



Decision on Seasonal Multiplier Factors for Gas Transmission

21 May 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, Markets and Networks. 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 charges for gas transmission from 1 October 2019. This will facilitate compliance with the requirements of EU Regulation 2017/460, the Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC") and follows a consultation process which ran from 31 January to 28 February 2019.

These 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. They 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. These factors are multiplied by the annual tariff for entry capacity to determine the tariff for that non-annual entry capacity product.

As previously decided, these factors align with those proposed by the Commission for Regulation of Utilities and are slightly lower than current factors in order to meet the limits in the TAR NC.

We have decided not to offer the permitted capacity charge discounts, as no interruption is forecast and there are no forecast storage volumes.

We have further decided that the postalised regime meets the requirements of an inter-TSO compensation mechanism under Article 10.

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

This decision will slightly alter the seasonal multiplier factors which could lead to minor changes in how transmission revenue is recovered. This is 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
ESB GT	ESB Generation and Trading
EU	European Union
firmus	firmus energy, a combined gas distribution and supply company, including firmus energy Distribution Limited and firmus energy Supply Limited
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 sets out the Utility Regulator's decision on three separate requirements in 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 between 31 January and 28 February 2019.
- 1.2 Firstly, this is the decision following 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. Respondents' views on the consultation are outlined in section 3.
- 1.3 Secondly, we present our decision on potential discounts to capacity charges as required under Article 28, following consideration of responses received. This is outlined in section 4.
- 1.4 These two decisions will allow the Postalised System Administrator (PSA) to finalise the postalised transmission tariff in time for publication on 31 May, which will become effective on 1 October 2019.
- 1.5 Finally, we sought views on whether the postalised regime for transmission charging meets the requirements of an inter-transmission system operator (inter-TSO) compensation mechanism, as outlined in Article 10 of TAR NC. The responses are outlined in section 5.
- 1.6 We received four responses, as follows:
 - a) [ESB Generation and Trading \(ESB GT\)](#)
 - b) [firmus energy \(firmus\)](#)
 - c) [Gas Market Operator Northern Ireland \(GMO NI\)](#)
 - d) [GNI \(UK\) Ltd](#)

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 multiplier factors. The current [Gas Product Multipliers and Time Factors](#) are published by UR and are updated from time to time. From now on, these need to be consulted on and published annually.
- 2.4 The [consultation document](#) in January 2019 outlined what aspects of the seasonal multiplier factors need to be considered annually.

Inter TSO Compensation Mechanism

- 2.5 The consultation document also met 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.

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 multiplier factors. These 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. They 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. 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 factors are currently published in the [Gas Product Multipliers and Time Factors Table](#), by UR and updated from time to time. The current factors are shown in Table 1 on page 6. From now on, UR will consult on these annually, provide the factors to the GMO NI, so that it can provide to the PSA and publish on the GMO NI's website.
- 3.3 We have [consulted](#) and [decided](#) to make modifications to the TSOs' licences to embed the publication requirements into the licences. Modifications will be made to the following common licence conditions in the transmission licences:
- a) 2A.1.1 – amendment to the definition of the Gas Product Multipliers and Time Factors Table
 - b) 2A.2.3 – insertion of (h) in the condition on the Duty to Provide Forecasts for Postalised Charges. This addition requires that the seasonal multiplier factors are provided to the PSA once the Licensee has received it from UR.
 - c) 2A.2.6.3 – removal of an outdated statement regarding the publication and updating of the Gas Product Multipliers and Time Factors Table
 - d) 2A.2.7 – insertion of (d) in the condition on the Publication of Postalised Charges, to require the annual publication of the Gas Product Multipliers and Time Factors Table.
- 3.4 In our [decision paper](#) on TAR NC published in December 2018, we stated that we intended to propose adjusted factors to meet the limits which are set out in Article 13 of TAR NC and also align with those proposed by the CRU. This is consistent with the coordinated approach that we decided on when the factors were first introduced in October 2015.

CRU Consultation on TAR NC

- 3.5 In March 2019, the Commission for Regulation of Utilities (CRU) published the [responses to its consultation](#) on TAR NC from December 2018. Respondents were broadly supportive of proposed amendments to bring their factors within the TAR NC limits.
- 3.6 The CRU has indicated to UR that its decision on seasonal multiplier factors is likely to be unchanged from those it proposed in its consultation, which are shown in Table 2. It has indicated that it plans to publish its decision within the next few weeks.
- 3.7 We have therefore moved to publish our decision ahead of the CRU decision in order to ensure that postalised tariff publication date of 31 May can be met.

