Consultation on Seasonal Multiplier Factors for Gas Transmission

21 February 2020



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; Electricity; Gas; Retail and Social; and Water. 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 seeks views on the proposed seasonal multiplier factors to be applied to non-annual entry capacity bookings in the postalised tariff from 1 October 2020.

This consultation is required by the EU Regulation on harmonised transmission tariffs for gas.

We conclude that the use of non-annual entry capacity products has been relatively low since their inception in 2015. We consider this is largely because a number of suppliers continue to hold an Initial Entitlement of Entry Capacity which meets their capacity requirements. As there is no signal to suggest the current factors are no longer appropriate, and as those factors meet the requirements of the EU Regulation, we propose to maintain the current factors into the Gas Year 2020/21.

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

We do not propose to make any amendments to the seasonal multiplier factors so there would be no impact on customer tariffs.

Contents

Acronyms and Glossary

CRU	Commission for Regulation of Utilities, which regulates gas in the Republic of Ireland
CAM NC	Network Code on Capacity Allocation Mechanisms
EU	European Union
FOIA	Freedom of Information Act
GMO NI	Gas Market Operator Northern Ireland
Ofgem	Office for Gas and Electricity Markets 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 paper meets two separate requirements of the EU Regulation on establishing a network code on harmonised transmission tariff structures for gas, known as TAR NC.

1.2. Firstly, this is the second annual consultation on the seasonal multiplier factors which are applied to the postalised tariff for non-annual entry capacity bookings. This is a requirement under Article 28 of TAR NC. We are seeking views on the proposed factors which are outlined in section 3.

1.3. Secondly, we are also required, also under Article 28, to consult annually on discounts to capacity charges, specifically for interruption and storage. This is outlined in section 5.

1.4. The consultation on these two items will run in parallel with the annual postalised tariff setting process for gas transmission. Following consideration of the responses from this consultation, UR will publish its decision and will inform the Postalised System Administrator (PSA) of the factors and discounts to be used in the tariff to be published on 31 May, which will become effective on 1 October 2020.

2. Background

Tariff Network Code

2.1. The Utility Regulator has undertaken a number of actions[1] to meet the requirements of EU Regulation 2017/460, the Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC"). The 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.

2.2. We concluded that the current NI transmission charging regime, called Postalisation, is already compliant with the TAR NC, but that it was necessary to change the capacity commodity split from 75:25 to 95:5 through a transition period.

Requirement for Annual Consultations

2.3. Article 28(2) of TAR NC requires us to carry out an annual consultation on the seasonal multipliers factors and 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
- The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices
- Situations of physical and contractual congestion

1 The main consultation published in June 2018, followed by the responses in October 2018 and the Decision in December 2018. This was followed by the first annual consultation on Seasonal Multipliers in January 2019 and the Decision in May 2019. In addition, we consulted on licence modification in February 2019, followed by Decision in April 2019, which became effective on 6 June 2019.

- 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

2.4. We explore each of the aspects from Article 28(3) in section 4.

2.5. Article 13 of the TAR NC sets limits on the multiplier factors which may be applied:

a) Quarterly and monthly capacity products to have a multiplier of no more than 1.5

b) Daily and within-day capacity products to have a multiplier no higher than 3

2.6. Section 3 of this consultation revisits the calculation steps in Articles 14 and 15 of the TAR NC, using both capacity and commodity data. It then reports on the actual usage of the factors since they were first introduced in 2015. Section 3 finishes by proposing to maintain the current factors.

2.7. In addition to considering the responses to this consultation, we are required to show that we have considered the position of the National Regulatory Authorities of directly connected Member States. This is outlined at paragraphs 3.19 and 3.20.

2.8. Article 28 of TAR NC also requires us to carry out an annual consultation on any discounts for interruption and storage, which is carried out in Section 5.

2.9. Following licence modifications in 2019, the Gas Product Multipliers and Time Factors Table is published by GMO NI at the same time at the postalised tariff, on 31 May.

Responding to the Consultation

2.10. The consultation questions are summarised in section 6.

2.11. We welcome any representations to this consultation no later than 12 noon on Tuesday 24th March 2020. Please send any responses to:

Jillian Ferris
Networks Directorate
Utility Regulator
Queens House
14 Queens Street
Belfast BT1 6ER

Gas_networks_responses@uregni.gov.uk
with cc to jillian.ferris@uregni.gov.uk

2.12. The Utility Regulator's preference would be for responses to be submitted by e-mail.

2.13. 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, please provide also a non-confidential version suitable for publication.

2.14. As a public body and non-ministerial government department, the Utility Regulator 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 Utility Regulator to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.

2.15. The Utility Regulator 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 or, alternatively, a copy can be obtained by calling 028 9031 1575 or by email at info@uregni.gov.uk.

2.16. This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office of the Utility Regulator, which will be happy to assist.

3. Multiplier and Seasonal Factors

Background to the Factors

3.1. 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.

3.2. 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.

