

Representation - Draft Modification Report

UNC 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I; 0678J;

Amendments to Gas Transmission Charging Regime

0678	Amendments to Gas Transmission Charging Regime
0678A	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678B	Amendments to Gas Transmission Charging Regime
0678C	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678D	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678E	Amendments to Gas Transmission Charging Regime – Treatment of Storage
0678F	Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage
0678G	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678H	Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge
0678I	Amendments to Gas Transmission Charging Regime including Wheeling and an Ireland Security Discount
0678J	Amendments to Gas Charging Regime (Postage Stamp) including a Cost Based Optional Capacity Charge

Responses invited by: 5pm on 08 May 2019

To: enquiries@gasgovernance.co.uk

Representative:	Alex Nield																							
Organisation:	Storengy UK Ltd																							
Date of Representation:	08/05/2019																							
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	<table border="1"> <tr><td>0678</td><td>Oppose</td></tr> <tr><td>0678A</td><td>Oppose</td></tr> <tr><td>0678B</td><td>Oppose</td></tr> <tr><td>0678C</td><td>Qualified Support</td></tr> <tr><td>0678D</td><td>Oppose</td></tr> <tr><td>0678E</td><td>Qualified Support</td></tr> <tr><td>0678F</td><td>Support</td></tr> <tr><td>0678G</td><td>Oppose</td></tr> <tr><td>0678H</td><td>Oppose</td></tr> <tr><td>0678I</td><td>Oppose</td></tr> <tr><td>0678J</td><td>Oppose</td></tr> </table>		0678	Oppose	0678A	Oppose	0678B	Oppose	0678C	Qualified Support	0678D	Oppose	0678E	Qualified Support	0678F	Support	0678G	Oppose	0678H	Oppose	0678I	Oppose	0678J	Oppose
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0678G	Oppose																							
0678H	Oppose																							
0678I	Oppose																							
0678J	Oppose																							
Expression of Preference (Please note you will be asked for your reasoning further below)	<p>If <i>NEITHER</i> 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I <i>OR</i> 0678J were to be implemented, which <u>ONE</u> Modification would be your preference?</p> <p>0678F</p>																							

**Standard Relevant
Objective:**

0678	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678A	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678B	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive

**Standard Relevant
Objective
(continued):**

0678C	
a)	Negative
b)	Negative
c)	Positive
d)	None
e)	None
f)	None
g)	Positive
0678D	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive
0678E	
a)	Negative
b)	Negative
c)	Positive
d)	None
e)	None
f)	None
g)	Positive

**Standard Relevant
Objective
(continued):**

0678F

- | | |
|----|----------|
| a) | Negative |
| b) | Negative |
| c) | Positive |
| d) | None |
| e) | None |
| f) | None |
| g) | Positive |

0678G

- | | |
|----|----------|
| a) | Negative |
| b) | Negative |
| c) | Positive |
| d) | Negative |
| e) | None |
| f) | None |
| g) | Positive |

0678H

- | | |
|----|----------|
| a) | Negative |
| b) | Negative |
| c) | Positive |
| d) | Negative |
| e) | None |
| f) | None |
| g) | Positive |

**Standard Relevant
Objective
(continued):**

0678I	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive

0678J	
a)	Negative
b)	Negative
c)	Positive
d)	Negative
e)	None
f)	None
g)	Positive

**Charging
Methodology
Relevant Objective:**

0678	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

**Charging
Methodology
Relevant Objective
(continued):**

0678A	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

0678B	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

0678C	
a)	Positive
aa)	Positive
b)	None
c)	None
d)	None
e)	Positive

0678D	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

**Charging
Methodology
Relevant Objective
(continued):**

0678E	
a)	Positive
aa)	Positive
b)	None
c)	None
d)	None
e)	Positive

0678F	
a)	Positive
aa)	Positive
b)	None
c)	None
d)	None
e)	Positive

0678G	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

0678H	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

**Charging
Methodology
Relevant Objective
(continued):**

0678I	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive
0678J	
a)	Negative
aa)	Negative
b)	Negative
c)	Negative
d)	None
e)	Positive

Reason for support/opposition and preference: Please summarise (in one paragraph) the key reason(s)

0678 (Oppose)

The proposal does not take into consideration the benefits of storage facilities to the industry and the transmission network, and takes negligible consideration of the different operational nature of storage facilities to other sites connected to the transmission network. As a result these proposals will place significant limitations on storage facility operations, limiting their ability to move gas and significantly threatening their ongoing business viability through higher costs and lower revenues. These limitations will restrict storage sites ability to be able to react to the market, to help dampen gas price spikes by delivering or storing gas to match supply and demand needs, to relieve pressures on the network at peak times by supplying a parking facility for gas on the network, and to store (and deliver) gas for market emergencies. This is all likely to result in less flexibility of operation for industry members, reduced reliability of supply, and higher costs being passed through to consumers.

