



An Coimisiún
um Rialáil Fóntas
Commission for
Regulation of Utilities

An Coimisiún um Rialáil Fóntais
Commission for Regulation of Utilities

Gas Transmission Tariff Methodology – Tariff Network Code Article 28 Consultation Gas year 2022/23

Consultation Paper

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CRU Draft Strategic Plan 2022-24

<h3>Our Mission</h3> <ul style="list-style-type: none">• Protecting the public interest in water, energy and energy safety.	<h3>Our Strategic Priorities</h3> <ul style="list-style-type: none">• Ensure Security of Supply• Drive a Low Carbon Future• Empower and Protect Customers• Enable our People and Organisational Capacity
<h3>Our Vision</h3> <ul style="list-style-type: none">• Safe, secure and sustainable supplies of energy and water, for the benefit of customer now and in the future	

Executive Summary

Gas Networks Ireland (GNI) owns and operates the gas transmission network. Regulated tariffs apply for the use of that system. The CRU sets the methodology for how those tariffs are calculated. The tariffs are designed to allow GNI, as the network operator, to recover the annual revenue set by the CRU to operate the network in a safe and efficient manner.

As part of the annual tariff setting process, the CRU is required under Article 28 of the European Tariff Network Code to consult on the following:

- Levels of multipliers and seasonal factors;
- Levels of discounts (e.g. discount for Virtual Reverse Flow).

The role of these items in the tariff setting process are as follows:

- **multipliers and seasonal factors are applied to calculate the tariffs for non-annual products:** The CRU's transmission tariff methodology sets the tariffs for annual capacity at the transmission entry and exit points. In order to calculate the tariffs for non-annual capacity products (i.e. quarterly, monthly, daily) the annual tariffs are combined with

multipliers¹ and seasonal factors². Therefore, the levels of these factors determine the tariffs for the non-annual capacity products. The multipliers & seasonal factors are set to incentivise certain behaviour among gas system users.

- **Setting the cost of virtual reverse flow:** The Tariff Network Code allows for adjustments/ discounts. Currently a discount is only applicable for Virtual Reverse Flow (VRF).³ VRF is a 'reverse flow' service offered on a virtual interruptible basis, at the Interconnection Points, to enable Shippers to virtually flow gas from Ireland via Moffat and into Ireland via Gormanston.⁴ VRF is a day-ahead interruptible product. As it is an interruptible product it receives a discount. Therefore, the level of the discount (referred to as the A-factor), amongst other things, determines the level of the VRF tariff.

Last year, the CRU examined the multipliers and seasonal factors and VRF and decided to not make any changes in the 2021/22 tariffs (CRU/21/049).

Multipliers and seasonal factors

Though no changes to the multipliers and seasonal factors were ultimately implemented for 2021/22, consideration, based on detailed analysis, was given to relatively minor changes to the seasonal factors. The proposed changes were to reflect changing uses of the gas network; primarily linked to the cessation of gas storage activities and the changing role of gas fired generators in the energy transition. On balance, and considering feedback, the CRU considered that it was not the right time to adjust the seasonal factors. In making that decision, the CRU noted that the proposed change and its impact were relatively minor and it was not addressing any measured harm but rather seeking potential benefits. More generally, the CRU considered it important to further monitor the impacts of the energy transition before implementing any resultant changes to multipliers or seasonal factors. This would reduce the risk of unintended consequences.

¹ Multipliers determine the multiple of the annual capacity product tariff, which is applied to a non-annual capacity product to calculate its tariff. For example, the monthly multiplier is 1.5, which means that buying monthly capacity for each month in the year will cost 1.5 times more than buying the annual capacity product.

² Seasonal factors are used to create a profile for the non-annual capacity products across the year. This leads to different prices for a non-annual capacity product at different times of year. For example, the monthly product is more expensive in the winter but is cheaper in the summer.

³ The tariff network code requires that discounts are provided for storage facilities and that they may be applied for LNG facilities, however these do not currently exist on the Irish network.

⁴ For example, if there is a total nomination of 100 units of gas for delivery from GB to ROI and a gas shipper in Ireland wishes to virtually transport 10 units of gas from ROI to GB, these 10 units are netted off the 100 units, resulting in the delivery of 90 units into the ROI gas network.

On balance the CRU does not consider it appropriate to change the multipliers and seasonal factors for the tariff year 2022/23. This will allow for more time to observe and tailor changes to changing uses of the network as the energy transition further progresses. For example, it will provide time to consider the impacts of European Commission's [REPowerEU](#) proposals. In response to the war between the Ukraine and Russia the European Commission, seeks to make Europe independent from Russian fossil fuels well before 2030 by, *inter alia*, diversify gas supplies. This includes, delivering larger volumes of biomethane and renewable hydrogen production and imports. Such changes, driven by the war between Ukraine and Russia, will have to be kept under close review to ensure that their impact can be assessed, and appropriate changes made, in a timely manner.