3.3. Seasonal multiplier factors were first introduced to apply to non-annual entry capacity products[2] when entry charges were introduced in October 2015.

3.4. We discussed our approach with the CRU at that time and we agreed that a coordinated approach would be preferable north and south. During our consultation and implementation period for the TAR NC in 2018[1], we reviewed the appropriateness of continuing to align with the CRU. We decided that it is beneficial to continue to keep this alignment to ensure that there is no perverse pricing signal which affects the decisions of all-island electricity generators. The seasonal multiplier factors have therefore been aligned with those offered in RoI since their inception in 2015.

3.5. The factors were 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.

3.6. The factors were slightly reduced by both CRU and UR in October 2019 to

2 https://www.uregni.gov.uk/publications/seasonalfactors-final-determination

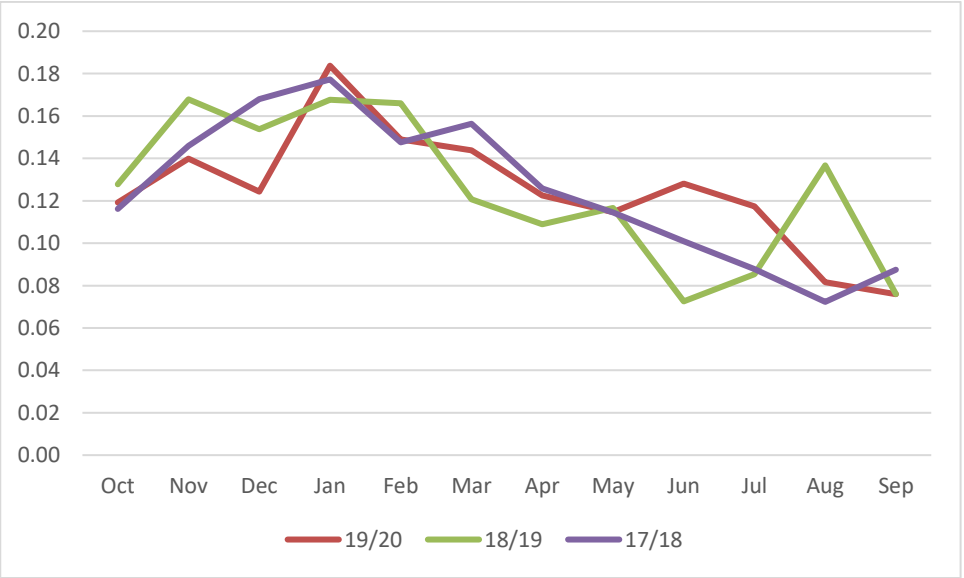
bring them into line with the TAR NC limits, outlined in paragraph 2.3.

Setting of the Factors

3.7. As the factors have been in place since 2015, we considered it would be useful to revisit the calculation steps in Articles 14 and 15 of the TAR NC and compare to the published factors. The calculation steps set out how the factors should reflect the seasonal profile of the forecast flow, and ensure that it is still attractive to book annual capacity.

3.8. The postalised regime does not require monthly commodity forecasts, so we substituted actual monthly gas flow into the calculation. Figure 1 shows the seasonality of gas flow in the calculated factors for the past three years.

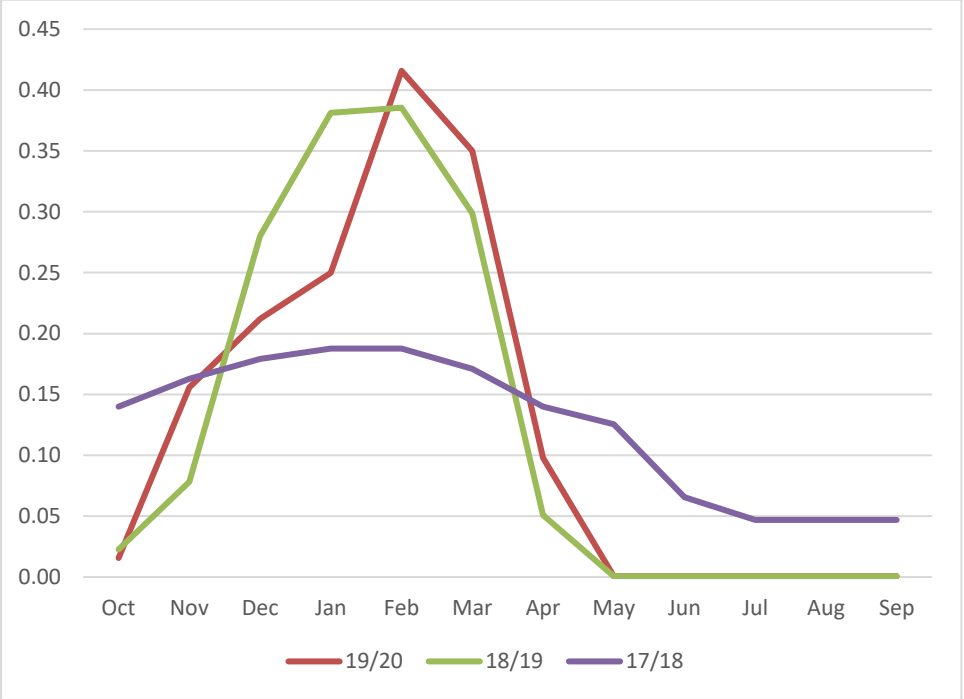
Figure 1 - Factors calculated from forecasted flows