Therefore this proposal is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network.

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology.

0678A (Oppose)

As with 0678, this proposals is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network; as it does not take into consideration the benefits of storage facilities to the industry and the network, and shows negligible consideration of the very different nature of storage operations to other facilities (see our response to 0678 above).

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

0678B (Oppose)

As with 0678, this proposals is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network; as it does not take into consideration the benefits of storage facilities to the industry and the network, and shows negligible consideration of the very different nature of storage operations to other facilities (see our response to 0678 above).

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology.

0678C (Qualified Support)

This proposal shows 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 and consumers. 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 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 this proposal includes 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.

This proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

0678D (Oppose)

As with 0678, this proposal is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network; as it does not take into consideration the benefits of storage facilities to the industry and the network, and shows negligible consideration of the very different nature of storage operations to other facilities (see our response to 0678 above).

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

0678E (Qualified Support)

This proposal shows 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 and consumers. 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 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 this proposal includes 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.

This proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

0678F (Support)

This proposal shows 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 and consumers. 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 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 this proposal includes 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.

This 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)

0678G (Oppose)

As with 0678, this proposals is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network; as it does not take into consideration the benefits of storage facilities to the industry and the network, and shows negligible consideration of the very different nature of storage operations to other facilities (see our response to 0678 above).

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

0678H (Oppose)

As with 0678, this proposals is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network; as it does not take into consideration the benefits of storage facilities to the industry and the network, and shows negligible consideration of the very different nature of storage operations to other facilities (see our response to 0678 above).

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

0678I (Oppose)

As with 0678, this proposal is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network; as it does not take into consideration the benefits of storage facilities to the industry and the network, and shows negligible consideration of the very different nature of storage operations to other facilities (see our response to 0678 above).

In addition we share the view of National Grid in believing that Moffat IP Exit point does not represent 'infrastructure ending isolation' under TAR NC, Article 9, and therefore cannot justify the 95% Ireland Security Discount raised in this proposal.

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

0678J (Oppose)

As with 0678, this proposals is not cost reflective, is detrimental to the market and the consumer, and represents a cross subsidy from Storage facilities to other users of the transmission network; as it does not take into consideration the benefits of storage facilities to the industry and the network, and shows negligible consideration of the very different nature of storage operations to other facilities (see our response to 0678 above).

In addition this proposal does not consider the vast increase in cost, and the potential detrimental effects, of changing prices for capacity acquired in the 2018 QSEC auctions to floating prices charged under the new methodology

Implementation: *What lead-time do you wish to see prior to implementation and why? Please specify which Modification if you are highlighting any issues.*

Prior to Implementation

We would wish to see:

- 1) A full independent impact assessment, modelling, and analysis of options before any changes are decided. This should include a full assessment of the likely impacts on the operability and financial viability of storage facilities, and potential limitations/reductions in storage facility functionality.
- 2) A lead time between the decision and the effective date of at least 12-18 months to allow industry members sufficient time to be able to plan and prepare for any potential changes. Note: Contracts at storage facilities are normally based on the gas storage year from 1st May to 30th April, with capacity offered and sold at least six months prior to the start of the contract. With the movement of gas critical to any storage contracts, uncertainty around the capacity cost and availability presents significant problems to both buyers and sellers of storage services in assessing cost and risk, and therefore the utilisation and financial viability of storage facilities.
- 3) A modification proposal that ensures only minimum EU compliance with the EU Network Code, in order to have a workable solution with minimal disruption and risk to the industry. This would also serve as a viable Alternative to 0678 should current proposals prove to be unviable, unworkable, or too detrimental to the industry or to the end consumer.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

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 price 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 inflate a problem that is already causing concern for the UK market. Again, the movement towards storing gas on the continent is likely to result in increases in longer term costs, time lag in being able to deliver gas to the market when it is needed, and a high reliance 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).