Based on the above, the CRU proposes to maintain the combined multiplier & seasonal factor profile as follows for gas year 2022/23.

Table: Combined multiplier & seasonal factor profile as a % of annual product

Month	Quarterly %	Monthly %	Daily %
October	38.43%	12.81%	0.64%
November		12.81%	0.64%
December		17.08%	1.14%
January	80.69%	29.89%	1.99%
February		34.16%	2.28%
March		25.62%	1.71%
April	13.27%	12.81%	0.64%
May		0.97%	0.05%
June		0.97%	0.05%
July	2.61%	0.97%	0.05%
August		0.97%	0.05%
September		0.97%	0.05%
<i>Total</i>	<i>135.0%</i>	<i>150.0%</i>	<i>279.44%</i>

Virtual reverse flow discount:

In the 2021 Article 28 consultation paper (CRU/21/14⁵), the CRU presented detailed analysis of data covering the full gas year since the new VRF tariff was introduced. The goal of that analysis was to assess whether the VRF discount was appropriate (i.e., gain insight into its economic value). However, the data did not point to any definitive factor or trigger point, which would determine the use of VRF. This made it challenging to set a discount (referred to as the A factor), the purpose of which is to reflect the economic value of the VRF product. As a result, the CRU could not put forward a reasoned alternative VRF discount in its consultation.

⁵ [Gas Transmission Tariff Methodology – Tariff Network Code Article 28 Consultation Gas year 2021/22](#)

The CRU requested the views of industry on its analysis, and welcomed any additional evidence or proposals (supported by data and analysis) for an alternative VRF discount (within the Art. 28 consultation scope) that could be considered as part of next year's consultation. The respondents did not put forward any proposals for an alternative VRF discount (within the context of the Art. 28 consultation scope). Given the available evidence the CRU is proposing to maintain the level of the discount (referred to as the A-factor) for gas year 2022/23. The numerous push and pull factors in play at any one time, continues to make it difficult to have full sight of what is driving the use of VRF. Importantly, the CRU has not identified any obvious negative outcomes for the gas market resulting from this.

Based on the above the CRU proposes that the level of the discount (referred to as the A-factor) will continue to be as follows for gas year 2022/23.

Table: Virtual reverse flow A-factor

Interconnection point	A-factor
Moffat	6
Gormanston	2.25

Case for change

As described above, it is being proposed that the seasonal factors, multipliers and virtual reverse flow discount remain unchanged. It is also being proposed that the market continues to be monitored to assess whether and when future changes to those factors may be required. The CRU will assess any proposed changes against the criteria set out in the network code while considering the context of the Irish gas market. This will build upon the detailed analysis presented last year (see [CRU/21/049](#)). To assist in future analysis, the CRU will discuss what market developments may warrant changes to the above factors at the Code Modification Forum. The analysis to support any change will also be discussed at that forum. If you have any suggestions as to the matters that should be considered in those discussions, please submit them in response this paper.

Public/ Customer Impact Statement

Gas Networks Ireland (GNI) owns and operates the gas network that supplies natural gas to customers in Ireland. The CRU is legally responsible for regulating the transmission and distribution network tariffs that GNI charges to users of the network. The CRU does so in the public interest. These tariffs allow GNI, as the network operator, to recover the annual revenue set by the CRU to operate the network in a safe and efficient manner.

The CRU has with this paper published a consultation on the value of multipliers, seasonal factors and levels of discounts. These items impact the price paid by companies using the gas network and the way in which these network users are incentivised to use the network. These costs may be passed on to the final customer. As such, it is important to keep the value of multipliers, seasonal factors and levels of discounts under review to ensure that they are set appropriately.

The CRU's examination of the multipliers and seasonal factors has not identified any reasons that justify a change in approach. As a result, no changes are being proposed.

Table of Contents

Table of Contents	1
1 Introduction	3
1.1 The Commission for Regulation of Utilities	3
1.2 Background	3
1.3 Purpose of this paper.....	4
1.4 Related documents.....	5
1.5 Structure of Paper	5
1.6 Responding to this paper	6
2 Multipliers & Seasonal Factors	7
2.1 Current Position	8
2.2 Gas Year 2022/23 Proposal	10
2.3 Summary and request for comment	10
3 Level of discounts	12
3.1 LNG.....	12
3.2 Interruptible discounts – Virtual Reverse Flow.....	12
3.2.1 Introduction	12
3.2.2 Purpose of VRF and challenge in setting the tariff	14
3.2.3 Current Position	15
3.2.4 Gas year 2022/23 proposal.....	15
3.2.5 Summary and request for comment.....	16
4 Case for change	17
5 Conclusion & next steps	18
5.1 Request for comment	18
5.2 Next steps	18

