



# Consultation on Seasonal Multiplier Factors for Gas Transmission

11 May 2023



## 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 seeks views on the proposed seasonal multiplier factors to be applied to non-annual entry capacity bookings in the postalised tariff from 1 October 2023 and the factors proposed to apply in October 2024

We conclude that the use of non-annual entry capacity products is influenced more by the demand for gas-fired power generation than seasonal multiplier factors.

We propose to maintain the current factors into Gas Year 23/24 and to smooth the seasonal multipliers in Gas Year 24/25.

This consultation is required by EU Regulation 2017/460 on Harmonised Transmission Tariff Structures for Gas (“TAR NC”), as amended for EU Exit.

## 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

Although we do not propose to make any amendments to the seasonal multiplier factors for gas year 23/24, we propose to introduce smoothed seasonal multipliers that will apply during gas year 24/25. We have recognised that the introduction of smoothed seasonal multipliers will likely result in changes to the trends regarding when capacity will be booked. However, we have not found any evidence to indicate that the smoothing of seasonal multipliers will transfer disproportionately costs from the power sector to the distribution sector and on that basis we do not forecast any noticeable impact on tariffs for consumers.



# Contents

<b>Acronyms and Glossary.....</b>	<b>4</b>
<b>1. Introduction .....</b>	<b>5</b>
Purpose of this Consultation.....	5
Tariff Network Code and EU Exit.....	5
Requirement for Annual Consultations .....	5
<b>2. Background .....</b>	<b>9</b>
Background to the Factors.....	9
Current Factors.....	9
Consultation with Ofgem.....	10
Consultation with CRU and Alignment with RoI.....	10
<b>3. Annual Consultation .....</b>	<b>11</b>
Discount for Interruptible Capacity Charge .....	11
Discount for Capacity Charge for Storage .....	11
<b>4. Review of Seasonal Multiplier Factors .....</b>	<b>13</b>
Seasonality and Volatility.....	13
Effectiveness of seasonal factors .....	16
Evaluation of volatility due to high seasonal factors .....	17
Continue to provide signals for efficient investment.....	17
Assessment following expiry of Initial Entitlement of Entry Capacity .....	18
Timescale for any proposed changes.....	19
Continue engagement with CRU around maintaining alignment with RoI. ..	20
<b>5. Aspects to Consider .....</b>	<b>21</b>
The Balance between short term and long term .....	21
The Impact on Revenue Recovery .....	21
Avoid Cross Subsidy and Enhance Cost Reflectivity .....	21
Situations of Physical and Contractual Congestion .....	22
Impact on Cross Border Flows .....	22
Impact on Economic and Efficient Use of the Network.....	22
Improve Cost-Reflectivity of Reserve Prices.....	23
<b>6. Proposal .....</b>	<b>24</b>
Gas Year 23 - Maintaining the current factors .....	24
Gas Year 24 - Smoothing the Seasonal Factors .....	24
Current and Proposed Factors .....	25



**7. Consultation Questions.....27**



## Acronyms and Glossary

CRU	Commission for Regulation of Utilities, which regulates gas in the Republic of Ireland
EAI	Electricity Association of Ireland
EU	European Union
EU(W)A	European Union (Withdrawal) Act 2018
FOIA	Freedom of Information Act
GMO NI	Gas Market Operator Northern Ireland
Ofgem	Office for Gas and Electricity Markets in Great Britain, regulates gas in Great Britain
PPB	Power NI Energy Limited Power Procurement Business
PSA	Postalised System Administrator
SEM	Single Electricity Market
TAR NC	Network Code on harmonised transmission tariff structures for gas
UR	Utility Regulator



# 1. Introduction

## Purpose of this Consultation

- 1.1 This consultation paper meets requirements within the EU Regulation on establishing a network code on harmonised transmission tariff structures for gas, known as TAR NC, which has been amended to facilitate the UK's exit from the EU. This consultation seeks views on seasonal multiplier factors which are applied to the postalised tariff for non-annual entry capacity bookings.

## Tariff Network Code and EU Exit

- 1.2 EU Regulation 2017/460, known as the Network Code on Harmonised Transmission Tariff Structures for Gas<sup>1</sup> ("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.
- 1.3 TAR NC was transposed into UK law under the European Union (Withdrawal) Act 2018<sup>2</sup> ("EU(W)A") and was amended in the Gas (Security of Supply and Network Codes)(Amendment)(EU Exit) Regulations 2019<sup>3</sup> and the Gas Tariffs Code (Amendment)(EU Exit) Regulations 2019<sup>4</sup> to remove inoperabilities.
- 1.4 Throughout the rest of this document, when we refer to TAR NC, we mean the TAR NC as incorporated in UK law and amended by the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019 and Gas Tariffs Code (Amendment) (EU Exit) Regulations 2019.

## Requirement for Annual Consultations

- 1.5 Article 28(2) of TAR NC requires us to carry out an annual consultation on the seasonal multipliers factors and to consider discounts for interruption and storage. 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

<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0460&from=EN>

<sup>2</sup> <https://www.legislation.gov.uk/ukpga/2018/16/contents/enacted>

<sup>3</sup> <https://www.legislation.gov.uk/uksi/2019/531/made>

<sup>4</sup> <https://www.legislation.gov.uk/uksi/2019/1393/contents/made>



- 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
- 1.6 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
- 1.7 In addition to considering the responses to this consultation, we are required to consider the positions of directly connected Member States countries and the other national regulatory authority. This is outlined at paragraphs 2.8 and 2.9.