3.9. The calculation steps following Articles 14 and 15 of the TAR NC alternatively allow the factors to be calculated from capacity forecasts. We found that the calculation on the forecast quarterly and monthly non-annual entry capacity bookings, shown in Figure 2, indicates a greater seasonal swing than the

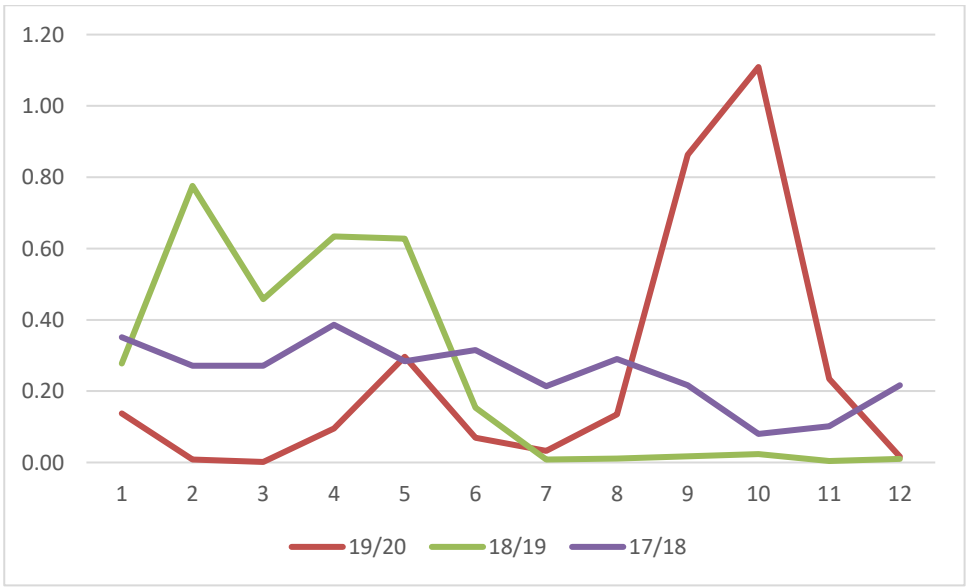
calculation using forecasted flow in Figure 1.

Figure 2 - Factors calculated from forecasted quarterly and monthly capacity



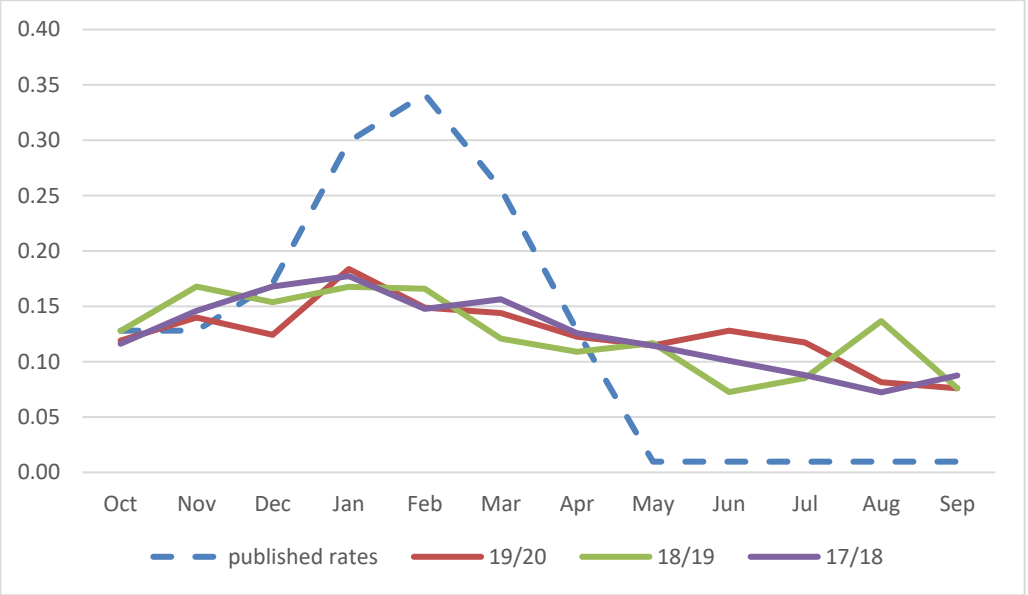
3.10. We also considered the forecasted daily and within-day capacity bookings, but these show an unusual result (Figure 3) which does not indicate a pattern.

