Decision Paper on Seasonal Multiplier Factors for Gas Transmission

14 August 2023

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 paper outlines our decision following our consultation on the seasonal multiplier factors to be applied to non-annual entry capacity bookings in the postalised tariff from 1 October 2023.

This consultation is required by EU Regulation 2017/460 on Harmonised Transmission Tariff Structures for Gas ("TAR NC"), as amended for EU Exit.

As proposed, we have decided to maintain the current factors into the Gas Year 23/24.

Audience

This document is likely to be of interest to regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

Consumer impact

The decision is to maintain the current seasonal multiplier factors so there will be no impact on customer tariffs

Contents page

Acronyms and Glossary

CCNI	Consumer Council for Northern Ireland
CRU	Commission for Regulation of Utilities, which regulates gas in the Republic of Ireland
EU	European Union
EU(W)A	European Union (Withdrawal) Act 2018
GMO NI	Gas Market Operator Northern Ireland
GNI	Gas Networks Ireland
Ofgem	Office for Gas and Electricity Markets in Great Britain, which regulates gas in Great Britain
PSA	Postalised System Administrator
SEM	Single Electricity Market
TAR NC	Network Code on Harmonised Transmission Tariff Structures for Gas
UR	Utility Regulator

1. Purpose of this Paper

1.1 This decision paper follows our consultation[1] which meets requirements within the EU Regulation on establishing a network code on harmonised transmission tariff structures for gas, known as TAR NC, which has been amended to facilitate the UK's exit from the EU. The consultation sought views on seasonal multiplier factors which are applied to the postalised tariff for non-annual entry capacity bookings.

Tariff Network Code and EU Exit

1.2 EU Regulation 2017/460, known as the Network Code on Harmonised Transmission Tariff Structures for Gas[2] ("TAR NC"), was published on 17 March 2017 with the objectives of contributing to market integration, enhancing security of supply and promoting interconnection between gas networks.

1.3 TAR NC was transposed into UK law under the European Union (Withdrawal) Act 2018[3] ("EU(W)A") and was amended in the Gas (Security of Supply and Network Codes)(Amendment)(EU Exit) Regulations 2019[4] and the Gas Tariffs Code (Amendment)(EU Exit) Regulations 2019[5] to remove inoperabilities.

1.4 Throughout the rest of this document, when we refer to TAR NC, we mean the TAR NC as incorporated in UK law and amended by the Gas (Security of Supply and Network Codes)(Amendment)(EU Exit) Regulations 2019 and Gas Tariffs Code (Amendment)(EU Exit) Regulations 2019.

Requirement for Annual Consultations

1.5 Article 28(2) of TAR NC requires us to carry out an annual consultation on the seasonal multipliers factors and to consider discounts for interruption and storage. Article 28(3) requires that we take into account the views of respondents in the following aspects:

- The balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system
- The impact on the transmission services revenue and its recovery

[1] https://www.uregni.gov.uk/files/uregni/documents/2023-05/2023-05-11%20-%20Seasonal%20Multiplier%20Consultation.pdf
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0460&from=EN
[3] https://www.legislation.gov.uk/ukpga/2018/16/contents/enacted
[4] https://www.legislation.gov.uk/uksi/2019/531/made
[5] https://www.legislation.gov.uk/uksi/2019/1393/contents/made

- The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices
- Situations of physical and contractual congestion
- The impact on cross-border flows
- The impact of the seasonal factors on facilitating the economic and efficient utilisation of the infrastructure
- The need to improve the cost-reflectivity of reserve prices

1.6 There were ten respondents to the consultation as listed below.

- Consumer Council for NI (CCNI)
- GNI (UK)
- Gas Networks Ireland (GNI)
- Mutual Energy (MEL)
- Electricity Association of Ireland (EAI)
- SGN Natural Gas (SGNNG)
- firmus energy
- Phoenix Energy
- ESB Generation and Trading (ESBGT)
- Gas Market Operator Northern Ireland (GMO NI)

1.7 We have considered those responses, as summarised in section 5.2.

1.8 In addition to considering the responses to this consultation, we are required to consider the positions of directly connected Member States countries and the other national regulatory authority. This is outlined at paragraphs 2.8 and 2.9.

1.9 Our decision is outlined in section 5.

1.10 We will publish this decision and will inform the Postalised System Administrator (PSA) of the factors and discounts to be used in the postalised gas transmission tariff, which will become effective on 1 October 2023. We will also inform GMO NI that it may publish the Gas Product Multipliers and Time Factors Table[6] at the same time.

[6] https://gmo-ni.com/tariffs#gas-product-multipliers

2. Multiplier and Seasonal Factors

Background to the Factors

2.1 The TAR NC defines “multiplier” as the factor applied to the respective proportion of the reference price in order to calculate the reserve price for a non-annual standard capacity product. It further defines “seasonal factor” as the factor that reflects the variation of demand within the year which may be applied in combination with the relevant multiplier.

