# 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:** | Jeff Chandler |
| **Organisation:** | SSE |
| **Date of Representation:** | 24 June |
| **Support or oppose implementation?** | Support |
| **Relevant Objectives:** | a) Positive<br>b) Positive<br>d) Positive<br>e) Positive |

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

If this is not addressed urgently, it would result in a significant commercial impact for storage owners and Users and as detailed within Ofgem's UNC 0678 decision document (as underpinned by CEPA's (Centre of European Policy Analysis) analysis) , could ultimately have an adverse impact on security of price and supply for the GB market. This Modification Proposal will reduce the transportation costs, in particular Capacity Charges, incurred by the owners of gas Storage Facilities and/or the Users of the facilities.

Additionally, within the 'minded-to' document, Ofgem notes "that, in theory, gas storage facilities may bring price security of supply benefits to the system such as helping to dampen price spikes while reducing price volatility more generally. CEPA's analysis suggested that the change to tariff arrangements could introduce the potential for erosion of storage revenues which could affect closure decisions. We therefore consider that the inclusion of a storage discount of greater than 50% could help to better reflect this relevant objective" (Objective (e) Achievement of domestic security of supply standard).

Ofgem agree, in their ‘minded-to decision’ (para 6.2) that there were merits in the arguments made to include an 80% discount for capacity at storage sites as part of the UNC Proposals 0678C/E/F:

“The Proposers of UNC678 C/E/F have submitted papers alongside their Modification proposals which are intended to support their justification of an 80% discount. In summary, they state the following:

• Gas storage should be considered to be ‘embedded within the network’ rather than entry and exit which makes use of the network.

• Gas storage responds to changes in system demand, injecting from the system at periods of low demand and delivering gas to the system at times of high demand.

• Gas storage provides a similar service to NTS linepack but delivers gas to satisfy local demand.

• Gas storage has already made a contribution to cost recovery when it enters the NTS and before it is injected into storage and subsequently makes a contribution to cost recovery when it exits the NTS after being withdrawn from storage.

• The security of supply benefits provided by gas storage facilities are undervalued by the market.

• Gas storage provides benefits to the system in respect of avoided investment in additional gas transmission capacity.

We think there is some merit in the arguments made above in relation to a discount of greater than 50% for storage facilities. In particular, we note some of the benefits that gas storage can bring to the system in relation to price stability at times of relative system stress.”

For the reasons outlined above, the Proposer suggests that an enduring storage discount value of 80% should apply but recognises the EU Tariff Code requirements for the charging regime to be reviewed, as a whole, at least every 5 years.

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

Ideally, to be implemented as soon as or after the 678 charging decision to avoid excess costs on storage operators and users and subsequent risk of curtailment for the reasons explained above. However, reserve prices have been published and Revenue Recovery Charges can be implemented with 2 months notice in the event that NG forecast a change in allowed revenue recovery. Hence, there is no reason why this incremental change cannot be implemented at any time, just as capacity can stop be booked at any time once an asset is curtailed.

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

Within the ‘minded-to’ decision document, Ofgem noted that “The reduction in the tariffs in the presence of an 80% storage discount (as proposed under UNC678C/E/F) can also be observed. Given the small proportion of cost recovery which is contributed by storage facility entry and exit bookings, CEPA find that the additional revenue recovery requirements resulting from an 80% discount only lead to a marginal change in the tariffs at other entry and exit points on the system." Para 5.39 N

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

Yes

**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.*

No

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

N/A

**Respondents are also asked to consider the following points:**

1. *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); and*

   This modification is compliant with EU TAR. Consultations in accordance with article 28 and Reserve prices have been published in accordance with articles 29 & 32. If a subsequent change is made i.e. shorthaul or storage discount then a Revenue Recovery Charge can be utilised.

   Revenue Recovery Charges can be implemented with 2 months notice in the event that NG forecast a change in allowed revenue recovery. Hence, there is no reason why the incremental changes from mod 727 or 728 cannot be implemented at any time, just as capacity can stop being booked at any time by users once an offtake is curtailed. The latter impact will result in a larger RRC change as NTS bypass or storage closure will provide no revenue to NG but the mods will provide some. Hence, if no storage discount or shorthaul is available NG will require a larger RRC.

   Articles 30 & 31 will be met by publishing 30 days before the start of the respective tariff period on 30th September. The data published by NG will be made on the basis of best forecast, but will likely be imperfect. This is because the data that determines the FCC will change, regardless if there are shorthaul or storage discount mods.

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

   Ideally, to be implemented at the same time as the 678 charging decision to avoid excess costs on storage operators and users and subsequent risk of curtailment for the reasons explained above. Reserve prices have been published in accordance with articles 29 & 32. Revenue Recovery Charges can be implemented with 2 months notice in the event that NG forecast a change in allowed revenue recovery. Hence, there is no reason why this incremental change cannot be implemented at any time, just as capacity can stop being booked at any time by users once an asset is curtailed.