## Next Steps

- 1.8 This consultation is seeking views on our proposal to maintain the current seasonal multiplier factors in Gas Year 2023 (from October 2023) with the proposed changes applying in Gas Year 2024 (from October 2024).
- 1.9 Following consideration of the responses from this consultation, UR will publish its decision for Gas Year 2023 and will inform the Postalised System Administrator (PSA) of the factors and discounts to be used in the postalised gas transmission tariff, which will become effective on 1 October 2023. We will also inform GMO NI that it may publish the Gas Product Multipliers and Time Factors Table<sup>5</sup> at the same time.
- 1.10 UR intends to make a decision on the seasonal multiplier factors to apply for Gas Year 2024 at a similar time to the policy decision on whether to introduce short term exit capacity products, which is planned for autumn 2023.

---

<sup>5</sup> Tariffs | GMO Northern Ireland ([gmo-ni.com](http://gmo-ni.com))





## Responding to the Consultation

- 1.11 We wish to encourage respondents to express their views on the consultation questions in chapter 7. Responses should be received on or before 12 noon on Friday 9 June, addressed to:

John Wasson  
Networks Directorate  
Utility Regulator  
Queens House  
14 Queens Street  
Belfast BT1 6ER

[Gas\\_networks\\_responses@uregni.gov.uk](mailto:Gas_networks_responses@uregni.gov.uk) with cc to  
[john.wasson@uregni.gov.uk](mailto:john.wasson@uregni.gov.uk)

- 1.12 Our preference would be for responses to be submitted by e-mail.
- 1.13 Your response may be made public by the Utility Regulator. If you do not want all or part of your response or name made public, please state this clearly in the response by marking your response as 'CONFIDENTIAL'
- 1.14 As a public body and non-ministerial government department, we are required 4 to comply with the Freedom of Information Act (FOIA). The effect of the FOIA may be that certain recorded information contained in the consultation responses is required to be put in the public domain. Hence, it is not possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat them as confidential. It is therefore important that respondents take account of this and in particular, if requesting that we treat their responses as confidential.
- 1.15 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 2018 (DPA)).
- 1.16 As stated in the GDPR Privacy Statement<sup>6</sup> for consumers and stakeholders, any personal data contained within your response will be deleted once the matter being consulted on has been concluded though the substance of the response may be retained.
- 1.17 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, we will ask respondents to supply a redacted version of the response which can be published.

---

<sup>6</sup> <https://www.uregni.gov.uk/privacy-notice>



1.18 This document is available in other accessible formats, such as large print, Braille, audio cassette and a variety of relevant minority languages if required. To request this, please contact John Wasson, either 028 9031 6625 or email to [Gas\\_networks\\_responses@uregni.gov.uk](mailto:Gas_networks_responses@uregni.gov.uk).



## 2. Background

### Background to the Factors

- 2.1 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.
- 2.2 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.
- 2.3 Since their inception in 2015, we have followed a policy of aligning the seasonal multiplier factors with those offered in the Republic of Ireland. We consider that this alignment is beneficial to ensure there is no perverse pricing signal which affects the decisions of all-island electricity generators.
- 2.4 The seasonal factors have been set to incentivise suppliers to make more use of the network in the summer and shift demand away from the winter peak. They were set to provide a balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system.
- 2.5 This paper will assess if these factors continue to operate as intended and proposes to smooth the factors from October 2024.

### Current Factors

- 2.6 Following last year’s consultation document, we decided to maintain the factors at the 21/22 rate. However, it was highlighted that we intended to carry out a review with a view to amending the factors.
- 2.7 We indicated that the review would:
  - a) Consider how to better reflect the actual seasonality of flow and to reduce the volatility caused by daily capacity variances in the winter period.
  - b) Evaluate if the increased volatility which accompanies high seasonal factors in winter is outweighed by the benefits of encouraging suppliers to choose to book capacity in the summer.
  - c) Consider if the seasonal factors have been effective in encouraging shippers to make more use of the network in the summer and shift



demand away from the winter peak.

- d) Ensure that any revised factors continue to provide a balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system.
- e) Assess any impact on the use of capacity products as a result of the expiry of the Initial Entitlement of Entry Capacity.
- f) Recognise that Respondents in previous years requested that proposed changes should allow sufficient time to prepare ahead of the tariff calculations.
- g) Continue engagement with CRU around maintaining alignment with RoI.

These aspects are considered in Chapter 4.

## **Consultation with Ofgem**

2.8 Ofgem (Office for Gas and Electricity Markets) in Great Britain has published its Article 28 decision for gas year 23/24 on the basis of maintaining its current factors<sup>7</sup>. We keep in regular contact with Ofgem to monitor any matters which affect both regions.

## **Consultation with CRU and Alignment with RoI**

2.9 We also keep in regular contact with CRU particularly in recognition of our policy of all-island alignment.

2.10 Our decision in 2015 to align factors was based on the commercial link between the NI and RoI Networks made by the Single Electricity Market (SEM). Although the base charges between the two networks are different, there is potential for significant difference between the daily charges due to different seasonal factors.

2.11 CRU has advised the UR that they intend to consult to maintain their seasonal multipliers for gas year 23/24.

---

<sup>7</sup> <https://www.ofgem.gov.uk/sites/default/files/2023-04/20230213%20Article%2028%20TAR%20NC%20Consultation%20Decision.pdf>



### 3. Annual Consultation

3.1 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
- 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

These aspects are considered in Chapter 5.

