

Public Consultation on day-ahead and within-day multipliers

Based on Article 13(3) of the Network Code on Harmonised Transmission Tariff Structures for Gas

PC_2020_G_19

1. Objective

Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas ('NC TAR') entered into force in 2017 and it has introduced a number of provisions on multipliers that are applicable for the calculation of short-term capacity products (quarterly, monthly, daily and within-day).

The NC TAR provides the possibility for the Agency to issue a recommendation to cap the multipliers used to calculate the reserve prices of day-ahead ('DA') and within-day ('WD') capacity products to 1.5.

The objective of this consultation is to gather views and information from stakeholders on the impact of DA and WD multipliers in order to assess the possibility of issuing a recommendation to limit the level of these multipliers

The provision foreseeing this possibility is laid out in Article 13(3) of the NC TAR:

"By 1 April 2023, the maximum level of multipliers for daily standard capacity products and for within-day standard capacity products shall be no more than 1,5, if by 1 April 2021 the Agency issues a recommendation in accordance with Regulation (EC) No 713/2009 that the maximum level of multipliers should be reduced to this level. This recommendation shall take into account the following aspects related to the use of multipliers and seasonal factors before and as from 31 May 2019:

- *changes in booking behaviour;*
- *impact on the transmission services revenue and its recovery;*
- *differences between the level of transmission tariffs applicable for two consecutive tariff periods;*
- *cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products;*
- *impact on cross-border flows."*

The Agency invites stakeholders to express their views on the points referred to in Article 13(3) of the NC TAR.

2. Target group

This consultation is addressed to European associations, national associations, TSOs, shippers or energy trading entities, end-users and others.

3. Deadline

Please provide your response by **9 December 2020**, 23:59 hrs (CET).

4. Identification data and confidential information

Please indicate the following data:

Name:

Position held:

Phone number and contact e-mail:

Name and address of the company you represent:

Your country:

Other country, if not in the list above:

Please indicate, if your company/organisation is:

- European association
- National association

- TSO
- Shipper or energy trading entity
- End-user
- Other (e.g. Power Exchanges, Storage Operator etc.).

If other, please specify below:

Any confidential information should be marked clearly as such, including the word 'CONFIDENTIAL' in the subject of the e-mail, as ACER will not treat e-mails which contain only a general disclaimer (usually automatically added) as containing confidential information. If respondents want to claim confidentiality, they should provide an explanation of their confidentiality interests and a non-confidential version of their response for publication. For more details on this, please see the Rules of Procedure of the Agency (Article 9 of Decision No 19/2019 of the administrative board of the European Union Agency for the Cooperation of Energy Regulators of 11 December 2019)

Is your input into this consultation confidential?

- Yes
- No

5. Publication of responses and privacy

The Agency will publish all non-confidential responses, and it will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, taking into account that this processing is necessary for performing the Agency's consultation task. For more details on how the contributions and the personal data of the respondents will be dealt with, please see the Agency's Guidance Note on Consultations and the specific privacy statement attached to this consultation.

6. Related documents

- [Regulation \(EU\) 2019/942](#) of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.
- [Commission Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.
- ACER [Guidance Note on Consultations](#)
- Commission [Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

7. Background

Multipliers are used to set tariffs for short-term gas transmission capacity products in comparison with the reference prices applied to yearly capacity products. Article 13 of the NC TAR sets out that the level for DA and WD multipliers for standard capacity products shall be *no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.*

Overall, shippers use different capacity booking strategies taking into account their supply and demand portfolios, market dynamics and gas transmission tariffs both on yearly and short-term capacity products. For example, shippers may secure a certain amount of capacity with yearly capacity products while they cover the seasonal and short-term variations with short-term capacity products.

Multipliers can impact the gas market in various ways, depending on the balance between the short-term and the long-term:

On the first hand, relatively high multipliers on short-term products can deter network users from booking short-term capacity for trading or balancing purposes. On the other hand, high multipliers incentivises yearly bookings which are deemed favourable to TSOs revenue recovery and which allow shippers to flow gas across hubs even when spot market spreads are below the capacity reference price.