Figure 3 – Factors calculated from forecasted daily capacity



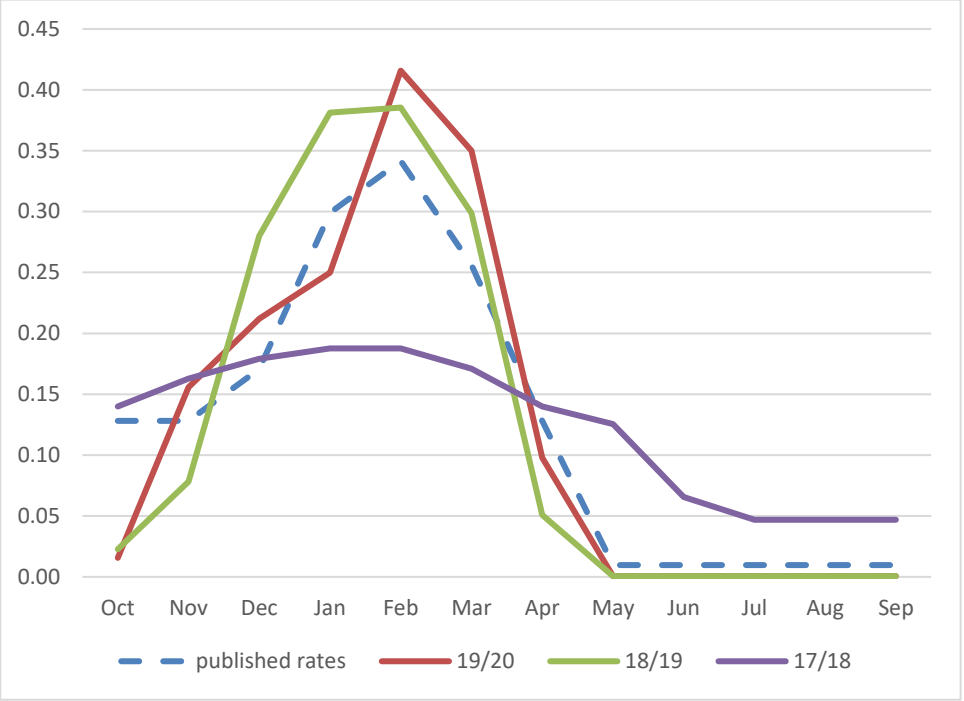
3.11. When the published factors from the Gas Product Multiplier and Time Factors Table are added into Figure 1 to produce Figure 4, this shows that the calculated profile is flatter than the profile from the published seasonal multiplier factors.

Figure 4 - Factors calculated from forecasted flows compared to published seasonal factors



3.12. However, when the published factors are added into Figure 2 to generate Figure 5, the quarterly and monthly forecasted capacity follow a consistent pattern to the published factors.

Figure 5 – Factors calculated from forecasted quarterly and monthly capacity compared to published seasonal factors



The Usage of Factors since 2015

3.13. Since their introduction, non-annual entry capacity products have comprised a small proportion of total entry capacity, with their actual usage varying considerably from forecast. Table 1 shows that monthly and daily entry capacity figures have not, separately, exceeded 10% of forecast annual capacity.

Table 1 – Non-annual entry capacity products as percentage of annual capacity

	15/16 quarterly forecast	15/16 quarterly actual		16/17 quarterly forecast	16/17 quarterly actual		17/18 quarterly forecasts	17/18 quarterly actual		18/19 quarterly forecasts	18/19 quarterly actual
% of annual	0.0%	0.0%		0.0%	0.0%		0.7%	0.3%		0.5%	0.0%
	15/16 monthly forecast	15/16 monthly actual		16/17 monthly forecast	16/17 monthly actual		17/18 monthly forecasts	17/18 monthly actual		18/19 monthly forecasts	18/19 monthly actual
% of annual	0.1%	0.0%		0.4%	0.5%		1.8%	0.6%		0.5%	0.8%
	15/16 daily forecast	15/16 daily actual		16/17 daily forecast	16/17 daily actual		17/18 daily forecasts	17/18 daily actual		18/19 daily forecasts	18/19 daily actual
% of annual	0.0%	4.3%		1.4%	7.0%		9.9%	2.8%		4.1%	5.8%

3.14. Figure 6 shows how the actual use of monthly capacity products (the dashed lines in the graph) have broadly followed the expected seasonal pattern, but that the daily and within-day capacity products have not, see Figure 7.

