An Coimisiún um Rialáil Fóntais
Commission for Regulation of Utilities

Gas Transmission Tariff Methodology – Tariff Network Code Article 28 Decision

Gas year 2022/23

Decision / Information Paper

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CRU Draft Strategic Plan 2022-24

Our Mission

- Protecting the public interest in water, energy and energy safety.

Our Vision

- Safe, secure and sustainable supplies of energy and water, for the benefit of customer now and in the future

Our Strategic Priorities

- Ensure Security of Supply
- Drive a Low Carbon Future
- Empower and Protect Customers
- Enable our People and Organisational Capacity

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; and
- 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. Shippers can book capacity not only for a year but also for a given day, month or quarter. The costs of these shorter-term products are calculated by applying multipliers[1] and seasonal factors[2] to the cost of the annual products. The multipliers and seasonal factors are set to incentivise efficient behaviour by Shippers.
- **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.

[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.

In April, the CRU published a consultation (CRU/202235) on the above items for the gas year 2022/23. In that paper, the CRU proposed to maintain the levels of multipliers, levels of seasonal factors and VRF discount from the 2021/22 gas year without alteration and asked for feedback on those proposals.

All of the respondents to the consultation supported the CRU's proposals to maintain the current multipliers and seasonal factors at current levels. Having considered this feedback, the CRU has decided to implement this proposal of no change.

As to the discount for VRF, one respondent referred back to its comments made to last year's consultation, in which they raised a number of points including: that the methodology currently used to calculate the VRF A-factor leads to excessively high VRF prices, reducing the service's commercial viability and that the VRF service should be charged for as a non-transmission charge. When the CRU considered those points previously, see Decision Paper (CRU/21/049), the CRU recognised that the current tariffing approach may be contributing to the low usage of VRF. However, ultimately a reasoned alternative VRF discount was not put forward and could not be determined from the data available. Based on such, no change to the discount was proposed. Importantly, in making that decision, no negative market outcomes were identified with maintaining the VRF tariff as it was. This position remains the case and the CRU has decided to keep the VRF discount unchanged. The CRU will keep the level of VRF discount as well as the level of multipliers and seasonal factors under review and will engage with the Code Modification Forum on this matter. This engagement will include what market developments may warrant changes and the analysis to support any change.

Next steps

GNI has used the above decisions to calculate the tariffs for the gas transmission and distribution networks for gas year 2022/23. The new gas tariffs will come into effect on 01 October 2022.

Additionally, to assist in future analysis, the CRU will discuss what market developments may warrant changes to the above factors at the Code Modification Forum. Those discussions will consider suggestions submitted in response to 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 decided on the value of multipliers, seasonal factors and levels of discounts ahead of next gas year, which runs from 01 October 2022 to 30 September 2023. 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 has decided not to change these factors for gas year 2022/23. As a result, there is no associated change for the public or gas customers.

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Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
CRU	Commission for Regulation of Utilities
GNI	Gas Networks Ireland
LNG	Liquified natural gas
UR	Utility Regulator
VRF	Virtual reverse flow

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.

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,[5] 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 projects (i.e. virtual reverse flow).

This paper sets out the CRU's decision on those factors excluding LNG and storage facilities. These are excluded because there are currently no LNG or storage operators using the system

[5] More detail regarding the overall tariff setting process is available in CRU/20/097.

and therefore no discount is applicable. Any LNG or storage operator who wishes to use the system can apply to the CRU for such a discount and the CRU will consult on its application.

Gas capacity charges are known as references 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.

Under Article 28 of TAR NC[6], the CRU is required to consult annually on discounts, multipliers and seasonal factors. Earlier this year the CRU published its consultation (CRU/202235) on these factors. For more background on the work done in this area to date, please see Sections 2 and 3 of this consultation paper.

[6] Commission Regulation (EU) 2017/460.

1.3 Purpose of this paper

Having considered submissions received during the consultation period, the CRU has made decisions on the following factors ahead of gas year 2022/23:

- Levels of multipliers;
- Levels of seasonal factors;
- Levels of discounts for interruptible capacity products (i.e. virtual reverse flow).

This paper sets out the CRU's decisions and the rationale behind these decisions.

