Consultation on Seasonal Multiplier Factors for Gas Transmission

15 March 2021



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 2021.

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

We conclude that the seasonal multiplier factors applied to non-annual entry capacity products ought to be reviewed ahead of Gas Year 22/23 due to anticipated increased use following the expiry of the Initial Entitlement of Entry Capacity and CRU's proposed change to the RoI factors.

The current factors meet the requirements of the EU Regulation and we propose to maintain them into the Gas Year 21/22.

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
EU(W)A	European Union (Withdrawal) Act 2018
FOIA	Freedom of Information Act
ESB GT	ESB Generation and Trading
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, which has been amended to facilitate the UK's exit from the EU, see paragraph 2.1 for more information.

1.2. Firstly, this is the third 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, as amended. We are seeking views on the proposed factors which are outlined in section 3 and a number of aspects related to the factors, which are outlined in section 4.

1.3. Secondly, we are 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 2021.

2. Background

Tariff Network Code and EU Exit

2.1. EU Regulation 2017/460, known as the Network Code on Harmonised Transmission Tariff Structures for Gas ("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. Ahead of the UK's exit from the EU on 31 December 2020, TAR NC was transposed into UK law under the European Union (Withdrawal) Act 2018 ("EU(W)A") with the objective to maintain the operability and integrity of the retained EU gas legislation and to maximise continuity for UK industry and consumers.

2.3. The Gas (Security of Supply and Network Codes)(Amendment)(EU Exit) Regulations 2019 and the Gas Tariffs Code (Amendment)(EU Exit) Regulations 2019, were made under section 8 of the EU(W)A to remove some inoperabilities from the TAR NC, such as references to EU Member States. This are minor changes and the obligations within the TAR NC are largely unchanged.

2.4. We have fully implemented the TAR NC[1]. In 2018, we concluded that the current NI transmission charging regime, called Postalisation, was 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.

2.5. Throughout the rest of this document, when we refer to TAR NC, we mean the

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 and the second annual consultation in February 2020 and the Decision in May 2020. In addition, we consulted on licence modification in February 2019, followed by Decision in April 2019, which became effective on 6 June 2019.

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

2.6. 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
- 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

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

2.8. 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

2.9. Section 3 of this consultation revisits the analysis carried out in the 2020 consultation, considers the 2019/20 postalisation variances and outlines the

proposed review process in 2022.

2.10. 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 3.28 and 3.30.

2.11. 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.

2.12. Following our decision on this consultation, the Gas Product Multipliers and Time Factors Table is due to be published by GMO NI at the same time at the postalised tariff, on 31 May.

Responding to the Consultation

2.13. The consultation questions are summarised in section 6.

2.14. We welcome any representations to this consultation no later than 12 noon on Tuesday 13th April 2021. 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

2.15. While the Utility Regulator's office remains closed due to the Covid-19 pandemic and staff continue to work from home, we would prefer for responses to be submitted by e-mail. If that is not possible and you wish to submit a response by post, please telephone the office on 028 9031 1575, to

ensure that your response has been received.

2.16. 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.

2.17. 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.

2.18. 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.

2.19. 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. 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.

3.5. We indicated in last year's decision paper that we intend to review the factors, ahead of Gas Year 22/23. Subsequently, CRU published a Call for Evidence and a consultation on amending their factors for Gas Year 21/22. This means that the factors in NI will be out of alignment with those in RoI for Gas Year 21/22. This is expanded from paragraph 3.28.

3.6. 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

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

system.

3.7. We intend to review if that is still the case as part of the review, outlined in paragraph 3.35, ahead of Gas Year 22/23,

Decision to Maintain Factors in 2020

3.8. In last year's consultation document, we compared forecast monthly gas flow over the previous three years against the published seasonal multiplier factors and demonstrated that the forecast profile is less peaky than the published seasonal multiplier factors would indicate.

3.9. We also demonstrated that actual usage of non-annual entry capacity products has varied considerably from forecast and that monthly and daily entry capacity figures have not, separately, exceeded 10% of forecast annual entry capacity.

3.10. Viewed across quarterly, monthly and daily non-annual entry capacity products for both forecast and actual, we demonstrated that there was no clear pattern of seasonal usage.