Glossary of Terms and Abbreviations

Abbreviation	Definition or Meaning
I&C	Industrial/Commercial
IP	Interconnection Point
PC4	Price Control 4
SAP	System average price
TSO	Transmission System Operator
ACER	Agency for the Cooperation of Energy Regulators
Art.	Article
EU	European Union
GB	Great Britain
GNI	Gas Networks Ireland
IBP	Irish Balancing Point
LNG	Liquefied Natural Gas
NBP	National Balancing Point
OFGEM	Office for Gas and Electricity Markets
RPM	Reference Price Methodology
SEM	Single Electricity Market
TAR NC	Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas
UR	Utility Regulator Northern Ireland

1 Introduction

1.1 The Commission for Regulation of Utilities

The Commission for Regulation of Utilities (CRU) is Ireland's independent energy and water regulator. The CRU was originally established as the Commission for Energy Regulation (CER) in 1999. The CER changed its name to the CRU in 2017 to better reflect the expanded powers and functions of the organisation. The CRU has a wide range of economic, customer protection and safety responsibilities in energy and water.

Under the Gas (Interim) (Regulation) Act, 2002, the CRU is responsible for regulating charges in the natural gas market. Under Section 14 of that Act, the CRU may set the basis for charges for transporting gas through the transmission system. The CRU does so in the best interests of gas customers. Our goal is to ensure that gas is safely and securely supplied and that the charges are fair and reasonable. This paper relates to factors impacting on gas transmission tariffs.

1.2 Background

Each year tariffs are set for GNI to recover revenue that it needs to operate and invest in the gas network. As part of the annual tariff setting process,⁶ the CRU analyses any additional revenue requests from GNI, over/under recoveries of revenue in the previous years and updated demand projections in order to calculate tariffs for the forthcoming gas year. As part of that process, the CRU is required to consult annually on certain elements feeding into the tariff setting process. This annual consultation is a requirement that stems from European requirements set out in the Tariff Network Code. The aspects that are consulted upon relate to transmission tariffs only and are:

- Levels of multipliers;
- Levels of seasonal factors;
- Levels of discounts for storage and LNG; and,
- Levels of discounts for interruptible capacity products (i.e. Virtual Reverse Flow).

This paper is seeking comment on those factors excluding LNG and storage facilities, the rationale being, there are currently no LNG or storage operators using the system and therefore

⁶ More detail as to the overall tariff setting process is available in (CRU/20/097).

no discount is applicable. An LNG operator can apply to the CRU for such a discount and the CRU will consult on its application.

Gas capacity charges are known as reference prices and are calculated on the basis of shippers booking a fixed capacity across the entire year (i.e. annual capacity). However, it is possible to book capacity over shorter periods (e.g. book for a month or a day). To set the prices of these non-annual products, so called multipliers and seasonal factors are applied.

- Multipliers determine the multiple of the annual capacity product tariff, which is applied to a non-annual capacity product to calculate its tariff. For example, the monthly multiplier is 1.5, which means that buying monthly capacity for each month in the year will cost 1.5 times more than buying the annual capacity product. It is more expensive to book these non-annual products, as these products provide more flexibility and can potentially increase system costs (see section 2 for further information).
- Seasonal factors are used to create a profile for the non-annual capacity products across the year. This leads to different prices for a non-annual capacity product at different times of the year. For example, the monthly product is more expensive in the winter but is cheaper in the summer. The cost is more expensive in winter as there is more demand on the system and this high demand can lead to increased system costs (e.g. building additional capacity), while the cost is less in the summer to incentivise increased utilisation of the network, which increases system efficiency.

The tariffs for the non-annual capacity products are calculated by multiplying the reference prices/ annual capacity tariffs by the above multipliers and seasonal factors. They lead to capacity prices that vary depending on the length of the product chosen and the time of the year in which it is booked. In contrast to capacity charges, commodity charges are the same regardless of the time of year or duration of gas flow.

For background on the work done in this area to date, please see CRU's 2021 Article 28 Decision (CRU/21/049) and section 1.2.1 of the CRU's consultation (CRU/21/14)

1.3 Purpose of this paper

This paper addresses the requirement of Article 28 of TAR NC which requires NRAs to consult on multipliers and seasonal factors annually. These on multipliers and seasonal factors summarised below:

- Levels of multipliers;
- Levels of seasonal factors; and,

- Levels of discounts for interruptible capacity products (i.e. Virtual Reverse Flow).

