Underground Energy Storage Operators

UESO

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Colin Williams
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Dear Colin

Re: NTS GCD 13: Impacts of Existing Contracts on Transmission Services Charges

Introduction

UESO represents the owners and operators of underground energy storage facilities in GB. As such, it has a particular interest in the impact of transmission charges on the economics of the current methane storage and any follow throughs from the methane market into the proposed hydrogen economies.

It is well understood that a number of users have Existing Contract holdings enabling the withdrawal of gas from storage facilities. The ownership of entry capacity includes shippers who contract for storage services and storage operators who make entry capacity available to customers of their storage services. Following the implementation of UNC 0678A. storage points are subject to an 80% discount to standard NTS capacity charges. Furthermore, all flows into and out of storage are exempt from the General Non-Transmission Services commodity charges, which represents a continuation of the arrangements which applied prior to the implementation of UNC 0678A (storage related flows were exempt from the SO and TO Commodity charges).

Making the case of change

The differential between the average price of Existing Contracts and "new" entry capacity has been marked since the implementation of UNC 0678A. This was well understood by industry during the development of the various Charging Reform related modifications and it is baffling that remedial measures are being sought at this very late stage. The information provided in the document shows that the "problem" is short-lived, with non-storage Existing Contract holdings falling to zero by 2030/31 and reducing annually between now and then. Nonetheless, we understand the desire to reduce the differential between Existing Contracts and "new" capacity, as it is difficult to justify significant variations in price between products which provide the same rights of access. The key consideration in making any changes to the established charging regime is the wider impact on the market and customers, of which storage is an integral component.

Assessment of the options

National Gas Transmission (NGT) has set out 5 options for reform as well as a default "do nothing" option. Of the 5 options for change, UESO considers that one of them should not be considered as a viable approach for the purpose of remedying the perceived problem.

The proposal to alter the entry:exit revenue split is a fundamental change to the charging regime with significant ramifications for the market and customers. UESO recommends that if a review of the split is deemed necessary that it should be carried out independently of this exercise.

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The procedure set out in Articles 26 and 27 of the EU TAR requires that a review and consultation on the charging methodology is carried out by 31 May 2024; UESO believes that this would be the appropriate vehicle to consider the entry:exit split.

Of the remaining options, USEO does not believe that option 3, which proposes limiting the flexibility and usage of Existing Contracts is a) compliant with the EU TAR, or b) will achieve the desired outcome of addressing the imbalance between Existing Contracts and "new" entry capacity. In terms of compliance, the prospect of denying the holders of Existing Contracts the rights which were originally bestowed upon them at the time of purchase conflicts with the terms of the UNC and is contrary to the purpose of the establishment of Existing Contracts within the EU TAR. Changes to the UNC must not undermine the terms upon which a service was originally acquired. On the second point, it is well understood that a significant volume of capacity associated with Existing Contracts is traded in the form of sleeving and gas swaps. This practice maintains ownership of the capacity, meaning that any restrictions on trading will simply result in an increase in the number of trades of this nature, thereby rendering the restrictions to be ineffectual.

The three commodity-based options will have secondary market and customer impacts associated which are not considered in the paper. Further, EU TAR compliance will be a factor when comparing the applications. At this stage, UESO wishes to reinforce the position that commodity charges do not and have never applied to storage flows. We see no reason why this position should change in the future, including the application of any new commodity charges associated with any of the three options.

In conclusion, UESO is not convinced that a change to the methodology is necessary, given the limited duration and decreasing volumes of Existing Contracts. If a change is deemed to be required, then any commodity-based solution must include exemptions for storage related flows.

UESO would be happy to discuss this response in more detail and will contribute to future discussions and consultations.

Yours sincerely

Nicholas Wye
Chair, UESO