3.11. We concluded that the relatively low use of these products may have been because of the Initial Entitlement of Entry Capacity[3], which meant that those suppliers whose capacity requirement was met by their Initial Entitlement did not need to avail of non-annual entry capacity products. We anticipated that the use of non-annual entry capacity products would increase after October 2020 and that we would need a full year to elapse before we would review again. Early results in the current Gas Year indicate that this is starting to happen.

3.12. In response to last year's consultation, GMO NI commented that:

3 Following a consultation process in the summer of 2014 as part of the process to comply with the network code on capacity allocation mechanisms (the CAM NC) and introduce entry capacity for the first time, it was decided that suppliers would receive an Initial Entitlement of Entry Capacity. This Entitlement, which corresponded to their firm exit capacity, ran for a five year period until September 2020.

"There is not sufficient evidence available on the effects the current factors have had on bookings across all Shippers to make a sound judgement on their suitability for the Northern Ireland market thus far, so we recognise the need to carry out further analysis when sufficient time has elapsed after the expiry of Initial Entitlements."

3.13. We noted that the non-annual capacity products have been mainly used by power generators. We asked Respondents if large gas users, like industrial processors, would be interested in these products, and the responses received did not signal any interest at this time.

3.14. ESB GT had commented that "flattening of the profile of multipliers and a review of the mechanisms applied for use of excess capacity (overrun, ratchet) could potentially encourage uptake."

Consultation Questions

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

3.16. What would encourage large gas Users to increase their usage of non-annual entry capacity products? Do Users who do not use such products nevertheless support the use of seasonal multiplier factors as a way of reducing the annual tariff?

Variances in 19/20 year

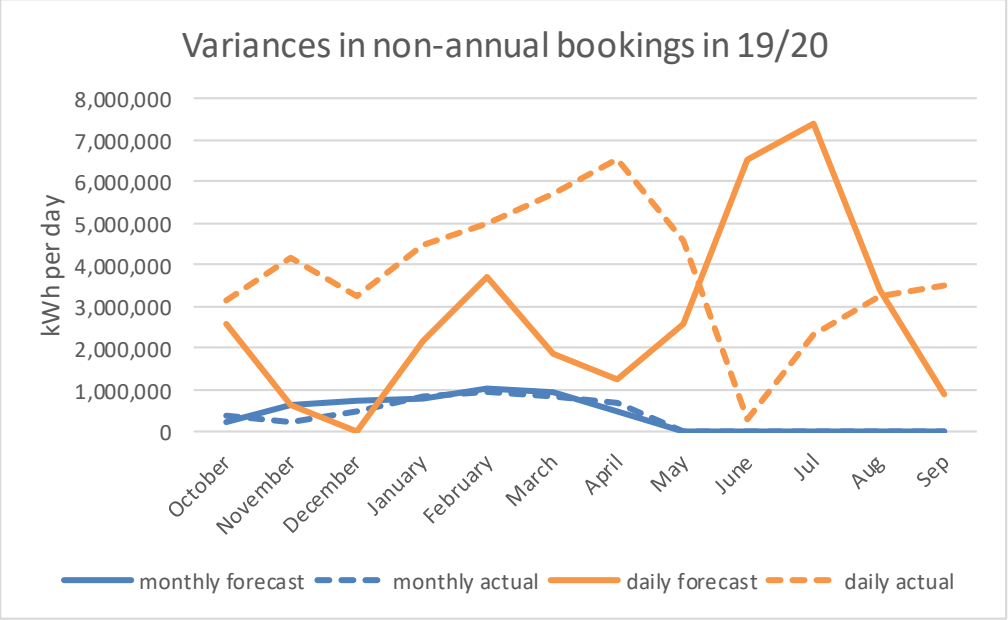
3.17. The Annual Postalisation Reconciliation for Gas Year 19/20 reported that revenue collected was £2.3m higher than forecast, £2m of which was due to variances in daily capacity bookings. Table 1 is extracted from the GMO NI publication.

