

**Power NI Energy Limited
Power Procurement Business (PPB)**

SEM

**Seasonal Multiplier Factors for
Gas Transmission**

**Consultation Paper
March 2021**

Response by Power NI Energy (PPB)

13 April 2021.



Introduction

PPB welcomes the opportunity to respond to the UR consultation on Seasonal Multiplier Factors for Gas Transmission .

Comments

PPB welcomes the proposal not to change the factors for the 2021/22 gas year. PPB also notes the intent to review the factors ahead of the 2022/23 Gas Year and PPB would urge that this review is completed as soon as possible to ensure participants can input to the consultation and that any changes that result are published as early as possible such that gas users have sufficient time to reflect on any changes as they seek to determine the best and most efficient gas capacity booking strategy for their particular requirements.

We are also concerned at the potential divergence of Seasonal Multipliers in NI and Rol which will have an impact on the relative marginal costs of gas fired generators in NI and Rol which could distort the efficient operation of the SEM. However, this does not mean we support blindly adopting the Rol factors should the relevant authorities in Rol continue with their intent to change them. Rather, we would urge that the UR engage with the CRU to seek to dissuade them from changing the Rol factors with such short notice, with the objective of ensuring a co-ordinated and comprehensive review in both Jurisdictions for the 2022/23 Gas Year

Specific Questions

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

PPB expects that it will increase the uptake of non-annual entry capacity products. This will continue to evolve as the policy and strategies to further decarbonise energy utilisation will inevitably change the profile, pattern and volatility of gas consumption.

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?

PPB would expect that large gas Users will book gas capacity to reflect their underlying consumption profile. Providing flexible products will ensure the most efficient outcomes for users overall as it will ensure that gas capacity products are appropriately booked such that gas capacity is not over-booked and hoarded when it could be usefully available to other users.

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?

Any increase in uptake over the assumptions used by the GMO to derive the tariff could increase volatility in the short term but we would expect a new norm to materialise as users determine their new optimum booking arrangements and the GMO gets evidence of the user actions to enable them to refine and recalibrate their capacity booking assumptions. Hence while there may be transitional volatility, we would expect that to restabilise, tending to a new norm.

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?

This is a moot question given that the 1 April 2021 deadline has been passed. Changes to the maximum level should be reviewed as part of a wide ranging review to ensure the value of the seasonal multipliers are for appropriate for the NI user requirements. PPB previously objected to the adoption of the Rol factors and we remain of the view that while it is desirable to have common factors, the factors should be determined in collaboration with Rol to ensure that they are appropriate for use in both Jurisdictions. Proposals should be consulted upon well in advance of the proposed implementation date to ensure users can contribute to the discussion and that decisions are made well in advance of the implementation date to give users time to consider their most efficient booking strategies in response to any changes.

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?

PPB favours retaining the same factors for 2021/22. It is unfortunate that the CRU are proposing changes with such limited notice and we consider it would be useful if the UR could persuade the CRU to delay making changes until a comprehensive Island wide review is completed in advance of the 2022/23 gas year, with an objective of developing factors that are common but which work and provide incentives for efficient outcomes in both jurisdictions.

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?

Seasonal factors enable users to book capacity in a flexible manner and help to ensure capacity is only booked where it is efficient for each user and avoids the reservation of capacity where it has a low probability of being utilised. This provides a true reflection of when capacity is required and aids efficient decision making on the provision of capacity enhancement. Different users will have different capacity requirements and they will book capacity efficiently to meet their needs where the products are available and where the seasonal value is appropriately reflected.

It is difficult to comment on what smoothing or flattening of the seasonal factors would be appropriate without analysis to provide evidence based factor determination. The current factors are certainly not perfect as evident by the highest factor applying in February but for which there is little evidence to support the level of the factor. The issues with the current factors arise from the adoption of the RoI factors which obviously took no account of the NI usage requirements. A detailed review would help remove anomalies and provide more efficient signals to users.

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

Given the SEM is an all-island market, differentials in Gas products and factors will have an impact both on short-term operational dispatch and hence efficiency of the wholesale electricity market, and also on the longer term investment decisions of potential new entrant gas fired generators considering where to locate. It would be best if there were common factors and this might be best achieved by collaboration between the UR and CRU to seek to derive a common set of factors that may involve a degree of compromise but which is a best fit for each jurisdiction while retaining common factors.

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

PPB considers that the factors meet the requirements although we do question their cost reflectivity given they were simply adopted from factors derived for RoI with no consideration of the nature of the gas market in NI. This should be addressed in the wide ranging review for tariffs to apply from October 2022.

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

PPB has no comment on the proposals for 2021/22. However the scope for the use of such discounts should be considered in the wider review. For example, an interruption discount for winter products could provide a useful service that merits being offered to ensure it is seen as a product that will be available in the longer term and which could provide an efficient alternative to network investment.