#### **Discount for Interruptible Capacity Charge**

3.2 The TAR NC requires that discounts are offered in specific circumstances, particularly for interruptible capacity and for storage facilities. Article 16 specifies how to calculate the discount for an interruptible capacity charge.

3.3 The current postalised charges do not include an interruptible tariff, as only firm capacity is offered. The NI Gas Capacity Statement<sup>8</sup> indicates that the NI Gas Network has sufficient capacity to meet forecasted demand for the next ten years.

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

#### **Discount for Capacity Charge for Storage**

3.5 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.

3.6 As there are no storage facilities in NI, we do not propose to publish a

---

<sup>8</sup> <https://gmo-ni.com/publications#gas-statement>



storage discount for the Gas Year starting 1 October 2023.

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



## 4. Review of Seasonal Multiplier Factors

- 4.1 As previously indicated in paragraph 2.7, we said we would review a number of matters in this year's consultation, these are addressed in the following sections:

### Seasonality and Volatility

- 4.2 We said that we intended to consider how to better reflect the actual seasonality of flow and to reduce the volatility caused by daily capacity variances in the winter period.
- 4.3 The Annual Postalisation Reconciliation for Gas Year 21/22<sup>9</sup> resulted in a charge to suppliers of £927,979. This comprised higher required revenue of the transmission system operators by £3,098,583 and higher revenue collected from suppliers of £2,169,547. Table 1 below is extracted from the publication to show the breakdown of the additional revenue collected.

Table 5 Revenue	Revenue Collection (£)		Variance	
	Forecast	Actual	Value	%
Annual Exit	34,507,784	35,304,859	797,075	2.3%
Annual Entry	19,006,664	21,114,778	2,108,114	11.1%
Quarterly Entry	319,149	894,810	575,661	180.4%
Monthly Entry	385,721	800,222	414,501	107.5%
Daily Entry	4,231,763	2,368,569	-1,863,194	-44.0%
Total Capacity	58,451,081	60,483,238	2,032,157	3.5%
Commodity	3,077,160	3,214,550	137,391	4.5%
Total Revenue	61,528,241	63,697,788	2,169,547	3.5%

**Table 1 - Extract from Annual Postalisation Reconciliation 21/22**

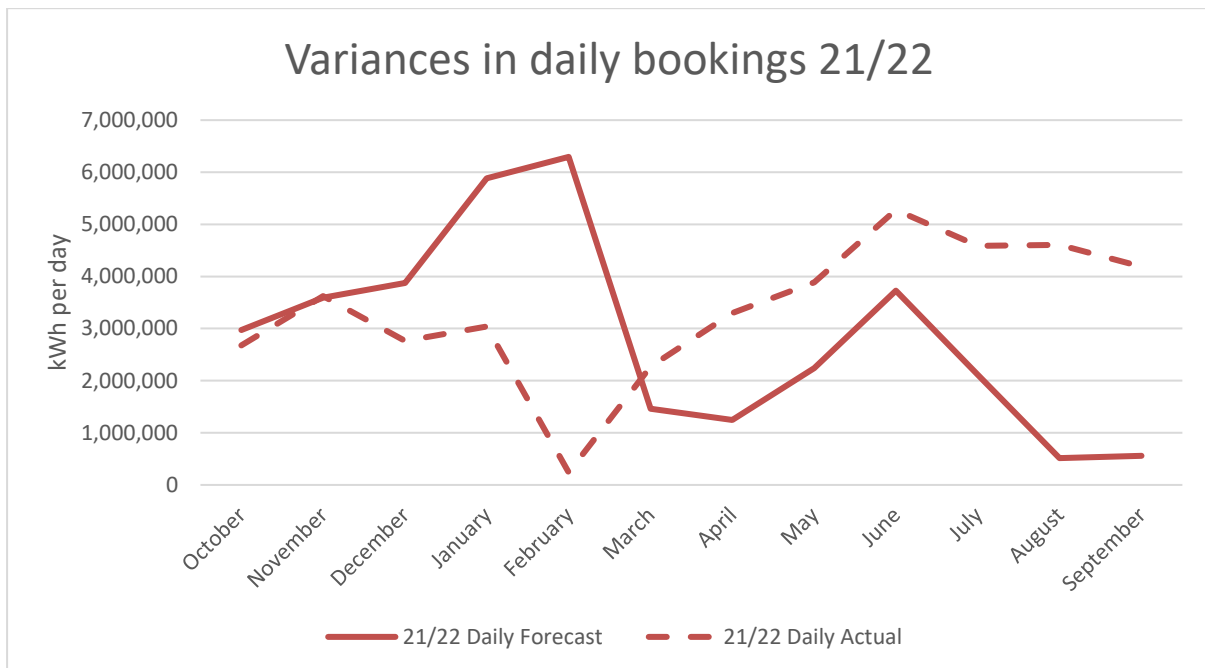
- 4.4 For most of the products, revenue was higher than forecast, most noticeably at annual exit and annual entry. In contrast, revenue from daily entry capacity bookings were almost half of the forecast amount, with a variance of £1,863,194.
- 4.5 The actual daily capacity booked, was higher than forecast<sup>10</sup>, but occurred at a higher rate in summer and were significantly reduced in winter. The seasonal factor makes daily entry capacity in the winter period up to eight times higher than the annual rate, and, correspondingly, the charges are much lower in summer.