1.4 Related documents

Alongside this paper the responses to the consultation are published. Other documents related to this publication are provided below:

- Gas Transmission Tariff Methodology – Tariff Network Code Article 28 Consultation Gas Year 2022/23 (CRU/202235);
- 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 this 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 decision paper is structured as follows:

- Section 2 sets out the CRU's decision on the levels of multipliers and seasonal factors.
- Section 3 sets out the CRU's decision on the levels of discounts.
- Section 4 provides a summary and outlines next steps of the tariff-setting process.

2. Multipliers & Seasonal Factors

2.1 Introduction

Multipliers determine the multiple of the annual capacity product tariff, which is applied to a non-annual[7] capacity product (also known as a shorter-term product) 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 such as 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. Table 2.1 sets out the current combined multiplier & seasonal factor profile. This table presents the profile as a percentage of the reference price.

Table 2.1: Combined multiplier & seasonal factor profile as a % of annual product.

Month	Quarterly %	Monthly %	Daily %
October		12.81	0.64
November		12.81	0.64
December	38.43	17.08	1.14
January		29.89	1.99
February		34.16	2.28
March	80.69	25.62	1.71
April		12.81	0.64
May		0.97	0.05
June	13.27	0.97	0.05
July		0.97	0.05
August		0.97	0.05
September	2.61	0.97	0.05
Total	**135**	**150**	**279.44**

[7] 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.

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 calculation:

$$€315/MWh * 17.08\% = €54/MWh.$$

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.

2.2 Consultation

In developing its proposals, the CRU began by reviewing the analysis detailed in last year's review of multipliers and seasonal factors (CRU/21/14). That review ultimately proposed no change to either of those items. However, a minor change to seasonal factors was considered. The change was to reflect the changing uses and role of the gas network in the energy transition, but it was deemed too early to effectively capture the likely changing uses of the gas network that the energy transition would drive. Further details of this analysis can be found in Section 2.3 and Appendix A of last year's consultation paper (CRU/21/14).

After reviewing the analysis mentioned above against recent market conditions, the CRU considered that its findings remained applicable for the 2022/23 gas year. Policy relating to the energy transition continues to evolve rapidly on both national and EU levels. One recent

development is the publication of the RePower EU plan[8] by the European Commission as a response to the Russian invasion of Ukraine. The plan seeks to make Europe independent from Russian fossil fuels well before 2030. Among other things, this will involve diversifying gas supplies and speeding up the roll-out of renewable gases. Additional time to observe the impact of such developments will assist in developing more robust changes to the multipliers and seasonal factors. It will allow changes to be more closely tailored to the needs of the gas network and be timed to better match the pace of the energy transition. In addition, more information will be available next year from Price Control 5[9] 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. More information on the progression of the Price Control 5 project can be found in the CRU's Gas Networks Ireland Gas Transmission Tariffs and Allowed Revenue Decision Paper 2022/23 published alongside this paper (CRU/202247).

The CRU 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 (UR) in Northern Ireland published its consultation on 'seasonal multiplier factors' for gas transmission charges.[10] UR proposed to not change the 'seasonal multipliers factors' for gas transmission charges for its 2022/23 gas year. Furthermore, OFGEM (Office for Gas and Electricity Markets) also consulted on no change to its existing 'seasonal multipliers factors'[11]. With no changes being 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.

As a result of the above factors, the CRU proposed to maintain the current multipliers and seasonal factors for the gas year 2022/23. In its consultation paper (CRU/202235), the CRU requested feedback on this proposal through the following question:

[8] EUR-Lex - 52022DC0230 - EN - EUR-Lex (europa.eu)
[9] More information on Price Control 5 can be found in the CRU'S Price Control 5 Strategy Information Paper (CRU/21067).
[10] 2022-03-29-consultation-on-seasonal-multiplier-factors-2022.pdf (uregni.gov.uk)
[11] Article 28(2) TAR NC Consultation Notice (ofgem.gov.uk)

Consultation 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.

2.3 Responses

The CRU received five responses to its consultation and thanks these respondents for their feedback. All of the respondents were supportive of the CRU's proposal to maintain the existing multiplier & seasonal factor profile for the 2022/23 tariff year. In supporting the proposal, one respondent did raise the importance of tariff stability. They proposed a 3-year forecast of transmission tariffs and in the absence of that a 2-year notice of any changes to "*tariff factors*".

