

9 June 2023

John Wasson
Networks Directorate
Utility Regulator
14 Queens Street
Belfast
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Dear John

firmus energy welcomes the opportunity to respond to the Utility Regulator's Consultation on Seasonal Multiplier Factors for Gas Transmission.

As a Distribution Network Operator and Energy Supplier in Northern Ireland, firmus energy are aware of the importance of stability in capacity bookings to provide a good indication of future demand and certainty of transmission costs for Shippers and ultimately customers. Of particular concern when considering the proposal to smooth the seasonal multiplier factors is the impact on transmission costs for users, transmission revenue and recovery, levels of cross-subsidisation between network users and the cost-reflectivity of reserve prices. To this end, we would welcome any changes that enhance stability and certainty.

As a Shipper on the Distribution network, firmus energy's primary concern is to ensure the capacity booking regime optimises cost and efficiencies to the benefit of customers. We are mindful that as a Domestic and Commercial supplier of gas our profile lends itself to greater predictability of flow than other sectors. Demand is heavily influenced by weather and heating requirements. With the current seasonal multiplier factors, heavier price weighting of short-term winter products makes it more economical to book annual products and there is less incentive to book daily, or monthly summer capacity products as peak demand occurs in winter when daily entry capacity is higher than the annual

rate. It has been more difficult for Supply Shippers to benefit from lower priced summer products that arise from the current seasonal multipliers. We therefore consider the non-annual factors are at a level that continues to encourage annual capacity booking within the Distribution sector. There are advantages for gas Suppliers in smoothing seasonal factors as there is more likely to be a requirement to book additional daily capacity in winter at a lower cost.

However, from the volume profile data presented in the consultation paper (Figure 3)¹, it is clear that Power generators have greater scope to avail of short-term capacity, particularly in summer months when there is less generation from wind, yet the lack of seasonal patterns in daily capacity bookings suggest that seasonal multipliers have not had the desired influence in capacity booking behaviour. It is not clear that introducing smoothing of the seasonal multipliers will encourage greater uptake of annual Entry capacity products in this sector, in fact it may serve only to incentivise the use of short-term capacity products. This is of concern to firmus energy as greater use of short-term products has the potential to increase the volatility of the annual reconciliation.

Whilst firmus energy accepts the Utility Regulator findings that there is little evidence that seasonal factors influence the use of daily gas capacity, introduction of smoothed seasonal multipliers does not address the concerns resulting from variances between forecast and booked capacity. The variances in daily capacity forecast and actual bookings have been a key component of the year-end reconciliation amount. Smoothing of seasonal multipliers may help address reconciliations arising from seasonal variances between forecast and booked daily capacity, however, the reconciliation issue is only mitigated if, on balance over the gas year, total daily capacity booked is reflective of forecast. Where overall variances arise between forecast and booked capacity, although helping to address the cost allocation of the annual reconciliation between the sectors, the smoothing of the seasonal multipliers significantly increases the potential quantum of the annual reconciliation if summer capacity is not booked. It is therefore essential that any introduction of smoothed multipliers is supported by robust mechanisms to reduce the volatility of the annual reconciliation.

¹ <https://www.uregni.gov.uk/consultations/consultation-seasonal-multiplier-factors-gas-transmission-1>

It is clear that forecasting accuracy of non-annual capacity bookings and the subsequent variances between forecast and booked capacity is problematic for determining accurate transmission revenue to set reference prices. In addition, inaccuracy of forecasting can contribute to cross subsidisation between network users. firmus energy is supportive of further engagement to explore improvements to the forecasting process that could help mitigate reconciliation uncertainty.

An element of the proposal to smooth seasonal multipliers is to address the cost allocation issues that arise from year end reconciliations. The short-term capacity products are primarily used by power generators in the summer months when the wind is low. It is difficult to say how behaviour will change with the introduction of smoothed seasonal multipliers. It is possible the smoothing may serve only to incentivise the use of short-term capacity products and potentially increase the volatility of the annual reconciliation. We have therefore considered whether the seasonal multipliers should be weighted towards the periods where there is highest demand for these products, to encourage the booking of annual products and reduce the potential for volatility. This analysis concluded that the weighting of seasonal multipliers into the summer months could reduce the tariffs. However, it would potentially have an even greater impact on the volatility of the annual reconciliation, as demonstrated in figures 5 and 6 below. It is difficult to establish if the summer weighting would incentivise power generators to book a greater proportion of the capacity requirement annually and therefore difficult to establish if this is a realistic view of the potential reconciliation.

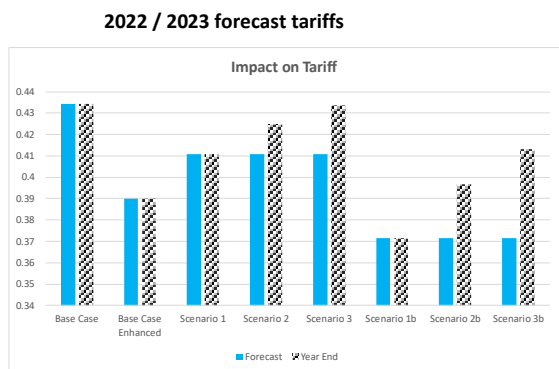


Figure 1

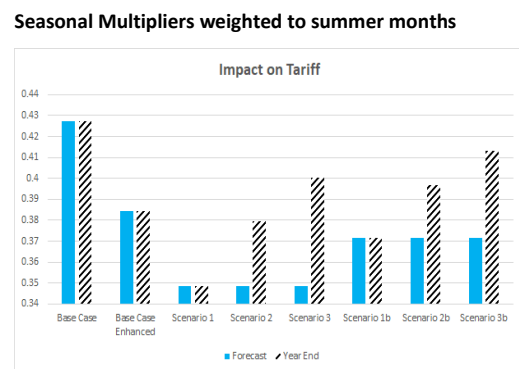


Figure 2

firmus energy has found the use of seasonal multiplier factors for non-annual transmission Entry capacity to have had limited influence on Entry capacity booking. It is uncertain from the information available if the proposed smoothing of seasonal multiplier factors will incentivise annual Entry Capacity booking or bring closer alignment of forecast and actual booked capacity and therefore facilitate the key changes required to provide more certainty for transmission entry capacity costs for shippers. firmus energy are broadly in support of smoothing the seasonal multiplier factors if the outcome is reduced tariffs and less reconciliation volatility. The Utility Regulator should continue to monitor both these aspects of transmission Entry revenue to determine if introduction of this change is having the desired effect and seek to implement an alternative if the situation does not improve.

Yours Sincerely,

Mark Stevenson
Director of Regulation