<sup>9</sup> [https://gmo-ni.com/assets/documents/Annual-Reconciliation-Explanatory-Note-GY2021-22\\_230127\\_174333.pdf](https://gmo-ni.com/assets/documents/Annual-Reconciliation-Explanatory-Note-GY2021-22_230127_174333.pdf)

<sup>10</sup> Total Actual Daily Entry Capacity was 40.5mkWh compared to forecast of 34.5mkWh



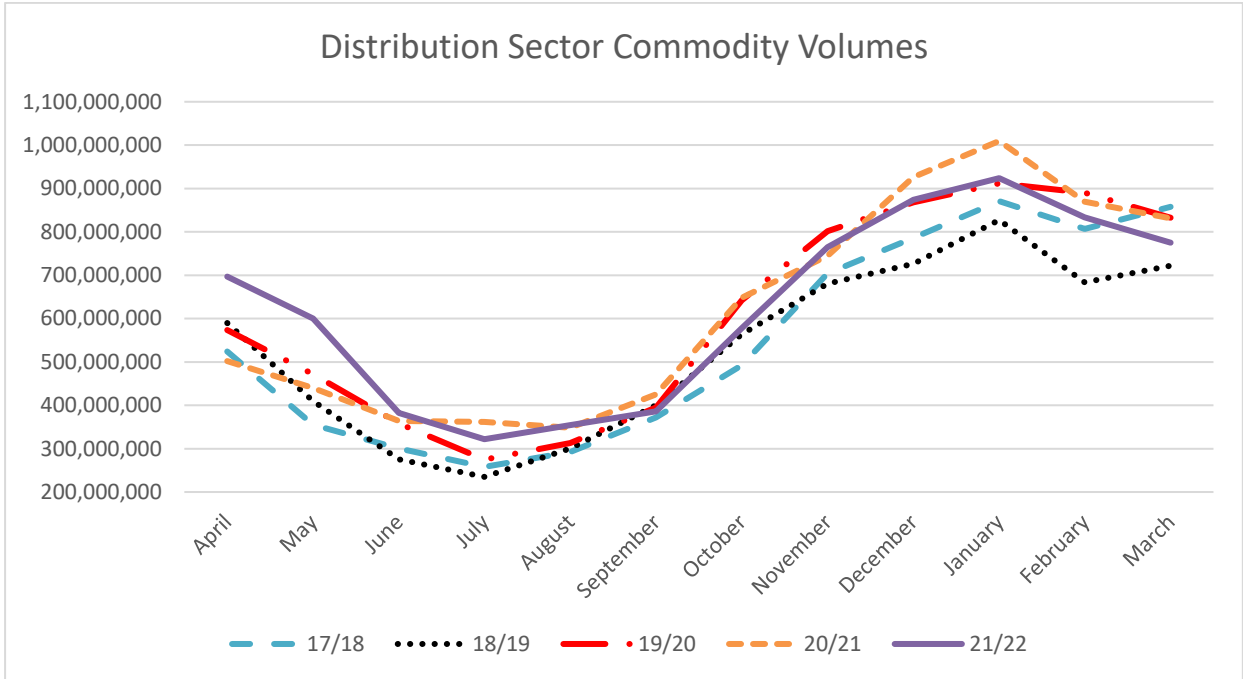
- 4.6 Since their introduction in 2015, the variances in daily capacity bookings have been a key component of the year-end reconciliation amount.
- 4.7 We recognise that forecasting of short-term products is intrinsically difficult for suppliers, but the impact of volatility in reconciliation payments is felt across all suppliers.
- 4.8 Figure 1 illustrates how the actual and forecast daily entry capacity varied across the year.



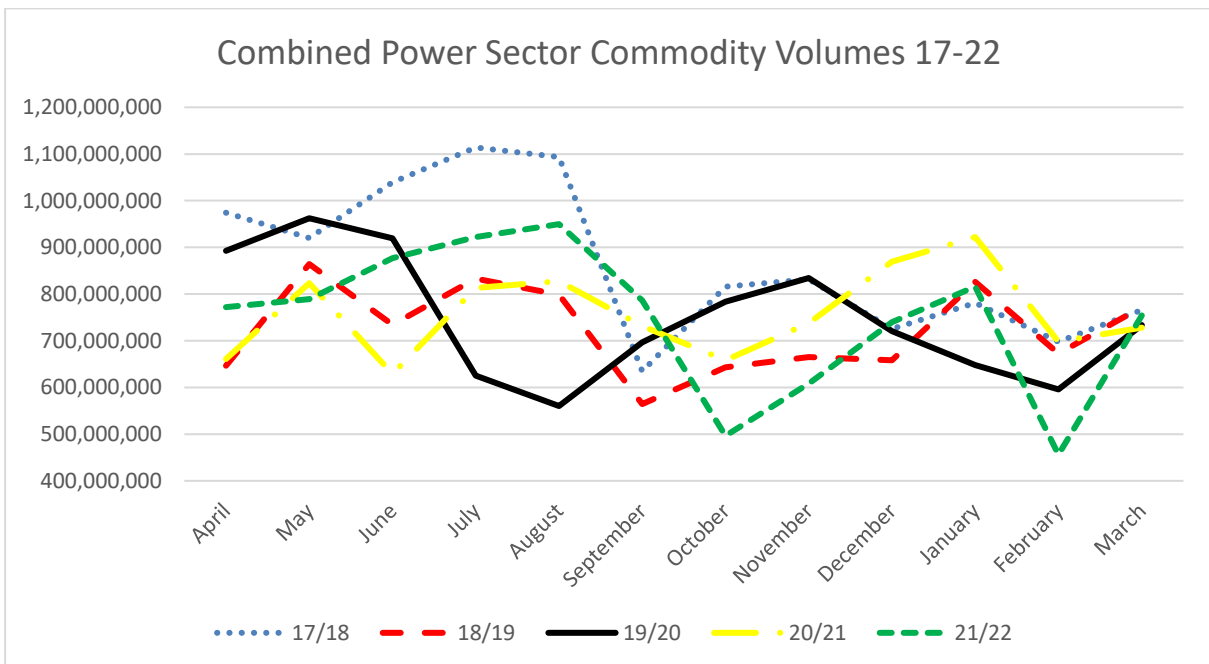
**Figure 1 – Variances from Annual Postalisation Reconciliation 21/22**

