

Rachel Reeves MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
Westminster
SW1A 0AA

Stublach, 30th January 2019

Dear Mrs Reeves,

I am writing to you to provide additional information following the oral evidence session on gas storage held on the 31 October.

Storengy UK is a wholly owned subsidiary of ENGIE (formerly GDF SUEZ), a leading energy Group. Storengy UK owns and operates one of the few salt cavern gas storage sites in the UK. This site will be the largest underground gas storage in the UK when the development, started in 2008, is completed in 2019. Storengy also own and operate 11 gas storage sites in France and 6 in Germany.

We welcome the initiative by the BEIS Select Committee to look into the situation of gas storage in the UK and are pleased to be able to provide the following comments.

Our view on the current situation

Across the industry, it is common to see older assets close and new assets replace them. Upgrading assets at the end of their life may not always be the optimal economic decision; therefore, the decision by its owner to close down the ageing Rough gas storage, which needed extensive reinvestment to continue operations, has not come as a surprise to most industry participants.

What Storengy UK consider to be a greater cause for concern though, is the absence of investment in the sector, and even worse, the ongoing trend of gas storage mothballing and closures.

- It has been more than a decade since the last Final Investment Decision was taken for a UK gas storage site (this was Storengy UK's Stublach site). No project since has progressed and many have been cancelled.
- A number of sites had to mothball capacity in order to save costs or because maintenance re-investment is not viable. A decision to permanently mothball Hole House, a site much more recent than Rough, was taken in July 2018.

As a result, the current storage capabilities of the UK are only a fraction of what was anticipated in the DECC's Risk Assessment on Security of Gas Supply back in 2014: less than 50% if the 200mcm of the "Slow Progression" scenario has been delivered. (Figure A).

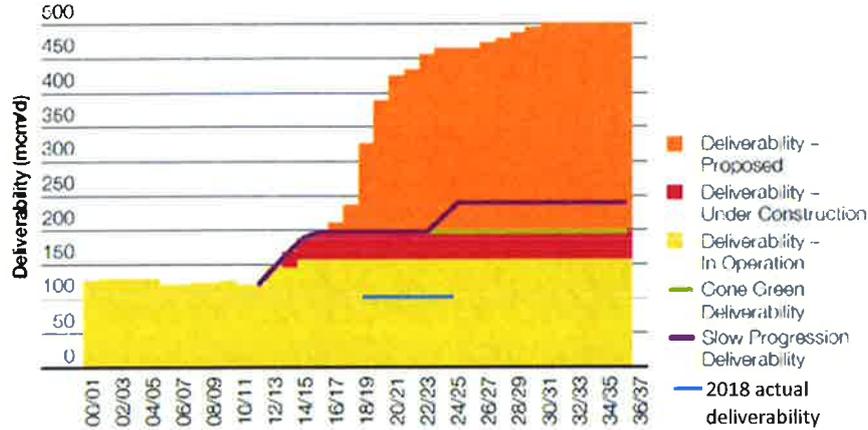


Figure A: 2014 existing and proposed UK gas storage level (source: DECC 2014 UK Risk Assessment on Security of Gas Supply¹) vs 2018 actual capability (source: Ofgem²)

The extremely low amount storage capacity as a percentage of annual gas demand, around 1%, is unique in Europe, as can be seen in Figure B.