From a competition perspective, multipliers can also lead to different outcomes. They have a distributional effect, through the share of revenue recovered from users holding short-term or long-term capacity products. Multipliers can be set with the primary objective of avoiding cross-subsidisation between network users and enhancing the cost-reflectivity of reserve prices. In contrast, low short-term multipliers can be considered as a way to foster competition and to incentivise more dynamic booking strategies.

When setting multipliers, NRAs should consider these different interactions, as required by Article 28 of the NC TAR, to avoid a potential welfare loss for EU consumers.

8. Consultation topics and questions

For all the questions, **please provide supporting evidence**, which can include the identification of IPs where a referred event is relevant and/or a time period for the phenomena observed (how, when and for how long it applies). Supportive evidence can include data, tables and it can be accompanied by examples.

Factual evidence on the effects of the current provisions is highly relevant to evaluate their effectiveness and to assess whether a recommendation could lead to an improvement.

Topic 1: Changes in booking behaviour

1. What role do short-term capacity products (DA and WD) play in your capacity booking strategy (balancing activities, market arbitrage, supply profiling...)?

N/A. This response by the EAI is given on an industry association level. The role short-term capacity products play in the capacity booking strategies of our members vary.

2. Have you observed that DA and WD multipliers impact booking behaviour and booking strategies (could be your own booking strategy or those of other market players)? For instance, have you observed that low DA and WD multipliers can shift contracted capacity from yearly capacity products to shorter-term capacity products?

- Yes
- No
- Other

2.1 Please explain your reasoning:

EAI does not agree that a cap of 1.5 should be introduced. A “one size fits all” approach to the cap on short-term tariffs may not result in optimal outcomes and markets should be allowed to retain some divergence to establish the multiplier levels within the existing range of 1-3. Unlike mainland Europe, Ireland does not have a meshed gas grid. In general, the level of DA and WD multipliers inevitably influence trading habits. Strategies are generally adopted to maximise commercial benefit. In Ireland, the introduction of a cap of 1.5 would almost halve the current multiplier. This would have consequential impacts on the stability of tariffs that market participants can offer consumers. The uncertainty and volatility that such a shift in multiplier would introduce would feed into end consumer prices. The Irish gas network operator (GNI) has applied a “matrix” model with a view to maintaining price stability in recent years. EAI believes that the range of 1-3 should instead be maintained such that a fair level of flexibility is allowed to National Regulatory Authorities (NRAs), in consultation with market participant including the national Transmission System Operators (TSOs), to adjust their short-term multipliers in a manner that mitigates any negative outcomes particularly for end consumers.

Topic 2: Impact on the transmission services revenue and its recovery

3. Have you observed that DA and WD multipliers impact transmission services revenue and its recovery? In particular, could low DA and WD multipliers induce under-recoveries of TSOs’ revenues on a transitory basis (in most systems such under-recoveries are systematically rolled to next years by revenue reconciliation mechanisms)?

- Yes
- No
- Other

3.1 Please explain your reasoning:

In general, low short-term multipliers may result in under-recoveries of TSOs’ revenues that would have to be recovered elsewhere, i.e. in longer term tariffs. The volatility impact that a move to a multiplier of 1.5 within two years would have on bookings would extend to the volatility and predictability of TSO revenues. If the multiplier cap was reduced as proposed to 1.5 a heavy shift towards short term capacity bookings could be expected. With bookings closer to real-time, weather effects have to be taken into account. This adds another layer of volatility, e.g. when the weather is milder than expected or there are higher than forecast wind speeds, lower short-term bookings than expected will be made. Short term capacity product revenues to the TSO will therefore be reduced too.

TSOs would have to recover these reduced revenues elsewhere via tariffs (e.g. in a subsequent year and increase in short-term or long-term tariffs could result) which can influence the costs end consumers pay.

