Seasonal Multiplier Factors Consultation

Dear John,

Thank you for the opportunity to respond to the consultation on Seasonal Multiplier Factors for Gas Transmission.

This response is on behalf of Mutual Energy, which owns three of the four licenced gas TSOs in Northern Ireland: Premier Transmission Ltd., Belfast Gas Transmission Ltd. and West Transmission Ltd..

Our response to this consultation is shaped by the concurrent consultation that the Utility Regulator are undertaking relating to short term exit products and to which we have prepared a more substantive submission.

In that submission, we highlighted that we understand the appeal of removing seasonal factors to smooth potential year-end reconciliation payments resulting from inaccurate forecasts of short term capacity requirements. This is especially the case given that power station demand appears to be increasingly related to wind generation availability, rather than any particular seasonal multiplier.

However, we do think that there is a potential inconsistency in terms of flattening seasonal multipliers. We understand that the introduction of short term exit products is in part to bring alignment between NI and ROI in terms of the products available to power station Shippers. Conversely, the consultation appears to be suggesting that there may be some discrepancy in terms of seasonal multipliers going forward if CRU do not change their seasonal factors from 2024/25 onwards. We would welcome clarity on the policy thinking behind this proposal.

Finally, we have flagged issues in our response to the short term exit products consultation that gas transmission companies might face in terms of liquidity should capacity bookings deviate materially from forecast demand for short term products. We highlighted that in this case, flattening seasonal multipliers might have a slight exacerbating effect on this issue. This is because having a higher factor in winter means that TSO revenue recovery is 'front-loaded' within the gas year, increasing the probability that the TSO has sufficient cash throughout the gas year. Flattening the factors would remove this small bulwark in terms of liquidity for TSOs.

As such, should short term products be introduced, we would be keen to understand further the implications on cashflow that flattening seasonal factors would have. Should UR not progress with short term products, we would be generally content with the proposals as flattening the factors would not pose a significant liquidity risk on its own.

Finally, under any scenario, we welcome the commitment to maintaining higher product multipliers to incentivise longer term capacity booking. Longer term capacity booking allows gas transmission companies to ensure that the network is sufficient to meet demand for all customers, ensures that all customers pay their fair share towards network upkeep and development and helps TSOs plan the network effectively.

In the case where short term exit products are introduced, in order to minimise the risk of 'free riding'[1] on the gas network by gas generators that are rarely dispatched, we would urge UR to consider increasing the product multipliers applied to short-term products, to incentivise the purchase of annual products by the power sector, and in the case where they continue to use short term capacity, to ensure that they contribute a fair share of gas network costs .

Yours sincerely,

Rowan Tunnicliffe
Senior Commercial Analyst

[1] In this context, 'free-riding' refers to the idea that a party who uses network capacity infrequently, and who pays more proportionate to commodity use, contributes disproportionately less than the overall capacity costs, which do not vary with usage. For the avoidance of doubt, it does not mean that they pay nothing towards to network.