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GNI (UK) Ltd.

Graham Craig,
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10th June 2015

Re: Consultation on seasonal multipliers used in the calculation of short term entry capacity tariffs

Dear Graham,

Gas Networks Ireland (UK) welcomes the opportunity to respond to this Consultation Paper on the introduction & calculation of short-term entry capacity tariffs. GNI (UK) believes that short term entry capacity products will serve to increase flexibility for Shippers operating in the Northern Ireland Market.

As has been stated in previous responses, GNI (UK) believes that UR is correct in availing of the option to make full use of the Short Term multipliers and seasonal factors to encourage counter-seasonal load usage. The appropriate use of multipliers and seasonal factors will incentivise Shippers to book appropriate products to match their demand profile.

GNI (UK) is also of the opinion that it would be optimal for the short-term entry tariffing regime to be extended to the Northern Ireland Exit system, in an appropriate timeframe, so as to enable Shippers to match entry and exit capacity requirements.

Key Pricing principles underpinning the development of the Short Term Tariff methodology should be based upon Regulations EC1775/2005 and EC715/2009. These regulations establish the requirement for short-term tariffs for access to natural gas networks.

The key pricing principles of Short Term Tariff methodologies are that they:

- take account of the need for system integrity, reflect the drivers of network costs, and therefore reflect the seasonal nature of capacity demand,
- incentivise efficient use of the network and hence increase gas use where appropriate,
- incentivise long term capacity, where users have long term capacity requirements,
- be simple and transparent.

The introduction of short term tariffs should therefore result in only minimal increase in the volatility of transmission tariffs overall.

However, the impact of introducing short-term entry products in Northern Ireland upon the existing Capacity Product's utilisation profile and therefore upon TSO's Revenues is, at this time, unknown. This impact will be dependent on how individual Shipper's will optimize their capacity portfolios.

In addition, the impact of possible increased Renewable penetration and/or the occurrence of extreme weather patterns will also impact on revenue volatility. Therefore, the possibility exists of significant revenue under/over recoveries occurring. GNI (UK) would encourage the development of a robust solution to address this scenario.

However, GNI (UK) does agree with the contention that the impact of harmonisation of Short-term Multipliers between Northern Ireland and the Republic of Ireland can only lead to greater efficiencies for the wholesale energy market.

Treatment of Quarterly & Within-Day Multipliers.

GNI (UK) agrees with the proposal to construct the Quarterly Multipliers as being a simple summation of the Monthly Multipliers. The grouping of months into summer, winter & shoulder quarters is consistent with the stated policy of supporting Longer Term Bookings.

GNI (UK) acknowledges that matching Day-Ahead and Within-Day Multipliers affords Shippers greater flexibility. This has been the experience in the Republic of Ireland's market, where both the Within-Day and the Day-Ahead products are referred to as Daily Products with the same multipliers applied. Shippers can avoid over-run's by utilizing the Within-Day product to book capacity towards the end of gas day D.

That said, GNI (UK) is of the opinion that setting Within-Day Multipliers to equal Day-Ahead Multipliers is not consistent with the principle to promote Long Term Booking, as Shippers who do not commit to booking firm capacity before gas day D are not charged a premium for availing of the Within-Day's greater flexibility. This is something that warrants further investigation in the future.

Virtual Reverse Flow Capacity Tariff.

GNI (UK) note ACER's **Framework Guidelines on Harmonized Transmission Tariff Structures for Gas,** Section 5.2, which states that *"At unidirectional interconnection points where TSOs offer firm capacity only in one direction and capacity is offered in the other direction on an interruptible basis (non-physical backhaul capacity), the methodology for determining the reserve price shall be set to reflect the actual marginal (additional) costs that the TSO incurs to provide this service and shall not be below zero."* Therefore, setting the VRF tariff to 0.0001 pence per day per KWh is acceptable provided it will ensure recovery of all additional costs incurred to provide this service. If the tariff does not ensure recovery of additional costs in full, GNI (UK) believes that a tariff review would then be required.

CONCLUSION

GNI (UK) is supportive of the proposal to apply the Short-Term Capacity Seasonal Multipliers to the Entry system in Northern Ireland, as broadly described in this consultation. GNI (UK) believe that these Multipliers should encourage appropriate use of short-term products.

If you have any queries in relation to GNI (UK)'s response outlined above please contact myself or John O'Sullivan.

Yours sincerely,

Denis Twomey,

Commercial Finance Manager

Gas Networks Ireland (UK)