Ofgem Consultation

- 3.8 We have consulted with Ofgem and it has no comments.

Proposed Factors

- 3.9 In our consultation document, we proposed factors which align with those proposed by the CRU in its [consultation document](#) of December 2018. It proposed slightly reduced factors in order to meet the limits set out in Article 13 of TAR NC, which are:
- 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
- 3.10 In addition, the CRU proposed to reduce the quarterly factors below the 1.5 limit, to create an incentive for shippers to book quarterly instead of three separate months. The proposed quarterly multipliers sum to 1.35 rather than 1.5.
- 3.11 The tables below show the current factors and the proposed factors.

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

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		0.3843			
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

Table 2 - Proposed Gas Product Multipliers and Time Factors Table

- 3.12 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.
- 3.13 The table below compares the total factors between Table 1 and Table 2. These show that the proposed factors meet the required TAR NC limits shown in paragraph 3.9.

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

Table 3 - Comparison of Total Factors

Responses to Consultation

- 3.14 We asked respondents for their views on the proposed seasonal multiplier factors in Table 2.
- 3.15 The respondents all agreed with our proposal to reduce the seasonal multiplier factors. In addition, some of them made some additional comments.
- 3.16 ESB GT notes that: “multipliers are applied to entry and exit in RoI, not just at entry”. It states that it: “would welcome alignment on the availability of capacity products at exit points” and look forward to further engagement with UR on this matter.
- 3.17 firmus commented on the subject of the Initial Entitlement of Entry Capacity. When entry capacity was first viewed separately from exit capacity in 2015, NI shippers were allocated Initial Entitlement of Entry Capacity based on their capacity requirement at that time. The Initial Entitlement will expire in September 2020. This means that firmus energy (Supply) Ltd has not used non-annual capacity products, so it does not have a view on how the seasonal multiplier factors might affect their purchasing habits.
- 3.18 Nevertheless, firmus supports the proposal to decrease the seasonal multipliers.
- 3.19 GNI (UK) is supportive of the proposed reduction in the seasonal multiplier factors.
- 3.20 Although the GMO NI is also supportive of the proposed reduction in the factors and continued alignment with RoI, it considers that there should be a full impact assessment carried out to consider any impact they are having on the points which are set out in Article 28(3) as part of the annual consultation process. We had included these points in our consultation of June 2018:
- a) The balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system
 - b) The impact on the transmission services revenue and its recovery

- c) The need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices
- d) Situations of physical and contractual congestion
- e) The impact on cross-border flows
- f) The impact of the seasonal factors on facilitating the economic and efficient utilisation of the infrastructure
- g) The need to improve the cost-reflectivity of reserve prices

3.21 The GMO NI response goes on to say:

“We do not believe there is a clear understanding of the impact of the level of the multipliers on each consumer group or a clear rationale as to why the multipliers are set at the suggested levels.”

3.22 It further goes on to say that, especially with the potential further reductions to the daily factors in 2023, a further assessment should be carried out to consider the potential implications. In any case, they state that any transition should be managed to “minimise the uncertainty and volatility associated with tariffs”.

UR Response to Consultation Responses

3.23 With regard to the comments made by GMO NI, we appreciate that it would be valuable to consider the impact that the seasonal multiplier factors are having on capacity booking behaviour. We will engage with GMO NI in advance of next year’s Article 28 annual consultation.

3.24 While we consider that there is merit in carrying out some analysis on the value of the seasonal multipliers, this will have to be limited to the extent that we will continue to pursue our policy of alignment with RoI.

3.25 We note that firmus does not have a view on how the seasonal multiplier factors might affect their purchasing habits as it continues to hold Initial Entitlement of Entry Capacity until 2020.

3.26 In its response, and in separate discussions, ESB GT has requested further consideration on the potential introduction of non-annual capacity products at exit. We note that there is no requirement for these products at exit. This issue was last considered in 2016 and that review did not support the introduction of exit products into the gas regime at that time. A further review is premature at this point pending further experience with the new SEM.

