

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:	Alex Nield
Organisation:	Storengy UK Limited
Date of Representation:	26/06/20
Support or oppose implementation?	Support
Relevant Objectives:	<ul style="list-style-type: none"> a) Positive b) Positive d) Positive e) Positive

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

In raising this Modification we support its proposed implementation. Under the currently proposed level of charges for the new charging methodology, costs will substantially increase for storage operators and storage customers, placing huge strain on the ongoing viability of storage operations in the UK, and therefore potentially a large impact on the price volatility within the industry. This large increase in costs threatens the future viability of gas storage operations in the UK, and therefore we believe that it is critical to reduce these costs upon implementation of the new charging methodology, supporting storage operations continuation in the short term, and allowing further time to make storage facilities sustainable for the longer term.

We also believe that UNC 0727 will contribute to a better-functioning storage industry that will help minimise network operations cost (e.g. daily balancing), which will be positive for the end-consumer of gas and electricity.

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

We believe that with the level of cost increase to storage facilities, any lead time should be as short as possible, minimising the exposure of storage facilities to a substantial immediate increase in costs, and allowing the proposed changes to be implemented from the outset of the new charging methodology on the 1st October 2020. We believe that this change will have minimal impact on other users of the system, and so can be easily implemented at short notice.

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

The movement to the new charging methodology places a huge increase in costs of operation to storage facilities through the huge jump in capacity cost applicable to storage. UNC 0727 does not increase nor reduce the cost of adapting to the changes, as a change to an 80% discount is still a considerable increase compared to the previous charging regime and therefore will require the same amount of adaptation of business processes and systems. However, an 80% discount will alleviate some of the cost burden of the NTS capacity itself.

As per the analysis included in our Modification document, and the analysis undertaken by CEPA, it is clear that UNC 0678A will place huge ongoing pressures on storage facilities in their operations, with CEPA previously concluding that storage revenues were expected to reduce by 62% under the new charging methodology¹.

With Gas Year 2020/21 NTS capacity reserve prices considerably higher than previously modelled in the 0678/A/B/C/D/E/F/G/H/I/J process (+68% in Entry and +15% on Exit), this impact will be even more severe than previously concluded in the CEPA analysis, and therefore we believe that it is critical to reduce the costs to storage from the outset of the new charging regime to help storage facilities to continue to operate under the new charging structure.

Although this Modification only alleviates the pressure on storage facilities, we believe that this should allow storage facilities to continue operation in the short term, allowing operators further time to investigate options to sustain facilities in the longer term.

¹ [Table 0.3 of UNC678 Impact assesment](#)

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

This Modification represents a simple numerical change to the calculation of prices under the new charging methodology, and so therefore the intent of the solution should be fully supported by the legal text.

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).

This proposal keeps changes to the existing plans under the new charging methodology to a strict minimum, with only the discount level changing from 50% to 80% for storage site NTS points. The tariff network code states that the storage site discount should be at least 50% and does not specify an upper limit. Therefore we believe that the proposed change to 80% is fully compliant with the code. No other changes are proposed and so we believe that these proposals remain fully aligned to the existing plans for implementation in all other areas.

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

The new charging methodology (UNC Modification 0678A) introduces a substantial increase in costs for storage operators and storage users, raising major concern around the sustainability and viability of storage facilities in the UK for the future. This huge jump in costs will severely pressurise the commercial operations of storage facilities from the outset, potentially encouraging early decisions on possible mothballing and closure of facilities. Therefore we believe that it is critical to reduce these costs to storage from the start of the implementation of the new charging methodology (1st October 2020).

Our understanding is that the proposal UNC 0727 exactly matches one of the Scenarios analysed by CEPA in the Impact Assessment of 0678/A/B/C/D/E/F/G/H/I/J. The “PS with storage discount” Scenario modelled by CEPA already provides a comprehensive analysis of the implications of an 80% storage discount applied with the Postage Stamp charging regime introduced by UNC 0678A. We hope that this previous work can be used to contribute to a quick decision on UNC 0727.

We have also published a legal opinion on the compliance of UNC 0727 with EU Tariff Code legislation on the Joint Office website: <https://www.gasgovernance.co.uk/0727>

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.*

We do not believe that there are any errors in this Modification, and that it presents the major points that should be taken into account.

However, we would like to highlight that the NTS capacity reserve prices published in June 2020 following Ofgem's decision to implement 678A represent a significant increase on the prices previously forecasted and analysed. Therefore the negative impact of 678A on storage facilities will be significantly higher than previously expected in the impact assessment.

Please note that this Modification only looks to increase the storage discount on capacity reserve prices. This does not address the additional costs to storage users as a result of transferring existing booked entry capacity to customers. This Modification also doesn't account for the potential additional costs to storage operators through the revenue recovery charges, with an additional Modification expected to be raised to further address this issue.

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

Please see the additional analysis as shown in the Appendix to our Modification document, Modification 0727.