Table 1 - Extract from Annual Postalisation Reconciliation 19/20

Table 5 Revenue	Revenue Collection (£) Forecast	Actual	Variance Value	%
Annual Exit	25,529,319	25,611,825	82,505	0.3%
Annual Entry	18,804,194	19,044,100	239,906	1.3%
Quarterly Entry	0	0	0	0.0%
Monthly Entry	319,498	296,739	-22,759	-7.1%
Daily Entry	1,684,764	3,713,628	2,028,864	120.4%
Total Capacity	46,337,776	48,666,291	2,328,516	5.0%
Commodity	15,445,794	15,452,312	6,518	0.0%
Total Revenue	61,783,570	64,118,603	2,335,034	3.8%

3.18. The daily entry capacity bookings varied significantly from forecast across the year, as can be seen in Figure 1, however the seasonal multiplier factors meant that the variances in winter had a much bigger impact than the variances in summer.

Figure 1 - Variances from Annual Postalisation Reconciliation 19/20



3.19. The seasonal factor makes daily entry capacity in the winter period up to eight

times the annual rate[4], which means that, since their introduction in 2015, the variances in daily capacity bookings have been a key component of the year-end reconciliation amount. We recognise that forecasting of short term products is intrinsically difficult for suppliers, but the impact of volatility in reconciliation payments is felt across all suppliers.

Consultation Question

3.20. Do Respondents consider that increased uptake of non-annual entry capacity products could increase the volatility of the year end reconciliation amount, and if so, how this might be detrimental to any network users?

Review of Limits on Multiplier Factors

3.21. Article 13(3) of TAR NC, as amended, allows UR to recommend a reduction to the maximum level of multipliers for daily capacity products from the current maximum of 3 (paragraph 2.8), to 1.5. This recommendation would need to be made by 1 April 2021 and would apply from 1 April 2023. Any recommendation should take in account the following aspects, before and after 31 May 2019:

a) Changes in booking behaviour

b) Impact on the transmission services revenue and its recovery

c) Differences between the level of transmission tariffs applicable for two consecutive tariff periods

d) Cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products

e) Impact on cross-border flows

3.22. With the current low level of uptake of non-annual entry capacity products, we

4 The annual entry capacity tariff in 20/21 is £0.31648 per peak day kWh booked, which is equivalent to £0.000868 per day when divided by 365. The daily entry capacity tariff for February is £0.00722, which is more than eight times the equivalent annual tariff.

consider there is no justification for reducing the limits at this stage. This does not prevent us from recommending in future years that the multiplier should be reduced, but allows us to keep that flexibility.

3.23. We therefore recommend no changes to the maximum multiplier allowed for daily capacity products.

Consultation Question

3.24. Do Respondents agree with our recommendation that the maximum level of multiplier for daily capacity products will not be reduced from 3 to 1.5 from April 2023?

Consultation with Ofgem

3.25. Ofgem (Office for Gas and Electricity Markets) in Great Britain has implemented its revised charging mechanism to comply with the TAR NC, implementing the decision published in May 2020. It uses a multiplier of 1 along with no seasonal factors. This means that there is no penalty or incentive for booking capacity on a short term basis.

3.26. It has recently published its Article 28 consultation on the basis of maintaining the multiplier factor of 1 and interruptible discount of 10% for Gas Year 21/22, along with increasing the storage discount from 50% to 80%.

3.27. We keep in regular contact with Ofgem to monitor any matters which affect both regions.

Consultation with CRU and Alignment with RoI

3.28. CRU published a Call for Evidence in May 2020 and has undertaken analysis and review over the past year with the intention of making changes to the seasonal multiplier factors. Along with Gas Networks Ireland (GNI), which

owns and operates the gas network in the Republic of Ireland, CRU has considered a number of options, including removing seasonal factors to leave a flat multiplier factor across the year. In its Article 28 Consultation, it has proposed that, while the removal of seasonal factors may be warranted, that an incremental change is preferred. It is therefore proposing to adjust the seasonal factors to reduce the variation between winter and summer. It is also proposing to maintain the current multiplier factor.

3.29. UR has been in contact with CRU throughout this process, particularly in recognition of our policy of all-island alignment.

3.30. 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.

