



Storengy UK’s response to the ERGEG Public Consultation “Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective Access to Storage and Proposals for the Amendment of the GGPPSSO”

Storengy UK welcomes the opportunity to respond to the ERGEG consultation paper regarding the Capacity Allocation Mechanisms (CAM) and Congestion Management Procedures (CMP) for storage.

Storengy UK is currently developing the Stublach Gas Storage Project, a highly flexible salt caverns scheme that will enable us to offer a broad range of innovative flexibility products to interested parties. The first phase of the project has been granted TPA exemption.

General comments

It is worth stressing that fostering the development of new storage facilities when and where required remains the best way to ensure flexibility markets will be functioning efficiently whilst also enhancing security of gas supply. Developing major infrastructures projects such as gas storage facilities requires significant amounts of investments and the resulting payback time is often commensurate with the long lifetime of such facilities. It is therefore paramount that investment risks brought about by exposure to storage prices fluctuations are not compounded by unnecessary regulatory risks. The imposition of a too prescriptive and rigid framework for marketing flexibility services and continuous changes to this framework would stifle commercial innovation and would not be conducive to the growth of storage activities.

The Third Package has introduced a number of changes to the regulatory framework, including requirements for more information on storage to be made readily available to market participants as well as provisions regarding CAM and CMP. Storengy UK is of the opinion that the implementation of the obligations contained in the Third Package will effect positive changes to market practices. It is therefore premature at this point to make additional proposals going beyond those of the Third Package.

Storengy UK believes that any regulatory framework must take into account the maturity of the market and the likelihood of potential abuse of dominant position. The UK gas market is comparatively more mature than other European markets and, in our opinion, exhibits a healthy level of competition for the supply of flexibility, not only between SSOs but also between storage and other sources of flexibility. Most of the areas of concern highlighted by ERGEG in its consultation paper do not actually apply to the UK marketplace and the implementation of ERGEG proposals, such as the preference for auctioning capacity, is very likely to have a detrimental impact on the supply of flexibility products that meet customers’ specific requirements.

Whilst we recognise that these proposals would not apply to a number of UK storage facilities as they operate under TPA exemptions we believe it is important the TPA framework is properly designed in order to foster the right investment climate for storage.



Answers to ERGEG questions

(1) To what extent do you agree that auction is the best allocation mechanism for storage and what will be the implications?

Storengy UK believes that compulsory auctioning of capacity is not suitable for the mature UK market. If bilateral sales are prohibited and auctions are imposed for some or all of the sales, this would create some real risks of inefficiency in the allocation and pricing of storage.

Of particular concern is where there is insufficient demand for a storage product at the point of time of the auction. It is worth stressing that, especially for fast cycling facilities, the value of storage capacity may fluctuate widely over a short period of time as it is impacted by both spot and forward prices. Storage capacity may therefore be of relatively little value one day and yet become very valuable two weeks later due to sudden changes in prevailing market conditions. The timing and the pricing of capacity transactions are paramount and compulsory auctioning of capacity on a set date is therefore seen as overly restrictive.

Furthermore, in practice, in order to attract enough bidders, the auction mechanism must be very simple. This in turn creates rigidity in the products definitions and prevents SSO from offering a broad range of products that may better suit customers' requirements. Since SSO have to compete in the UK with non-regulated sources of flexibility such as North Sea gas production swing, flexible gas imports and, to some extent, demand-side management, overly restrictive mechanisms such as auctions would hinder commercial innovation in marketing storage and disadvantage storage.

Finally, when faced with major commitments – long term contracts and/or large capacity bookings – numerous customers are more inclined to negotiate bilaterally.

Storengy UK is therefore of the opinion that, for mature markets, bilateral negotiations are more "flexible and capable of adapting to evolving market circumstances" than auctions.

(2) In your opinion, what are the most important aspects regarding transparency that should minimally be addressed by SSOs for both CAM and CMP?

Storengy UK believes transparency is paramount to the development of competitive markets. A number of provisions have been included in the Third Package to improve the release of information on storage to the market participants

(3) In your opinion, what is the most important when designing UIOLI (including products and contracts) so as to leave a storage user the flexibility to use its storage capacity when needed?