- 4.9 To explore the seasonality matter further, we have looked at the pattern of actual volumes separated into distribution volumes and power sector volumes.
- 4.10 Figure 2 illustrates the commodity volumes in the distribution sector from 2017 to 2022 and conveys clear seasonal flows with an evident peak in the winter with lower demand in summer. It should be noted that the distribution sector does not generally avail of short-term entry capacity products.





**Figure 2 – Distribution Sector Commodity Volumes 17-22**



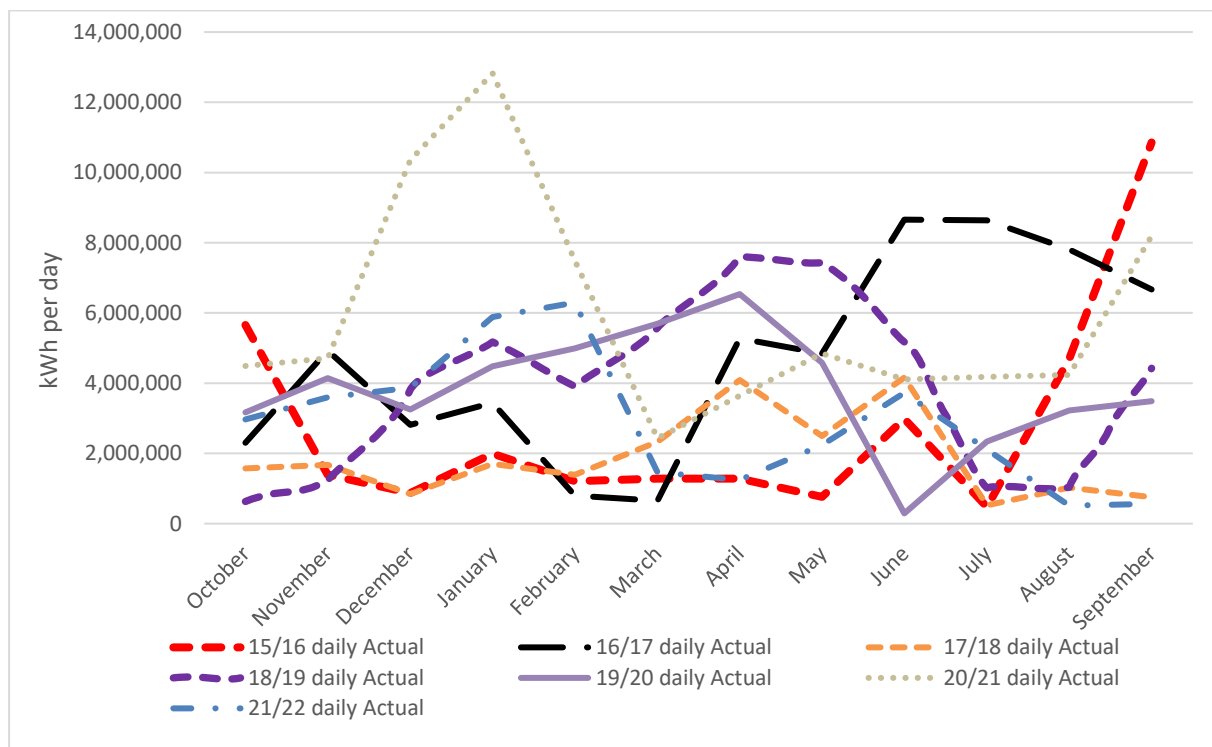
**Figure 3 – Combined Power Sector Commodity Volumes 17-22**

4.11 In contrast, Figure 3 above conveys the commodity volumes witnessed in the power sector. The power sector, which does avail of the use of short-term capacity products, does not display a clear pattern of seasonality.



## Effectiveness of seasonal factors

- 4.12 The second matter we said we would review was to consider if the seasonal factors have been effective in encouraging shippers to make more use of the network in the summer and shift demand away from the winter peak.
- 4.13 Figure 4 conveys the actual daily bookings from gas years 15/16 to 21/22 and shows a trend for higher daily capacity bookings between April and June. An outlier to these years is 20/21 which saw the daily bookings peak in December, January and February.



