Response to preliminary consultation on EU Commission Regulation 2017/460 (EU Tariff Code)

Responses invited by: 5pm on 08 May 2019

To: box.transmissioncapacityandcharging@nationalgrid.com

Please note:

- **Any responses should be sent to the Joint Office of Gas Transporters. These will be forwarded to National Grid and will not form part of the UNC Consultation for UNC0678A/B/C/D/E/F/G/H/I/J**
- **Any non-confidential responses will feed into a report to be published within one month of the consultation ending.**
- **This does not form the final consultation referred to in the EU Tariff Code.**
- **If you have any questions on this consultation or supporting material, please contact National Grid box.transmissioncapacityandcharging@nationalgrid.com**
- **Appendix 1 provides background material relevant to this consultation.**
- **Appendix 2 provides a template to help structure any comments on specific items on Articles 26 and 27**

This consultation and UNC0678A/B/C/D/E/F/G/H/I/J:

- **This consultation uses the UNC consultation on the GB charging changes as the main material that should be referred to when considering the comparison between the alternative options being proposed.**
- **The GB consultation process for changes follow the UNC change process. The change proposals for GB for Transportation charging can be found here: http://www.gasgovernance.co.uk/0678**

Representative:	Alex Nield
Organisation:	Storengy UK Ltd
Date of Representation:	8 May 2019

Comments on the proposals presented for the GB Charging Arrangements (shown under UNC0678A/B/C/D/E/F/G/H/I/J)

Storengy supports our proposal: Modification 0678F.

Storengy partially supports Modifications 0678C and 0678E.

Storengy is opposed to all other proposals as we do not feel that these reflect the benefits the storage facilities provide to the industry and the network, and therefore we do not feel that these proposals are cost reflective. In addition these proposals, and also Modifications 0678C/0678E do not take account of potential impact of historical contracts (agreed after April 2017) being moved onto floating prices under the new methodology.

The Modification 0678C/0678E/0678F proposals all show some recognition of the benefits that storage facilities provide to the industry and the network by incorporating a storage discount of 80% rather than the minimum discount specified by TAR NC. Although this is still not an ideal solution, as it represents some cross subsidy from Storage facilities to other users of the transmission network, the higher discount helps to limit the detrimental impact of 0678 on storage facilities and ultimately on the wider industry. Although this proposal will still place some limitations on storage facility utilisation from higher costs for moving gas, we believe that it will still allow storage facilities to utilise sites to provide flexibility to the market and help to minimise cost impacts to the end user. The document detailing the method and calculations for determining the 80% discount can be found at the following link: https://www.gasgovernance.co.uk/index.php/0678 (NTS Charging Review: setting a tariff discount for storage (GSOG WWA))

In addition to the storage discount the Modification 0678C/0678E/0678F proposals include an exemption to revenue recovery charges for all storage network capacity, again minimising the cost and detrimental impacts on storage facilities, and ultimately the wider industry. This maintains the current storage capacity exemption from revenue recovery charges as previously recommended by Ofgem and is consistent with the requirement to avoid double charging, as well as removing additional costs to storage through the transfer of network capacity to customers in proposals 0678/0678A/0678B/0678D/0678G/0678H/0678I/0678J. At present storage facilities rely on transferring network capacity to customers for them to use the facility, and in all but proposals 0678C/0678E/0678F this would result in storage capacities incurring additional revenue recovery costs.

Our Modification 0678F proposal also includes a capacity surrender process for those parties who acquired capacity in the two 2018 Quarterly System Entry Capacity (QSEC) auctions, as parties taking part in these auctions were not notified that contract prices for any capacity acquired at the auction may be subject to change. With all proposals now proposing to have floating prices for these contracts, we feel that a surrender process would provide a fair option for affected parties to be able to either accept the new prices or withdraw from the contracted commitments. Please see Storengy' early representation raising our concerns with regards to the change in pricing terms for contracts acquired between April 2017 and the effective date for proposals:

https://www.gasgovernance.co.uk/index.php/0678/Reps (Initial Representation – Storengy 0678).

Please provide below any comments on the content of this consultation, supporting documents and any comments specific to Article 26 or 27

Storengy believes that there has not been significant analysis and investigation of the impacts of these proposals carried out, or justification of the changes are being proposed. There has been little investigation into the impacts of changes at individual connection points, and the likely secondary impacts on the industry and end consumer.