In the case of gas storage, there can sometimes be misconceptions about "unused" capacity. For instance, when storage is almost full, the optional value of keeping the remaining space empty is

high as this would allow subsequent injections of much cheaper gas. It could be argued that, in this case, the “non-use” is actually an efficient use by the customer of its rights to inject gas.

It is paramount that the primary capacity holder is not prevented from enjoying the benefits of the firm rights it has acquired and paid for and no elements of any UIOLI mechanism should therefore undermine the primacy of firm rights. Obligations on SSOs to offer any non-nominated capacity on interruptible basis are the right premise on which an efficient UIOLI can be designed.

Storengy UK is concerned with ERGEG proposal to request the SSO to ask primary customer to relinquish its renomination rights and sell back capacity to SSO. This could be seen as an unbearable interference of the SSO into its customers’ commercial activities and infringe on their rights to enjoy the benefits of the capacity it has acquired. Such transactions would also increase the exposure of the SSOs to lack of demand for secondary capacity.

- (4) In your opinion, to what extent should offered services and terms and conditions on secondary markets be standardized so as to improve secondary trade of storage capacity? Is standardization a way forward to enhance liquidity of secondary markets? What aspects of secondary markets (products, contracts etc.) are the priorities to be harmonized?**

Storengy UK will endeavor to foster secondary capacity trading and support the development of efficient secondary markets as a mean for the customers to “tailor” their capacity bookings so that their specific flexibility requirements are fulfilled at lower costs. Since capacity offered by customers on the secondary markets is very often the “residue” of reshaping their (bundled) capacity bookings standardization of products for the secondary markets might prove difficult in practice and we are not sure standardization would trigger significantly greater liquidity.

- (5) To what extent do you agree that (next to probability of interruption) pay-as-used can be applied as a pricing strategy for storage prices that are not regulated and what other pricing strategies would be suitable? How can pricing strategies incentivise new investment in storage and efficient use of storage?**

SSOs should be free to design their pricing strategies that both are compatible with their marketing model and respond to market needs while ensuring that they are non-discriminatory and transparent as regards the conditions applied. Any potential regulatory interference in this area would be detrimental to the market.

- (6) In your opinion, to what extent do you consider that combined products (i.e. storage services offered at virtual hubs) of storage and transport capacities are a useful and efficient service?**

Storengy UK reckons that some customers might be interested in acquiring storage services offered at virtual hubs thereby reducing the complexity of their own shipping arrangements and their exposure to mismatch between storage and transport bookings. This generally facilitates trading



and reduces operational risks. However, since packaging storage and transport capacities increases the exposure of the SSO, offering such products is a crucial commercial decision and should be left at the entire discretion of the SSO. The SSO should not be obliged to offer such combined products.

- (7) In your opinion, what market mechanism (incentive) should be in place to stimulate a storage user to offer any unused capacity on secondary market?**

Storengy UK believes that the role of the SSO is to facilitate the trading of unused capacity on secondary markets. However, secondary markets are places where customers meet to exchange between them unused capacity.

- (8) In your opinion, to what extent is the (cross-border) offering of storage products/combined transport-storage products useful to market parties and what should these products (e.g. minimum requirements) look like?**

Storengy UK is only active on the UK market.

- (9) To what extent do you consider the proposals will facilitate allocation and congestion management of storage capacity? What other measures should be in place?**

Storengy UK is concerned that amendments to GGPSSO proposed by ERGEG could be too prescriptive and would result in a very rigid regulatory framework that would hinder commercial innovation.

- (9.1) In particular, what possibilities do you see to enhance efficient use of storage reserved for public service obligations like e.g. strategic storage or other reserved storage? Under which conditions would additional use of such storage as (interruptible) short-term product or remarketing on secondary market be acceptable? Could you give examples from your day-to-day experience?**

Not relevant to UK market.



(9.2) In particular what best practice for CAM and CMP should be in place for specific cases when parts of LNG terminal facilities potentially function as storage capacity? Could you give examples from your day-to-day experience?

Storengy UK does not have any day-to-day experience of LNG terminal facilities.

(10) To what extent would you agree NRAs should be endowed with additional competences in developing CAM and CMP?

Storengy UK is of the opinion that, provided all obligations set in the regulatory framework are complied with, the development of CAM and CMP is intrinsically part of the commercial strategy of each SSO and its relationship with its customers and does not therefore see the need for additional competences for NRAs in this area.