EAI recommends that the range of 1-3 should be maintained with a fair level of discretion being retained by NRAs, in consultation with market participants including the TSO, to alter the tariff multipliers locally in line with market conditions and mitigating any unintended negative consequences which can vary market to market.

Topic 3: Differences between the level of transmission tariffs applicable for two consecutive tariff periods

4. Have you observed significant changes in DA and WD multipliers in the 2016-20 period?

- Yes
- No
- Other

4.1 Please explain your reasoning:

N/A.

5. Have you observed that changes in multipliers have led to changes in the tariffs applicable for other capacity products (e.g. yearly capacity product)?

- Yes
- No
- Other

5.1 Please explain your reasoning:

The linked nature of the tariffs for transmission products in revenue recovery can be expected to drive tariff changes across all products even when changes are imposed only on the Short-Term products.

Topic 4: Cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products

6. Have you observed that DA and WD multipliers have placed or could place in the coming years excessive costs on short-term capacity compared to the costs recovered through yearly capacity products?

- Yes
- No
- Other

6.1 In the affirmative, how could it affect competition and market integration?

There are a number of factors to consider when addressing this question. A balance is required between ensuring equitable costs are applied to short-term capacity as well as long term or yearly capacity products. End consumers should not be unduly burdened with costs some of which may be driven by a lack of stability or volatility in tariffs due to the imposition of a much lower cap on short term multipliers if this proposal proceeds.

The specific gas demand mix and usage patterns, which are heavily impacted by the energy transition, may necessitate more flexibility between markets in tools available to balance the aims of the short-term and long-term, and avoid cross-subsidisation, in order to reach a satisfactory equilibrium for stable TSO revenues and efficiency for all energy consumers (gas and power).

An example of one factor is the impact that weather can have on short term capacity bookings. If short term multipliers are drastically reduced more short-term bookings may arise. But in real-time, if the weather is mild and/ or wind speeds are higher than forecast, the demand for gas may be minimal with consequential minimal bookings of gas capacity. The stability of the TSOs' revenue stream could then be undermined. The stability of prices charged to end consumers could also be undermined. Both of these instances of instability would likely be sought to be addressed by adjusting tariffs upwards in the following year – be they short-term or long-term capacity product tariff adjustments.

Further market factors in any particular market that may influence the scale of the multipliers can include the maturity of the market, whether the network is expanding, and the level of spare capacity available.

The EAI believes a one-size-fits-all approach may not be suitable particularly when not all markets are of the meshed grid nature and the potential negative impacts that this may create. Instead, the EAI's view is that market integration will be as well enabled with a short-term multiplier range of 1-3 as with a multiplier cap of 1.5. Local NRA discretion, in consultation with market participants and the TSO, must be permitted to adopt the multiplier level that best fits with market circumstances and mitigates unduly negative consequences of sudden step-changes in multipliers.

6.2 Please explain how you evaluate if costs for short-term bookings are excessive compared to yearly bookings and on what criteria you base your argument.

N/A.

Topic 5: Impact on cross-border flows

7. Have you observed that DA and WD multipliers have impacted or could impact in the coming years cross-border flows? Consider, in particular, situations where high DA and WD multipliers may prevent the use of available cross-border capacity or where high multipliers for DA and WD capacity product may negatively affect the correlation between gas prices in neighbouring hubs.

- Yes
- No
- No

Other

7.1 Please explain your reasoning:

The level of the short-term multipliers does not impact the cross-border flows between Ireland and Great Britain. Unlike mainland Europe, Ireland does not benefit from a meshed gas system. We are heavily reliant on gas to meet daily customer demand requirements. There are currently no physical exports of gas from Ireland. Ireland is reliant on gas imports through interconnectors from Great Britain. When gas is needed to meet demand in Ireland for example the price of the gas does not deter its import.

Therefore, given the potential volatility impacts of a drastic reduction in short term multiplier levels (a 1.5 cap) and the results it could bring (e.g. unpredictable end consumer costs, revenue uncertainty for the TSO) this proposed reduction/ cap of 1.5 would have little or no impact on cross-border flows but could lead to other unintended negative consequences.