In addition, there is no benchmarking of proposals against: market liquidity, market prices, price volatility, and resilience against supply and demand shocks.

With the short timescales much of the analysis undertaken has focused on the top line price changes for Entry and Exit Capacity to the NTS, and included very high level assumptions (eg. no change in booking levels or behaviour). This has meant that very little consideration has been given to the secondary impacts of the changes on consumers and industry participants; and therefore the impacts on consumer bills, reliability of supply, market flexibility, market/business behaviours, and business operational feasibility. These areas need further review and consideration prior to the implementation of any major changes to the industry and capacity charging.

Storengy recommends that a full independent impact assessment, modelling, and analysis of all options is carried out prior to any changes being decided.

Please provide below any specific comments or observations you wish to highlight to help facilitate updates in preparing the final consultation as outlined in the EU Tariff Code

All of the current proposals go far beyond both current and proposed requirements needed to meet EU and ACER legislation. The implementation of any of the proposals will see the UK implementing, across all Entry and Exit Points, an EU regulation that was mostly affecting the charging at IPs. Storengy believes that an option solely meeting the minimum requirements of EU TAR should be considered and accessed against current proposals.

Higher Costs for Storage Facilities

All of the current proposals will see the costs for storage facilities increase significantly, with some proposals making it difficult for storage operations to remain viable.

As well as paying higher costs for capacity, there are expected to be a wide range of secondary effects.

Reduced movement of gas – sites will look to minimise costs by reducing the cycling and movement of gas, leading to reduced flexibility in the marketplace, and reduced support for resolving supply and demand mismatches. This is likely to lead to a higher need for network balancing by National Grid, and/or incentives for the market to balance supply and demand.

Higher price triggers for buying and selling of gas – with higher costs, higher revenues are required, and therefore more significant prices signals from high and low prices will be needed before gas is moved. This will result in much higher volatility of prices, higher risks for the industry, and ultimately these costs will result in both higher costs and risks being passed on to the consumer.

Less investment in storage facilities – with a low level of gas storage capacity available in the UK in comparison to the rest of Europe, storage capacity is likely to continue on a downward trend, as storage businesses become less viable. Again, higher costs require higher revenues to make businesses viable, and therefore other markets will become more attractive to investors. This will see minimal investment in new projects and facilities, and less spending in maintaining existing facilities, leading to a steady decline of gas storage in the UK, and increased reliance on just in time imports such as less reliable and more expensive LNG and Interconnector supplies.

Reduced security of supply – although storage facilities are likely to continue to provide an emergency supply of gas in the short term, as facilities decline this storage capacity is expected to steadily reduce over time, leading to a higher risk of gas shortages at peak times. Although some of this may be offset by imports, this is less likely to be delivered in a timely manner, with storage facilities able to deliver gas quickly and direct to the network.

Loss of competitiveness for UK storage sites – as well as the increased costs and more restricted movement of gas for storage sites we will see UK storage become less competitive with European counterparts resulting in a higher reliance in imported flexibility. With margins at UK storage sites already squeezed by extremely high business rates, the higher capacity costs simply inflates a problem that is already causing concern for the UK market. Again, the movement towards storing gas on the continent is likely to see increases in longer term costs, and time lag in being able to deliver gas to the market when it is needed, and a high reliability on other markets to support the UK, even when their own home markets need their support.

Revenue Recovery Charges

All of the current proposals allow Existing storage contracts to be exempt from revenue recovery charges. However, with most of these proposals this exemption is lost if the capacity is traded. This again presents an additional expense to storage, as storage facilities have previously bought NTS Entry capacity to enable the facilities to be fully utilised by customers, and currently rely on being able to transfer this capacity to customers at cost to enable them to manage their storage products. Again, this presents an additional cost going forwards, and provides a further obstacle for storage facilities providing services to the wider industry.

At present only Modifications 0678C/0678E/0678F provide storage facilities with full exemption from revenue recovery charges for existing contracts, and these three modifications provide exemption for storage for all (existing and new) contracts.

