



Andy Burgess
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Ofgem
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Dear Andy

Re: Gas transmission charging review: Call for evidence

The Gas Storage Operators Group (GSOG) is a trade association which was formed in May 2006 within the Energy Utilities Alliance (formerly the Society of British Gas Industries). The group has 16 members and comprises almost all the active participants in the GB Gas Storage Market, and as such represents a wide range of interests. The group includes both established operators and developers of new storage projects, large multinational companies and smaller private ventures. The current members of the group and signatories to this submission are detailed in Appendix A.

GSOG welcomes the opportunity to participate in the consultation process on the gas transmission charging review. We have detailed our responses to the consultation questions in the attached Appendix B; however we would like to take the opportunity to make the following high level views.

The GSOG believes that gas storage plays an essential role in the efficient and secure operation of the GB gas market which benefits market participants and consumers in a number of ways; these benefits include:

Providing insurance against price spikes at times of system stress (both supply and demand).

Improving security of supply by providing long duration supplies, operating under GB regulation which can be controlled by National Grid in an emergency.

Dealing with short-term demand fluctuations

These benefits are set to increase as the UK becomes more reliant on the global gas market for supplies and exposed to greater demand volatility as the power

contribution from wind increases and gas fired CCGTs are expected to provide cover for wind intermittency.

Gas storage also provides a cost saving benefit to the transmission system because on peak days storage sites deliver to the system close to consumer demand, thereby reducing the need for pipe and compression capacity between alternative sources of gas and the demand offtakes¹. Under the current system, this significant transmission benefit is reflected in the fact that flows in and out of storage are not subject to commodity charges. If the current review were to result in much reduced commodity charges, then it will be essential to reflect the benefits of gas storage in some other appropriate way.

However, the benefits to the market and to consumers associated with gas storage contrast markedly with value that the market currently places on storage products.


As Ofgem is no doubt aware, the current operating environment and investment challenges in the GB gas storage market remain formidable; revenue streams remain uncertain with short term volatility levels remaining subdued and the winter summer spread trend narrowing. We have seen the spread value trend decline from the 2006/07 highs of around 50p/th to now stand at 6.3p/th; well south of the levels required to support investment.

Given the impact of these developments on the financial performance of GB gas storage, it is critically important to ensure that the current transmission charging review does not impose an additional burden by failing to reflect the transmission benefit of those facilities to at least the same extent as current NTS charging arrangements.

Thus the GSOG believes that a central objective of this transmission charging review must be to ensure security of UK supply, recognising the importance of diversity of supply and that the benefits of gas storage are fully recognised and reflected in any changes to the charging regime. This will be key to ensure that the GB gas market continues to benefit from the efficient utilisation of the existing facilities and that new investment is not disincentivised by inappropriate costs.

We hope that you have found these comments useful and please do not hesitate to contact us if you wish to discuss the response further.

Yours sincerely,



Roddy Monroe
Chair – Gas Storage Operators Group

¹ In May 2007 Waters Wye Associates (WWA) produced a report which analysed impact storage facilities have on the transmission system in the form of annual savings. The results show a range of annual savings of £24m to over £200m with most concentration around the £30m to £40m range. In its analysis WWA did not evaluate OPEX savings, principally realised through compressor fuel, which may be considered to a reasonable basis to formulate future SO related, and potentially negative, charges.

APPENDIX A

EUA GSOG MEMBERS

Centrica Storage Ltd
Cheshire Cavity Storage Group Ltd
E.ON Gas Storage UK Ltd
EDF Trading Gas Storage Ltd
Eni UK Ltd
Gateway Storage Company Ltd
Halite Energy Group
Humbly Grove Energy Ltd
INEOS Enterprises Ltd
Islandmagee Storage Ltd
King Street Energy
ScottishPower Energy Management Ltd
SSE Hornsea Ltd
Statoil (UK) Ltd
Storengy UK Ltd
WINGAS Storage UK Ltd

APPENDIX B

Consultation Question Responses

1. What has given rise to the current balance between charges for access to the transmission network? How might this change in the future?

The current balance between charges for access to the transmission network has come about through a number of reasons including:

- The long standing but essentially arbitrary decision to split TO revenues between entry and exit charges 50:50.
- The oversupply of transmission entry capacity in the market at many 'legacy' NTS entry points, which leads to a high degree of firmness and very low cost or even free capacity available on a short term basis (both daily firm and interruptible).
- The TO entry capacity revenue under-recovery due to the above, resulting in an increasing level of TO commodity charge smeared across all users.
- The decision to charge for SO costs on a 100% commodity basis, when quite a significant portion of those costs do not in fact vary with throughput.

