NTS GCD 13 – Impacts of Existing Contracts on Transmission Services Charges

Discussion Document Feedback – June 2023

Organisation: **Storengy UK Limited**

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Question 1: Do you agree that Existing Contracts are having a significant impact to Transmission Services Entry Reserve Prices?

No, the methodology for deciding Transmission Services Entry Charges was designed with the intention of recognising Existing Contracts differently to new contracts, and so the impacts of these differences were fully considered in the creation of the methodology. Therefore, although Existing Contracts are treated differently to new contracts, and thus charged at different prices, these differences have not changed since the creation and implementation of the current methodology and so there are no significant changes to the impact of these differences to justify any significant changes to methodology.

Question 2: Do you believe there should be some remedy to limit/reduce/remove their influence?

Storengy UK do not believe that there is any need or necessity for changes to the methodology for Existing Contracts, as there is no new problem to remedy.

Question 3: Should there be any treatment, different to the status quo, for ECs and how they are accommodated and charged in the Charging Methodology?

Storengy UK believe that the terms of historic contracts should be honoured as good business practice. Changing terms of agreements in hindsight should only be considered in extreme circumstances, as doing this can severely erode confidence in the industry, and potentially create financial and operational issues for the parties involved.

Question 4: Do you think any of these options provide a more suitable approach to Transmission Services Charging achieving on objective of more competitive TS Entry charges? If so, please include why this would be beneficial to competition.

If it is believed that there is an issue in the difference in pricing that needs to be solved, then a flow based commodity charge would appear a suitable approach. This would be the fairest way of applying a charge, as it would narrow the difference in pricing between those using existing capacity and new capacity, but would not penalise parties who are not fully utilising long term capacity bookings.

Question 5: Are there any other options or refinements / amendments / specific treatment within these options that should be considered and why?

The main stumbling block for introducing a commodity charge, would be whether such a charge could be implemented and remain compliant with TAR NC, especially as the main aim of the change in the charging regime in October 2020 was to move away from commodity based charging.

Question 6: Should there be any additional things to consider (eg. Capacity hand-backs)

Storengy UK believe that the simplest way to address the difference in pricing would be to reduce the proportion of capacity bookings currently on existing contracts. For this to happen, a method for handing back capacity previously booked would need to be created.

Hand-backs of short term capacity would make forecasting extremely difficult, and so it would only be feasible for hand-backs of longer term capacity prior to the calculation of capacity prices for the year to which the capacity bookings relate. Whether hand-backs of existing capacity would be incentivised or voluntary would need further industry discussion to investigate the likelihood of parties to relinquish existing capacity contracts. In addition, whether hand-backs would only be for existing contracts or for all longer term capacity bookings should also be further discussed, with the hand-back being available for all long term capacity bookings seeming to be the fairest approach in maintaining a level playing field for market competition.

Question 7: Are there merits in reviewing Transmission Services Charging on a broader perspective, recognising that this would encompass Entry & Exit?

Prior to the introduction of the new charging regime in October 2020, there was an extensive review of charging, with the new charging methodology devised. A further extensive review of this would be a very lengthy and time consuming process, with potentially very little, if any, benefit for the industry as they would simply be discussing the same things again.

However, a more focused review of a specific aspect such as the Entry & Exit split may provide some benefit, although again this is likely to be a lengthy process, and so would be unlikely to provide any short term or quick solution to the issues suggested.

Question 8: What, if any, objective could this aim to achieve?

A lengthy review of TS charging is likely to see similar discussions to those prior to the implementation of the new charging regime in October 2020. Therefore, Storengy UK do not believe that a general review of charging would be productive or beneficial for the industry. A more targeted review of one or two key aspects may provide some benefit in providing a more level competitive playing field or possibly simplifying some of the aspects of charging, and could likely be done in much shorter timescales.

Question 9: Should a discussion and review of, for example, a change to the 50/50 split be a deliverable for any such review?

Reviewing the Entry & Exit split, with a view to moving a higher proportion of charges towards Exit may see any issues in pricing between existing Entry capacity and new Entry capacity watered down, helping to mitigate the suggested issue.

A more substantial change to all charges being collected via Exit flows, may see the difference in pricing between existing Entry capacity and new Entry capacity by-passed completely. A move towards this would appear to simplify this element of the industry, removing costs of administration, operation, and system development, and potentially lowering costs passed on to consumers. However, this may be very complex to initially implement, increasing costs in the short term, and needing extensive industry discussion prior to any implementation.

Question 10: Assuming an initial conclusion that something should be done (subject to views) so Stakeholders agree that we should explore:

c) TS Entry only?

d) A wider scope ie. Transmission Services as a whole?

As per the options presented, a new commodity charge or a review of the Entry/Exit split may be possible solutions, although these options would all present further problems in trying to maintain compliance with TAR NC.

The simplest way to resolve the suggested issues would be to encourage those with existing Entry capacity contracts to hand-back longer term capacity bookings.

Question 11: Is there anything not covered in this initial review that would be beneficial to take into consideration to facilitate advancing discussions on optioneering selection / direction / development for 2024 and beyond?

With many existing Entry capacity contracts ending within a few years, any changes to charging would need to be implemented quickly for them to have significant impact on the suggested issues. With the complexity of discussions and possible changes, it seems likely that devising changes would be very time consuming, and implementing changes would just add further costs to the industry, with the potential for little if any benefit. Therefore, changes to the charging and pricing methodology do not seem the most viable option.

As previously noted, reducing the existing Entry capacity contracts by enabling hand-backs would appear the simplest and most effective option. Changing the terms of existing contracts would not be realistic, as this would further erode confidence in the industry, so any hand-backs to need to be voluntary. The main issue for this would be whether incentives were needed for parties to hand-back capacity, and how they could potentially replace required capacity bookings under new terms.