Legal Text: *Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.*

All proposals currently provide exemption to revenue recovery charges for all existing capacity contracts at Storage Connection Points. However, this is not fully reflected in the legal text where any capacity relating to existing contracts that is transferred to another party after April 2017 will then incur revenue recovery charges.

At present only proposals 0678C/0678E/0678F fully reflect the exemption to revenue recovery charges for all existing capacity contracts at Storage Connection Points, as all of these three proposals provide exemption from revenue recovery charges for all capacity at Storage Connections Points (ie. new and existing contracts).

This element of the legal text presents a significant problem for storage operators in the remaining proposals, and storage operators who have already secured network capacity for their customers would no longer be able to transfer it to storage users without the later incurring additional charges. This would present a major problem to storage facilities looking to offer their services to third parties, and therefore is likely to restrict use of storage facilities to a small number of parties within the industry, losing flexibility from the wider industry.

Are there any errors or omissions in this Modification Report that you think should be further considered? *Include details of any impacts/costs to your organisation that are directly related to this.*

Due to the rushed timescales for producing the Modification Report and accompanying analysis, little in depth analysis of the implications has been undertaken, and the analysis that has been undertaken has been inadequately reviewed.

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. 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 has produced analysis to try to highlight some of these likely impacts to 'Gas Storage in the GB Market', <https://www.gasgovernance.co.uk/index.php/0678/Analysis> (GCR Gas Storage Benefits Analysis Document v1.3). As well as highlighting the benefits of gas storage to both the network and the industry:

minimising supply and demand mismatches and need for network balancing,

minimising volatility of prices, parking facility for gas within the network,

minimising network pressures (minimising need for network investment) and increasing supply reliability,

and increasing flexibility for the industry in business tactics to deliver gas and minimise cost impacts;

Storengy also looks at the changes in gas storage capacity booking behaviours, and potential impacts of our proposals in Modification 0678F on both storage and the wider industry. This has been given only a very limited consideration within the Workgroup Report.

Although timescales for notification of changes prior to implementation is raised within the Workgroup Report, we feel that this needs to be further highlighted as a key consideration of any change proposals prior to their implementation. The more time that is given to the market to adapt and plan changes prior to the implementation of any changes, the less disruptive and costly they are likely to be to the market, and therefore the more likely they are to result in a positive outcome for the industry and a minimisation of costs. Storengy believes that a minimum of 12-18 months advanced notification any final proposals prior to implementation should allow industry participants to plan and prepare for changes (and agree relevant contracts for the affected period).

Please provide below any additional analysis or information to support your representation

Storengy and Waters Wye Associates (WWA) have already submitted in depth analysis papers in relation to our proposals and the potential impacts of current proposals for GB storage operators. These can be found via the following links:

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

WWA paper: <https://www.gasgovernance.co.uk/index.php/0678> (NTS Charging Review: setting a tariff discount for storage (GSOG WWA))

Storengy paper

The Storengy paper helps to highlight the benefits provided by gas storage facilities to GB market. This includes minimising supply and demand mismatches and reducing the need for network balancing, minimising the volatility of prices both within the network and to end users, providing a parking facility within the gas network to help relief network pressures (and investment) and add flexibility of operation to the market, and increasing reliability of supply with the provision of stored gas in emergencies or at peak times.

In addition this paper looks at current storage availability in Britain, and its steady decline in recent years due to ongoing cost pressures, as well as highlighting the reliance of storage sites on being able to cycle gas to break-even.

It also helps to highlight the likely impacts of the Modification 0678 proposals, with a move towards shorter term capacity booking strategies, and the cost and effect of our proposals in Modification 0678F on both storage operators and the wider industry.

WWA paper

The WWA paper focuses on the justification for the proposal of an 80% discount for storage on capacity prices. This paper helps to highlight the value of storage facilities to the industry, and places a realistic and prudent valuation on these benefits.

Impacts of proposals for Modification 0678 and its alternatives.

All of the current proposals for Modification 0678 are expected to see an increase in costs for storage facilities, adding further financial pressures to an area of the market that has already been seen to be fragile with the closure of Rough, mothballing of Hole House Farm, and reduction in capacities at Hornsea and Aldbrough in recent years.