2. What issues are there with the current charging arrangements?

The GSOG believes that the issues with the current charging arrangements include the following:

- Under the current system, this significant transmission system benefit is, to some extent, reflected in the fact that flows in and out of storage are not subject to commodity charges. As part of the current review of transmission charging it should be considered how best to ensure that storage is charged at a level that reflects the benefits it provides to the system compared to other offtake points; how it is modeled in the network charging model taking into account the development of the EU framework guidelines (and subsequent code) on transmission tariffs. The charges are no longer cost reflective and do not incentivise the long term booking of capacity.
- Many storage operators rely on off-peak capacity due to the high costs of procuring firm capacity in certain parts of the UK. This is an issue as onshore storage facilities are restricted geographically to where they can be built but more importantly this product comes with the risk of interruption which is not efficient let alone in the interests of security of supply. New entrants (requiring a new entry point or incremental capacity at an existing ASEP) face potentially significantly higher costs to operate compared to the costs faced by users at existing ASEPs, since high commodity charges are imposed on top of the capacity charges designed to reflect LRMC. Furthermore, they may have spent millions on new Entry capacity and connection but will not get any exit capacity baseline even though network reinforcement has taken place that creates extra network capacity.
- As the commodity proportion has increased to meet the capacity revenue under-recovery, this has had a detrimental impact on the structure of short haul tariffs (which should promote the economic use of system). This distorts the pattern of cross-border gas traded and has implications for security of

supply, e.g. at Bacton it is cheaper to take gas to Europe via IUK than to the NBP.

- There is limited predictability of commodity charges which is unhelpful when operating in a competitive market.

3. How do current arrangements give rise to these issues?

See answers to questions 1&2.

4. In the event that there were to be minimal implementation of the Framework Guidelines/network codes as currently drafted, e.g. no subsequent changes at domestic points, what would be the impact?

HM Government's Guidance on how to Implement EU Directives Effectively published in April 2013 sets out that "the UK does not go beyond the minimum requirements of the measure which is being transposed". The Framework Guideline Cost Allocation Test will determine if different charging treatment for domestic and IPs is cost reflective and avoids distortions or not.

5. Are our goals for the review appropriate?

The GSOG agrees with Ofgem that the approach to GB transmission charges should be to avoid any undue distortions whilst being compliant with EU network codes. To that end careful consideration must be given if any changes to the GB charging regime take place prior to the implementation of the EU Network Code on Harmonized Transmission Tariffs presumably in 2017.

6. How could charging arrangements better meet the objectives set out in NGG's special standard condition A5 which sets out the objectives for NGG's charging methodology?

As previously stated gas storage helps TSOs avoid investment in its networks and minimise capacity constraints. Therefore storage system operators (SSOs) should face very low (or potentially zero) transmission charges.

7. Do the objectives set out in NGG's special standard condition A5 remain fit for purpose? If not, how should they be changed?

The GSOG's view is that the current charging arrangements continue to meet the objectives of special standard condition A5.

8. What other suggestions do you have for the objectives of our review?

The GSOG suggests that this review provides a good opportunity to consider the likely impact the transmission charging regime has on security of supply; where this can be improved, and in line with the other objectives of this review, Ofgem should be encouraged to do so. As mentioned above, this argument applies to the transmission charging regime for gas storage. In considering harmonisation of Interconnector charging it is important also to recognise that any proposed charging changes do not fundamentally affect the relative competitiveness of withdrawal from, or injection into, the UK's storage facilities versus the resulting Interconnector flow opportunity.

9. What is your view on the timescale for our review?

Please refer to our response to question 5.

10. Bearing in mind the issues and objectives you have identified, what options should be explored to address these?

Please refer to our opening views. The key option the GSOG would like to be explored during this review is a full examination of the value that gas storage brings to the transmission system and this value to be accurately reflected in charges.

11. What are the pros and cons of your suggested option?

The key pro resulting from this option is that charges will become more cost reflective, gas storage facilities will be more efficiently utilised, security of supply and security of price will benefit and potential distortion in investment decisions will be reduced.