

Multipliers

Consideration of Implications and Alternatives/Remedies

- **Inter-related Questions for Consideration**
 - What is meant by Probability of Interruption
 - Who owns secondary capacity / how is it valued
 - How is the transmission system to be funded
 - How is any revenue shortfall to be recovered

 - Examples

Multipliers

Consideration of Implications and Alternatives/Remedies

- **What is meant by “Probability of Interruption”**
 - Does a Low Probability mean:
 - Capacity is very plentiful and a large discount is warranted – use low multiplier
 - OR
 - Capacity is as good as firm and no discount is warranted – use high multiplier

Multipliers

Consideration of Implications and Alternatives/Remedies

Who owns Secondary Capacity

- **The Shipper or the Transporter**
 - Or are they competitors

How is it Valued

- **The market**
 - Supply / demand during higher demand periods capped by the cost of short term capacity; and
 - Let market forces put sufficient downward pressure on cost of off peak
- **Regulation – Surrogate for competition**
 - Impose deep discount to reflect abundance of unutilised capacity;
 - Impose cap to prevent market abuse

Multipliers

Consideration of Implications and Alternatives/Remedies

- **How is Transmission System to be Funded**
 - Capacity only or split between Capacity & Commodity
 - Seasonal premiums / discounts for short term capacity
 - Revenue shortfall if capacity charges are calculated with obligated capacity or if capacity sold at a discount
- **How is Revenue Shortfall to be Recovered**
 - Choice of secondary adjustments – simple adder or pro rata increase applied to all entry/exit points
 - Recover as a commodity charge

Multipliers

Consideration of Implications and Alternatives/Remedies

Example Multipliers (% of annual reserve price)

	GAS NETWORKS IRELAND	GASUNIE
October	13%	15%
November	13%	15%
December	18%	30%
January	31%	30%
February	35%	30%
March	27%	15%
April	13%	15%
May	1%	7.5%
June	1%	7.5%
July	1%	7.5%
August	1%	7.5%
September	1%	7.5%
Total	155%	188%

Multipliers

Consideration of Implications and Alternatives/Remedies

The GB Experience

- **Initially, capacity was sold only on an annual basis**
 - Characterised by high over run charges
 - Automatic liability to book and pay for the overrun quantity for full year
- **Producers with spare gas but no entry capacity could participate in the balancing market by paying a flexibility overrun charge**

December to March	Multiplier = 30/365 per day
Oct, Nov, Apr, May	Multiplier = 5/365 per day
June to September	Multiplier = 2/365 per day

 - Trading of Secondary Capacity was enabled by Capacity Transfers
- **UIOLI – Discounted capacity introduced to combat capacity hoarding**
 - Capacity had already been paid for by capacity hoarders

Multipliers

Consideration of Implications and Alternatives/Remedies

- Will GB adopt multipliers
- Has discounted capacity worked
- Is short term capacity more or less valuable than long term