



August 2020

UNC 0729

Applying a discount to the RRC at Storage Points

About Water Wye Associates



Waters Wye Associates (WWA) is a dynamic, independent energy consultancy specialising in the economic, regulatory and technical etc.

- WWA is an independent energy consultancy, formed in 2002, focusing on the economic, regulatory and technical aspects of the UK electricity, gas and renewable markets. We are commercially driven and work in parallel with our clients to understand and deliver their business needs.
- Our mission is to deliver tangible benefits to our clients in all projects we undertake.

Outline of proposal

Summary



Originally raised as Urgent, but not granted by Ofgem on 30 June 2020

Proposal seeks to apply the Storage Discount set out in UNC TPD Section Y 2.8.4 (currently 50%, but note UNC 0727)

- Proposal ensures consistency with discount afforded to Storage Reserve Prices, noting that the RRC is a capacity-based tariff used to ensure NG recovers its Allowed Transmission Revenue within the Formula Year. In essence it is a Top-Up charge to capacity holdings and applying a standard RRC at storage conflicts with the purpose of the Storage Discount
- Application of a non-discounted RRC could result in excessive costs for storage
 - Impact on revenues and detrimental effects on storage viability
 - Damaging to the benefits provided by storage in terms of price stability etc
- UNC 0678A is not fully compliant with EU TAR if an RRC discount is not applied at storage

Outline of proposal

Contribution to TO costs/revenue



Standard RRC charge results in storage Users making a disproportionate contribution to TO Services costs

Table 1 shows that a standard RRC results in storage overall capacity charges increasing by twice the amount of other System Points

Table 1: Increase in total exit capacity charges based on potential RRC

Non-storage PS exit capacity charge	Storage PS exit capacity charge (50% discount)	Potential RRC charge (no discount)	% increase non-storage total capacity charges	% increase storage total capacity charges
0.0198	0.0099	0.001	5%	10%

Source: WWA

Outline of proposal

Direct cost impacts for storage



Under various RRC scenarios, costs to storage are material whereas redistributational impacts are minimal

Ofgem/CPA recognised that higher costs for storage would be detrimental to storage facilities and potentially the wider market in its UNC 0678A Decision (regarding 50% discount)

The impact on storage is directly related to the level of revenue under-recovery, but should be seen in the context of recent storage closures and the ongoing challenges faced by existing facilities

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%

Source: WWA

EU compliance

EU TAR



EU TAR Art. 9 “ a storage discount of at least 50% should be applied to capacity-based transmission tariffs at Entry Points from and Exit Point to Storage Facilities”

- RRC applied in order to achieve the level of Allowed Transmission Revenue in a Formula Year;
- RRC is a capacity charge;
- It “tops up” standing capacity charges;
- RRC is a capacity-based transmission charge; and
- In order to achieve compliance with Art. 9, RRC charges at storage should be discounted at the same rate as the “storage discount”.

UNC Mod Panel Recommended timetable



Case made by the Proposer that the mod should be implemented to coincide with UNC 0678A on 1 Oct 2020

- Panel agreed that Proposal should report to Panel by September 2020, encouraging additional workgroup meetings to enable completion of the report

Our leadership team



Lisa Waters

Founding Director

Lisa is an economist with over 20 years' experience in the energy sector. She has worked for the Energy Intensive Users Group (EIUG), independent gas supplier V-is-on gas and Dynegy. Prior to entering the energy sector, Lisa worked at the CBI. Lisa leads on electricity sector work, though she also has a detailed knowledge of the UK gas market.

Lisa is currently an industry expert on the Imbalance Settlement Group under the BSC. She has significant lobbying experience, including giving evidence to Select Committees in the Commons and Lords, and representing EU gas customers at the Commission's Regulatory Forum meetings.



Nick Wye

Founding Director

Nick is an economist with over 20 years' experience in the energy sector. Earlier in his career, he has worked for TotalFinaElf Gas and Power, a gas producer, a trader, a supplier, an independent pipeline owner/operator and has experience of working at all levels of the supply chain including offshore projects, gas shipping issues and end user supply. He has also been involved in asset deals, both in the power and gas markets, in the UK and continental Europe.

His work on the boards of several European trade associations and committees has given him an in-depth knowledge of most European markets. Despite his knowledge of the power sector, Nick leads on gas market projects and has considerable expertise in gas storage.



Gareth Evans

Director

Gareth is an astrophysicist with over 15 years' experience in the energy and financial sectors. He began his career at Elexon, working subsequently for Total Gas & Power and UBS, where he helped to inaugurate its European power and gas trading, overcoming the associated regulatory and compliance issues.

As a result he has direct knowledge of the entire supply chain for both UK and European power and gas markets, plus experience of dealing with all their relevant stakeholders, including regulators, suppliers, shippers, generators/producers and European bodies.

Gareth Evans is chair of ICoSS, which is the trade body for independent non-domestic retail energy suppliers.

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