1.4 Related documents

Documents related to this publication are provided below:

- Gas Transmission Tariff Methodology – Tariff Network Code Article 28 Decision Gas year 2021/22 ([CRU/21/049](#))
- Gas Transmission Tariff Methodology – Tariff Network Code Article 28 Consultation Gas year 2021/22 ([CRU/21/114](#))
- CRU Call for Evidence Paper on Tariff Network Code Article 28 ([CRU/20/057](#));
- CRU Decision Paper on Harmonised Transmission Tariff Methodology for Gas ([CRU/19/060](#));
- CRU Consultation Paper on Harmonised Transmission Tariff Methodology for Gas ([CRU/18/247](#));
- ACER's analysis of the CRU consultation is available at this clickable [link](#);
- ACER's implementation monitoring report is available at this clickable [link](#)
- [Regulation \(EC\) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation \(EC\) No 1775/2005](#);
- [Commission Regulation \(EU\) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas](#); and,
- The current reference prices and GNI's Matrix model and simplified model are available at the following clickable [link](#).

Information on the CRU's role and relevant legislation can be found on the CRU's website at www.cru.ie.

1.5 Structure of Paper

This consultation paper is structured in the following manner:

- Section 1 provides an introduction and background, the purpose of this paper, related documents and how to respond to this consultation.
- Section 2 examines the levels of multipliers and seasonal factors used to derive tariffs for non-yearly capacity products.
- Section 3 examines the levels of discounts.
- Section 4 provides a summary and next step.

1.6 Responding to this paper

The CRU invites responses to the questions set out in this paper by 16 May 2022, preferably by email to gasnetworks@cru.ie. Alternatively, responses can be sent to:

Gas Networks Team,
Commission for Regulation of Utilities,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

The responses will be assessed and may be used to support changes to the multipliers and seasonal factors and discounts, which will be decided upon in time for the tariff year 2022/2023. Submissions on any of the points listed in this paper should be clear and specific, with analysis or rationale provided to support the views provided. Unless marked confidential, all responses may be published on the CRU's website. Respondents may request that their response is kept confidential.

The CRU shall respect this request, subject to any obligations to disclose information. Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality.

Responses from identifiable individuals will be anonymised prior to publication on the CRU website unless the respondent explicitly requests their personal details to be published.

Our privacy notice sets out how the CRU protect the privacy rights of individuals and can be found [here](#).⁷

⁷ <https://www.cru.ie/privacy-statement/>

2 Multipliers & Seasonal Factors

Multipliers determine the multiple of the annual capacity product tariff, which is applied to a non-annual⁸ capacity product (also known as shorter-term products) to calculate its tariff. It is more expensive to book these non-annual products, as they provide more flexibility to network users. This flexibility can potentially increase system costs as longer-term capacity bookings make it easier for GNI to identify periods of peak demand and plan for additional system investment where required. Also, shorter-term bookings can lead to increased revenue recovery volatility.

Seasonal factors are used to create a profile for the non-annual capacity products across the year. The profile sets different prices for a non-annual capacity product at different times of year. For example, the monthly product is set to be more expensive in the winter and cheaper in the summer. The cost is more expensive in winter as there is more demand on the system and this high demand can lead to increased system costs (e.g. building additional capacity), while the cost is less in the summer to incentivise increased utilisation of the network, which increases system efficiency.

In the interests of simplicity, the CRU has to date presented the multipliers and seasonal factors on a combined basis. See Table 2-1, which sets out the current combined multiplier & seasonal factor profile. This table presents the profile as a percentage of the reference price.

To understand how this works, consider the following example. The reference price for Moffat entry is €315/MWh. If you wanted to book monthly capacity for December, you could calculate the cost by referring to Table 1 and applying the relevant combined multiplier & seasonal factor; in this case 17.08%. That would result in the following – €315/MWh * 17.08% = €54/MWh.

Table 2-1: Combined multiplier & seasonal factor profile as a % of annual product

Month	Quarterly %	Monthly %	Daily %
October	38.43%	12.81%	0.64%
November		12.81%	0.64%
December		17.08%	1.14%
January	80.69%	29.89%	1.99%
February		34.16%	2.28%
March		25.62%	1.71%
April	13.27%	12.81%	0.64%
May		0.97%	0.05%
June		0.97%	0.05%
July	2.61%	0.97%	0.05%

⁸ In Ireland the non-annual products are quarterly, monthly, daily and within-day. As the within-day capacity product is set at the price of the daily capacity product it is not necessary to detail its cost in this section.

Month	Quarterly %	Monthly %	Daily %
August		0.97%	0.05%
September		0.97%	0.05%
<i>Total</i>	<i>135.0%</i>	<i>150.0%</i>	<i>279.44%</i>

The existing multiplier & seasonal factor methodology has been developed over a number of years by GNI and the CRU. They are based on, amongst other things, the principle of cost-reflectivity – i.e. that requirements for capacity during periods of high utilisation (peak demand days) are more likely to lead to additional network costs by potentially leading to requirements for additional infrastructure investment through reinforcing the network and building additional capacity.