3.31. While we note the direction of travel in RoI, we do not propose to amend our factors for Gas Year 21/22, for the following reasons:

a) We had indicated in last year's consultation that we intended to maintain the current factors into Gas Year 21/22. As Shippers have previously requested that we provide adequate notice of proposed changes, we consider that to propose amended factors for Gas Year 21/22 at this stage would provide insufficient notice. In addition, we note that shippers have already submitted their forecasts for the tariff calculations for Gas Year 21/22.

b) We consider that we have insufficient data on the usage patterns of the seasonal multiplier factors, to undertake a robust analysis. We concluded in last year's decision paper that we would need a full year to elapse after the end of expiry of the Initial Entitlement of Entry Capacity

before we would review again, which would be ahead of Gas Year 22/23.

c) The analysis carried out by GNI to inform the CRU review has been undertaken over a period of time, and we would need to satisfy ourselves that our analysis was similarly extensive before recommending a change to the NI factors.

3.32. We note the proposal from CRU to reduce the seasonal factors and not remove them completely at this time. We also note the proposal not to amend the multiplier factor. We consider this will minimise the difference between the resultant charges across the island and provide time for UR to carry out the review as we intend.

3.33. This means that we will be out of alignment with RoI factors for Gas Year 21/22.

Consultation Question

3.34. Respondents are asked to provide their views on maintaining the same seasonal multiplier factors into Gas Year 21/22. Specifically, do Respondents consider that there is any issue with not amending the factors to match the CRU proposal and maintain alignment with RoI?

Review in 2022

3.35. In our annual consultation on seasonal multiplier factors in early 2022, we intend to review and consider a change to the two elements of the seasonal multiplier factors. Firstly, the multiplier factor which is an annual factor subject to limits shown in paragraph 2.8, and, secondly, the seasonal factor which reflects the seasonality of demand and must balance out across the year. We will consider whether to follow the CRU approach of smoothing the seasonal

factors while maintaining the multiplier factor.

3.36. By early 2022, we consider that we will have sufficient data to facilitate analysis of any increased use of non-annual entry capacity products as a result of the expiry of the Initial Entitlement of Entry Capacity.

3.37. This review will:

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 re-establishing alignment with RoI.

Consultation Questions

3.38. Ahead of the Review in 2022, we are interested in Respondents' views on whether seasonal factors encourage capacity bookings away from the winter peak. To what extent do the seasonal factors influence the booking of short term capacity? To what extent can Users shift capacity bookings from winter to summer? Do Respondents agree that the review in 2022 should consider smoothing the seasonal factors more evenly over the year?

3.39. Do Respondents consider there are any further elements that should be included in the review in 2022?

Review of Exit Capacity Products

3.40. In our Forward Work Plan for 2021/22, we have indicated that we intend to begin a review of gas exit capacity arrangements. Specifically, this will consider how the gas exit capacity arrangements and the SEM work effectively together and identify if any changes are required to continue to protect the interests of customers.

3.41. The analysis planned for the review outlined in the section above will form an important part of this project and will inform the consultation that is planned for mid 2022.

Conclusion

3.42. In last year's consultation document, we concluded that there was no clear signal for us to move away from the current factors, due to the comparatively low usage which was due to a number of suppliers holding an Initial Entitlement of Entry Capacity which met their capacity requirements. We indicated that we would not have sufficient information to carry out such a

review for the 21/22 Gas Year.

3.43. We are proposing to maintain our current factors for Gas Year 21/22 and not amend them to match those proposed by CRU. This will mean that the factors will be out of alignment for Gas Year 21/22.

3.44. We also recommend that the maximum level of multiplier for daily capacity products should not be reduced from April 2023, as allowed under Article 13(3).

3.45. We therefore intend to review the seasonal multiplier factors in early 2022, ahead of Gas Year 2022/23.

3.46. The current factors continue to meet the requirements of the TAR NC (see paragraph 2.6), so we propose to maintain the current factors into the Gas Year 2021/22.

Current and Proposed Factors

3.47. The table below shows the current factors. We propose that these will continue to be offered for the Gas Year 2021/22.

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

3.48. 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 2.6.

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

4. Aspects to be Considered

4.1. Article 28(3) of the TAR NC requires that we take into account the views of respondents on a number of aspects, each of which is explored in this section.

The Balance between short term and long term

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

4.3. The seasonal multiplier factors should also make it attractive for shippers to book additional capacity at periods of lower demand, particularly in the summer period.

4.4. 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.

