relevant period falls;

“interim review” means a scheduled review carried out in the course of a relevant period and relating to that period;

“the public gas supplier” means Manx Gas Limited³;

“relevant period” has the meaning given in regulation 6(2);

“review” means a review, carried out by the Authority, of the matters referred to in regulation 6(3), and this meaning is not in any way diminished where the term is qualified by “annual”, “interim” or “triggered”;

“special agreement customer” means a tariff customer with whom the public gas supplier has entered into a special agreement for the supply of gas to the customer on any terms specified in the agreement under section 6(9) of the Act; and

“triggered review” means a review —

- (a) carried out at any point in a year; and
 - (b) that the Authority considers necessary in response to an action taken or proposed by the public gas supplier.
- (2) Except to the extent the context or subject matter otherwise indicates or requires, in these Regulations reference to any costs are to costs incurred by the public gas supplier in respect of a relevant period.

5 Limitation of scope

These Regulations do not apply to a special agreement customer.

6 Imposition of parameters for fixing tariffs

- (1) The public gas supplier may not fix a tariff at a level which is likely to result in the revenue earned by the public gas supplier in respect of the supply of gas to tariff customers in respect of a relevant period exceeding the allowed revenue in respect of that period.
- (2) For the purposes of paragraph (1) each of the following is a relevant period —
 - (a) the period beginning on 1 April 2022 and ending on 31 December 2022;
 - (b) the period beginning on 1 January 2023 and ending on 31 December 2023;
 - (c) the period beginning on 1 January 2024 and ending on 31 December 2024;

³ Registered company number 000721V.

- (d) the period beginning on 1 January 2025 and ending on 31 December 2025;
 - (e) the period beginning on 1 January 2026 and ending on 31 December 2026;
 - (f) the period beginning on 1 January 2027 and ending on 31 March 2027.
- (3) In fixing a tariff, the public gas supplier must have regard to the following matters —
- (a) forecast commodity costs;
 - (b) allowed revenue;
 - (c) forecast demand; and
 - (d) prior period allowed revenue adjustment.

7 Ascertaining the allowed revenue

- (1) The allowed revenue in respect of a relevant period may not be officially ascertained by any person other than the Authority.
- (2) The Authority will ascertain the allowed revenue in respect of a relevant period by means of calculation in accordance with the formula set out in regulation 15.

8 Variables required for calculating the allowed revenue

The following variables in respect of a relevant period are required for the calculation of the allowed revenue in respect of that period —

- (a) commodity costs (see regulation 9);
- (b) operating costs (see regulation 10);
- (c) depreciation costs;
- (d) pension contribution costs;
- (e) allowed network return (see regulation 11);
- (f) allowed network revenue (see regulation 12);
- (g) allowed retail costs (see regulation 13);
- (h) prior period allowed revenue adjustment (see regulation 14);
- (i) the public gas supplier's regulatory asset base (see regulation 17(a));
- (j) the public gas supplier's weighted average cost of capital (as a percentage) (see regulation 17(b)); and
- (k) the public gas supplier's retail margin percentage (see regulation 17(c)).

9 Commodity costs

- (1) Commodity costs are the costs incurred in purchasing and delivering gas to the Island.
- (2) Commodity costs are to be —
 - (a) treated as a pass-through cost and fully allocated to the network component of the public gas supplier's business; and
 - (b) estimated by the public gas supplier taking into account any forward purchases, projected demand and market indicators.

10 Operating costs

- (1) Operating costs are —
 - (a) the costs incurred in connection with the maintenance and management of the gas distribution network;
 - (b) business operating costs;
 - (c) customer support costs;
 - (d) finance costs; and
 - (e) general management costs.
- (2) But operating costs excludes non-standard costs, including one-off costs of restructuring of the public gas supplier.
- (3) In calculating allowed network revenue under regulation 12 and allowed retail costs under regulation 13 the amount of operating costs are the amount of those costs as at 31 December 2019 as increased in accordance with inflation.
- (4) For the purpose of paragraph (3) "inflation" is as measured by the consumer prices index referred to in the Isle of Man Inflation Report most recently published by the Cabinet Office (or any successor).

11 Allowed network return

Allowed network return is to be calculated using the following formula —

Allowed network return = the public gas supplier's regulatory asset base x the public gas supplier's weighted average cost of capital.

12 Allowed network revenue

Allowed network revenue is to be calculated using the following formula —

Allowed network revenue = commodity costs + operating costs + depreciation costs + pension contribution costs + allowed network return.

