

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

24th March 2020

Consultation on Seasonal Multiplier Factors for Gas Transmission

Dear Jillian,

GMO Northern Ireland (GMO NI) welcomes the opportunity to respond to this Consultation and give its views as the single gas market operator for the Transmission Network in Northern Ireland.

Multiplier and Seasonal Factors

GMO NI agrees with and supports the continued use of the current factors at least until such a time where a more informed decision can be made.

The Initial Entitlement of Entry Capacity that most Shippers have held since the inception of entry products in October 2015 has indeed negated the need for the affected Shippers to explore using non-annual entry products and therefore masked the true extent of the effects of any potential market signals given by the factors used since 2015. However, it is hard to attribute the low usage rates of non-annual entry products shown in Table 1 of the Consultation exclusively to the existence of Initial Entry Capacity Entitlements without being able to observe how Shippers would have booked their entry capacity requirements in the absence of them. For this reason alone, we believe 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. Whilst we do expect an increase in the uptake of non-annual entry capacity products this coming Gas Year, we are less sure of the magnitude of bookings to expect.

Given time, a more holistic analysis encompassing consideration to the effects of the factors on the points given in the "Aspects to be Considered" section and conducted using data including actual booking information after the expiry of the Initial Entitlements should form the basis for clear recommendations as to how the factors should be set in future. For

example, the factors could certainly be set at lower levels in the Winter to encourage the uptake of short-term products as per the factors in Figure 4 calculated using forecast volumes. This could represent a more efficient outcome with Shippers encouraged to book closer to their expected flows therefore providing more accurate signals in relation to network requirements, greater cost reflectivity and lower reserve prices but a preference for short term capacity would not promote the appropriate long-term booking signals for planning and maintaining what is a growing Transmission Network and increased usage of short term products could have a significant impact on TSO cash flow and exacerbate the volatility of the Annual Reconciliation. Any future decision on changing the factors must strike the right balance between these considerations for the benefit of the Northern Ireland Transmission Network.

To summarise, we believe the present factors as aligned with the CRU factors (provided they don't change in May 2020 as a result of their own consultation) are appropriate at this time for the reasons given below:

1. No real insight exists into how Shippers will actually book capacity in the absence of Initial Entitlements, so there needs to be clarity and understanding of the effects of the signals being given by the current factors in place. Forecasts in theory can give an indication of what to expect but Figure's 6 and 7 of the Consultation show how much forecast and actual bookings can differ in reality.
2. There is a benefit to continued alignment of the factors for the sake of Power Generation Shippers participating in I-SEM.
3. The current factors which were adjusted slightly last year now fall within the bounds set by the Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC") and are therefore compliant as is.
4. To change the factors now in the middle of a tariff setting period for the next Gas Year with Initial Entitlements falling away in October and coinciding with the change to a capacity/commodity revenue split of 85%/15% would potentially introduce too much volatility in actual bookings versus what has been forecast with implications for the Annual Reconciliation. An element of caution should be exercised in implementing any transitional change to the factors in future to minimise any uncertainty. Indeed, consultations in future years should possibly be conducted earlier to easier facilitate a potential change (if that is the recommended outcome of a future consultation).

However, a policy of continued alignment of factors with CRU in future years should only be pursued as long as it can be clearly justified that it represents the best policy for Northern Ireland.

Discounts to Capacity Charges

We agree that no interruption has been forecast and this can be stated in tariff publications for GY20.21.

We note that GMO NI publish the VRF Exit Capacity tariff as determined by the Utility Regulator and this can be interrupted.

We also agree that as there are currently no storage facilities in Northern Ireland then there is no need to publish a storage discount at this time.

Should you wish to discuss any aspect of our response please do not hesitate to contact me.

Yours sincerely

A handwritten signature in blue ink that reads "P. Carey". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Peter Carey
Finance Manager