The range of 1-3 is sufficient to achieve market integration with discretion on the appropriate level of the multiplier being left to local markets to decide on.

8. Have you observed that DA and WD multipliers can be a market barrier (for instance by granting an advantage to holders of long-term bookings)?

- Yes
- No
- Other

8.1 Please explain your reasoning:

A balance is required to ensure equitable tariffs to long- and short-term capacity booking holders.

If the multiplier cap was reduced as proposed to 1.5 a heavy shift towards short term capacity bookings could be expected. TSO revenue certainty can be undermined. As explained above, weather impacts short term capacity bookings and the costs of that can be felt by end consumers. The potential impacts on TSO revenue could be sought to be recovered subsequently through either long-term or short-term capacity holders' tariffs. Thus, a balanced approach to multiplier setting is required. The Irish TSO, GNI has sought to retain stability in recent years with its matrix tariff model. The EAI believes the range of 1-3 enables the NRA, in consultation with market participants including the TSO, to decide what multiplier best fits with their market and best mitigates potential negative consequences.

Conclusion

9. From your perspective, what would be the advantages and disadvantages of capping DA and WD multipliers at 1.5 across Europe?

EAI does not support a cap of 1.5 across Europe but instead supports retaining the current range of 1-3. That range allows NRA discretion, in consultation with market participants including the TSO, to adopt the multiplier level that best fits with market circumstances and mitigates unduly negative consequences such as volatility in end consumer pricing and TSO revenue recovery that may result from a standardised cap.

The proposal to cap the short-term multiplier band for day-ahead (DA) and within-day (WD) transmission

products appears to be a “one size fits all” solution that does not reflect the requirements of less meshed markets like Ireland. The proposed cap to the current multiplier band restricts the choices and flexibility open to national NRAs, in consultation with market participants including the TSO, to address the tariffs best for their market operations and to mitigate potential negative consequences to users and consumers. The decision on the short-term product multipliers to be used in national operations should be for each NRA, in consultation with market participants including the TSO, to support particular market attributes. This local NRA discretion to adopt the multiplier level from the current range of 1-3 as already provided for in Article 13 of the NC TAR will help to achieve TSO revenue certainty, end-consumer price stability, and balanced outcomes in terms of transmission charges for users.

Changes to the short-term product multiplier band without consideration of the potential negative impacts could work against the model being applied by the Irish gas network operator (GNI) with a view to maintaining price stability in the Irish market. Supply demands for natural gas on the island of Ireland continue to rely on imports from Great Britain to meet and balance requirements. Demand requirements must be met by the physical supplies available from GB regardless of the transmission tariffs that apply to their importation. Thus, market integration can be as well enabled by application of a multiplier band of 1-3 rather than a much lower ‘cap’. Industry, and ultimately the consumer, rely on predictable tariffs to support stable cost/ price forecasting and steady revenue recovery by the TSO. The current NC TAR band of 1-3 facilitates the maintenance of these stability factors in Irish gas market operations.

EAI believes that the unnecessary imposition of a cap on short-term multipliers could unduly stifle the discretion for each NRA, in consultation with market participants including the TSO, to determine appropriate short-term multipliers in the range 1-3 to reflect respective market operations and requirements. A “one size fits all” cap on multipliers is not suitable for Ireland given its unmeshed network. NRA discretion should be maintained to adopt multipliers within the current band of 1-3 permitted under the NC TAR. Otherwise relatively sudden changes to the balance in product multipliers could destabilise tariffs with knock-on negative impacts for end consumer price predictability and TSO revenue recovery. The impact of major changes in tariff setting levers and consequent market reaction is playing out in the current GB situation: the short-notice tariff volatility from implementation of large Revenue Recovery Charges is leading to market price volatility, affecting the viability of large industrial consumers and causing security of supply concerns.

Thank you for your reply!

Contact

[Contact Form](#)