Move to Floating Prices for Historic Capacity Agreements

Under previous proposals for Modification 0621, all capacity contracts agreed prior to the Effective Date would be charged at the prices previously agreed. However, under the new proposals for Modification 0678, only capacity contracts agreed prior to April 2017 will receive this protection, and have their historically agreed prices honoured. For the Modification 0678 proposals, all capacity contracts agreed between April 2017 and the Effective Date will move to floating prices and be charged under the prices calculated for the new methodology.

Storengy has previously raised concerns about this change of treatment and change to terms for contracts that were entered into historically and in good faith, https://www.gasgovernance.co.uk/index.php/0678/Reps (Initial Representation – Storengy 0678). Although some reference to the possibility of changing prices was published for the capacity auctions held in 2017 and 2019, no warning of this was given for the two QSEC auctions held in 2018. Therefore Storengy believes that any parties acquiring capacity in the 2018 auctions could not have expected the price of capacity acquired to change from that agreed at the auctions, and would have entered the contracts in good faith on this basis. Under current forecasts for Modification 0678, this change in price will see the total cost of capacity acquired in the 2018 QSEC auctions increase to almost five times the cost originally agreed at the auction, with capacity acquired at some of the connection points increasing to almost one hundred and fifty times the costs previously agreed and committed to. This is clearly a huge difference in cost compared to what parties would have originally expected to pay, and may have led to completely different investment decisions being made had this been known at the time of the auctions.

To try to alleviate the potential problems caused by this vast increase in the prices as a result of moving to floating prices, Storengy has proposed to introduce a capacity surrender process for the affected contracts. This will allow affected parties to surrender all or part of these contracts should prices change by a significant amount for the period to which the capacity has been acquired for, which no ongoing commitment or charge for the capacity surrendered. This should allow parties to re-assess their original investment decisions in relation to the increased costs, rather than being forced to pay inflated costs that would have made the investment decisions unviable, and which could potentially lead parties to problems in paying the charges and/or making affected parties uncompetitive in the marketplace.

Move to Short-term Capacity Booking

To minimise costs storage facilities will look to purchase capacity short-term to better match needs, rather than buying capacity long-term in bulk to ensure that it is available whenever needed. Under the current capacity allocation methods this may see capacity cut-back at storage points in the longer term as there are no long term booking signals to indicate that the capacity is required. This combined with the higher costs will all serve to limit the operations of storage facilities, resulting in further under-utilisation, and again putting into question their longer term viability.

In addition to the impacts on storage operation, the movement towards short-term capacity booking will also generate the need for new upgrades and expenditure on IT systems. Current capacity booking systems, and matching processes are designed for long term bookings in a less flexible market. At present the booking systems of Xoserve and National Grid are not ready to move towards short-term booking, and significant investment and development time will be needed to revamp these booking systems, and to automate matching processes to focus on high levels of within day and day ahead gas booking. Current systems are designed to support options to flow with low premiums (capacity fee) and high strike price (commodity fee), whereas current proposals will move towards options with high premiums (capacity) and low strike price (commodity).

Further details of the benefits provided to the industry and the network by storage facilities, and the impacts of the current proposals on storage facilities can be found in Storengy' supporting paper at the following link:

https://www.gasgovernance.co.uk/index.php/0678/Analysis (GCR Gas Storage Benefits Analysis Document v1.3)

Appendix 1: Relevant information to this preliminary ACER Consultation

Background information

This consultation is being issued in line with Article 26 of the EU Tariff Code and the Ofgem direction dated 10 April 2019

(https://www.ofgem.gov.uk/system/files/docs/2019/04/decision_letter_unc678.pdf)

This consultation is a preliminary consultation and is being issued alongside the UNC consultation on the GB Charging proposals being considered under UNC0678A/B/C/D/E/F/G/H/I/J. It is being run in parallel to the UNC consultation.

The final consultation required under Article 26 of the EU Tariff Code will be issued by Ofgem.

EU Tariff Code

EU Commission Regulation 2017/460 (EU Tariff Code) http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32017R0460&from=EN

Draft ACER Consultation Template

A populated version of this is attached to the notice of this consultation.

UNC0678 and Alternative modification links:

http://www.gasgovernance.co.uk/0678 - Main page for modifications including the workgroup report Part I and 11 (eleven) Part II documents.

Part I document: Comparing the alternative modifications.

Part II documents: Document specific to each proposal

Analysis and reference material

Any relevant analysis or material has been referenced or summarised in the draft ACER Consultation Template.