**Figure 4 - Daily Actual capacity bookings 2015 – 2022**

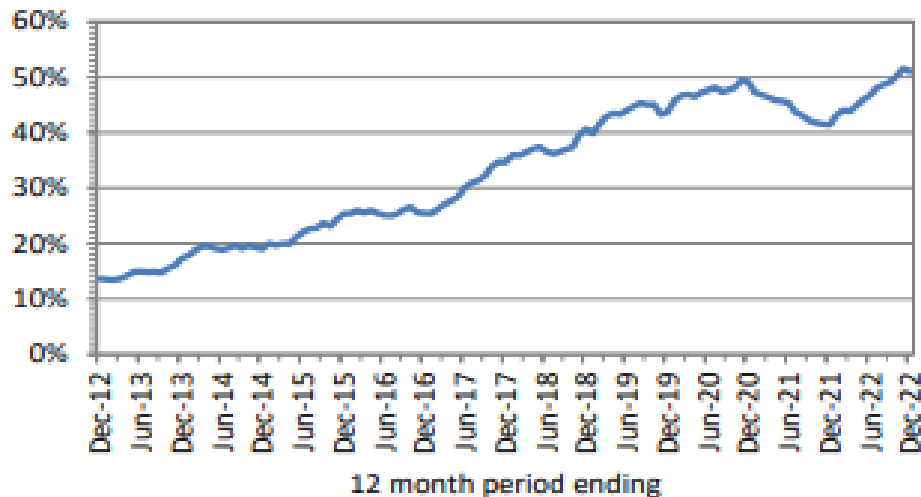
- 4.14 Per the Northern Ireland Gas Capacity Statement 23/32<sup>11</sup> gas-fired power generation is relied on by the electricity system as a flexible back-up for renewable generation. It reports that peak daily gas demand is increasing, partly because of increased distribution connections, but also due to an increased reliance on natural gas in the wider energy transition, as a back up to the increasing penetration of renewable energy (e.g. when wind availability is low). For example, wind availability was lower in the 2020/21 year, which increased the demand for gas-fired generation and may have contributed to the winter peak observed in Figure 4.
- 4.15 Figure 5 has been taken from the Department for the Economy's publication on Electricity Consumption and Renewable Electricity Generation in Northern

<sup>11</sup> [NIGCS-2022-23-to-2031-32-FINAL.pdf \(gmo-ni.com\)](https://www.gmo-ni.com/NIGCS-2022-23-to-2031-32-FINAL.pdf)



Ireland<sup>12</sup> and shows the increase in the proportion of electricity consumption coming from renewable sources. The report also highlights that 85.3% of renewable energy consumed in Northern Ireland is generated from wind.

- 4.16 Figure 5 shows a slight decrease in electricity generation from renewable sources in 2021, which appears to align with the increase in daily gas capacity bookings in Figure 4. This highlights how the power generation sector's booking patterns are influenced by the availability of wind power.



**Figure 5 - Annual Average % Electricity Consumption from Renewable Sources**

- 4.17 The lack of a clear seasonal pattern in daily capacity bookings in Figure 4 would suggest that the use of daily capacity products are influenced more by wind conditions rather than seasonal factors.

### **Evaluation of volatility due to high seasonal factors**

- 4.18 The third matter for review is to evaluate if the increased volatility which accompanies high seasonal factors in winter is outweighed by the benefits of encouraging suppliers to choose to book capacity in the summer.
- 4.19 As outlined earlier in this chapter, there is little evidence that the seasonal factors influence the use of daily gas capacity.

### **Continue to provide signals for efficient investment**

- 4.20 We also said we that any review should ensure that any revised factors continue to provide a balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission

<sup>12</sup> <https://www.economy-ni.gov.uk/sites/default/files/publications/economy/Issue-26-Electricity-Consumption-and-Renewable-Generation-in-Northern-Ireland-January-2022-to-December-2022.pdf>



system.

- 4.21 Paragraph 4.14 notes that the Northern Ireland Gas Capacity Statement 23/32 highlighted an increase in the peak daily demand because of an increase in the distribution sector but also due to an increased reliance on natural gas in the wider energy transition.
- 4.22 This aligns with our analysis that the seasonal multipliers do not appear to influence the seasonal booking of capacity and therefore do not influence any investment signals.

### **Assessment following expiry of Initial Entitlement of Entry Capacity**

- 4.23 We undertook to assess if there was any impact on the use of capacity products as a result of the expiry of the Initial Entitlement of Entry Capacity.
- 4.24 The Initial Entitlement of Entry Capacity<sup>13</sup> was introduced in 2015, alongside the introduction of entry capacity for the first time, to provide certainty to suppliers that they would have access to entry capacity corresponding to their firm exit capacity. The entitlement ran for a five-year period before it expired in September 2020.
- 4.25 Whilst the Initial Entitlement of Entry Capacity was in place, it was noted that there was a relatively low use of non-annual entry products. This indicated that suppliers whose capacity requirement was met by their Initial Entitlement did not need to avail of non-annual entry capacity products.
- 4.26 Since the expiry of the Initial Entitlement of Entry Capacity in September 2020, two gas years have passed which will now enable us to perform an analysis and make direct comparisons.

---

<sup>13</sup> Following a consultation process in the summer of 2014 as part of the process to comply with the network code on capacity allocation mechanisms (the CAM NC) and introduce entry capacity for the first time, it was decided that suppliers would receive an Initial Entitlement of Entry Capacity. This Entitlement, which corresponded to their firm exit capacity, ran for a five year period until September 2020.



