

Representation - Draft Modification Report UNC 0729

Applying a discount to the Revenue Recovery Charge at Storage Points

Responses invited by: **5pm on 11 September 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:	11/09/20
Support or oppose implementation?	Support
Relevant Objective:	<ul style="list-style-type: none"> a) Positive b) Positive d) Positive e) Positive g) Positive
Relevant Charging Methodology Objectives	<ul style="list-style-type: none"> a) Positive b) Positive c) Positive e) Positive

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

In raising this Modification we support its proposed implementation. The Revenue Recovery Charge (RRC) is a capacity-based transmission charge and therefore for compliance with TAR NC Article 9 of the EU tariff code, the storage discount should be applied in the same way as for the NTS capacity reserve prices. Applying this discount to the RRC reduces the level of double charging for capacity at storage NTS points, minimises any cross-subsidisation from storage facilities, and recognises the benefits that storage facilities provide to the network and in reducing price volatility. If this proposal were not to be implemented then even a small level of under-recovery of charges would see a large increase in costs for storage facilities, increasing the likelihood of storage facilities in the UK closing or reducing the storage capacity available.

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

Any lead time for implementing these proposals should be kept to a minimum, and aligned as closely as possible to the implementation of the new charging methodology (UNC Modification 0678) coming into effect from the 1st October 2020, to ensure GB compliance with the EU tariff code.

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

We believe that the financial impact on other NTS users in implementing these proposals will be negligible (4% uplift for Exit RRC, 1.6% uplift for Entry, see Table 2), however, without these proposed changes any introduction of a charge for RRC would see a large and disproportionate increase in costs for storage facilities.

This would lead to a significant cross-subsidisation from storage to other users of the NTS, with even a small proportion of the charges being recovered through RRC resulting in significant extra charges for storage facilities.

As shown in Table 2 and Table 4 in the UNC Modification 0729 proposal document, if only £10m of the revenues needed to be recovered via the RRC then this would result in more than a £1m increase in the costs to storage facilities, placing significant extra pressures on the ongoing viability of keeping storage facilities open in the UK.

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

Yes, we believe that the simple changes proposed in the legal text for this modification will successfully deliver this solution.

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

Q1. Respondents are requested to provide a view as to whether Article 9(1) TAR NC requires that a discount must be applied to the capacity reserve prices only or whether the discount must also be applied to the Transmission Services Revenue Recovery Charges (see section 'EU Code Impacts' of the Workgroup Report).

Article 9 of the TAR NC requires that “a discount of at least 50% should be applied to capacity-based transmission tariffs at Entry Points from and Exit Points to Storage Facilities”.

Therefore as a transmission tariff based upon the capacity held by a shipper, the storage discount should be applied to the Revenue Recovery Charges (RRC) as well as the capacity reserve prices in order for the new charges to meet the TAR NC requirements, and therefore be compliant.

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

We believe that implementation should be as closely aligned as possible to the implementation of the new charging methodology (UNC Modification 0678), due to come into effect from the 1st October 2020, so as to avoid any double charging for storage facilities, minimise any cross-subsidisation from storage to other NTS users, and avoid adding additional unnecessary financial pressure on storage operations in the UK.

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.*

We do not believe that there are any errors in this Modification, and that it presents all of the key information that needs to be taken into account.

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

(from the UNC Modification 0729 proposal document)

Table 2: Impact of Revenue Recovery Charge on storage

Under-recovery	Standard RRC (p/kwh)	Cost to storage (£ aggregate)	50% Discounted RRC (p/kwh)	Cost to storage (50% RRC) (p/kwh)	RRC uplift to non-storage Users (p/kwh)	% increase in RRC for non-storage Users
£30m entry	0.004620	£910,860	0.002310	£455,430	0.000075	1.62%
£30m exit	0.001265	£2,211,098	0.000633	£1,105,549	0.000050	3.98%
£10m entry	0.001540	£303,620	0.000025	£151,810	0.000025	1.62%
£10m exit	0.000422	£737,032	0.000211	£368,516	0.000017	3.98%
£50m entry	0.007699	£1,518,101	0.003850	£759,050	0.000124	1.62%
£50m exit	0.002109	£3,685,163	0.001054	£1,842,581	0.000084	3.98%

Table 4: Impact of alternative storage Exit FCC of 42 TWh per annum

Under-recovery	Standard RRC (p/kwh)	Cost to storage (£ aggregate)	50% Discounted RRC (p/kwh)	Cost to storage (50% RRC) (p/kwh)	RRC uplift to non-storage Users (p/kwh)	% increase in RRC for non-storage Users
£30m entry	0.004620	£910,860	0.002310	£455,430	0.000075	1.62%
£30m exit	0.00134	£908,970	0.000671	£454,485	0.000021	1.56%
£10m entry	0.001540	£303,620	0.000025	£151,810	0.000025	1.62%
£10m exit	0.000448	£302,990.18	0.00024	£151,495.09	0.000007	1.56%
£50m entry	0.007699	£1,518,101	0.003850	£759,050	0.000124	1.62%
£50m exit	0.002240	£1,514,950.89	0.001120	£757,475.45	0.000035	1.56%