

Representation - Draft Modification Report UNC 0761

Arrangements for Interconnectors with additional Storage capability

Responses invited by: 5pm on 19 November 2021

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Julie Cox
Organisation:	Energy UK
Date of Representation:	18 November 2021
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) None</p> <p>b) None</p> <p>d) None</p>
Relevant Charging Methodology Objective:	<p>a) None</p> <p>b) None</p> <p>c) None</p>

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

The impact on relevant objectives is listed as none for all, since the legal basis of the proposal needs to be assessed first. We do not see how it can be legally implemented. However, if implemented the enabling proposal will lead to implementation costs being incurred whilst the availability and utilisation of any service offered are highly uncertain. Energy UK therefore cannot support this proposal.

The main reason Energy UK does not support this proposal is that interconnectors, as pipelines do not meet the definition of a storage facility in Section 48(1) of Gas Act 1986. This is included in the workgroup report and below:

This definition was introduced by the Electricity and Gas (Internal Markets) Regulations 2011/274 and remains unchanged.

Definition of “storage facility” – Section 48(1) Gas Act 1986 provides that:

“storage facility” means a facility in Great Britain (including the territorial sea adjacent to Great Britain and the sea in any area designated under section 1(7) of the Continental Shelf Act 1964) for either or both of the following—

(a) the storage in porous strata, or in cavities in strata, of gas which has been, or will be, conveyed in a pipeline system operated by the holder of a licence under section 7 or 7ZA;

(b) the storage of liquid gas which, if regasified, would be suitable for conveyance through pipes to premises in accordance with a licence under section 7,

but the reference in paragraph (b) to the storage of liquid gas does not include such temporary storage as is mentioned in the definition of “LNG import or export facility”;

A legal view is needed as to whether the UNC can define a storage facility in a manner different to and inconsistent with the definition in the Gas Act. If a UNC definition can override a definition in primary legislation, further consideration will need to be given to the precedent this sets.

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

Energy UK does not support implementation

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

As a trade association none

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

Not reviewed

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

Q1. Do any legal points need to be considered which are relevant to 0761?

See comments under the reason for support or opposition

Q2. Do you have any views in relation to the delivery costs and potential benefits associated with delivering this solution?

The system implementation costs seem high for a service that is yet to be fully defined, the volume and availability are uncertain. It is possible that the implementation costs could be incurred but the service offering never provided or if offered not utilised.

Q3. Do you have any views as to whether implementation will increase overall NTS throughput volumes?

It is not clear whether, if implemented, this service would draw gas away from existing storage facilities leading to no overall increase in throughput or whether gas would be ‘stored’ in interconnector linepack rather than being traded, downward nominated or cashed out.

Q4. Please explain whether you believe this solution has any impacts on other available storage services.

The table below presents the proposed IUK capacity of 8.7mcm for withdrawal, injection and working gas volume (WGV) as a percentage of existing storage facility parameters, using Ofgem published data¹.

	WGV	Withdrawal	Injection
Hornsea	3%	73%	290%
Hatfield Moor	12%	435%	435%
Humbly Grove	4%	124%	109%
Aldborough	4%	28%	30%
Holford	4%	40%	33%
Hill Top	15%	67%	67%
Stublach	2%	29%	29%
Total	1%	7%	8%

It is clear that the service proposed will form a not insubstantial fraction of gas storage injection and withdrawal capacity, whilst providing insignificant WGV and therefore limited net or zero contribution to supplies at times of high demand when the service at IUK may not be available. As such there may be an impact on the market for flexibility services, but absent any further details on the service and indication of the cost it is difficult to comment further.

We agree with Ofgem's comments in its UNC modification 0621 decision letter², that interconnectors compete with storage facilities for the provision of flexibility services. Whilst these comments were in a different context, we think they are relevant here.

*We (Ofgem) note here that we do not currently consider there is sufficient rationale for a bidirectional interconnector discount. It is our view that, while bi-directional interconnectors do compete with storage facilities for flexible supply (and demand) in GB, **the use of bi-directional interconnectors is not the same as storage facilities**. While it could be argued that bi-directional interconnectors function in a similar manner to storage facilities, gas imported on bi-directional interconnectors onto the NTS is unlikely to be the same gas that was exported from the NTS along bi-directional interconnectors.*

We consider that there should be a level playing field between providers of flexibility services, but the proposal seems to leave interconnectors with less obligations than other storage facilities, which risks competition impacts, that Ofgem will need to assess.

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2021/01/2021_gas_storage_data_0.pdf

² <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2018-12/Ofgem%20Decision%20Letter%200621.pdf>

We also note that the basis on which storage tariffs receive discounts is to avoid double counting of charges as it is the same gas returning to the system at a later date, as Ofgem notes above, this cannot be guaranteed for gas flowing to / from interconnectors

There are other ways in which interconnectors are not truly storage facilities in that they cannot offer operating margins services nor can import flows be directed as storage flows can at stage 2 of a gas deficit emergency.

We therefore conclude that the service proposed is a linepack service rather than a storage service and should not be eligible for discounted storage tariffs.

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 note there was a discussion about whether or not the proposal should be assessed against the charging relevant objectives as no changes were proposed to section Y. We agree that the charging relevant objective are relevant as charging is a feature of the proposal, by including definitions in other parts of the proposed legal text.

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

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