Figure 6

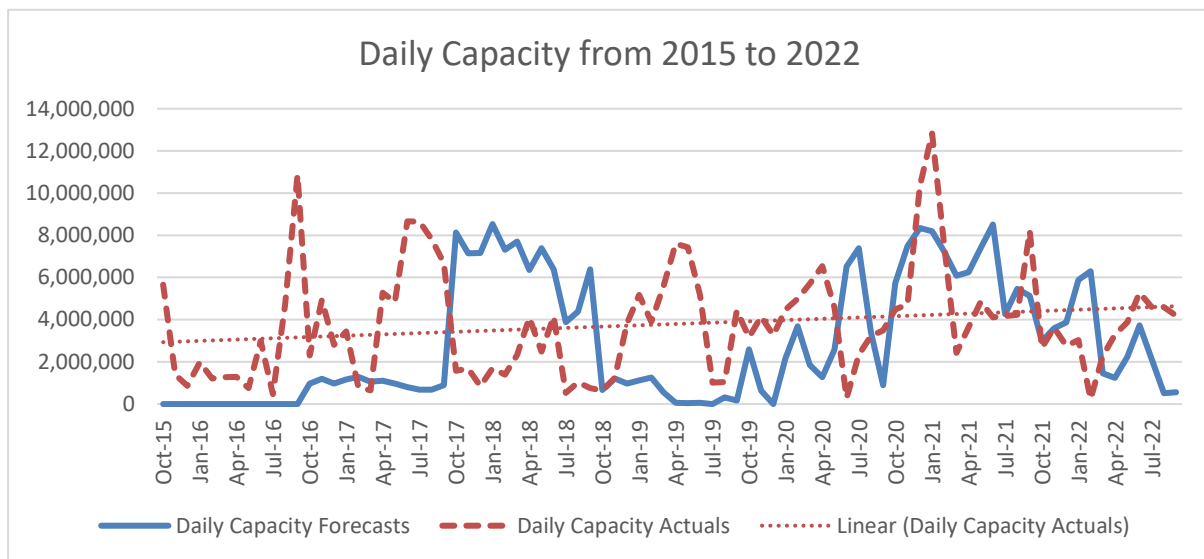


Figure 6 – Daily Capacity from 2015 to 2022

- 4.27 Figure 6 conveys that daily capacity product usage has increased slightly since 2015, as indicated by the trend line. The growth, however, does not appear to be significant.
- 4.28 Although the overall usage of non-annual products has increased, there is no indication of a significant increase following the expiry of the Initial Entitlement of Entry Capacity.

### Timescale for any proposed changes

4.29 We also undertook to recognise that Respondents in previous years requested that proposed changes should allow sufficient time to prepare ahead of the tariff calculations.

4.30 This extract from our Decision on Seasonal Multiplier Factors for Gas Transmission, 21 May 2021 summarises the responses on this matter:

*“3.4 Some respondents asked that the notice of any changes should be longer than indicated in the consultation, and for the review to involve the gas industry.*

- a) *EAI requests at least one year, ideally two years, notice of changes to factors to allow for amendments to commercial arrangements and longer-term user contracts. It states that full industry engagement in the review process would increase transparency and “contribute to enhancing investor certainty of cost estimates”*



- b) *EP Ballylumford and EP Kilroot urges UR to take account of the efficient operation of the SEM. They request that any changes are introduced incrementally, with full industry engagement and at least one year's notice of the change, in order to allow suppliers to make adjustments.*
- c) *PPB urges that any review to change the factors be undertaken as soon as possible so that gas users have time to reflect and adjust their gas capacity booking strategy to meet their needs."*

4.31 We have considered these requests, and, in this paper, we propose seasonal multiplier factors for both the upcoming Gas Year, 23/24 and also for the following Gas Year, 24/25.

### **Continue engagement with CRU around maintaining alignment with RoI.**

4.32 As noted in paragraphs 2.9 to 2.11 we remain in regular contact with CRU in recognition of all-island alignment.



## 5. Aspects to Consider

- 5.1 Article 28(3) of the TAR NC requires that we take into account the views of respondents on a number of aspects, each of which is explored in this section.

### **The Balance between short term and long term**

- 5.2 Network Operators look for signals on changes in demand as they plan the future development of their networks with stable capacity bookings providing a good indication of future demand. The non-annual factors should therefore be set at a level that continues to encourage annual capacity booking.
- 5.3 The analysis in chapter 4 demonstrates that the use of non-annual entry capacity products is influenced more by wind conditions than by seasonal multiplier factors.

### **The Impact on Revenue Recovery**

- 5.4 Currently, the use of short-term capacity in winter, charged at a premium to the annual capacity charge, can increase total revenue which reduces the annual capacity tariff. This means that the seasonal multiplier factors can provide a benefit to all Users, including those which do not use the factors.
- 5.5 However, the high seasonal factors in winter increases the quantum of year-end reconciliation amounts when actual bookings differ from forecast. This can be reduced by smoothing the seasonal multiplier factors.

### **Avoid Cross Subsidy and Enhance Cost Reflectivity**

- 5.6 It is a general principle that Users should pay for costs that they create so that the charges are generally cost reflective. To do this, the charges should avoid cross subsidy. The nature of the postalised system, where shippers have the same charge regardless of how far the gas travels, means that some element of cross subsidy is inevitable.
- 5.7 We continue to hold the view that the cross-subsidy inherent in postalisation allows for equitable treatment of all potential network users across Northern Ireland by facilitating network extensions. These network extensions have allowed a greater amount of the population to have access to natural gas to allow greater environmental benefits as network users switch to gas from more polluting fossil fuels. In addition to environmental benefits and equitable treatment, the long-term network charges are forecast to be lower as a result of the additional network users contributing more revenue than pipeline costs. This was fully explained and illustrated in our Decision Paper



on the Tariff Network Code<sup>14</sup>, published in December 2018.