Figure 6 – Forecast and Actual Monthly Entry Capacity, in kWh

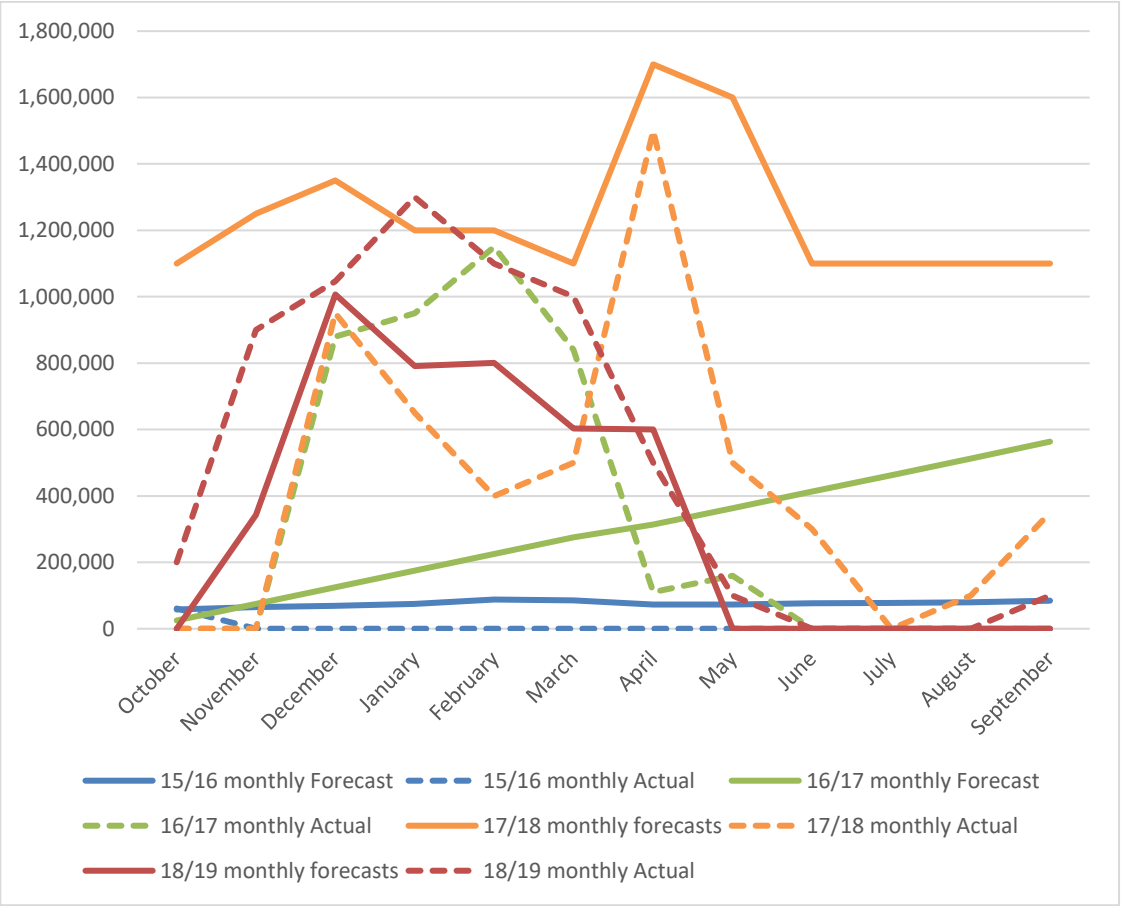
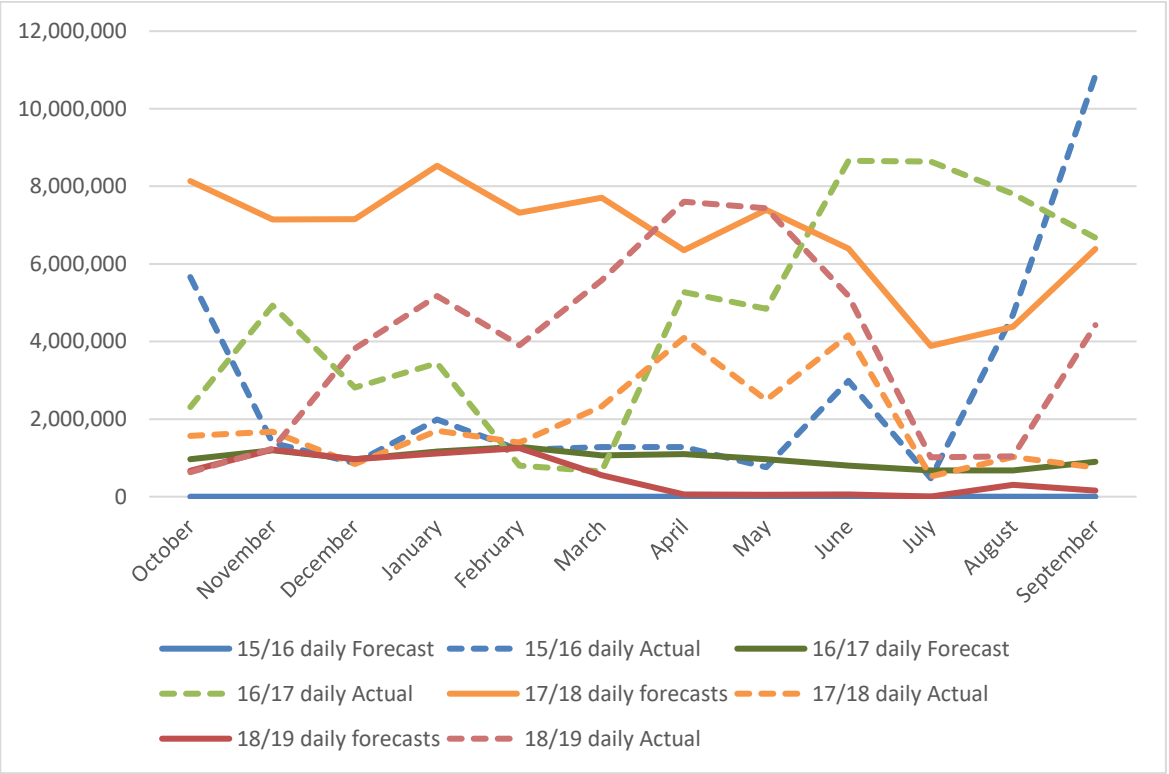