13 Allowed retail costs

Allowed retail costs are to be calculated using the following formula —

Allowed retail costs = allowed network revenue + operating costs + depreciation costs + pension contribution costs.

14 Prior period allowed revenue adjustment

Prior period allowed revenue adjustment is to be calculated using the following formula —

Prior period allowed revenue adjustment = (revenue earned by the public gas supplier in respect of the immediately preceding relevant period – allowed revenue in respect of the immediately preceding relevant period) x (1 + (the public gas supplier's weighted average cost of capital/2)).

15 Allowed revenue

The allowed revenue is to be calculated using the following formula —

Allowed revenue = (allowed retail costs x (1+ the public gas supplier's retail margin percentage)) + prior period allowed revenue adjustment.

16 Cost allocation

- (1) For the purposes of these Regulations, costs are to be allocated in accordance with the cost model.
- (2) Costs are allocated in accordance with the cost model on the basis of data possessed by the public gas supplier relating to—
 - (a) the number of tariff customers to whom gas is supplied by the public gas supplier;
 - (b) the volume of gas supplied by the public gas supplier to tariff customers; or
 - (c) a combination of the matters referred to in subparagraphs (a) and (b),as determined by the Authority.

17 Variables determinable only by the Authority

No person other than the Authority can, for the purposes of these Regulations, officially determine any of the following variables in respect of a relevant period—

- (a) the public gas supplier's regulatory asset base;
- (b) the public gas supplier's weighted average cost of capital (as a percentage);
- (c) the public gas supplier's retail margin percentage.

18 Periods for which tariffs may be fixed in 2022

- (1) This regulation applies to the fixing of tariffs in 2022.

- (2) The public gas supplier must fix tariffs for the period from April 2022 to December 2022.

This is subject to paragraphs (3) and (4).

- (3) The public gas supplier may —
- (a) for the period from July 2022 to December 2022 (“the specified period”); and
 - (b) following the carrying out of an interim review,
- fix tariffs that supersede the tariffs fixed pursuant to paragraph (2).
- (4) For whatever remains of 2022 following a triggered review, the public gas supplier may substitute new tariffs for the tariffs fixed pursuant to paragraph (2) or (3), as the case may be.

19 Periods for which tariffs may be fixed in 2023, 2024, 2025 or 2026

- (1) Following the annual review in the first-mentioned year in each of the subparagraphs, the public gas supplier must fix tariffs for the second-mentioned year —
- (a) 2022, 2023;
 - (b) 2023, 2024;
 - (c) 2024, 2025;
 - (d) 2025, 2026.

This is subject to paragraphs (2) and (3).

- (2) Following an interim review midway through any year specified in paragraph (1), the public gas supplier may for the second half of the year (“the period”) fix tariffs that supersede the tariffs it had fixed for the period.
- (3) Following a triggered review, the public gas supplier may fix tariffs —
- (a) for whatever remains of the year in which that review is carried out (“the remainder of the year”);
 - (b) that supersede the tariffs which would, under paragraph (1) or (2), otherwise have applied to the remainder of the year.

20 Periods for which tariffs may be fixed in 2027

The public gas supplier —

- (a) must fix tariffs for the period January 2027 to March 2027;
- (b) may, following a triggered review, fix tariffs that —
 - (i) apply to whatever remains of the period; and
 - (ii) supersede those fixed under subparagraph (a).

21 Revocation

The Gas (Tariff Fixing) Regulations 2021⁴ are revoked.

MADE

CHIEF EXECUTIVE OFFICER

A person duly authorised by the Communications and Utilities Regulatory Authority

⁴ SD 2021/0159, as amended by SD 2021/0302.

*EXPLANATORY NOTE**(This note is not part of the Regulations)*

These Regulations set the parameters within which the public gas supplier (Manx Gas Limited) may fix the tariffs in accordance with which it may charge for supplying gas. The public gas supplier must, when fixing tariffs, confine itself to those parameters and comply with any conditions imposed in connection with those parameters. These Regulations expire 5 years after coming into operation and revoke and replace the Gas (Tariff Fixing) Regulations 2021 as amended.

The public gas supplier may not fix a tariff at a level which is likely to result in its revenue from supplying gas to customers for a relevant period exceeding the allowed revenue for that period and in fixing a tariff the public gas supplier must have regard to certain other matters. The allowed revenue is to be ascertained in accordance with the Regulations. Generally tariffs are to be fixed for a year at a time following the carrying out of a review in the previous year, but different tariffs may be fixed for part of a year following the carrying out of another review in that year.