



Consultation on Seasonal Multiplier Factors for Gas Transmission
Phoenix Energy Response
9th June 2023

Introduction and General Assessment

Phoenix Energy (**Phoenix**) welcomes the opportunity to respond to the Utility Regulator's (**UR**) consultation on "*Seasonal Multiplier Factors for Gas Transmission*" (**Seasonal Multiplier Consultation**).

This consultation is inextricably linked with UR's consultation on "*Short Term Exit Capacity for Gas Transmission in Northern Ireland*" (**Short Term Exit Capacity Consultation**) which recognises that the proposed changes come at a time when the energy sector in Northern Ireland (**NI**) is experiencing significant developments¹. UR detail in their Short Term Exit Capacity Consultation that one potential mechanism to mitigate the risk of volatility with the introduction of short term exit capacity products is the smoothing of the seasonal multiplier factors².

Phoenix notes that in UR's Seasonal Multiplier Consultation, that UR propose to progress with this mitigation by:

- maintaining the current factors for gas year 23/24; and
- from gas year 24/25 onwards, smoothing the seasonal factors.

Phoenix questions whether the timing of this proposal for the smoothing of seasonal multiplier factors from gas year 24/25 is appropriate, when so many significant developments are occurring in the NI energy sector, including the potential significant changes considered in UR's Short Term Exit Capacity Consultation. Specifically, Phoenix has concerns around the increased risk of volatility that occurs with the smoothing of the seasonal multiplier factors, as detailed later in this response.

For the remainder of this response, Phoenix has provided responses to the 'Consultation Questions', which are relevant to Phoenix, as detailed in chapter 7 of UR's Seasonal Multiplier Consultation.

Responses to UR's Consultation Questions

7.1 Do respondents agree with our proposal to smooth the seasonal multiplier factors?

After reviewing the results of UR's modelling³, supported by additional modelling carried out by Phoenix, there are benefits to smoothing the seasonal multiplier factors, namely:

- the capacity tariff is lowered; and

¹ As per paragraphs 3.2, 3.3, 3.33, and 2.19 to 2.21 of UR's Short Term Exit Capacity Consultation

² As per paragraph 5.40 (a) of UR's Short Term Exit Capacity Consultation

³ As per chapter 3 of UR's Short Term Exit Capacity Consultation

- there is a less pronounced transfer to cost recovery from the power generation sector to the gas distribution sector.

However, and which Phoenix believe is of most importance, the modelling also shows that the change increases the risk of volatility of the year-end reconciliation. The above two benefits are completely diminished when vast amounts could be required as a bullet payment from shippers through a year-end reconciliation. Phoenix has provided additional comment on the year-end reconciliation in response to question 7.4.

In addition, Phoenix notes that UR considers the alignment of the seasonal multipliers with those offered in the Republic of Ireland (**ROI**) to be beneficial to ensure there is no perverse pricing signal which affects the decisions of all-island electricity generators⁴. Phoenix would request clarity on the decision process for deciding whether seasonal multipliers should be smoothed in light of the benefits of alignment with ROI.

7.2 To what extent do respondents consider that smoothed seasonal multipliers might alter how shippers book annual and non-annual capacity and please provide evidence.

7.3 Do respondents have any views on how to better manage the forecasting accuracy of non-annual capacity bookings?

Up until 2020, gas suppliers had no opportunity to avail of short term entry capacity products due to the initial entitlement of entry capacity. Phoenix do not have sight of how gas suppliers currently utilise short term capacity products at entry, but with the gas distribution sector experiencing their peak gas usage in winter months (and not being able to book their capacity needs at an alternative time), Phoenix would question whether there is a significant benefit for gas suppliers to utilise short term entry capacity products.

Phoenix understands that short term capacity products will be utilised by NI's gas fuelled power sector, to manage their increasing role as peaking plants which results in them being dispatched by the System Operator for NI (**SONI**) at short notice, to supplement any deficit from renewable sources for generating electricity. Therefore, Phoenix believes it will be likely that the power sector will use short term capacity products when they are needed rather than being influenced by the seasonal multiplier factor that applies, although we note that UR's analysis appears to indicate that this has been more prevalent in summer months in recent times. This also makes it difficult to manage the forecasting accuracy of the power sector's projected use of short term capacity products.

7.4 How do respondents consider the smoothing of seasonal multiplier factors might affect the year end reconciliation amount and what mitigations are available?

Phoenix notes that Figure 3 in UR's Short Term Exit Capacity Consultation demonstrates that the smoothing of the seasonal multiplier factors significantly increases the year-end reconciliation amount:

⁴ As per paragraph 5.67 of UR's Short Term Exit Capacity Consultation and paragraphs 2.9 to 2.11 of UR's Seasonal Multiplier Consultation

- Scenario 2⁵ increases from £2.24m to £4.36m with the smoothing of the seasonal multiplier factors in Scenario 2b (95% increase); and
- Scenario 3⁶ increases from £3.55m to £6.87m with the smoothing of the seasonal multiplier factors in Scenario 3b (94% increase).

