

Consultation on Seasonal Multiplier Factors for Gas Transmission

31 January 2019



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



Our vision

To ensure value and sustainability in energy and water.



Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

This paper seeks views on the proposed seasonal multiplier factors to be applied to non-annual entry capacity bookings in the postalised tariff from 1 October 2019. These align with the factors proposed by the Commission for Regulation of Utilities.

It also seeks views on the inter-TSO compensation mechanism in Northern Ireland as operated in the NI postalised regime.

These are both required by the EU Regulation on harmonised transmission tariffs for gas.

Audience

This document is likely to be of interest to regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

Consumer Impact

Changes to the seasonal multiplier factors could lead to minor changes in how transmission revenue is recovered, which are unlikely to have any impact on customer tariffs.

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Acronyms and Glossary

BGTL	Belfast Gas Transmission Limited, a TSO
CRU	Commission for Regulation of Utilities, which regulates gas in the Republic of Ireland
EU	European Union
FOIA	Freedom of Information Act
GMO NI	Gas Market Operator Northern Ireland
GNI (UK)	Gas Networks Ireland (UK), a TSO
MEL	Mutual Energy Limited, owner of PTL, BGTL and WTL
PoT	The postalisation bank account
PTL	Premier Transmission Limited, a TSO
PSA	Postalised System Administration
RPM	Reference Price Methodology
SEM	Single Electricity Market
TAR NC	Network Code on Harmonised Transmission Tariff Structures for Gas
TSO	Transmission System Operator GNI (UK), PTL, BGTL and WTL. WTL is not a TSO (Transmission System Operator) as defined by the European Commission but it is referred to as a TSO in this document for simplicity.
UR	Utility Regulator
WTL	West Transmission Limited, a TSO

1. Purpose of this Paper

- 1.1. This paper meets three separate requirements of the EU Regulation on establishing a [network code on harmonised transmission tariff structures](#) for gas, known as TAR NC.
- 1.2. Firstly, this is the first annual consultation on the seasonal multiplier factors which are applied to the postalised tariff for non-annual entry capacity bookings. This is a requirement under Article 28 of TAR NC. We are seeking views on the proposed factors which are outlined in section 3.
- 1.3. Secondly, we are also required, under Article 28, to consult annually on discounts to capacity charges, specifically for interruption and storage. This is outlined in section 4.
- 1.4. The consultation on these two items will run in parallel with the annual tariff setting process. Following consideration of the responses from this consultation, UR will publish its decision and will inform the Postalised System Administrator (PSA) of the factors and discounts to be used in the tariff to be published on 31 May, which will become effective on 1 October 2019.
- 1.5. Finally, we are required to seek views on whether the postalised regime for transmission charging meets the requirements of an inter-transmission system operator compensation mechanism, as outlined in Article 10 of TAR NC. This is outlined in section 5.

2. Background

Tariff Network Code

- 2.1. In June 2018, the Utility Regulator published a [consultation](#) to meet the requirements of [EU Regulation 2017/460](#), the Network Code on Harmonised Transmission Tariff Structures for Gas (“TAR NC”). The TAR NC was published on 17 March 2017 with the objectives of contributing to market integration, enhancing security of supply and promoting interconnection between gas networks.
- 2.2. We subsequently published the [responses](#) in October 2018 followed by our [Decision](#) in December 2018.

Requirement for Annual Consultations

- 2.3. Article 28 of TAR NC requires us to carry out an annual consultation on the seasonal multipliers factors. The current [Gas Product Multipliers and Time Factors](#) are published by UR and are updated from time to time. From now on, these will need to be consulted on and published annually.
- 2.4. Section 3 outlines what aspects of the seasonal multiplier factors need to be considered annually.
- 2.5. In addition to considering the responses to this consultation, we are required to show that we have considered the position of the National Regulatory Authorities of directly connected Member States. This is outlined from paragraph 3.8 and 3.12.
- 2.6. Article 28 also requires us to consult annually on any discounts for interruption and storage. In Section 4, we seek views on our proposals.

Inter TSO Compensation Mechanism

- 2.7. Finally, section 5 meets the requirement in Article 10(5) to: “conduct a consultation on the principles of an effective inter-transmission system operator compensation mechanism” and to consider its consequences on tariff levels.
- 2.8. We consider that the postalised tariff ensures that Transmission System Operators (TSOs) are treated equally and meets the requirements in Article 10 of the TAR NC. We are seeking views on whether respondents consider that the postalisation regime provides an effective inter-TSO compensation mechanism.

Responding to the Consultation

- 2.9. The consultation questions are at paragraphs 3.17, 4.8 and 5.10.
- 2.10. We welcome any representations to this consultation no later than 12 noon on 28 February 2019. Please send any responses to:

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- 2.11. The Utility Regulator's preference would be for responses to be submitted by e-mail.

