

# Decision on Seasonal Multiplier Factors for Gas Transmission

20 May 2020



# 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 sets out the Utility Regulator's decision on the seasonal multiplier factors to be applied to non-annual entry capacity bookings in the postalised tariff from 1 October 2020.

Seasonal multipliers factors apply to non-annual entry capacity products, for example monthly or daily capacity bookings, by applying a multiplier which either increases or decreases the relevant proportion of the annual tariff. The factors reflect the seasonality of gas flows during the year and are set to incentivise suppliers to make more use of the network in the summer and shift demand away from the winter peak. The tariff for a non-annual capacity product is calculated by multiplying the annual tariff by the appropriate seasonal multiplier.

As there is no signal to suggest the current factors are no longer appropriate, and as those factors meet the requirements of the EU Regulation on harmonised transmission tariffs for gas, we have decided to maintain the current factors into the Gas Year 2020/21.

## 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

We have decided not to change the current seasonal multiplier factors so this decision will not cause any impact to customer tariffs.

## Table of Contents

Acronyms and Glossary .....	5
1. Purpose of this Paper .....	6
2. Background .....	7
Tariff Network Code	7
Requirement for Annual Consultations	7
3. Multiplier and Seasonal Factors .....	9
Considerations on Calculation and Actual Usage	9
Consultation with CRU and Ofgem	10
Aspects considered for Article 28(3)	11
4. Discounts to Capacity Charges .....	12
Interruptible Discount	12
Storage Discount	12
5. Responses Received and Decision .....	13

## Acronyms and Glossary

CRU	Commission for Regulation of Utilities, which regulates gas in the Republic of Ireland
CAM NC	Network Code on Capacity Allocation Mechanisms
ESB GT	ESB Generation and Trading
EU	European Union
FOIA	Freedom of Information Act
GMO NI	Gas Market Operator Northern Ireland
Ofgem	Office for Gas and Electricity Markets in Great Britain
PSA	Postalised System Administrator
SEM	Single Electricity Market
TAR NC	Network Code on Harmonised Transmission Tariff Structures for Gas
UR	Utility Regulator

# 1. Purpose of this Paper

- 1.1. This paper sets out the Utility Regulator's decision on two separate requirements of the EU Regulation on establishing a [network code on harmonised transmission tariff structures](#) for gas, known as TAR NC. This follows the consultation which ran from 21 February to 24 March 2020.
- 1.2. Firstly, this decision sets the seasonal multiplier factors which are applied to non-annual entry capacity bookings in the postalised tariff. This is a requirement under Article 28 of TAR NC.
- 1.3. Secondly, we present our decision on potential discounts to capacity charges, specifically for interruption and storage, as required under Article 28 of the TAR NC.
- 1.4. These two decisions allows the Utility Regulator to inform the Postalised System Administrator (PSA) of the factors and discounts to be used in the tariff for publication on 31 May, which will become effective on 1 October 2020. This will also allow the Gas Market Operator Northern Ireland (GMO NI) to publish the Gas Product Multipliers and Time Factors Table for the Gas Year 2020/21.
- 1.5. We received two responses to this consultation, from the following:
  - a) ESB Generation and Trading (ESB GT)
  - b) GMO NI

## 2. Background

### Tariff Network Code

- 2.1. The Utility Regulator has undertaken a number of actions<sup>1</sup> 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. In December 2018, we concluded that the current NI transmission charging regime, called postalisation, is already compliant with the TAR NC, but that it was necessary to change the capacity commodity split from 75:25 to 95:5 through a transition period.

### Requirement for Annual Consultations

- 2.3. Article 28(2) of TAR NC requires us to carry out an annual consultation on the seasonal multipliers factors and Article 28(3) 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

---

<sup>1</sup> The main [consultation](#) published in June 2018, followed by the [responses](#) in October 2018 and the [Decision](#) in December 2018. This was followed by the first [annual consultation](#) on Seasonal Multipliers in January 2019 and the [Decision](#) in May 2019. In addition, we [consulted](#) on licence modifications in February 2019, followed by the [Decision](#) in April 2019, which became effective on 6 June 2019.