Figure 7 – Forecast and Actual Daily Entry Capacity, in kWh



3.15. Viewed across quarterly, monthly and daily non-annual entry capacity products for both forecast and actual, there is no clear pattern emerging, which may be because of the relatively low use of these products.

3.16. It is likely that use of the non-annual entry capacity products has been constrained by the Initial Entitlement of Entry Capacity, which began in 2015, in order to comply with the network code on capacity allocation mechanisms (the CAM NC). Following a consultation process in the summer of 2014, it was decided that suppliers would receive an Initial Entitlement of Entry Capacity, corresponding to their firm exit capacity, for an initial period of five years. The Entitlement period expires in September 2020.

3.17. The suppliers whose entire capacity requirement was met by their Initial Entitlement have not needed to avail of non-annual entry capacity products. We therefore anticipate that the use of non-annual entry capacity products will

increase after October 2020.

3.18. We note that the non-annual entry capacity products have been mainly used by power stations. We are interested to know if large gas users, like industrial processors, would be interested in these products.

Consultation with CRU

3.19. We understand from the CRU that it intends to consult on maintaining the current set of factors.

Consultation with Ofgem

3.20. Ofgem (Office for Gas and Electricity Markets) in Great Britain is currently consulting[3] on its future charging mechanism to comply with the TAR NC. It is proposing to use a multiplier of 1 along with no seasonal factors. This would mean that there is no penalty or incentive for booking capacity on a short term basis. The Single Electricity Market (SEM) makes a commercial link between the NI Network and the RoI Network, leading to our decision to align factors between NI and RoI. No such link exists with the GB Network, so we do not consider there is any equivalent benefit to create a link with the proposed Ofgem seasonal multiplier factor.

Conclusion

3.21. In light of the analysis outlined in the previous paragraphs, particularly with regard to the relatively low use of the non-annual entry capacity products, we consider that there is no clear signal for us to move away from the current factors. We consider this is largely because a number of suppliers continue to hold an Initial Entitlement of Entry Capacity which meets their capacity requirements.

---

3 https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-minded-decision-and-draft-impact-assessment

3.22. We consider it may be worthwhile carrying out this analysis again after the Initial Entitlement of Entry Capacity has been expired for at least one Gas Year, which would mean not before the annual consultation on seasonal multiplier factors in early 2022.

3.23. As we have previously decided to maintain alignment with the CRU (see paragraph 3.4), the current factors meet the requirements of the TAR NC (see paragraph 2.3) and there is no signal to suggest the current factors are no longer appropriate, we propose to maintain the current factors into the Gas Year 2020/21.

Current and Proposed Factors

3.24. The table below shows the current factors. We propose that these will continue to be offered for the Gas Year 2020/21.

Table 2 – Current Gas Product Multipliers and Time Factors Table

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

3.25. 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. Table 3 shows the totals of the seasonal multiplier factors to demonstrate that these are within the required limits shown in paragraph 2.3.

Table 3 – Totals of Current Seasonal Multiplier Factors

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

Consultation Questions

3.26. Respondents are asked to provide their views on continuing to offer the same seasonal multiplier factors, as outlined in Table 2.

3.27. We are interested in Respondents' views on whether large gas consumers may be interested in non-annual entry capacity products and what could be done to encourage their uptake.

3.28. Do Respondents consider that the end of the Initial Entitlement of Entry Capacity will increase the uptake of non-annual entry capacity products?

4. Aspects to be Considered

The Balance between short term and long term

4.1. Network Operators look for signals on changes in demand as they plan the future development of their networks. Stable capacity bookings can provide a good indication of future demand. The non-annual factors should therefore be set at a level that encourages annual capacity booking.

4.2. However, the seasonal multiplier factors should make it attractive for shippers to book additional capacity during the year, particularly in the summer period.

4.3. The current factors do incentivise annual capacity bookings, while also providing non-annual charges where a shipper wishes to use them. This worked example illustrates this.

