

## Storengy Representation for UNC Modification 0738 – Incremental NTS Entry Capacity Surrender

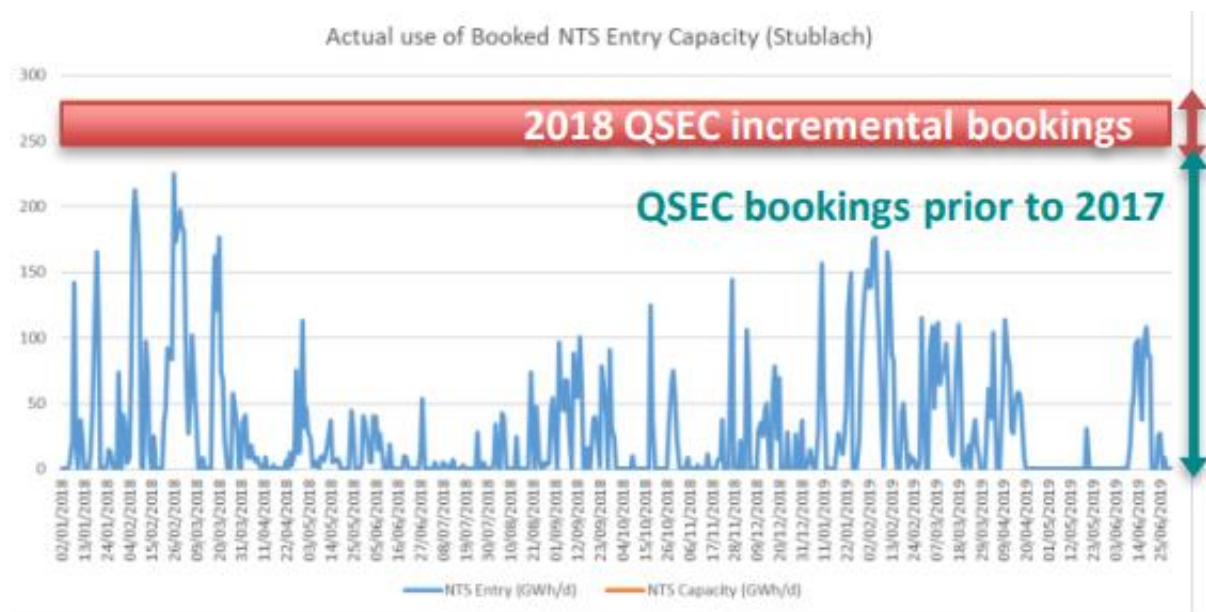
### Problems raised by the excessive increases in prices

We share the concerns raised by Barrow Shipping Limited with regards to the substantial increases in costs for incremental entry capacity booked in the QSEC auctions from April 2017 to September 2020. Capacity prices have increased to hundreds of times the original bid price in the auctions, with the highest more than five hundred times the original bid price

Bidders in these auctions would have made their investment decision based on the prices published, and may have made completely different decisions had they known that prices would increase hundreds of times over the level of inflation.

As a result of this, parties who acquired long term capacity in good faith in the QSEC auctions during this period, are now being penalised for capacity that may never be fully utilised:

### Graph of 2018 QSEC booking vs historic usage at Stublach Storage Site



These charges significantly hamper the competitiveness of parties who took part in the auctions, potentially threatening their operation, as well as resulting in new projects being scrapped before they even become operational.

### Examples

Entry Point	Bid Price (p/yr)	New Forecast Price (p/yr)	Uplift
Cheshire Storage	£10k	£2.5m	250 times
Fleetwood Storage	£40k	£10m	250 times
Murrow	£183	£100k	550 times
All 2017-20 QSEC Capacity	£41m	£391m	10 times

This creates risk and uncertainty in the ongoing National Grid charging forecasts, with these reflecting revenues that may never be collected if existing businesses can't afford to pay them or are liquidated, and/or new projects with previously planned capacity investment are scrapped.

### Solution

We believe that in order to maintain a fair and competitive environment, affected parties should be allowed an opportunity to surrender capacity (and its financial obligations) acquired in auctions, where that capacity increases in cost by more than X times the level of inflation.

Therefore we welcome the proposals for surrendering capacity as raised by Barrow Shipping Limited, as well as a wider discussion as to how the problems caused by this issue may be resolved and a more fair, competitive environment created.

### Previous proposals

Please note that we have raised this issue on multiple occasions since Ofgem made the decision to reject all proposals for UNC Modification 0621, and therefore remove price protection for what were previously referred to as 'Interim Contracts'.

Our Initial Representation for UNC Modification 0678 (4<sup>th</sup> February 2019) raised these concerns and questioned whether future QSEC auctions should go ahead whilst prices were unknown (<https://www.gasgovernance.co.uk/0678/Reps>).

As well as raising these issues both in industry meetings and in meetings directly with Ofgem, we also raised these issues in our consultation response to UNC Modification 0678 on the 8<sup>th</sup> May 2019 (link as above).

Please also note our previous proposed partial solution to this problem in our UNC Modification 0678F, where we proposed a yearly optional surrender process for capacity if prices increased by more than 5% plus RPI in any year over the prices that the capacity was originally acquired at.

### Compliance with EU legislation

EU TAR does not make any reference to the possibility of surrender processes, and therefore gives no indication as to whether such a process is permitted or prohibited under this legislation. However, a surrender process has already been created and is in operation in the German market based on parties being able to surrender capacity if floating prices change by more than the level of inflation from the prices agreed when the capacity was originally acquired:

"In the event of an increase in transportation tariffs and charges, the shipper may terminate the contract either in whole or partially, with reference to the amount of capacity booking" (Section 25, Article 3, Gascade GT&Cs)

The surrender process has already been approved as compliant with the EU Tariff Code in the German market. This has not raised any concerns with ACER.