2.2 These factors are multiplied by the annual tariff for entry capacity to determine the tariff for a non-annual entry capacity product, for example monthly capacity or daily capacity.

2.3 Since their inception in 2015, we have followed a policy of aligning the seasonal multiplier factors with those offered in the Republic of Ireland. We consider that this alignment is beneficial to ensure there is no perverse pricing signal which affects the decisions of all-island electricity generators.

2.4 The seasonal factors have been set to incentivise suppliers to make more use of the network in the summer and shift demand away from the winter peak. They were set to provide a balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system.

Review of Seasonal Multiplier Factors

2.5 Following last year’s consultation document, when we decided to maintain the factors at the 21/22 rate, we indicated that we intended to carry out a review with a view to amending the factors.

2.6 We indicated that the review would:

a) Consider how to better reflect the actual seasonality of flow and to reduce the volatility caused by daily capacity variances in the winter period.

b) Evaluate if the increased volatility which accompanies high seasonal factors in winter is outweighed by the benefits of encouraging suppliers to choose to book capacity in the summer.

c) Consider if the seasonal factors have been effective in encouraging shippers to make more use of the network in the summer and shift demand away from the winter peak?

d) Ensure that any revised factors continue to provide a balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system

e) Assess any impact on the use of capacity products as a result of the expiry of the Initial Entitlement of Entry Capacity.

f) Recognise that Respondents in previous years requested that proposed changes should allow sufficient time to prepare ahead of the tariff calculations.

g) Continue engagement with CRU around maintaining alignment with RoI.

2.7 The consultation for Gas Year 23/24 included this review and proposed maintaining the current factors for Gas Year 23/24 and proposed smoothing the seasonal factors from October 2024. We indicated that we would align our decision on the seasonal factors to apply in Gas Year 24/25 with our decision on whether to introduce short term exit capacity products[7] at gas transmission, the consultation for which ran in parallel. This decision therefore only applies to Gas Year 23/24.

Consultation with Ofgem

2.8 Ofgem (Office for Gas and Electricity Markets) in Great Britain has published its Article 28 consultation Decision[8] which is for current factors to remain the same. We will continue to keep in regular contact with Ofgem to monitor any matters which affect both regions.

Consultation with CRU and Alignment with RoI

2.9 We also keep in regular contact with CRU particularly in recognition of our policy of all-island alignment.

2.10 Our decision in 2015 to align factors was based on the commercial link between the NI and RoI Networks made by the Single Electricity Market (SEM). Although the base charges between the two networks are different, there is potential for significant difference between the daily charges due to different seasonal factors.

2.11 CRU has advised UR that it intends to consult to maintain its seasonal

[7] https://www.uregni.gov.uk/files/uregni/documents/2023-03/2023-03-31%20Short%20Term%20Exit%20Capacity%20Consultation%20Paper%20FINAL%20FOR%20PUBLICATION.pdf
[8] https://www.ofgem.gov.uk/sites/default/files/2023-04/20230213%20Article%2028%20TAR%20NC%20Consultation%20Decision.pdf

multipliers for gas year 23/24.

3. Aspects Considered

3.1 Article 28(3) requires that we take into account the views of respondents in the following aspects, each of which were explored. These are;

- The balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system
- The impact on the transmission services revenue and its recovery
- The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices
- Situations of physical and contractual congestion
- The impact on cross-border flows
- The impact of the seasonal factors on facilitating the economic and efficient utilisation of the infrastructure
- The need to improve the cost-reflectivity of reserve prices

3.2 We concluded that the elements within each of these aspects remain unchanged since last year's consultation[9] and that seasonal multiplier factors continue to provide benefits to the shippers which use them and also to the shippers which do not use them.

a) The factors provide a method for Users to top up their capacity bookings on a short-term basis.

b) The factors provide a price signal to incentivise Users to use gas in the summer rather than winter, if the User has a choice.

c) The extensive use of non-annual entry capacity products can increase total revenue, which would reduce annual capacity prices for all shippers.

Discount for Interruptible Capacity Charge

3.3 The TAR NC requires that discounts are offered in specific circumstances, particularly for interruptible capacity and for storage facilities. Article 16 specifies how to calculate the discount for an interruptible capacity charge.

[9] https://www.uregni.gov.uk/files/uregni/documents/2022-05/decision-paper-on-seasonal-multiplier-factors-2022.pdf

3.4 The current postalised charges do not include an interruptible tariff, as only firm capacity is offered. The NI Gas Capacity Statement[10] indicates that the NI Gas Network has sufficient capacity to meet forecasted demand for the next ten years.

3.5 Therefore, until this situation changes, we envisage that the tariff publications will state that no interruption has been forecast.

Discount for Capacity Charge for Storage

3.6 In order to prevent the double charging of gas to and from any storage facilities, Article 9 of the TAR NC requires that a discount of at least 50% should be applied to capacity charges for storage facilities.