4.4. If the annual capacity tariff was £1 per peak day kWh/day then 1 kWh of annual capacity would cost £365 for the whole year. The annual capacity charge for the month of January would therefore be £31. If capacity for the month of January was bought on a non-annual monthly basis, it would cost £109 (£365 multiplied by 29.89% which is the factor for January).

4.5. Conversely, to purchase non-annual monthly capacity for July, the charge would be £3.54 (£365 multiplied by 0.97%, which is the factor for July), compared to the equivalent annual capacity tariff for the month of July, which would be the same as January, at £31.

4.6. This illustrates that, where a shipper has a choice of when to use non-annual capacity, summer capacity has significantly lower cost than winter capacity.

4.7. It is relevant to note that if a shipper booked only non-annual monthly capacity of 1 kWh for the whole year, it would pay £548 (which is the annual capacity charge of £365 multiplied by 1.5 - the sum of the non-annual factors), which illustrates that there is an incentive to book some capacity on an annual basis.

The Impact on Revenue Recovery

4.8. The use of short-term capacity in winter, charged at a premium to the annual capacity charge, can increase total revenue which will, in turn, reduce the annual capacity tariff. This means that the seasonal multiplier factors can provide a benefit to Users which do not use the factors.

4.9. This can be illustrated in the published five year postalised tariff forecast, which used data provided by shippers, The tables below, which have all been extracted from the Simplified Tariff Model, indicate a move towards greater use of non-annual entry capacity products from year three onwards and a consequential lower tariff forecast.

4.10. Table 4 shows the forecast annual exit capacity, which is fairly steady over the five year forecast period, as non-annual capacity products are not available at exit.

4.11. Table 5 shows the forecast annual entry capacity, which shows a sharp decline from year three, as some shippers forecast to move significant entry capacity from annual to non-annual products.

4.12. Table 6 shows that the forecast required revenue is relatively stable and the capacity commodity split is increasing, which would normally lead to higher capacity charge and lower commodity charge.

4.13. With relatively stable exit capacity, relatively stable required revenue and a move towards non-annual entry capacity products, Table 7 shows the forecast annual capacity tariff reduces from year three, although we would expect the change to the capacity commodity split to increase it. The reason for this is that the non-annual entry capacity products will have the seasonal multipliers applied, which would increase total revenue, leading to reduced annual charges.

4.14. In summary, the widespread use of seasonal multiplier factors can reduce

tariffs to the benefits of those Users who use only annual capacity products.

Table 4 – Exit Capacity Forecast in Postalised Tariff Spreadsheet

Exit point forecast booked ANNUAL capacity - kWh/day					
	Postalised year	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Total Exit Point Booked Capacity	90,187,301	91,967,995	93,597,676	95,060,082	96,131,755

Table 5 – Annual Entry Capacity Forecasts from Postalised Tariff Spreadsheet

Moffat Entry point forecast ANNUAL booked capacity - kWh/day					
End Customer	**Postalised year**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Ballylumford and Coolkeeragh Power Stations	31,886,000	31,886,000	13,120,000	13,120,000	13,120,000
NI Distribution Market	34,543,484	24,900,484	24,900,484	24,900,484	24,900,484
Total Moffat Entry Booked Capacity	66,429,484	56,786,484	38,020,484	38,020,484	38,020,484

Table 6 – Required Revenue

Total Postalised System Allowed Costs					
2019/20 Prices	**2019/20 Postalised year**	**2020/21 Year 2**	**2021/22 Year 3**	**2022/23 Year 4**	**2023/24 Year 5**
Total Postalised Allowed Costs	61,786,215	65,658,348	60,576,509	61,813,871	62,512,483

Capacity proportion	75%	85%	95%	95%	95%
Commodity proportion	25%	15%	5%	5%	5%

Table 7 – Forecast Tariffs from Forecast Tariff Spreadsheet

FORECAST POSTALISED TARIFF OUTPUTS					
	Postalised Year	**Year 2**	**Year 3**	**Year 4**	**Year 5**
FORECAST POSTALISED ANNUAL COM & CAP TARIFFS					
Commodity Charge (£ per kWh)	0.0008620	0.0005114	0.0001545	0.0001532	0.0001538
Auction reserve prices - Annual Entry capacity charge (£ per kWh) Moffat & G'ton	0.28307	0.349330	0.29191	0.29204	0.29294
Annual Exit capacity charge (£ per kWh)	0.28307	0.349330	0.29191	0.29204	0.29294
Auction reserve price - VRF Charge (£ per Kwh)	0.00010	0.00010	0.00010	0.00010	0.00010

Avoid Cross Subsidy and Enhance Cost Reflectivity

4.15. It is a general principle that Users should pay for costs that they create so that the charges are generally cost reflective. To do this, the charges should avoid cross subsidy. The nature of the postalised system, where shippers have the same charge regardless of how far the gas travels, means that some element of cross subsidy is inevitable.