Further to the analysis provided by Gateway in Modification 0678E, it can be seen that current capacity costs of around £1.3m pa, will rise to a minimum of £8m pa under proposals with a 50% storage discount, and around £3.2m pa for proposals with an 80% storage discount. This clearly represents a significant jump in capacity costs from existing levels, especially when considering their scale in relation to other storage operator costs such as the overhauling of a single compressor every 10 years (£500k every ten years), sonars for each cavern every 10 years (£25k per gas storage cavern every ten years), or pressure and temperature logs for each cavern every 3 years (£3k per cavern every three years).

This proportionate change in costs can also be highlighted in the pence per therm costs with current variable costs of 0.50 p/th at our Stublach site almost doubling to 0.89 p/th (78% increase) under Modification 0678 proposals, and even with the 80% storage discounts in Modification proposals 0678E/0678F increasing these costs to 0.65 p/th (30% increase).

This is all likely to add extra financial pressures for storage facilities, limiting operations and the support that storage facilities provide to the wider industry and the network, and putting into question the longer term financial viability of gas storage facilities.

Introduction of Floating Charges to Historical Contracts

Under the new proposals all capacity contracts agreed between April 2017 and the Effective Date for any changes will move to floating prices, rather than being charged at the prices agreed at the time of acquisition. This is expected to see changes in price for the 2019/20 gas year of almost one hundred and fifty times the original price agreed at some connection points, presenting a potentially major problem to affected parties who entered into these contracts in good

faith, with no expectation that prices could change.

In Modification 0678F, Storengy has tried to alleviate this problem in what we believe to be a fair manner for both the affected parties and the wider industry, by allowing a yearly window for parties to surrender all or part of these contracts with no ongoing commitments for the capacity surrendered. Detailed analysis of the impacts of this on storage facilities are shown in Appendix 2 of the Storengy paper, where an additional ongoing cost of at least £1.3m pa is proposed to be added for storage facilities under Modification 0678 proposals as a result of the move to floating prices, with costs also increasing at other connection points in the wider industry.

It can be clearly that these unforeseen increases in capacity could present significant problems to the parties directly affected, adding further financial pressures and limiting their competitiveness, as well as impacting on the wider industry and end consumers with a distortion of capacity costs (and increased instability), and reduction in market competition. We feel that this problem needs to be addressed in any proposed changes to the charging regime in order to create a fair, competitive, cost effective, and efficient market.

Please also note that contracts acquired between April 2017 and the Effective Date are not currently expected to be reflected in the FCC calculations under any of the current proposals. Therefore the surrender of any of this capacity at the current time will not impact any of the capacity prices. Should Storengy's concerns and recommendations not be recognised in the finalisation of plans for a change in charges, then these contracts would see a significant over-recovery of capacity charges for the industry until the problem is properly addressed.

Consultation Questions Requested by the Authority

The Authority has requested that the following questions be considered by Respondents when writing their responses.

Question Number	Question
1.	<p>What impact, if any, do you think tariff differentials between existing and new contracts will have on users booking behaviour?</p> <p>With higher capacity costs expected at most Entry and Exit points under all of the new proposals We would expect businesses to move towards shorter term booking strategies, and away from longer term capacity bookings as they seek to better match bookings with actual requirements and therefore minimise capacity costs incurred.</p> <p>With capacity costs for existing contracts likely to be lower than for new contracts we would foresee a more active secondary market for the trading of historic capacity, with implicit trading of NTS Entry capacity contracts through a combination of beach and NBP spread trades. This should minimise any barriers to the market for new entrants as they would be able to buy lower cost capacity from existing industry participants.</p> <p>Higher costs for new bookings will also see a reduction in the cycling of gas at gas storage facilities as existing capacity contracts expire, and therefore a reduced utilisation of storage facilities in the longer term, along with a reduction in storage benefits for the industry.</p> <p>In addition, the higher costs for new bookings may also act as a barrier for new developments and new connections to the transmission network, as the higher the costs the higher the required returns from any investment. This may see a much lower level of new developments and new connections going forward as investment in the industry becomes less viable.</p>
2.	<p>What date should the changes proposed by the modifications become effective and why?</p> <p>Due to the short timescales for both notification and implementation, and for further assessment of the potential impacts of changes, we feel that the targeted October 2019 implementation date is no longer feasible.</p> <p>Storengy believe that it is critical to allow industry time between the notification of final proposals, and the implementation date for the industry to plan, prepare, and agree relevant contracts, to minimise any potentially detrimental effects of charging changes. We believe that a timescale of 12-18 months between notification and implementation dates should allow sufficient time for industry members to make the changes required to make a smooth transition to a new charging regime and minimise any costs to the industry and end user.</p> <p>Storengy maintains a flexible approach with regards to which calendar month any changes should be implemented, although a timescale aligned with the gas storage year (1st May to 30th April) would be welcomed. However, further to the concerns raised by many members of the industry, an October implementation date would appear to provide the more smooth transition to a new method of charging. Therefore with this in mind an implementation date of 1st October 2020 (if a quick decision is made) or 1st October 2021 would appear the most feasible.</p>
3.	<p>The proposals have different specific capacity discounts for storage sites. What level of</p>