- 2.12. Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, please provide also a non-confidential version suitable for publication.
- 2.13. As a public body and non-ministerial government department, the Utility Regulator is required to comply with the Freedom of Information Act (“FOIA”). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this. In particular, if asking the Utility Regulator to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.
- 2.14. The Utility Regulator has published a privacy notice for consumers and stakeholders which sets out the approach to data retention in respect of consultations. This can be found at <https://www.uregni.gov.uk/privacy-notice> or, alternatively, a copy can be obtained by calling 028 9031 1575 or by email at info@uregni.gov.uk.
- 2.15. This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office of the Utility Regulator, which will be happy to assist.

3. Multiplier and Seasonal Factors

Requirement for Annual Consultation

- 3.1. Article 28 of TAR NC requires us to carry out an annual consultation on the seasonal multipliers factors. These factors are multiplied by the annual tariff for entry capacity to determine the tariff for a non-annual entry capacity product, like monthly capacity or daily capacity.
- 3.2. The current [Gas Product Multipliers and Time Factors Table](#) is published by UR and updated from time to time. The factors are shown in **Table 1** on page 12. From now on, these will need to be consulted on and published annually.
- 3.3. Article 13 of the TAR NC sets limits on the multiplier factors which may be applied:
 - Quarterly and monthly capacity products to have a multiplier of no more than 1.5
 - Daily and within-day capacity products to have a multiplier no higher than 3
- 3.4. Article 28(3) of the TAR NC requires that we take into account the views of respondents in the following aspects:
 - The balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system
 - The impact on the transmission services revenue and its recovery
 - The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices
 - Situations of physical and contractual congestion
 - The impact on cross-border flows
 - The impact of the seasonal factors on facilitating the economic and efficient utilisation of the infrastructure
 - The need to improve the cost-reflectivity of reserve prices

- 3.5. In our [consultation document](#) on the TAR NC, we stated that we considered that the current seasonal multiplier factors meet the aspects listed in paragraph 3.4. We also stated our intention to continue to align with the factors used in the Republic of Ireland in order to minimise any divergence in the Single Electricity Market (SEM).
- 3.6. All the [respondents](#) to the consultation were supportive of the continued use of seasonal multiplier factors and of continued alignment with the Republic of Ireland.
- 3.7. In our [Decision Paper](#), we stated that we intended to propose adjusted factors to meet the limits which are set out in paragraph 3.3 and also align with those proposed by the CRU.

CRU Consultation on TAR NC

- 3.8. In December 2018, the Commission for Regulation of Utilities (CRU) published its [consultation](#) which proposes amendments to bring their factors within the TAR NC limits. It proposes to adjust the monthly factors to meet the limit of 1.5 along with minor adjustments to the daily factors. In addition, the CRU is proposing to reduce the quarterly factors below the 1.5 limit. Currently, the quarterly factors are the sum of the months within that quarter, which means there is no incentive for a shipper to book quarterly instead of three separate months. The CRU reports that is reflected in a lack of use of the quarterly factors and is proposing to reduce the quarterly multipliers so that they sum to 1.35.
- 3.9. The experience in Northern Ireland is similar, with a relatively low level of use of the quarterly factors. We therefore propose to replicate the factors proposed by the CRU. The factors are shown in **Table 2**.
- 3.10. As we intend to maintain alignment of factors across Ireland, if the CRU decides on factors which are slightly different to those it proposed, we would

intend to mirror those amended factors. For this reason, we will postpone issuing our decision paper on this consultation until the CRU factors have been confirmed.

3.11. The CRU is due to publish the responses to its consultation on 11 March followed by its decision on 11 May. Therefore, we anticipate that we will know the factors which will be used in the Republic of Ireland before the NI transmission tariff is published on 31 May.

Ofgem Consultation

3.12. We continue to be in contact with Ofgem (Office for Gas and Electricity Markets) as it prepares for compliance with the TAR NC. We are not aware of any charging proposals which would influence the seasonal multipliers which we have proposed. We will continue to review this for future tariff years.

Current and Proposed Factors

Table 1 – Current Gas Product Multipliers and Time Factors Table

Capacity Product Multipliers for Input to Tariff Model					
Period	Annual Entry & Exit Capacity Products	Non-Annual Entry Capacity Products			
		Quarterly	Monthly	Daily	Within Day
Oct - Sept	1.0000				
Oct - Dec		0.4400			
Jan - Mar		0.9270			
Apr - Jun		0.1520			
Jul - Sept		0.0300			
October			0.1320	0.0066	0.0066
November			0.1320	0.0066	0.0066

December		0.1760	0.0118	0.0118
January		0.3090	0.0206	0.0206
February		0.3530	0.0235	0.0235
March		0.2650	0.0176	0.0176
April		0.1320	0.0066	0.0066
May		0.0100	0.0005	0.0005
June		0.0100	0.0005	0.0005
July		0.0100	0.0005	0.0005
August		0.0100	0.0005	0.0005
September		0.0100	0.0005	0.0005

3.13. The table below shows the revised factors that we are proposing. These align with the factors proposed by the CRU in its consultation referred to in paragraph 3.8.