## Situations of Physical and Contractual Congestion

5.8 The NI Gas Capacity Statement<sup>15</sup> provides an assessment of the ability of the Northern Ireland (NI) gas transmission system to deliver demand over a number of potential forecast and additional demand scenarios within the next ten years up to 31/32.

5.9 The most recent review for 22/23 noted that the analysis which was conducted using a specific set of assumptions identified that Moffat will become congested in gas year 23/24 and nominations will be required at the South North Entry point. It has been noted in the NI Gas Capacity Statement that:

*“As the system reaches capacity, the level of flexibility that can be offered is reduced and therefore more accurate and timely nominations within day will become more important to allow TSOs to better operate the system in order to benefit all users of the NI gas system.”*

## Impact on Cross Border Flows

5.10 As all the gas which enters the NI Network is used within NI, with no gas passing through to another region, the NI Network has no cross-border trade.

5.11 If Northern Ireland were to have different seasonal multiplier factors to the Republic of Ireland, this may affect the position of power generators in the merit order in the SEM. This may lead to electricity generation being dispatched in the one region which may otherwise have been generated in the other, due to differing seasonal multiplier factors.

## Impact on Economic and Efficient Use of the Network

5.12 We have considered whether the seasonal multipliers actively encourage the economic and efficient use of the network and have identified that the increased supply of wind-power generation has resulted in less reliance on gas-powered generation in winter when wind is more prevalent. In contrast, in summer when wind tends to be less reliable, the need for gas-fired generation tends to increase.

5.13 The analysis in chapter 4 demonstrates that the use of non-annual entry capacity products is influenced more by wind conditions than by seasonal

<sup>14</sup> [Decision on harmonised transmission tariffs for gas | Utility Regulator \(uregni.gov.uk\)](https://www.uregni.gov.uk/decision-on-harmonised-transmission-tariffs-for-gas)

<sup>15</sup> [NIGCS-2022-23-to-2031-32-FINAL.pdf \(gmo-ni.com\)](https://www.gmo-ni.com/NIGCS-2022-23-to-2031-32-FINAL.pdf)





multiplier factors.

## **Improve Cost-Reflectivity of Reserve Prices**

- 5.14 The postalised regime is designed to ensure that the transmission services revenue is fully recovered within year. The year-end reconciliation ensures that any over- or under-recovery is dealt with shortly after the end of the year.
- 5.15 The difference between forecast and year end postalised charges will (in combination with other factors, such as differences between forecast and actual revenue requirements) determine the size of the reconciliation payment, which is either paid to, or due from, Shippers under the NI Network Gas Transmission Code at the end of the Gas Year.
- 5.16 As noted in paragraph 4.7 the variances in daily capacity bookings have been a key component of the year-end reconciliation amount. The current high seasonal factors, which increase the daily capacity charge in winter, have led to variances causing high reconciliation amounts. The smoothing of multipliers could benefit shippers by reducing the quantum of any variance in the winter period.



## 6. Proposal

- 6.1 The analysis in chapter 4 demonstrates that the use of non-annual entry capacity products is influenced more by wind conditions than by seasonal multiplier factors.
- 6.2 On balance, we consider there are sufficient reasons to make amends to the current factors and as such we propose to smooth the seasonal factors.

### **Gas Year 23 - Maintaining the current factors**

- 6.3 We propose to maintain the current factors for gas year 23/24. This has been proposed as some respondents had previously requested additional notice of any changes that we intend to implement.

### **Gas Year 24 - Smoothing the Seasonal Factors**

- 6.4 From gas year 24/25 onwards, we propose to smooth the seasonal factors, as shown at Table 4.

### **Conclusion**

- 6.5 We are seeking the views of respondents on our proposals and have asked a number of consultation questions in Chapter 7. Details on how to respond to this consultation are set out in Chapter 1.



## Current and Proposed Factors

<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

**Table 2 - Gas Product Multiplier and Times Factor Table**

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.

<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

**Table 3 - Totals of Current Seasonal Multiplier Factors**



<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	0.3375	0.125025	0.0076649	0.0076649

**Table 4 – Proposed Smoothed Factors**

<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 over 365 days</b>			
		<b>Quarterly x 4</b>	<b>Monthly x 12</b>	<b>Daily x 365</b>	<b>Within Day x 365</b>
Oct - Sept	1.0000	1.35	1.5000	2.7976885	2.7976885

**Table 5 – Annual Totals for Proposed Smoothed Factors**



## 7. Consultation Questions

- 7.1 Do respondents agree with our proposal to smooth the seasonal multiplier factors?
- 7.2 To what extent do respondents consider that smoothed seasonal multipliers might alter how shippers book annual and non-annual capacity and please provide evidence.
- 7.3 Do respondents have any views on how to better manage the forecasting accuracy of non-annual capacity bookings?
- 7.4 How do respondents consider the smoothing of seasonal multiplier factors might affect the year end reconciliation amount and what mitigations are available?
- 7.5 Do Respondents consider there are any further elements that should be considered?
- 7.6 Is there any other evidence that UR should consider?