The methodology adopted considers the allocation of historic peak demand days across the months of the year and uses these as a proxy for the probability of incremental demand in that month triggering investment. This implies a monthly tariff profile across the year as a percentage of the annual product tariff. In order to encourage long term bookings, a scaling factor is then applied to increase the relative attractiveness of the annual product in comparison to the short-term products. In addition, while the probability of peak demand days over the summer months was considered to effectively be zero, a minimum tariff was set for those periods. There were a small number of adjustments over time in consideration of things such as supporting seasonal gas storage and incentivising uptake of short-term products. However, in general, the multipliers and seasonal factors have been stable for the last decade.

2.1 Current Position

In accordance with Art. 28 of TAR NC the CRU is carrying out its annual consultation on multipliers and seasonal factors. Last year, the CRU decided to not change the multipliers and seasonal factors. The CRU is proposing to keep the multipliers and seasonal factor unchanged for the next tariff year also.

Detailed analysis was presented to support the decision to not change seasonal factors for the 2021/22 gas tariffs. As part of that analysis a minor change to the multipliers and seasonal factors was considered but ultimately not adopted. The proposed change was to reflect changing uses of the gas network; primarily linked to the cessation of gas storage activities and the changing role of gas fired generators in the energy transition. Ultimately it was decided not to adopt that change as it was deemed too early to effectively capture the likely changing uses of the gas network that the energy transition would drive. In other words, setting a small change now, without a greater evidence base to understand these future developments, presented an

undue risk of unintended consequences and potentially undesirable outcomes. In addition, the proposed change would have seen only small adjustments. It could be considered a refinement and was not designed to address any specific harm. Overall, and to reduce risks of unintended consequences, the CRU decided that the impacts of the energy transition should be further monitored before changes to multipliers or seasonal factors are considered on foot of them.

In relation to the energy transition, the potential for this decarbonisation of the gas network is recognised at national and European level. For example, in the European Commission's hydrogen strategy and specific actions in the government's Climate Action Plan to prepare for hydrogen. However, policies are still evolving as to how best to decarbonise the gas network. In addition, the war between Russia and Ukraine saw the EU Commission publish REPowerEU⁹, a proposed plan which seeks, *inter alia*, to speed up the roll-out of renewable gases and replace gas in heating and power generation. It is important that these policy developments are considered when assessing potential changes to multipliers and seasonal factors. Additional time to observe the impact of these proposals will assist in developing more robust changes to the multipliers and seasonal factors. It will allow changes to be more closely tailored to these changes and be timed to better match the pace of the energy transition. In addition, more information will be available next year from PC5 in relation to GNI's plans over the next five years (from October 2022 to end of September 2027) to deliver safe, secure, sustainable, and reliable low-carbon solutions that efficiently meet the gas customers' needs and Ireland's energy needs.

In considering whether to change the multipliers and seasonal factors, the CRU has also considered whether such changes could introduce possible distortions in the marketplace or impact on cross border flows. On 30 March 2022, the Utility Regulator in Northern Ireland published its consultation¹⁰ on seasonal multiplier factors for gas transmission charges. UR has proposed to maintain the seasonal multipliers for gas transmission charges for its 2022/23 gas year. This means that there is no change in terms of alignment of seasonal multiplier factors on the Island of Ireland and thereby maintaining the existing commercial link between NI and ROI networks in respect of the Single Electricity Market (SEM). Further, OFGEM (Office for Gas and Electricity Markets) has also published a consultation¹¹ proposing to maintain its existing seasonal multipliers factors. With no changes proposed in either of the neighbouring jurisdictions, maintaining the multipliers and seasonal factors at current levels would likely cause their impact on cross border flows to be unchanged.

⁹ https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511

¹⁰ [2022-03-29-consultation-on-seasonal-multiplier-factors-2022.pdf \(uregni.gov.uk\)](https://www.uregni.gov.uk/2022-03-29-consultation-on-seasonal-multiplier-factors-2022.pdf)

¹¹ [Article 28\(2\) TAR NC Consultation Notice \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/article/282-tar-nc-consultation-notice)

2.2 Gas Year 2022/23 Proposal

The CRU is proposing to make no changes to the multipliers and seasonal factors for gas year 2022/23, as set out in Table 2-2 below. On balance the CRU consider it appropriate to not change the multipliers and seasonal factors for the tariff year 2022/23. This will allow for more time to observe and tailor changes to changing use of the network as the energy transition further progresses. In addition, the CRU has not identified any harm in maintaining the existing seasonal factors and multipliers.

