

Initial Representation received by Email

0678: Amendments to Gas Transmission Charging Regime (Urgent)

Date: 30 January 2019

Organisation: Alex Nield, Commercial Team, STORENGY UK Ltd.

Abstract:

Further to our Workgroup meeting on Modification 678 yesterday [29 January 2019], I am keen to raise my concerns with regards to the treatment of “Interim Contracts” as previously defined under Modification 0621. As you will be aware, under Modification 0621 it was proposed that historically agreed Gas Transmission Charges would be honoured in line with the treatment of Existing Contracts. However, under the new Modification 0678 proposals, the charges agreed for Interim Contracts will no longer be honoured, instead being replaced by “floating charges” to be determined in line with the proposed new charging regime. This impacts any businesses who have acquired long-term capacity since 06 April 2017, as the originally agreed prices will change under the new proposals. This presents both a large increase in costs (from a 50% increase in cost to more than 20000% increase in cost at varying Entry Points under current proposals) and a similarly scaled over-commitment in capacity booked to meet the required NPV tests at the time, for any businesses entering a long-term capacity agreement during this period.

With no method of release from Interim Contracts, this means that businesses affected by this will be paying far higher costs than originally expected and assessed in making investment decisions. This impacts on the viability of the original economic decision, ability for businesses to pay the increased costs and therefore reliability/sustainability of gas supply, and also adds a major barrier to competition for these businesses. There is also a question over whether long-term auctions in 2019 should be going ahead with no clear view on the potential level of prices, as auction participants would be expected to vastly over-commit to volumes of capacity to meet NPV requirements and also sign a blank cheque for any capacity required.

Various questions arise from this, e.g.:

- Should some price protection be afforded to Interim Contracts under the new charging?
- Should there be an opportunity for businesses to un-commit to capacity and charges?
- Are proposed charges sufficiently transparent to be able to run long-term capacity auctions in 2019?
- Does this present a competitive, sustainable, and economically efficient environment for industry participants to operate in?
- Should there be limits in place as to how much charges can change by within a short period of time?

I would welcome the thoughts of other industry participants on this and would welcome further discussion in forthcoming Workgroup sessions.

Kind regards

Alex

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Alex Nield

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