



Energy for
generations

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Consultation on Seasonal Multiplier Factors for Gas Transmission

Dear Jillian

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to your consultation on seasonal multipliers for gas transmission, in the context of TAR NC Article 28.

In answer to the consultation questions:

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

Per our 2020 submission, ESB GT anticipates that if Shippers have product choices available, it is possible that they may avail of the various products if there are associated benefits (i.e. cost, commercial arrangements). As some Shippers may be starting afresh with their Entry capacity positions in 2020, there is potential for the uptake of non-annual Entry capacity products to increase. It should be recognised that some Shippers will have less need for, or ability to use, short-term products than others depending on their operational requirements.

The data from Gas Year '20 will provide an indication to UREGNI of non-annual capacity bookings post-Initial Entitlement expiry. In ESB GT's view, caution should be exercised when considering these data, as several factors may have led to atypical outcomes for capacity booking. We would welcome bilateral discussion with UREGNI in addition to industry-wide engagement ahead of the planned 2022 review.

2. 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?

Many large gas consumers would ideally like to use annual and non-annual Entry capacity products in order to create a portfolio or stack of capacity bookings and profile their holdings across the year. Individual users will assess their positions and seek to optimise cost and efficiency of bookings. Parties could be expected to react rationally to the combination of

signals from the price of capacity and temporal volumes needed. However, some users will have sufficient control, stability and/or predictability of flows to do this more effectively than others, while the demand peaks and troughs for some users may not align with the increase/decrease in seasonal multiplier impacts on charges. Without perfect foresight, Shippers will tend to take a risked view of the cost of unused capacity versus short-term purchase, and relative product price will be an important factor.

For some large users, the decision to use non-annual Entry capacity may be affected by the availability of short-term Exit capacity. The ability to optimise and profile holdings at both ends of the flow could impact operational costs and competitiveness.

Concerning seasonal factors *as a way of reducing the annual tariff*, it is ESB GT's view that the aim should be for a balance between the various capacity products' contributions to allowed revenue. The criteria of improving cost-reflectivity and avoiding cross-subsidy are clearly stated on p. 8 of the consultation document. There is a circularity in the relationship between booking decisions (if flexible) and capacity product prices, which should be better understood.

3. 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?

In past years capacity bookings were very predictable, and in comparison to that time, we can expect changes in the reconciliation to increase. Looking forward, theoretically increased uptake of non-annual Entry capacity products could lead to more volatility in year-end reconciliation, but it also may not. The reconciliation is dependent on TSO inputs of forecast revenue and capacity bookings against the outturn amounts. The capacity booking forecasts provided to the TSO by Shippers are made using knowledge and information available at the time of data submission, which is around nine months ahead of the start of the Gas Year. Unexpected and uncontrollable operational factors influence the eventual outcomes for user requirements for gas and capacity, and also TSO spend. Non-annual capacity is only one of the moving parts in the calculations.

As mentioned above, using one year's historical data, or very few recent years' data under differential market conditions, may provide atypical information to forecasts and to the 2022 UREGNI review of capacity and seasonal factors. ESB GT suggests that enhancements could be made to the forecasting process, which could also address some of the concerns over reconciliation uncertainty, and we support Industry/TSO engagement in this area. We note that in GB, NGG has recently undertaken considerable engagement with Shippers on forecast methodology, logic and sensitivities in order to improve its understanding and process. ESB GT acknowledges the situation is different to that in NI, and the accuracy improvements of the NGG work are as yet unknown. Nevertheless, there may be learnings from the increase in understanding across market participants and commitment to monitoring and ongoing collaboration with Industry.

In terms of the network user impacts of potential reconciliation volatility, unpredictability could be an issue, as it would be for many factors in business depending on quantum. Short-notice changes in seasonal factors and multipliers could themselves be a cause of the potential volatility, as market participants attempt to adjust their positions and operations, and forecasts could become less reflective of actuals. Increased frequency of transparency on bookings and the reconciliation was welcomed during Gas Year '19 due to Covid-19 concerns. This kind of information can be a useful signal to all parties of any concerns with or movements in the annual reconciliation. In general, transparency of future charging frameworks and outturns throughout the year are important. Limitations on impacts and possible contingency measures should be considered in consultation with Industry if real concerns materialise. We note that the decision to conduct reconciliation across all points and all network users, included in the 2015 conclusions on the introduction of Entry charges, was intended to share the bullet payment risk burden and reduce individual impacts.