4. Discounts to Capacity Charges

Requirement for Annual Consultation

- 4.1 The TAR NC requires that discounts are offered in specific circumstances, specifically for interruptible capacity and for storage facilities.
- 4.2 We had previously concluded that because no interruption is forecast, we will continue to offer no interruptible capacity product. We will continue to keep this under review in the [NI Gas Capacity Statement](#).
- 4.3 Article 9 of the TAR NC requires that a discount of a least 50% should be applied to capacity charges for storage facilities. Article 28 of TAR NC requires that we consult annually on the level of discount to be offered. As there are no storage facilities in NI, we proposed to publish no storage discount for Gas Year starting 1 October 2019.

Consultation Question

- 4.4 Respondents were asked to provide any views they may have on either the interruption discount or the storage discount.

Responses to Consultation

- 4.5 All four respondents agreed with our proposals. They agree that no interruption is forecast and that there is no storage planned for the incoming year.
- 4.6 GMO NI notes that the Virtual Reverse Flow is an interruptible product.

UR Response to Consultation Responses

- 4.7 In light of the responses we will proceed as proposed but keep the necessity for an interruptible capacity product and a storage discount under review.

5. Inter TSO Compensation Mechanism

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 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. To avoid 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.
- 5.3 Such a compensation mechanism ought to:
- a) Prevent detrimental effects on the transmission services revenue of the TSOs involved
 - b) Avoid cross subsidisation between intra-system and cross-system network use
- 5.4 The NI Postalised system is designed to ensure that the licensees (TSOs) receive all of their required revenues. It is embedded in the licences of the TSOs through a set of common licence conditions. In addition, 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.
- 5.5 As the NI Network has no cross-system network use, there is no subsidy between inter and cross system use.
- 5.6 In our consultation document, we stated that, as the postalised regime ensures that TSOs receive the required revenue they are allowed under their individual licences, they are not detrimentally affected by the inter-TSO arrangements. In addition, the common administration arrangements improves efficiency.
- 5.7 We stated that we consider this meets the requirements of an inter-TSO compensation mechanism.

Consultation Question

- 5.8 We asked for views on whether the postalised regime provides an effective inter-TSO compensation mechanism and what the consequences on tariff levels.

Responses Received

- 5.9 All of the respondents agreed that the postalised system meets the requirements of an inter-TSO compensation mechanism.
- 5.10 ESB GT states that it considers that the “additional coordination and invoicing steps performed by GMO” has the potential for additional costs beyond those of an individual TSO, while shippers would have “offsetting efficiency benefits” from dealing with one party instead of several TSOs.
- 5.11 Firmus energy states that the common administration arrangements, carried out by GMO NI: “improves efficiency and helps to reduce tariffs”.

6. Conclusion and Next Steps

Next Steps

- 6.1 We will now proceed to provide the updated Gas Product Multipliers and Time Factors Table, shown at Table 2 and repeated at Appendix 1, to GMO NI. It can then be provided to the PSA for the tariff calculations and published on the GMO NI website, on behalf of the TSOs. We have recently published licence modifications to require the TSOs to publish the Gas Product Multipliers and Time Factors Table annually, after we have confirmed it.

Conclusions

- 6.2 This decision paper is the last step in implementing the TAR NC. Over the past year, we have published the following documents:

- a) [Main Consultation Document](#)
- b) [Responses](#)
- c) [Decision Document](#)
- d) [Consultation on Seasonal Multipliers](#)
- e) [Consultation on Licence Modifications](#)
- f) [Decision on Licence Modifications](#)
- g) Decision on Seasonal Multipliers – this document

- 6.3 As a result of these consultation, we have made the following changes:

- a) Concluded that postalisation is an applicable RPM in Northern Ireland
- b) Decided that we will change the capacity commodity split. This determines how transmission revenue is allocated between a charge for the use of the pipeline and a charge for the units of gas which pass through the pipeline. It will be adjusted, over a three-year transition period, to 95:5 from October 2021, as follows:
 - (i) From October 2019 – no change
 - (ii) From October 2020 – change to 85:15
 - (iii) From October 2021 – change to 95:5
- c) Implemented licence modifications, to:

- (i) Embed the publication requirements
- (ii) Amend the capacity commodity split
- d) Concluded that the postalised regime meets the requirements of a suitable inter-TSO compensation mechanism.
- e) Held the first annual consultation on the seasonal multiplier factors and discounts to capacity charges.

6.4 This document is the decision on the first annual consultation on the seasonal multipliers, and we intend that the subsequent annual consultations will be held in January/ February.

Appendix 1 – Gas Product Multipliers and Time Factors Table

Effective from 1 October 2019

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			
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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