

Representation - Modification UNC 0727 (Urgent)

Increasing the Storage Transmission Capacity Charge Discount to 80%

Responses invited by: 5pm on 26 June 2020

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Pavanjit Dhesi
Organisation:	Interconnector (UK) Limited
Date of Representation:	26 June 2020
Support or oppose implementation?	Oppose
Relevant Objectives:	<p>a) Negative</p> <p>b) Negative</p> <p>d) Negative</p> <p>e) Negative</p> <p>In addition</p> <p>(g) Negative</p>

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

In conformity with our responses to the UNC678 consultation, we oppose the increase of the storage discount to 80% as proposed in this proposal. A 80% capacity storage discount for storage users would have a negative impact on competition between users of other flexibility assets like bi-directional interconnectors. It distorts competition in favour of storage user/facilities. It therefore has a negative impact on Relevant Objective d) securing effective competition.

Granting extra discounts to reflect the security of supply, system and wholesale price benefits that storage assets provide to GB is only appropriate if discounts are equally considered and applied to other assets providing the same benefits. This is necessary to avoid discrimination. A number of other assets including interconnectors provide wider benefits to GB also.

Furthermore, the reflection that Storage asset operators will not be realising the same revenue without an additional tariff discount also applies to other flexibility and security of

supply providers who face higher charges. IUK is also affected by the consequences of the new charging regime. An additional discount for one type of flexibility asset would aggravate the situation. Equal consideration would need to be given to the revenue impact on other assets and the level playing field to avoid undue discrimination

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We do not support implementation of this proposal.

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

The proposal will afford preferential treatment for one type of flexibility provider. It distorts competition with users of other flexibility sources and is likely to have a knock on detrimental impact on bi-directional interconnector revenues. CEPA's analysis for the UNC 678 impact assessment showed a 80% storage discount encourages "greater flows from gas storage facilities relative to competing sources of entry, leading to higher revenues" (see P Figure 3.28 - p51 https://www.ofgem.gov.uk/system/files/docs/2020/05/cepa_unc678_analytical_report.pdf). The CEPA report modelling furthermore estimated that "the inclusion of an 80% storage discount results in a notable decrease in bidirectional interconnector revenues" (see p48).

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

No comment

Respondents are requested to provide views on the following points:

Q1: Respondents are requested to provide a view as to whether the solution provided within the Modification is fully compliant with the relevant legislation (including, but not limited to, Articles 28-32 of the Tariff Network Code).

It is questionable if this is compliant with the Chapter VII of the European Tariff Network Code (TAR code) process. The final Article 26 periodic consultation process including the level of the storage discount has already been undertaken culminating in Ofgem's UNC678 decision in May 2020. New prices have now published for October 2020. To consider a 80% discount proposal just a month after Ofgem's decision is questionable in both the network code intent to carry out periodic consultations on the regime and the objective for a clear, predictable and stable charging regime.

Q2: Respondents are requested to provide views on the proposed implementation date.

Any change to the level of the storage discount in the future, and the necessary adjustments to reserve prices, should be implemented in line with the obligation to publish all the reserve prices on the network before the gas year. Ideally this should be in line with when interconnector point prices are published but at least two months prior to the new gas year.

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

No comment

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

We also do not believe a 80% discount for storage is merited. IUK noted concerns in the UNC 621 and UNC 678 consultation processes that there is a distortion to competition via preferential treatment for storage compared to other flexibility sources providing GB similar benefits. Any discount above the minimum outlined in the TAR Code will be further detrimental to competition and cause undue discrimination. In particular, it will distort competition with shippers seeking to access continental storage and move gas seasonally via the interconnectors at the Bacton interconnection points (IPs). The negative impact has also be confirmed by CEPA's analysis accompanying Ofgem's UNC678 decision.

It is important there is a level playing in the provision of flexibility to the market. The TAR code has obliged a storage discount on the basis users already pay system entry and exit charges. This is now covered by the 50% storage discount. Granting extra discounts to reflect the security of supply, system and wholesale price benefits that storage assets provide to GB is only appropriate if discounts are equally considered and applied to other assets providing the same benefits. A number of assets including interconnectors provide these wider benefits to GB.

Furthermore, the reflection that Storage asset operators will not be realising the same revenue with without an additional tariff discount also applies in a similar way to other flexibility and security of supply providers who face higher charges in the new charging regime. IUK is also affected by the consequences of the new charging regime and an additional discount for one type of flexibility asset would aggravate the situation. Equal consideration would need to be given to the revenue impact on other assets to avoid undue discrimination.