	<p>storage discount do you consider is appropriate and can you provide clear justification if the discount is greater than 50%</p> <p>We believe that the storage discount should be at least 80%, as proposed in Modifications 0678C/0678E/0678F.</p> <p>Although the minimum discount of 50% partially offsets the double charging effect causing by using storage facilities to park gas on route, we believe that it takes no account of the benefits provided by storage facilities to both the industry and the network. As well as providing flexibility and relieving stress to the network by providing a parking facility for gas, storage also provides a store of gas for market emergencies, helping to minimise network supply and demand mismatches and the need for network balancing, as well as reducing price volatilities. Further information on the GB Gas Storage Market and the benefits provided by storage facilities to the industry and the wider network 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).</p> <p>Our justification for setting the discount at 80% is provided by Waters Wye Associates (WWA) in the linked attachment, https://www.gasgovernance.co.uk/index.php/0678 (NTS Charging Review: setting a tariff discount for storage (GSOG WWA)). This paper helps to take into account the additional benefits provided by storage to the industry, providing what we feel is a realistic and prudent valuation of these benefits.</p>
4.	<p>Can you provide reasons why an NTS Optional Charge is or is not justified? If you consider an NTS Optional Charge is justified, which proposal do you prefer and why is it compliant with TAR NC?</p> <p>As the NTS Optional Charge is not available to storage facilities we do not believe that we are in a position to be able to present an opinion on this topic.</p>
5.	<p>Do you consider the proposals to be compliant with relevant legally binding decisions of the European Commission and/or the Agency for the Co-Operation of Energy Regulators?</p> <p>We believe that the original proposal, Modification 0678, put forward by National Grid is generally compliant with EU legislation. However, we feel that this fails to meet EU legislation with regards to providing predictability and stability of price.</p> <p>We have based our proposal, Modification 0678F, on National Grid' proposal and therefore also believe our own proposal to be mostly compliant with EU legislation. Further to the changes presented in our proposal:</p> <ul style="list-style-type: none"> - the 80% storage discount is permitted under the EU Tariff Code, Article 9, which allows the application of discounts of 50% or higher at storage points. Therefore this is compliant with EU legislation. - the exemption of all capacity at storage points from revenue recovery charges, is compliant with EU legislation as the form and application of these charges is not restricted by the EU Tariff Code. Therefore we believe this to be compliant with EU legislation. - the introduction of a capacity surrender process is neither permitted or excluded in the EU Tariff Code, and therefore not restricted by EU legislation. Both this, and the aim of EU legislation to provide a fair, competitive market, make the introduction of this process fully compliant with the requirements of EU legislation. In addition, a similar process is already in operation in the German market, and this has already been approved as compliant with the EU Tariff Code.
6.	<p>It is proposed that National Grid Gas may review or update the Forecasted Contracted Capacity (FCC) Methodology following consultation with stakeholders, unless Ofgem (upon application by any Shipper or Distribution Network Operator) directs that the change is not</p>

	<p>made as per its powers under Standard Special Condition A11(18) of National Grid's Licence. Do you believe that this governance framework is fit for purpose? Please provide reasons for your answer.</p> <p>The calculation of the FCC is a key component of all of the Modification proposals, and therefore there needs to be the opportunity to review and update these calculations and methodology, as further information becomes available to refine the process. The method of review and refinement has been proposed to be reviewed under the various Modifications either via National Grid consultation, or via the UNC change process. Although we believe that either approach could be suitable, we believe that the National Grid consultation approach should provide the greater stability to the methodology and resultant prices as this can be run on a more regularly controlled basis and only when needed</p> <p>Storengy would also like to raise concerns in the proposed current calculation of the FCC as it does not currently take into account historical contracts agreed since April 2017. With proposals for these to change from previously agreed capacity prices to floating prices under the new methodology, these stand to see a significant over-recovery of charges until this problem is properly addressed.</p>
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