- 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
- 2.4. Article 13 of the TAR NC sets limits on the multiplier factors which may be applied:
- a) Quarterly and monthly capacity products to have a multiplier of no more than 1.5
  - b) Daily and within-day capacity products to have a multiplier no higher than 3
- 2.5. Article 28 of TAR NC also requires us to carry out an annual consultation on any discounts for interruption and storage.
- 2.6. The [consultation document](#) to comply with these annual consultation requirements was published 21 February 2020. It explored each of these aspects and took recognition of the stated limits. Section 3 of the consultation document revisited the calculation steps from Articles 14 and 15 of the TAR NC, using both capacity and commodity data. It then reported on the actual usage of the factors since they were first introduced in 2015. The consultation document proposed to maintain the current factors.
- 2.7. In addition to carrying out a public 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 at paragraph 3.7.
- 2.8. 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

- 3.1. The TAR NC defines “multiplier” as the factor applied to the respective proportion of the reference price in order to calculate the reserve price for a non-annual standard capacity product. It further defines “seasonal factor” as the factor that reflects the variation of demand within the year which may be applied in combination with the relevant multiplier.
- 3.2. These factors are multiplied by the annual tariff for entry capacity to determine the tariff for a non-annual entry capacity product, for example monthly capacity or daily capacity.
- 3.3. Seasonal multiplier factors were first introduced to apply to non-annual entry capacity products<sup>2</sup> when entry charges were introduced in October 2015.
- 3.4. As outlined in our consultation document and in the [decision document on the TAR NC in 2018](#), we have a policy of maintaining alignment with the seasonal multiplier factors published by the CRU, to ensure that there is no perverse pricing signal which affects the decisions of all-island electricity generators.
- 3.5. The factors continue to be set to incentivise suppliers to make more use of the network in the summer and shift demand away from the winter peak. They are set to provide a balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system.

### Considerations on Calculation and Actual Usage

- 3.6. In the consultation document, we provided analysis and drew conclusions which can be summarised as follows:
  - a) We calculated the factors using the calculation steps in Articles 14 and 15 of the TAR NC and found that the resultant factors were not sufficiently robust to enable a clear conclusion or a clear reason to move

---

<sup>2</sup> <https://www.uregni.gov.uk/publications/seasonalfactors-final-determination>

away from the current factors.

- b) Since their introduction, non-annual entry capacity products have comprised a small proportion of total entry capacity, with actual usage varying considerably from forecast. We found that monthly and daily entry capacity bookings have not, separately, exceeded 10% of forecast annual capacity.
- c) We consider the low usage is largely because a number of suppliers continue to hold an Initial Entitlement of Entry Capacity<sup>3</sup> which meets their entry capacity requirements. We therefore anticipate that the use of non-annual entry capacity products will increase after October 2020.
- d) We note that the non-annual entry capacity products have been mainly used by power stations. We were interested to know if large gas users, like industrial processors, would be interested in these products.
- e) We concluded that there is no clear signal for us to move away from the current factors.

## Consultation with CRU and Ofgem

- 3.7. Ofgem (Office for Gas and Electricity Markets) in Great Britain is proposing to use a multiplier of 1 along with no seasonal factors. This would mean that there is no penalty or incentive for booking capacity on a short term basis. The Single Electricity Market (SEM) makes a commercial link between the NI Network and the RoI Network, leading to our policy to align factors between NI and RoI. No such link exists with the GB Network.
- 3.8. CRU informed us that it intended to consult on maintaining the current set of factors and has subsequently [published its decision](#).

---

<sup>3</sup> As part of the implementation of the network code on capacity allocation mechanisms (the CAM NC), it was decided, following a consultation in 2014, that suppliers would receive an Initial Entitlement of Entry Capacity, corresponding to their firm exit capacity, for an initial period of five years. The Entitlement period expires in September 2020.