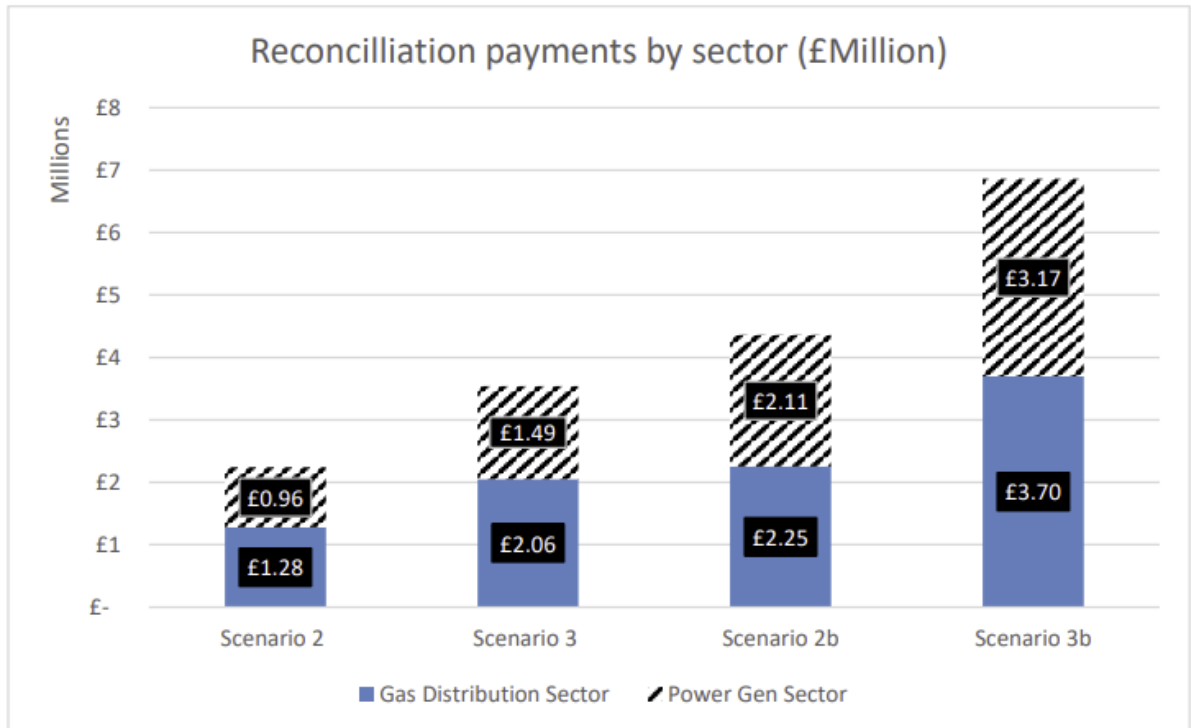


Figure 3 – Indicative Reconciliation payments by sector

With the smoothing of the seasonal multiplier factors potentially increasing the year-end reconciliation by c.100%, this is a significant amount of additional money to be recovered from shippers as a bullet payment. The current transmission regime’s use of bullet payments and receipts has historically been criticised by NI shippers due to the uncertainty it brings to a shipper’s cashflow. For gas suppliers, recovering any bullet payment from their customer portfolio is complex, especially if the customer has switched to another gas supplier or has been disconnected from the network within the gas year.

The only mitigation that Phoenix believes is available is for accurate forecasts to be used for the process of tariff determination, but as mentioned previously in this response, Phoenix believes it will be difficult for the power sector to accurately forecast their uptake of short term exit products due to the nature of their utilisation. Analysing the forecast accuracy for some short term entry capacity products in the past, the variance can be significant for certain months. In addition, Phoenix notes UR’s comment, in their Short Term Exit Capacity Consultation, that the variance from forecast in short term entry capacity products has had a significant impact on the actual revenue recovered from capacity charges in a number of gas years⁷.

⁵ Introducing short term exit products plus the additional capacity as forecast in the NI Gas Capacity Statement (NIGCS) GY 24/25. Actual is lower than forecast at exit for daily products only, assuming only a proportion of the daily capacity forecast is actually booked.

⁶ Introducing short term exit products plus the additional capacity as forecast in NIGCS GY 24/25. Actual is zero at exit for all daily capacity.

⁷ As per paragraph 5.31 of UR’s Short Term Exit Capacity Consultation

Conclusion

In summary, Phoenix questions the benefit that the smoothing of seasonal multiplier factors will bring to the NI Postalised regime, and ultimately gas suppliers and gas consumers, when the change results in such a significant increased risk of volatility of the year-end reconciliation. The NI Postalised regime must produce workable processes as well as stability in gas transportation tariffs to encourage shippers to participate in the market and encourage consumers to invest in the product. Proposals which lead to increased uncertainty in gas supplier cashflows will discourage market participation, damage consumer confidence, and therefore will restrict future network growth.