2.4 Decision

The CRU thanks the respondents for sharing their views. After consideration, the CRU has decided not to make a change to the multipliers and seasonal factors for gas year 2022/23, as set out in Table 2.4. In coming to that decision, the CRU notes that neither it nor any of the respondents to the consultation have highlighted any harm from the current seasonal factors, which have been in place for a number of years. Furthermore, additional time to monitor the impacts of current events upon gas policy and the gas market will help in ensuring that any changes made to multipliers and/or seasonal factors are sufficiently robust and tailored to the needs of the gas network.

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., UR in Northern Ireland). The CRU will keep parties updated on this work through its annual Art. 28 consultation.

Table 2.4: Combined multiplier & seasonal factor profile as a % of annual product.

Month	Quarterly %	Monthly %	Daily %
October		12.81	0.64
November		12.81	0.64
December	38.43	17.08	1.14
January		29.89	1.99
February	80.69	34.16	2.28

Month	Quarterly %	Monthly %	Daily %
March		25.62	1.71
April		12.81	0.64
May		0.97	0.05
June	13.27	0.97	0.05
July		0.97	0.05
August		0.97	0.05
September	2.61	0.97	0.05
Total	**135**	**150**	**279.44**

In relation to comments on forecasting transmission tariffs for 3 years, the Commission is required to set tariffs annually. As part of that, the CRU must consult on the items presented in this paper. The CRU cannot pre-empt the outcome of that process. Also, there are items such as inflation that feed into annual tariffs, which could not be reasonably accurately forecasted so far in advance. However, tariff stability is an important matter and is considered in setting revenues for the five-year revenue controls. In addition, there are rules applied within the annual tariff setting methodology that see certain adjustments being limited from year to year – i.e. the application of 105% rule to K-factor adjustments (see annual tariff setting papers for more details – they are available here). The CRU will consider the timing of changes to the multipliers, seasonal factors and VRF discounts in its future work on those items.

3. Levels of discounts

3.1 LNG

TAR NC[12] allows for the adjustment (i.e., discount) of tariffs at entry points from LNG facilities. Unlike storage,[13] 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 its 2019 Tariff Methodology Decision Paper (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 criteria[14] 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 proposed a discount or received any applications for a discount, it cannot consult or decide 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 – VRF

3.2.1 Introduction

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

[12] Art. 9 – Adjustment 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.

Moffat IP and into Ireland via the Gormanston IP.[15] VRF is a day-ahead interruptible[16] product and is the only interruptible product available in the Irish market.

In accordance with the CRU's TAR NC decision paper (CRU/19/060), 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:

$$Di_{ex-ante} = Pro\ x\ A\ x\ 100\%$$

Where:

- $Di_{ex\text{-}ante}$ is the level of the ex-ante (forecast) adjustment;
- Pro-factor (Pro) is the probability of interruption; and
- A-factor (A) 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 the previous footnote.

- 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 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.

With this in mind, there are a number of factors that make setting a 'correct' economic value or A-factor for the VRF product challenging, including complex market dynamics and confidential contracts between gas companies which the CRU does not have sight of. Further discussion on the challenges of setting a "correct" economic value or A-factor for the VRF product can be found in Section 3.2.2 of the Art. 28 consultation paper preceding this decision paper (CRU/202235).

3.2.2 Consultation

In the 2021 consultation paper on Article 28 of the Tariff Network Code (CRU/21/14), the CRU included an 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 an A-factor which would sufficiently reflect the economic value of the VRF product.

In that consultation paper, the CRU requested the views of industry on its analysis and welcomed the submission of any additional evidence or data-informed proposals 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 that 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 Table 3.2.2).

Table 3.2.2: Use of VRF since the introduction of the new tariff.

Metric	Apr '19 - Sep '19	Oct '19 - Sep '20	Oct '20 - Sep '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%

From the evidence gathered prior to the consultation preceding this Decision Paper, the CRU still could not 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.

Given the available evidence, the CRU proposed that the level of discount (referred to as the A-factor) would remain unchanged for gas year 2022/23. The CRU requested feedback on this proposal through the following question:

Consultation Questions

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

3.2.3 Responses

Four respondents to the consultation supported the CRU's proposal to maintain the current VRF A-factor. One of those respondents noted that the level of discount should not be altered without clear evidence and analysis of driving factors for VRF or identifying negative outcomes for gas market from existing discount levels. The same respondent also stated that any potential changes to the seasonal factors may also affect usage of the VRF discount, meaning that impacts on VRF should be considered before proposing changes to seasonal factors.

