Representation - Draft Modification Report UNC 0751

Capping price increases for Long-Term Entry Capacity

Responses invited by: 5pm on 11 June 2021

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:	11th June 2021
Support or oppose implementation?	Support
Relevant Objective:	**c)** Positive **d)** Positive **g)** Positive
Relevant Charging Methodology Objective:	**c)** Positive **e)** Positive

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

Storengy UK supports our modification proposal, as we believe that by applying a price cap for long term capacity acquisitions, this proposal enables long term capacity booking and investment in industry facilities and services, helping to maintain a competitive environment to keep consumer costs to a minimum. Under the new charging regime, that came into effect on the 1st October 2020, any NTS capacity acquired is charged at the prevailing price at the time that the capacity is due to be utilised. Therefore for long term capacity acquisitions, the price to be charged for the capacity is unknown at the time of acquisition, with the party acquiring the capacity currently liable for a potentially high and unknown charge. This makes long term capacity acquisition an extremely high financial risk, and provides a huge disincentive for any associated investment in industry facilities and services. Our modification proposes to benchmark the long term cost of the capacity against the costs of the capacity at the time of acquisition, allowing potential investors to ascertain a future charging value for the capacity in evaluating whether or not to invest.

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

The current charging regime discourages longer term investment in industry projects requiring NTS capacity (eg. facility and service investment) as future NTS capacity charges are unknown until shortly before they are applied. This is currently harming the competitive environment, with the situation only continuing to worsen with time, and this is likely to increase costs for end consumers if not addressed. Therefore we believe that these proposals should be implemented as soon as possible after any Authority direction to do so, to aid in the ongoing welfare of investment in the current and future industry, and to ensure consumer costs are kept to a minimum.

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

The new NTS capacity charging regime, which started on the 1st October 2020, has resulted in all new NTS capacity auction acquisitions being made in the short-term and medium-term capacity auctions, both to minimise capacity costs by closer matching capacity bookings to flows, and because the cost of capacity is unknown until close to the time when it is to be utilised. This has effectively added a barrier to new longer term capacity acquisition, and created a lot more uncertainty in forecasting capacity bookings for the setting of yearly capacity charges. Our modification seeks to re-enable the acquisition of capacity for the longer term, and encourage ongoing investment in industry facilities and services, through adding parameters to control the future potential charging liability as a result of acquiring capacity for the longer term.

The introduction of the new charging regime has also created discrimination between long-term quarterly capacity booked before 5th April 2017 (Existing Contracts), and long-term quarterly capacity booked since this date but before the new charging regime came into effect. Existing Contract quarterly capacity bookings are charged at the prices agreed at the time that the capacity was acquired, where as quarterly capacity acquired since 5th April 2017 is subject to the capacity charges at the time of utilisation (prevailing price). This has resulted in Existing Contract holders benefiting from the knowledge of a fixed price liability for capacity bookings, where as more recent acquisitions of long term capacity carry huge financial risk as the potential capacity costs are unknown. Our modification addresses this by applying charging parameters for more recent long-term bookings.

With the booking of long-term capacity currently effectively unfeasible under the new charging regime (due to the unknown and potentially high capacity charging liability), a major barrier for investments in any industry projects requiring NTS capacity for the longer term has been introduced. The uncertainty of these costs has already seen reductions in industry facility investment such as the moth-balling and scaling down of sites, and also impacted future investments with some new projects being put on hold. If this issue is not addressed these impacts are only going to continue, with investors looking for more secure investments in other industries. Our proposal helps to provide investors with some security around future costs, enabling them to better evaluate risks and opportunities for industry projects and investments, and encouraging ongoing investment in facilities and services.

Storengy UK believes that our modification proposal will only benefit the industry as it helps to redress the balance between long-term and short-term capacity bookings, enabling capacity to be acquired for the longer term. This will help in the accuracy of forecasting yearly capacity bookings, and should reduce the volatility of yearly capacity prices, giving greater financial certainty to all members of the industry. In addition, it will encourage longer term investment in the industry facilities and services, ensuring that network costs will continue to be distributed between a large number of shippers, rather than costs being distributed between a smaller number of shippers as investors move to other industries, and ultimately helping to ensure that consumer costs are kept to a minimum.

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

Storengy UK is satisfied that the legal text will deliver the intended solution.

Modification Panel Members have requested that the following questions are addressed:

Q1: Provide views on whether this Modification is suitable for Self-Governance procedures.

Storengy UK believes that this modification is potentially suitable for Self-Governance as the year to year financial impact on the wider industry is expected to be fairly low. However, with the possibility of volatile year to year prevailing prices changing shippers behaviour, the financial impact on charging revenues could become more material, and so we believe that Authority Direction may be more suitable.

Q2: Provide views on whether there are any compliance issues associated with this Modification.

Storengy UK believe that this modification is fully compliant with the EU Tariff Code, as shown in the legal opinion provided (https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-02/WWA%20Opinion%20UNC%200751%20and%20TARFINAL230221.pdf). To ensure compliance with EU Tariff Code, acquisition of NTS capacity by Interconnectors is not included within these proposals.

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

Due to the uncertainty of the current impact of the new regime on different shippers, it is difficult to assess the likelihood of future long-term quarterly bookings and their liabilities being retained, especially in light of the substantial increase in costs for some more recent long-term capacity bookings. In the impact assessments carried out for our modification, we have assumed, in good faith, that all future liabilities for long-term capacity bookings will be retained and paid in full.

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

Our modification proposal is primarily based on arrangements already in place in other EU markets, such as the German market, where arrangements have already been approved as compliant with EU Tariff Code.

In the German market specific provisions have been introduced to protect capacity holders against excessive increases in the underlying price of the capacity product. In such cases where prices increase beyond a prescribed level, the capacity holder is permitted to hand back all or some of its capacity. The relevant process is defined in the so called “Kooperationsvereinbarung der Netzbetreiber” (cooperation agreement on grid operators) which German Transmission System Operators / Distribution System Operators must develop in order to ensure an efficient access to the gas grid. Further details on this can be found in our Modification proposal document.