Table 2 – Proposed Gas Product Multipliers and Time Factors Table

Capacity Product Multipliers for Input to Tariff Model					
Period	Annual Entry & Exit Capacity Products	Non-Annual Entry Capacity Products			
		Quarterly	Monthly	Daily	Within Day
Oct - Sept	1.0000				
Oct - Dec		0.3843			
Jan - Mar		0.8069			
Apr - Jun		0.1327			
Jul - Sept		0.0261			
October			0.1281	0.0064	0.0064
November			0.1281	0.0064	0.0064
December			0.1708	0.0114	0.0114

January		0.2989	0.0199	0.0199
February		0.3416	0.0228	0.0228
March		0.2562	0.0171	0.0171
April		0.1281	0.0064	0.0064
May		0.0097	0.0005	0.0005
June		0.0097	0.0005	0.0005
July		0.0097	0.0005	0.0005
August		0.0097	0.0005	0.0005
September		0.0097	0.0005	0.0005

3.14. To find the annual total of the daily factors, it is necessary to multiply each daily factor by the number of days in that month.

3.15. The table below compares the total factors between **Table 1** and **Table 2**. The proposed factors in **Table 2** meet the limits outlined in paragraph 3.3.

Table 3 – Comparison of total factors

Total Multiplier Factors	Non-Annual Entry Capacity Products			
	Quarterly	Monthly	Daily	Within Day
Current factors	1.5490	1.5490	2.8851	2.8851
Proposed factors	1.3500	1.5000	2.7844	2.7844

Consultation Question

3.16. We do not propose to revisit the points required by Article 28(3) which are listed in paragraph 3.4, as we consider these were adequately consulted on within the last year.

3.17. Respondents are asked to provide their views on the proposed seasonal multiplier factors in **Table 2**.

4. Discounts to Capacity Charges

Requirement for Annual Consultation

4.1. The TAR NC requires that discounts are offered in specific circumstances, particularly for interruptible capacity and for storage facilities. The requirements are different and are outlined below.

Interruptible Discount

4.2. Article 16 specifies how to calculate the discount for an interruptible capacity charge. Following the consultation process, we concluded that as no interruption continues to be forecast, we will continue to offer no interruptible capacity product.

4.3. The current postalisated charges do not include an interruptible tariff, as only firm capacity is offered. The [NI Gas Capacity Statement](#) indicates that the NI Gas Network has sufficient capacity to meet forecasted demand for the next ten years.

4.4. Therefore, until this situation changes, we envisage that the tariff publications will state that no interruption has been forecast.

Storage Discount

4.5. In order to prevent the double charging of gas to and from any storage facilities, Article 9 of the TAR NC requires that a discount of at least 50% should be applied to capacity charges for storage facilities.

4.6. We are required, under Article 28 of TAR NC, to consult annually on the level of discount to be offered. As there are no storage facilities in NI, we do not propose to publish storage discount for the Gas Year starting 1 October 2019.

4.7. As this must be consulted annually, this will be reviewed each year.

Consultation Question

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

5. Inter TSO Compensation Mechanism Consultation

Requirement for Consultation

- 5.1. Under Article 10(5) of TAR NC, we are required to: “conduct a consultation on the principles of an effective inter-transmission system operator compensation mechanism” and to consider its consequences on tariff levels.
- 5.2. Such a compensation mechanism ought to:
 - Prevent detrimental effects on the transmission services revenue of the TSOs involved
 - Avoid cross subsidisation between intra-system and cross-system network use
- 5.3. This arises from Article 6(3) which requires that the same Reference Price Methodology (RPM) is applied to all entry and exit points in a given system, and that it shall be applied jointly by all TSOs in that entry exit system.
- 5.4. An inter-TSO compensation mechanism would operate where there is a single RPM operated by more than one TSO, and each TSO collects revenue from the users on their pipeline. This is likely to lead to a mismatch between the revenue collected by each TSO and their required revenue. The inter-TSO compensation mechanism would facilitate transfers of revenue between TSOs to ensure that each TSO receives their required revenue.

NI Postalised Regime

- 5.5. This is relevant in Northern Ireland as there are four designated pipeline operators, each owning and managing a distinct part of the NI transmission network. The network is operated as a single system, in a single zone with a

single transmission tariff.

- 5.6. The postalised regime is designed to ensure that the licensees receive all of their required revenue. The four licensees have implemented a contractual joint venture (CJV) arrangement to jointly operate the market facing commercial arrangements, known as the Gas Market Operator for Northern Ireland (GMO NI). GMO NI issues invoices to shippers, shippers make payments into a joint bank account (the PoT). The payments are distributed to the licensees following the relevant licence formulae until all of their required revenue has been received.
- 5.7. The design of the postalised regime ensures the designated pipeline operators collect the amount of required revenues they are entitled to under their individual licences. Therefore, they will not be detrimentally affected by the arrangement. The common administration arrangements improves efficiency which would help to reduce tariffs.
- 5.8. As the NI Network has no cross-system network use, there is no subsidy between inter and cross system use.
- 5.9. We consider that this meets the requirements of an inter-TSO compensation mechanism.

Consultation Question

- 5.10. We welcome views on whether respondents consider that the postalisation regime provides an effective inter-TSO compensation mechanism. Further, we welcome views on what respondents consider are the consequences on tariff levels.