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:	Roddy Monroe
Organisation:	GSOG
Date of Representation:	Friday 26th June 2020
Support or oppose implementation?	Support
Relevant Objectives:	a) Positive b) Positive d) Positive e) Positive

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

Under the revised charging methodology costs will substantially increase for storage operators and storage customers, placing huge strain on the ongoing viability of storage operations within the UK. There is the very real potential that, as a result of reduced cycling, or withdrawal of storage capacity, gas prices become more volatile and security of supply will be compromised. In the case of either of these outcomes there will be a detriment to all GB customers. As set out in the proposal, the adoption of the minimum 50% discount fails to reflect the broader benefits of gas storage as provided for in EU Tariff Code Article 9. It should also be noted that a significant of EU Member States have adopted storage discounts of greater than 50% with some providing 100% discounts on one or both of the entry and exit capacity products. Clearly, in an interconnected market, discounts which are significantly greater than those provided for in the UK will place domestic facilities at a competitive disadvantage.

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

It is vital that the Proposal is implemented on 1 October 2020 to coincide with the change in the charging methodology. Any delay will add significant costs to storage owners/Users which may limit cycling opportunities going into the upcoming winter.

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

None

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

As this proposal is for a simple numerical change to UNC678A GSOG is satisfied that the legal text will deliver the intent of the Solution.

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).

GSOG's opinion is that both the Storage Discount Increase and the Implementation Date are fully compliant with the relevant legislation. Please refer to the Legal Opinion that Storengy has commissioned and that will be published on the Joint Office Website.

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

As GSOG believes that as the Storage Discount Increase and the Implementation Date are fully compliant with the relevant legislation and that they represent a de minimis change to the overall charging regime the proposed implementation of 1st October 2020 should be mandated.

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.*

Prices are far higher than previously forecasted and potential impact analysis performed on previous proposals is slightly understated. Also, as has been identified by industry the restrictions placed on transferred capacity in terms of the application of RRCs will have a detrimental impact on storage facilities. To some degree this will be mitigated by UNC 0729 which in our opinion will ensure that the revised methodology is compliant with the EU Tariff Code.

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

The impact of maintaining a 50% discount for storage capacity is examined in the CEPA Analysis which forecasts that storage revenues would be reduced by 62% over the period 2022-2031. For GY 2020/21 analysis performed by Storengy shows that storage costs would be 2.5 times higher when comparing 50% and 80% discount levels. The impact on overall network tariffs would be marginal.

Based on the FCC numbers produced by National Grid in its notice of charges for GY 2020/21 in combination with the storage cost forecasts produced in the Appendix of UNC 0727, the impact on Revenue Recovery Charges would be as follows:
Entry: 0.0008 p/kwh
Exit: 0.00008 p/kwh
These figures accord with the CEPA conclusion that the impact of increasing the discount from 50% to 80% would be marginal for GB customers. This negligible increase in costs needs to be weighed against the potential impact of storage Users/facilities and the resultant affects on price volatility and overall reduction in accessible market flexibility.