4. 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?

ESB GT supports UREGNI's recommendation that the maximum level of multipliers for daily capacity products will not be reduced from 3 to 1.5 from April 2023. We also note the CRU indication in its own TAR Article 28 consultation that ACER is minded not to make this optional reduction.

5. 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 Rol?

ESB GT supports maintenance of the current seasonal factors in Northern Ireland for Gas Year '21. A minimum of one year's notice, and ideally two years' notice, should be provided for any change.

We do not support CRU's proposed change to seasonal factors from October 2021. ESB GT's non-confidential submission indicates flaws in the analysis and timing for the proposed change. For example, we highlighted that seasonal gas demand patterns over the five years included in the analysis are unlikely to be consistent with future years. This is due to the introduction of ISEM and changes in the fuel mix for generation, with reducing peat and coal power production impacting on the remaining dispatchable thermal plant, which is gas-fired.

Alignment on relative daily prices for gas capacity within the SEM is very important, as UREGNI stated in its 2020 consultation aim "*to ensure that there is no perverse pricing signal which affects the decisions of all-island electricity generators*". Completion of a second North-South electricity link would make this point imperative. For SEM generators, alignment of seasonal multipliers is beneficial for day-to-day operations and trading as well as competition and dispatch.

ESB GT is concerned that this year's potential divergence could lead to further misalignment. Should UREGNI and CRU conduct separate market analyses going forward, using differing models, methods and market evidence bases for seasonal factors, they are likely to reach differing recommendations. Given the differences between the two gas markets, ESB GT highlights that the potential breadth of divergence could impact competition and security of supply. We urge the NRAs to work together with the power sector to ensure prudent outcomes.

As we have previously stated, ESB GT would prefer increased and broader alignment to prevent perverse pricing signals for generators within ISEM, for example with short-term Exit capacity products, on which we look forward to working with UREGNI this year.

6. 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?

Per our response to question 2 above, some users will seek to purchase a combination of capacity products of different durations with the aim to reduce cost and increase efficiency. Shifting demand from winter to summer would be a desirable option with the current multiplier regime.

The reality is that many gas users are constrained in their choices of when to use gas. Heating demand, for example, cannot be moved. It is predictable in the sense of occurring in winter months, but at the same time is not sufficiently predictable in terms of timing and level. Seasonal multipliers may incentivise heat-driven parties to purchase greater annual capacity amounts rather than be exposed to high winter tariffs. Seasonal factors can also incentivise the avoidance of coincident peak system demand: for parties who are able to flex their gas requirement, high short-term tariffs in winter may discourage incremental burn at times when coincident peak heat and industrial demand is most likely to occur.

In the case of gas-fired power, it is often stated that sector gas demand is controllable. This is true, but plant operations are not necessarily under the full control of the operator of the plant. Electricity system constraints, changes in wind output and availability of other plant are key influential factors on the electricity TSO's requirement from an individual station. This is aside from the market intentions of the operator. So intentional, planned load shifting to summer from winter is unlikely. However, seasonal factors could help to moderate winter demand peak if another source of electricity is available, absent system constraints.

ESB GT recommends that UREGNI engages with Industry to consider a range of options and is broadly supportive of the topics intended for review. We are concerned that the data basis will be very limited and may contain atypical information. Engagement with market participants will be essential to ensure the analysis for the review is reasonable.

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

ESB GT suggests that whole energy system outcomes should be considered in the analysis. Focus on purely gas system outcomes to the exclusion of electricity can lead to overall consumer benefits being incorrectly assessed.

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

ESB GT agrees with the factors outlined.

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

ESB GT agrees with UREGNI's pragmatic approach to interruptible and storage discounts.

Should you require more information concerning any of the above points, please do not hesitate to get in touch.

Yours sincerely

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