



27th March 2015

Email to: Gas.transmissionResponse@ofgem.gov.uk

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Gas Transmission
Ofgem,
9 Millbank,
London
SW1P 3GE

Dear Alena,

**Gas Transmission Charging Review (GTCR)
The Gas Storage Operators Group (GSOG) response to GTCR Part II – Assessment of Potential Impact**

Thank you for this opportunity to comment on Ofgem's Gas Transmission Charging Review: Part II – Assessment of Potential Impact. This response on behalf of the Gas Storage Operators Group (GSOG) is structured in three parts: first, *GSOG Background*, in which an overview of GSOG is given; second, *Summary*, in which GSOG provides a number of general observations; and third, *Responses to Questions*, in which GSOG responds to Ofgem's questions contained within the GTCR Part II consultation document.

The GSOG Background

GSOG is a trade association which was formed in May 2006 within the Energy and Utilities Alliance (EUA). The group has 13 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 who are signatories to this submission are detailed in Appendix 1. E.ON Gas Storage UK is not a signatory in this instance.

Summary

GSOG recognises Ofgem's concerns that the increasing proportion of the total transmission charges being recovered from the existing commodity charge regime may lead to inefficient apportionment of historical network costs. Therefore GSOG supports Ofgem's proposals to introduce 'fully-floating' capacity charges for all users and to reduce the 100% discount on short-term capacity charges.

GSOG also supports Ofgem's proposals that storage users would not pay the 'floating' element of capacity charges as this largely preserves the existing storage arrangements. However, it is important that this should apply to the three categories of storage capacity that can exist in the gas market: (i) existing storage capacity; (ii) prospective storage capacity; and (iii) abandoned storage capacity.

The rationale for including abandoned storage capacity is that GSOG firmly believes that if it was an efficient decision to acquire entry capacity for a storage project (i.e. as a prerequisite for the Final Investment Decision to be taken), and it was an efficient decision not to proceed with the storage project then the developer should not be penalised by incurring additional network charges.

Clearly setting out the rules on how these three categories are identified, will be important to avoid future problems. Whilst identifying existing storage capacity at single user Aggregate System Entry Points (ASEP) is relatively straightforward, where storage capacity forms part of a combined user ASEP identifying which capacity is storage and which is not, becomes more challenging.

Equally for prospective and abandoned storage projects, the identification of storage capacity may not be straightforward. However, the use of documentation may help in this process. For example, communication between the developer and National Grid, stock market announcements and internal Board papers may all serve to help in this process.

GSOG recommends that Ofgem's future activities following the close of this consultation include work on determining the rules that will be employed to identify these three types of NTS storage capacity. However, GSOG believes that where NTS storage capacity is transferred or sold for production for example, this capacity should not be exempt from the proposed floating charges.

In addition, as Ofgem is aware, the EU Network Code on Tariff Harmonisation ('**TAR NC**') is likely to introduce new binding charging arrangements for the setting of storage. One possible change is that network charges for storage are reduced to zero and only the additional costs of connection (net of any system benefits) should apply. Ofgem will need to ensure that the GTCR is consistent with the binding requirements of the TAR NC.

However, the GSOG cannot add its full support to the proposals for storage as there are two elements to these proposals which give our members cause for concern, namely:

1. Ofgem suggests that gas storage would pay a variable, flow related charge instead. Without knowing how significant this will be and what it will comprise, we are unable to confirm our support; and
2. Whilst GSOG supports the principle of discounts for short-term capacity, we do not support reducing the discount for gas storage short term capacity products to less than 100% of the price. Applying a reduced discount to storage goes against the stated principle of preserving the existing arrangements.

Responses to Questions

Below follows GSOG's response to the questions contained within Ofgem's consultation.

CHAPTER 2: Explanation of our proposed changes to the charging regime

Question 1: What are your views on our proposed changes?

As stated above, GSOG supports Ofgem's proposals to introduce a floating capacity charge and to remove the 100% discount on short term capacity products. Furthermore, GSOG supports Ofgem's intention to exempt storage capacity from the floating capacity charge but emphasises that this should apply to existing, prospective and abandoned storage capacity. GSOG also reiterates the point that the TAR NC is likely to introduce changes to the charging arrangements in BG, and Ofgem's review must be receptive to these changes.

Question 2: Do you agree with our rationale for rejecting the alternatives? If not, please explain why.

GSOG generally agrees with Ofgem's rationale for rejecting the alternatives.

CHAPTER 3: Impact assessment of these proposals

Question 1: Do you think we have identified the relevant quantitative impacts?

GSOG believes that for the floating tariff, Ofgem has identified the relevant quantitative impacts. However, due to the lack of data available for CEPA's analysis, GSOG cannot definitively reach a conclusion in relation to the inflation, partial inflation and short term tariffs.

Question 2: Do you think we have modelled the impacts appropriately?

GSOG is not sure about the impacts resulting from the inflation and partial inflation proposals. The entry tariffs appear to increase with inflation in the base case, so choosing the option that tariffs do increase at the CPI rate does not change the results. Otherwise it appears to be modelled appropriately.

Question 3: Do you think we have identified the relevant qualitative impacts?

GSOG has not undertaken the necessary modelling to be able to fully answer this question. However, Ofgem seems to have made a reasonable attempt at identifying the relevant qualitative impacts given the absence of individual UK participant's data and future booking scenarios.

Question 4: Do you have any further evidence of the potential impacts of our proposed changes not covered by our analysis?

No

CHAPTER 4: Assessment against our objectives

Question 1: Do you agree with our assessment of how our changes would align with our principal objective and statutory duties?

GSOG believes that the current proposal to exempt storage users from the 'floating' element of the capacity charge would preserve the existing arrangements, where storage users don't pay the top-up element (currently the commodity charge). We agree with Ofgem that this means that the role of storage is maintained in the supply mix. However, to ensure that Ofgem's proposals do not impact negatively on future storage projects, GSOG believes that Ofgem must adopt the proposal that the exemption should apply to not only existing, but prospective and abandoned storage capacity.

Question 2: Can you provide any evidence that supports or would contradict our assessment against one or more of them?

No

Question 3: Do you think there are other duties or aims that we should assess these changes against? If so, what are your views on how our changes might affect them?

No

Thank you for taking the time to consider this response and we hope you have found the comments useful. Should you require any further information or would like to further discuss any of the content provided, please do not hesitate to contact us.

Yours sincerely,



PP

Roddy Monroe
Chair – Gas Storage Operators Group

Appendix 1

EUA GSOG MEMBERS

Centrica Storage Ltd

EDF Energy

Gateway Storage Company Ltd

Halite Energy Group

Humbly Grove Energy Ltd

INEOS Enterprises Ltd

Islandmagee Storage Ltd

King Street Energy

ScottishPower

SSE Hornsea Ltd

Statoil (UK) Ltd

Storengy UK Ltd