Table 2-2: Proposed Multipliers and Seasonal Factors

Month	Quarterly %	Monthly %	Daily %
October	38.43%	12.81%	0.64%
November		12.81%	0.64%
December		17.08%	1.14%
January	80.69%	29.89%	1.99%
February		34.16%	2.28%
March		25.62%	1.71%
April	13.27%	12.81%	0.64%
May		0.97%	0.05%
June		0.97%	0.05%
July	2.61%	0.97%	0.05%
August		0.97%	0.05%
September		0.97%	0.05%
<i>Total</i>	<i>135.0%</i>	<i>150.0%</i>	<i>279.44%</i>

The CRU will continue to monitor changes to the use of the gas network in the context of the energy transition as steps to decarbonise the gas network will continue and more changes are expected in response to new EU directives and the national Climate Action Plan. The CRU will keep the multipliers and seasonal factors under review as these changes occur and will also consider work undertaken by neighbouring NRAs in this area (e.g., Utility Regulator). The CRU will keep parties updated on this work through its annual Art 28. consultation. Going forward the level of detail provided in the consultation may vary depending on recent analysis and whether any need for change has been established.

2.3 Summary and request for comment

The CRU has examined the current environment and has come to the initial view that the multipliers and the seasonal factor profile should remain at their current levels.

The CRU is keen to hear the views of stakeholders and will consider these as part of any decision. If, as part of its decision, the CRU decides to change the seasonal factors, there will be ongoing monitoring in this area to identify impacts.

CRU Questions

1. Do you agree with the CRU's proposal to maintain the existing multiplier & seasonal factor profile for the 2022/23 tariff year? Please provide a rationale for your answer.

3 Level of discounts

3.1 LNG

TAR NC¹² allows for the adjustment (i.e. discount) of tariffs at entry points from LNG facilities. Unlike storage¹³, TAR NC allows for, but does not require, the application of discounts to LNG for the purposes of increasing security of supply. There are currently no LNG facilities in Ireland. However, there are LNG projects that could potentially be developed in the future.

In CRU/19/060 the CRU stated that it was of the view that it is in the public interest to continue to consider the case for LNG discounts as new information becomes available. To this end the CRU decided that proposed LNG projects can apply for a potential discount. The CRU set out non-binding criteria¹⁴, against which applications for discounts would be assessed and timelines for submissions (the CRU must be notified of an application 18 months before the start of the gas year in which discounts are sought, with a formal application 12 months before tariffs are set for that year).

The CRU continues to be of the view that this approach is appropriate. As the CRU has not yet set a discount, it cannot consult on the level of any LNG discount. The CRU will consult prior to setting an LNG discount in the future and will consult annually on the level of that discount as required by Art 28.

3.2 Interruptible discounts – Virtual Reverse Flow

3.2.1 Introduction

Virtual Reverse Flow (VRF) is a ‘reverse flow’ service offered on a virtual interruptible basis, at the Interconnection Points, to enable Shippers to virtually flow gas from Ireland via Moffat and

¹² Art. 9 – Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilitates and infrastructure ending isolation.

¹³ There are currently no storage facilities in operation in Ireland since the Kinsale gas fields began the blowdown of cushion gas. However, as stated in CRU/19/060, in the event that a storage facility began operation the CRU would apply at least a 50% discount in accordance with Art. 9. 1.

¹⁴ See Section 3.8.3. of CRU/19/060 for further information.

into Ireland via Gormanston.¹⁵ VRF is a day-ahead interruptible¹⁶ product and the only interruptible product.

In accordance with the CRU's TAR NC decision paper, for gas year 2019/20 a new tariff was introduced for VRF, which replaced the previous registration fee approach. The calculation of the VRF tariffs at Moffat and Gormanston are now based on the TAR NC principles and requirements for standard interruptible capacity products.

Art. 16 of TAR NC specifies the calculation of reserve prices for standard interruptible capacity products by applying an adjustment to the reserve prices for the corresponding standard firm capacity products.

The formula for calculating the adjustment which should be applied is set out in TAR NC and is as follows:

$$D_{i_{ex-ante}} = Pro \times A \times 100\%$$

Where:

$D_{i_{ex-ante}}$ is the level of the ex-ante (forecast) adjustment;

Pro Factor is the probability of interruption;

A Factor is the adjustment factor which should reflect the estimated economic value of the interruptible capacity product. The TAR NC restricts the A Factor to being equal to, or greater than one (i.e. it can only increase the level of reduction).

Full details on how the CRU sets the VRF tariffs for Moffat and Gormanston and the reasoning for its approach, can be found in section 3.11 of the CRU's TAR NC decision paper (CRU/19/060), in summary:

- The VRF tariffs are based on the Moffat exit point and Gormanston entry point reference prices, as calculated by the Matrix RPM.
- A Pro Factor of 8% is applied to the Moffat and Gormanston VRF products.
- A risk premium of 10% is applied to both the Moffat and Gormanston VRF products.