## Aspects considered for Article 28(3)

3.9. In section four of the consultation document, we considered each of the aspects which are required to be considered in Article 28(3), listed in paragraph 2.3. We concluded that seasonal multiplier factors provide benefits to the shippers which use them and also to the shippers which do not use them and specifically:

- a) The factors provide a method for Users to top up their capacity bookings on a short-term basis while still incentivising annual capacity bookings.
- b) The factors provide a price signal to incentivise Users to use gas in the summer rather than winter, if the User has a choice.
- c) The use of non-annual entry capacity products, particularly in winter, can increase total revenue, which, in the postalised regime, would lead to reduced annual capacity prices for all shippers.

## 4. Discounts to Capacity Charges

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.

4.3. The current postalised 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 a storage discount for the Gas Year starting 1 October 2020.

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

## 5. Responses Received and Decision

5.1. In the consultation document, we asked the following questions.

- a) We are interested in Respondents' views on whether large gas consumers may be interested in non-annual entry capacity products and what could be done to encourage their uptake.
- b) Do Respondents consider that the end of the Initial Entitlement of Entry Capacity will increase the uptake of non-annual entry capacity products?
- c) Respondents are asked to provide their views on continuing to offer the same seasonal multiplier factors, as outlined in Table 2 of the consultation document.
- d) Respondents are requested to provide any views they may have on either the interruption discount or the storage discount.

5.2. We received two responses to the consultation: from ESB GT and GMO NI. Both acknowledge that the end of the Initial Entitlement of Entry Capacity is likely to increase the use of non-annual entry capacity products which will help to inform future reviews.

5.3. ESB GT pointed out that CRU had not yet consulted on their factors and they would welcome more coordination between CRU and UR on any changes concerned with the SEM. We intend to continue to maintain our coordination with the CRU on this topic. On 19 May 2020, CRU published its decision to maintain its current factors in the Gas Year 20/21<sup>4</sup>. We are satisfied that this deals with the risk of inconsistency raised by ESB GT.

---

<sup>4</sup> [https://www.cru.ie/document\\_group/copy-of-gas-networks-ireland-allowed-revenues-and-gas-transmission-tariffs/](https://www.cru.ie/document_group/copy-of-gas-networks-ireland-allowed-revenues-and-gas-transmission-tariffs/)

- 5.4. Both respondents are broadly supportive of our recommendation to maintain the current factors. GMO NI pointed out the need for careful consideration on the potential impact to long term network planning from changing the factors. GMO NI also recommended that any consultations which recommend changes to the factors should happen earlier to allow shippers to consider before the tariff setting period begins.
- 5.5. Therefore, as there is no signal to suggest the current factors are no longer appropriate, and the current factors meet the requirements of the TAR NC (paragraph 2.3) along with the policy of aligning with the CRU (paragraph 3.7), we have decided to maintain the current factors into the Gas Year 2020/21.
- 5.6. Further, we have decided to make no interruptible discount and no storage discount for Gas Year 2020/21.
- 5.7. The table below shows the current factors which will continue to be offered for the Gas Year 2020/21.

**Table 1 – Current Gas Product Multipliers and Time Factors Table**

<b>Capacity Product Multipliers for Input to Tariff Model</b>					
<b>Period</b>	<b>Annual Entry &amp; Exit Capacity Products</b>	<b>Non-Annual Entry Capacity Products</b>			
		<b>Quarterly</b>	<b>Monthly</b>	<b>Daily</b>	<b>Within Day</b>
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

5.8. To find the annual total of the daily and within day factors, it is necessary to multiply each daily factor by the number of days in that month. Table 2 shows the totals of the seasonal multiplier factors to demonstrate that these are within the required limits shown in paragraph 2.4.

**Table 2 – Totals of Current Seasonal Multiplier Factors**

<b>Total Multiplier Factors</b>	<b>Non-Annual Entry Capacity Products</b>			
	<b>Quarterly</b>	<b>Monthly</b>	<b>Daily</b>	<b>Within Day</b>
Current Factors	1.3500	1.5000	2.7844	2.7844

5.9. These factors will be provided to the PSA as part of the postalised tariff setting process. The GMO NI, which publishes the current [Gas Product Multipliers and Time Factors Table](#) on its website, can publish the same table to be used for Gas Year 2020/21, which begins on 1 October 2020.