One respondent referred back to their submission for last year's Article 28 Consultation in which they stated that the methodology currently used to calculate the VRF A-factor leads to excessively high VRF prices, reducing the service's commercial viability. They also suggested that the VRF service should be charged for as a non-transmission charge.

3.2.4 Decision

Four respondents to the consultation supported the CRU's proposal to maintain the current VRF A-factor. One respondent disagreed and reiterated the comments it provided to last year's consultation. However, no new data was provided since last year's consultation. As last year, and based on the available evidence, the CRU is not in a position to put forward a reasoned alternative VRF discount. The CRU has also identified no specific harm from the current VRF tariff. As a result, the CRU has decided to maintain the level of the discount (referred to as the A-factor) as set out in Table 3.2.4 for gas year 2022/23.

The CRU will further consider the points raised by respondents and continue to engage with industry on this topic as part of its annual Art 28. consultation requirement and will examine wider changes to the VRF tariff methodology as part of the Art. 26 consultation process. The CRU, as is discussed in the next section, will also engage on this matter further with the Code Modification Forum.

Table 3.2.4: Virtual reverse flow A-factors.

Interconnection point	**A-Factor**
Moffat	6
Gormanston	2.25

4. Case for change

4.1 Introduction

The CRU proposed to gather further data and input from market participants to assist in future assessments of the seasonal factors, multipliers and VRF discount. The CRU would 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 would build upon the detailed analysis presented last year (CRU/21/049), which used the assessment criteria as set out in Section 2.3 and Appendix A of CRU/21/14.

4.2 Consultation

To assist in future analysis, the CRU proposed to discuss what market developments may warrant changes to the above factors at the Code Modification Forum. The Code Modification Forum consists of representatives from the CRU, GNI, gas shippers, and other gas industry stakeholders. A Forum meeting occurs once every two months. Those meetings provide stakeholders with an opportunity to propose changes to GNI's Code of Operations. The Code governs the rules for the gas transmission and distribution networks. More information on the Code can be found here and the proceedings of previous Code Modification Forum meetings can be viewed here.

The discussions would also consider the analysis to support any change – based on the criteria and analysis set out in CRU/21/14. The CRU requested suggestions for points to raise during those discussions through the following questions:

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.

4.3 Responses

A number of items were raised by respondents, which the CRU will consider further in its discussions with the Code Modification Forum and any future proposed changes to the multipliers, seasonal factors or VRF discount. They included:

- The importance of predictability in tariffs and ensuring that sudden changes are avoided;
- Further understanding the impacts of policy such as the RePowerEU proposals on the Irish gas market and gas usage;
- The adoption of a flatter seasonal profile to incentivise the use of gas over higher-carbon alternatives; and
- The importance of continued and improved liquidity at the Irish Balancing Point (IBP).

4.4 Decision

The CRU's consultation requested the submission of discussion points relevant to this topic rather than feedback on a specific proposal. As such there is no decision associated with the case for change. However, the views raised by respondents in relation to the case for change will be considered during discussions pertaining to the seasonal factors, multipliers and VRF A-factor during Code Modification Forum meetings over the remainder of the year. The CRU thanks the respondents for their input.

5. Conclusion & Next Steps

The CRU has considered the views of stakeholders regarding the annual Article 28 consultation (CRU/202235) and decided to maintain the existing multipliers, seasonal factors and tariffs for virtual reverse flow. The CRU has with this decision concluded its annual European Tariff Network Code Article 28 review, in advance of gas year 2022/23.

Within section 2 of this paper the CRU has stated its decision to maintain the current multipliers and seasonal factors for gas year 2021/22.

Within section 3 of this paper the CRU has stated its decision to maintain the current VRF discount for gas year 2021/22.

5.1 Next steps

The steps that will follow the publication of this decision paper are as follows:

- The new gas tariffs as outlined in the documents published alongside this paper and listed in Section 1.4 will come into effect on 01 October 2022; and
- To assist in future analysis, the CRU will discuss what market developments may warrant changes to the multipliers, seasonal factors and VRF discount at the Code Modification Forum, considering suggestions submitted in response to the consultation paper.