4.16. We continue to hold the view that the cross-subsidy inherent in postalisation allows for equitable treatment of all potential network users across Northern Ireland by facilitating network extensions. These network extensions have allowed a greater amount of the population to have access to natural gas to allow greater environmental benefits as network users switch to gas from more polluting fossil fuels. In addition to environmental benefits and equitable treatment, the long term network charges are forecast to be lower as a result of the additional network users contributing more revenue than pipeline costs. This was fully explained and illustrated in our Decision Paper on the Tariff Network Code, published in December 2018.

4.17. The seasonal multiplier factors reflect that, in a congested network, an increased capacity requirement at peak times may signal a need for network investment, and if that capacity requirement can be met in the summer months, it can be delivered at much lower cost, leading to cost reflective charges.

4.18. The NI Network is not currently congested, as outlined in paragraph 4.19, however the gas network continues to expand as well as further potential for new power stations. It is therefore appropriate to ensure that the seasonal multiplier factors offer a cost reflective charging structure.

Situations of Physical and Contractual Congestion

4.19. Northern Ireland is not experiencing either physical or contractual congestion, due to the availability of both the Scottish to Northern Ireland Pipeline and the South North Pipeline. The NI Gas Capacity Statement provides an assessment of the ability of the Northern Ireland (NI) gas transmission system to deliver demand over a number of potential forecast and additional demand scenarios within the next ten years up to 2028/29. It plots the ten year forecast for growth and concludes that:

> "The modelling results have indicated that the NI transmission system has the capacity to meet the peak forecast firm and interruptible demands whilst maintaining normal target operational and contractual minimum pressures."

4.20. If growth continues beyond the current ten year forecast, the network may be facing physical congestion. Increased use of the non-annual entry capacity products could contribute to delaying the onset of such congestion.

Impact on Cross Border Flows

4.21. As all the gas which enters the NI Network is used within NI, with no gas passing through to another region, the NI Network has no cross border trade.

4.22. If Northern Ireland were to have different seasonal multiplier factors to the Republic of Ireland, this may affect the position of power generators in the merit order in the SEM. This may lead to electricity generation being dispatched in the one region which may otherwise have been generated in the other, due to differing seasonal multiplier factors.

Impact on Economic and Efficient Use of the Network

4.23. We should consider if the seasonal factors do actively encourage the economic and efficient use of the network. Although the current factors indicate to shippers that it is price effective for them to move their gas usage from the winter, when short-term capacity is relatively expensive, to the summer, when it is relatively cheap, we should consider if this is at the correct level.

4.24. We consider that the non-annual entry capacity products are not being widely used yet by shippers, as outlined from paragraph 3.13 and we anticipate that their use will increase in future years.

4.25. As stated in paragraph 3.22, we consider that it may be worthwhile carrying out the analysis from Section 3 when the Initial Entitlement of Entry Capacity has expired for at least one Gas Year.

Improve Cost- Reflectivity of Reserve Prices

4.26. The postalised regime is designed to ensure that the transmission services revenue is fully recovered within year. The year-end reconciliation ensures that any over- or under-recovery is dealt with shortly after the end of the year.

4.27. While this ensures that the reserve price is cost reflective, we need to consider if the seasonal multiplier factors derive short term prices with seasonal factors which are also cost reflective.

4.28. The seasonal factors provide a relatively lower price for short term capacity in the summer, when such capacity is unconstrained. This contrasts with much higher short term prices in the winter when less capacity is available and indicates that, should additional capacity be required, it would be very costly to provide it.

4.29. Although capacity is not currently constrained, as the forecast volume continues to grow, the value of signalling to Users to use short term entry capacity products in the summer increases.

Conclusion

4.30. Seasonal multiplier factors 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, as concluded in paragraph 4.14, which would reduce annual capacity prices for all shippers.

5. Discounts to Capacity Charges

Requirement for Annual Consultation

5.1. The TAR NC requires that discounts are offered in specific circumstances, particularly for interruptible capacity and for storage facilities. The requirements are different and are outlined below.

Interruptible Discount

5.2. Article 16 specifies how to calculate the discount for an interruptible capacity charge.

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

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

Storage Discount

5.5. 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.

5.6. We are required, under Article 28 of TAR NC, to consult annually on the level of discount to be offered. As there are no storage facilities in NI, we do not propose to publish a storage discount for the Gas Year starting 1 October 2020.

5.7. As this must be consulted annually, this will be reviewed each year.

Consultation Questions

5.8. Respondents are requested to provide any views they may have on either the interruption discount or the storage discount.

6. Consultation Questions

6.1. The questions are repeated here for ease of reference.

6.2. We are interested in Respondents' views on whether large gas consumers may be interested in non-annual entry capacity products and what could be done to encourage their uptake.

6.3. Do Respondents consider that the end of the Initial Entitlement of Entry Capacity will increase the uptake of non-annual entry capacity products?

6.4. Respondents are asked to provide their views on continuing to offer the same seasonal multiplier factors, as outlined in Table 2.

6.5. Respondents are requested to provide any views they may have on either the interruption discount or the storage discount.