¹⁵ For example, if there is a total nomination of 100 units of gas for delivery from GB to Ireland and a gas shipper in Ireland wishes to virtually transport 10 units of gas from Ireland to GB, these 10 units are netted off the 100 units, resulting in the delivery of 90 units into the Irish gas network.

¹⁶ 'Interruptible' capacity means gas transmission capacity that may be interrupted by the network operator. As this capacity is not guaranteed to be available it is often discounted. VRF is interruptible as flows from GB to Ireland are required to enable VRF as highlighted by the example in footnote 15.

- A market interaction factor of 30% applies to the Moffat VRF product only to bring the price below that of the equivalent forward flow tariff for reasons of cross-border trade.

These inputs result in an A-factor of 6 for Moffat VRF and an A-factor of 2.25 for the Gormanston VRF.

It should be noted that in moving from the previous registration fee to the above tariff saw a large increase in the cost of using VRF. The CRU was cognisant of this and took measures to ensure that the tariff reflected the nature of the VRF product while also ensuring that the VRF tariffs were lower than their forward flow equivalents to help avoid cross-border flow distortions. Setting the tariff in this way was a pragmatic approach based on the balance of information available and is aimed at ensuring utilisation of the VRF service. More about the challenges of setting an appropriate VRF tariff are now discussed.

3.2.2 Purpose of VRF and challenge in setting the tariff

Generally, Irish wholesale gas prices are set by the GB price of gas plus the cost of transporting gas from GB to Ireland via the interconnectors, as GB gas is the marginal source of gas supply to Ireland. The national balancing point, commonly referred to as the NBP, is the notional location for trading GB natural gas. Therefore, the cost of gas at the NBP plus the cost of transportation to Ireland strongly influences the price at the Irish balancing point (IBP), i.e. the cost of wholesale gas in Ireland.

As there are currently no flows through the Gormanston IP, VRF is not bookable at this IP, and has not been used. However, it is bookable and has been used at the Moffat IP, i.e. to export gas from the IBP to the NBP. The data shows that it has typically been used by shippers who are active at the Bellanaboy entry point (i.e. those shipping gas from the Corrib gas field).

As the IBP price should in theory be above the NBP price, one expects that the majority of gas from the Corrib gas field will be sold to Irish customers, with VRF enabling any surplus to demand at the IBP to be sold at the NBP.¹⁷

These trades at the IBP and the use of VRF must be assessed in the round with market dynamics that can at times be complex. There are also numerous confidential contracts between gas undertakings (e.g. producers, shippers, and suppliers), which the CRU does not have sight of. The numerous push and pull factors at play at any one time, make it difficult to have full sight

¹⁷ Please note that not all gas is sold at the IBP and shippers can trade gas bilaterally to or from other balancing points; sourcing gas for example across the interconnector from GB. So, this surplus only reflects that Corrib was trying to sell more gas at the IBP than purchasers were willing to buy.

of what is driving the price of gas and the use of VRF. This makes it challenging to set a “correct” economic value or A factor for the VRF product.

3.2.3 Current Position

In setting the VRF tariffs, the CRU acknowledged these challenges and stated that it is difficult to predict all impacts of the new tariff. Given this, the CRU considered it important to assess, to the extent possible, the impacts of the new VRF tariff. In developing its 2021 consultation paper on Article 28 of the Tariff Network Code (CRU/21/14), the CRU analysed data covering the full gas year since the new VRF tariff was introduced. The goal of that analysis was to assess whether the VRF discount was appropriate (i.e., gain insight into its economic value). However, the data did not point to any definitive factor or trigger point, which would determine the use of VRF. This made it challenging to set a discount (referred to as the A factor), the purpose of which is to reflect the economic value of the VRF product.

The CRU requested the views of industry on its analysis, any additional evidence and welcomed proposals (supported by data and analysis) for an alternative VRF discount (within the Art. 28 consultation scope) that could be considered as part of next year’s consultation. The respondents did not put forward any proposals for an alternative VRF discount (within the context of the Art. 28 consultation scope). Therefore, in its Tariff Network Code Article 28 Decision of 2021 (CRU/21/049), based on the evidence gathered at the time, the CRU could not put forward a reasoned alternative VRF discount for consultation and the responses raised did not put forward any proposals for an alternative VRF discount (within the context of the Art. 28 consultation scope). In arriving at this decision, the CRU noted *“For reasons that are unclear to the CRU, it appears that participants currently prefer the option of commercial swaps of gas. Importantly, the CRU notes that it has not identified any harm from the current VRF tariff.”*

The CRU has examined further data in relation to the use of VRF, which shows there continues to be a very limited use of the VRF product since the new tariff came into effect in October 2019 (see **Error! Reference source not found.**).