3.7 As there are no storage facilities in NI, we do not propose to publish a storage discount for the Gas Year starting 1 October 2023.

[10] https://gmo-ni.com/publications#gas-statement

4. Responses

Respondents

4.1 There were ten respondents to the consultation:

- CCNI
- GNI (UK)
- GNI
- MEL
- EAI
- SGNNG
- firmus energy
- Phoenix Energy
- ESB GT
- GMO NI

Summary of Responses

- The responses received for the consultation were primarily focused on the proposal to smooth the seasonal multiplier factors in gas year 24/25 which was also part of our consultation. This minimised specific responses for the proposal to maintain the current seasonal multiplier factors for gas year 23/24.
- Responses from GNI (UK), GNI and EAI were in agreement of the recommendation to maintain the current seasonal multiplier factors for gas year 23/24.
- MEL would “welcome the commitment to maintaining high product multipliers to incentivise longer term capacity booking”.
- firmus energy consider “the current non-annual factors are at a level that continues to encourage annual capacity booking within the Distribution sector”.
- GNI believes that the practice of cooperation with CRU would also be advantageous in any review of short-term multipliers going forward.

5. Decision

Consideration of Responses Received

5.1 We welcome the responses that we have received. We welcome that there was general agreement of our recommendation to maintain the current seasonal multiplier factors into Gas Year 23/24.

5.2 As noted in paragraph 2.8 we intend to keep in regular contact with CRU and will continue the practice of cooperation with them regarding reviews of seasonal multiplier factors.

5.3 We recognise the desire for seasonal multiplier factors to incentivise long term capacity booking and to encourage annual capacity booking.

Decision

5.4 Therefore, as the current factors meet the requirements of the TAR NC (paragraphs 1.5) along with the policy of aligning with the CRU (paragraph 2.8), we have decided to maintain the current factors into the Gas Year 23/24.

5.5 Further, we have decided to make no interruptible discount and no storage discount for Gas Year 23/24.

5.6 These factors will be provided to the PSA as part of the postalised tariff setting process. The GMO NI, which publishes the current Gas Product Multipliers and Time Factors Table on its website, can publish the same table to be used for Gas Year 23/24, which begins on 1 October 2023.

Capacity Product Multipliers for Input to Tariff Model					
Period	Annual Entry & Exit Capacity Products	Non-Annual Entry Capacity Products			
		Quarterly	Monthly	Daily	Within Day
Oct - Sept	1.0000				
Oct - Dec		0.3843			
Jan - Mar		0.8069			
Apr - Jun		0.1327			
Jul - Sept		0.0261			
October			0.1281	0.0064	0.0064
November			0.1281	0.0064	0.0064
December			0.1708	0.0114	0.0114
January			0.2989	0.0199	0.0199
February			0.3416	0.0228	0.0228
March			0.2562	0.0171	0.0171
April			0.1281	0.0064	0.0064
May			0.0097	0.0005	0.0005
June			0.0097	0.0005	0.0005
July			0.0097	0.0005	0.0005
August			0.0097	0.0005	0.0005
September			0.0097	0.0005	0.0005

Table 1 - Gas Product Multiplier and Times Factor Table

To find the annual total of the daily and within day factors, it is necessary to multiply each daily factor by the number of days in that month, as illustrated in Table 2 – Totals of Current Seasonal Multiplier Factors

5.7 .

Total Multiplier Factors	Non-Annual Entry Capacity Products			
	Quarterly	Monthly	Daily	Within Day
Current Factors	1.3500	1.5000	2.7844	2.7844

Table 2 – Totals of Current Seasonal Multiplier Factors

6. Annexes

CCNI - https://www.uregni.gov.uk/files/uregni/documents/2023-08/CCNI%20response.pdf

EAI - https://www.uregni.gov.uk/files/uregni/documents/2023-08/EAI%20response.pdf

ESB - https://www.uregni.gov.uk/files/uregni/documents/2023-08/ESB%20GT%20response.pdf

firmus energy - https://www.uregni.gov.uk/files/uregni/documents/2023-08/firmus%20energy%20response.pdf

GMO NI - https://www.uregni.gov.uk/files/uregni/documents/2023-08/GMO%20NI%20response.pdf

GNI - https://www.uregni.gov.uk/files/uregni/documents/2023-08/GNI%20response.pdf

GNI (UK) - https://www.uregni.gov.uk/files/uregni/documents/2023-08/GNI%20UK%20response.pdf

MEL - https://www.uregni.gov.uk/files/uregni/documents/2023-08/MEL%20response.pdf

Phoenix Energy - https://www.uregni.gov.uk/files/uregni/documents/2023-08/Phoenix%20Energy%20response.pdf

SGN NG - https://www.uregni.gov.uk/files/uregni/documents/2023-08/SGN%20NG%20response.pdf