4.5. If the annual capacity charge for 1 kWh of annual capacity was £365, the charge for annual capacity in the month of January would 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).

4.6. Alternatively, 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 charge for annual capacity for the month of July of £31.

4.7. 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.

4.8. In the same example, if a shipper booked only non-annual monthly capacity of 1 kWh per day 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.

4.9. This raises the matter of whether suppliers have the flexibility to choose when to use their gas. Power generators book capacity in order to generate the quantities of electricity they have sold into the SEM. Gas suppliers meet the needs of their customers. Large industrial gas users may, arguably, be able to choose to move production to the summer in order to book cheaper capacity, but that may depend on other factors, like customer demand. This is one of the areas we will review in 2022, see paragraph 3.35, and we have asked a question on this topic at paragraph 6.7.

The Impact on Revenue Recovery

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

Avoid Cross Subsidy and Enhance Cost Reflectivity

4.11. 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.

4.12. The cross-subsidy which is 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 illustrated in our Decision Paper on the Tariff Network Code, published in December 2018.

4.13. 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.

4.14. The NI Network is not currently congested, as outlined in paragraph 4.15, so we consider it is appropriate to review the seasonal element of these factors and we have outlined in paragraph 3.35 how we intend to do that.

Situations of Physical and Contractual Congestion

4.15. 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 2029/30. It plots the ten year forecast for growth and concludes that there is adequate capacity to meet the forecast demand.

4.16. 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

4.17. 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.

4.18. However, the SEM is all-island so different gas transmission charges between NI and RoI may affect the position of power generators in the SEM merit order. 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. As outlined in paragraph 3.35, we intend to review the factors next year to consider whether to follow the CRU approach of smoothing the seasonal factors while maintaining the multiplier factor.

Impact on Economic and Efficient Use of the Network

4.19. 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 to what extent shippers have the ability to do this.

4.20. We anticipate that the use of non-annual entry capacity products will increase with the expiry of the Initial Entitlement of Entry Capacity, see paragraph 3.11, and we intend to review the factors ahead of Gas Year 22/23, see paragraph 3.35.

Improve Cost- Reflectivity of Reserve Prices

4.21. 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.

4.22. 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.

4.23. 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.

4.24. While capacity is not constrained, the value of signalling to Users to use short term entry capacity products in the summer needs to be assessed.

Conclusion

4.25. 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, which would reduce annual capacity prices for all shippers.

Consultation Question

4.26. Do Respondents agree that the proposed factors meet the aspects outlined in Article 28(3) of TAR NC?

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 Discounts

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. Ofgem has recently decided that the storage discount in GB will increase from 50% to 80% from October 2021[5].

5.7. As there are no storage facilities in NI, we do not propose to publish a storage discount for the Gas Year starting 1 October 2021.

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

5 https://www.ofgem.gov.uk/publications-and-updates/unc727-increasing-storage-transmission-capacity-charge-discount-80-decision

Consultation Question

5.9. 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 from sections 3, 4 and 5 are repeated here for ease of reference.

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

6.3. What would encourage large gas Users to increase their usage of non-annual entry capacity products? Do Users who do not use such products nevertheless support the use of seasonal multiplier factors as a way of reducing the annual tariff?

6.4. Do Respondents consider that increased uptake of non-annual entry capacity products could increase the volatility of the year end reconciliation amount, and if so, how this might be detrimental to any network users?

6.5. Do Respondents agree with our recommendation that the maximum level of multiplier for daily capacity products will not be reduced from 3 to 1.5 from April 2023?

6.6. Respondents are asked to provide their views on maintaining the same seasonal multiplier factors into Gas Year 21/22. Specifically, do Respondents consider that there is any issue with not amending the factors to match the CRU proposal and maintain alignment with RoI?

6.7. Ahead of the Review in 2022, we are interested in Respondents' views on whether seasonal factors encourage capacity bookings away from the winter peak. To what extent do the seasonal factors influence the booking of short term capacity? To what extent can Users shift capacity bookings from winter to summer? Do Respondents agree that the review in 2022 should consider smoothing the seasonal factors more evenly over the year?

6.8. Do Respondents consider there are any further elements that should be included in the review in 2022?

6.9. Do Respondents agree that the proposed factors meet the aspects outlined in Article 28(3) of TAR NC?

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