Table 3-1 Use of VRF

<i>metric</i>	April ‘19 – September ‘19	October ‘19 – September ‘20	October ‘20 – September ‘21
No. of days in period	183	363	365
VRF used (no. of days)	121	10	1
VRF used (% of days)	66.12%	2.75%	0.27%

3.2.4 Gas year 2022/23 proposal

From the evidence gathered to date, both in the form of the quantitative data provided here and from previous consultations and decisions, the CRU still cannot put forward a reasoned alternative VRF discount. The data does not point to any definitive factor or trigger point, which determines the use of VRF and the use of VRF remains low. This may be associated with commercial contracts that the CRU does not have sight of (such as confidential contracts between gas undertakings (e.g. producers, shippers, and suppliers)).

Given the available evidence, the CRU proposes that the level of the discount (referred to as the A-factor) will continue to be as follows for gas year 2022/23.

Table 3-2: Virtual reverse flow A-factor

Interconnection point	A-factor
Moffat	6
Gormanston	2.25

3.2.5 Summary and request for comment

The CRU has examined VRF use in 2021/22 and has come to the initial view that the VRF A-factor should not be changed for the gas tariff year 2022/23.

The CRU is keen to hear the views of stakeholders and will consider these as part of any decision. If, as part of its decision, the CRU decides to change the VRF A-factor, there will be ongoing monitoring in this area to identify impacts.

CRU Questions

2. Do you have any views on the CRU's VRF A-factor proposals? Please provide a rationale for your answer.

4 Case for change

In line with the proposals set out in this paper, the CRU is proposing to continue to monitor the market. This will allow further data to be gathered and analysed to assess whether changes to the seasonal factors, multiplier or VRF discount are required. The CRU will assess any proposed changes against the criteria set out in the European Gas Network Code while considering the context of the Irish gas market. This will build upon the detailed analysis presented last year (see [CRU/21/049](#)), which used the assessment criteria as set out in section 2.3 and Appendix A of [CRU/21/14](#).

To assist in future analysis, the CRU will discuss what market developments may warrant changes to the above factors at the Code Modification Forum. The analysis to support any change will also be discussed at that forum – based on the criteria and analysis set out in CRU/21/14. Those discussions will also consider any suggestions submitted in response to this paper – see questions 3 and 4 below.

CRU Questions

3. Do you have any views on the market developments that may warrant changes to the seasonal factors, multipliers or VRF A-factor? Please provide a rationale for your answer.
4. Do you have any views on the analysis and criteria to be used to assess any proposed change to the seasonal factors, multipliers or VRF A-factor? Please provide a rationale for your answer.

5 Conclusion & next steps

The CRU has with this paper carried out its annual tariff network code Art. 28 review, in advance of gas year 2022/23.

Within Section 2 of this paper the CRU has proposed to maintain the current multipliers and seasonal factors.

Within Section 3 of this paper the CRU has proposed to maintain the current A-factors for virtual reverse flow at Moffat and Gormanston

Within Section 4 the CRU requests feedback as to the assessment of any future changes to the seasonal factors, multiplier or VRF discount

To aid respondents, Table 5-1 provides a list of all questions posed throughout the paper.

5.1 Request for comment

Table 5-1: Request for comment

Topic	Query	Section
Multiplier & seasonal factor review	1. Do you agree with the CRU's proposal to maintain the existing multiplier & seasonal factor profile? Please provide a rationale for your answer.	2.3
Virtual reverse flow	2. Do you have any views on the CRU's VRF A-factor proposals? Please provide a rationale for your answer.	3.2.5
Cause for Change	3. Do you have any views on the market developments that may warrant changes to the seasonal factors, multipliers or VRF A-factor? Please provide a rationale for your answer.	4
Cause for Change	4. Do you have any views on the analysis and criteria to be used to assess any proposed change to the seasonal factors, multipliers or VRF A-factor? Please provide a rationale for your answer.	4

5.2 Next steps

The CRU will consider responses from stakeholders on the above questions. These responses will be assessed and incorporated into the CRU's decision in May 2022.

The following are the milestones that follow the publication of this call for evidence paper:

- Three-week response period i.e. deadline for responses is close of business 16 May 2022.
- The CRU will review responses and a decision will be published in May 2022.

- CRU publication of tariffs for gas year 2022/23 – by the end of May 2022.
- New gas tariffs coming into effect – 01 October 2022.
- The CRU will engage with the Code Modification Forum as to the analysis to be undertaken to support any proposed change to the seasonal factors, multipliers or VRF A-factor.

CRU Disclosure Requirements

Unless marked confidential, all responses from companies or organisations may be fully published on the CRU's website. Respondents may request that their response is kept confidential.

The CRU shall respect this request, subject to any obligations to disclose information. Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality.

Responses from identifiable members of the public will be anonymised prior to publication on the CRU website unless the respondent explicitly requests their personal details to be published.

The CRU privacy notice sets out how we protect the privacy rights of individuals and can be found [here](#)