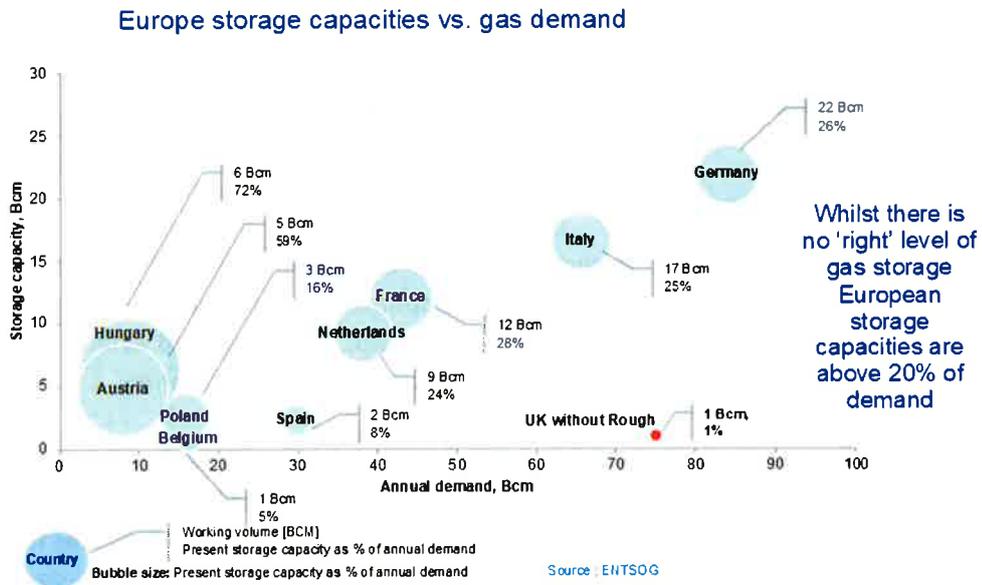


Figure B: Europe storage capacity vs. gas demand (source: ENTSOG).

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318466/gas_risk_assessment.pdf

2 https://www.ofgem.gov.uk/system/files/docs/2019/01/181207_storage_update_website.pdf

The specific case of the UK was in the past justified by the large amount of captive offshore gas supplies. With a growing reliance on gas imports, the implications of a just-in-time supply chain with virtually no buffer are yet to be understood. We believe this places the country in a position of price taker, competing globally with LNG importing nations at times of high demand, with negative consequences for the cost of energy in the country and the competitiveness of the UK plc. Gas storage plays a unique role in that it can deliver large amounts of physical gas to the network within minutes, therefore providing delivery support for other sources of supply. Therefore, storages help reduce price volatility and increase resilience to shocks for the benefits of the end consumer.

Our understanding of the reasons

There are multiple causes that have led to this situation, which can be split into market and non-market causes.

- The market conditions for storage remain challenging despite a recent recovery. Yet competitive UK operators could live with this, if there were not also severe distortions of their environment undermining their business model.
- UK storages face levels of business rate unseen in any other part of the UK economy as a proportion of operating costs. Competing storages in continental Europe pay at most tens of thousands of euros, whereas UK storages are faced with bills of several millions of pounds each. For Stublach, this taxation amounts to as much as all the other operating costs. The transition relief scheme compounds the problem by neutralising almost entirely the recent decision made by the VOA to reduce the rateable values.
- Interactions between the gas and electricity systems are not recognised, with the gas assets playing a key role in supporting the electricity market, but asset operators are dis-incentivised to run their asset to flow gas to the network at the right time (Triad charges, time of use capacity market charges). We welcome the recent initiative by the BEIS to commission a study looking at gas and electricity interaction, and we would be pleased to provide evidence.
- The design of the short-term balancing market, which incentivises the gas transmission operator to provide free intraday flexibility, is preventing UK storages from monetizing their flexibility within the day, resulting in missing money for operators. In continental Europe, the within-day capabilities of storage provide them with an additional revenue stream. The electricity market has also growing intraday flexibility requirements created by the variability of the renewable electricity generation. These requirements are increasingly met by the gas system through the use of gas-fired power generation. Yet there is no commercial value and thus no source of revenue for the providers of gas flexibility.
- Structural changes to the charges applied for the use of the National Transmission System are being pushed forward. The proposals, formerly named UNC Mod 621 and rejected by the Industry and by Ofgem, are now back on the table under the UNC Mod 678, with a target implementation as early as October 2019. The consequences of these changes, which aim to ensure compliance with European Network Codes, if implemented, will dramatically worsen the outlook for UK storages.

Our proposed way forward

- Considering the ever-declining storage capacity in the UK over the over the past decade and seeing no prospect of a reversal, an independent analysis must be carried out. This should assess whether or not the UK gas storage capacity is currently at an appropriate level and if the situation is sustainable. Whilst we agree with Business Secretary Greg Clark³ that the UK should *“rely on the market following a constant and detailed consideration to deliver the necessary capacity based on price signals”*, we think it is equally important to ensure that these signals are not biased and that we have a level playing field that allows investment according to the market requirements.
- If the analysis concludes that the appropriate level of gas storage capacity is not met, we think that the BEIS should coordinate an action plan with all the relevant stakeholders around the table, to identify the issues and start addressing them. Storengy UK has found that the additional burden placed on storage is in most cases a joint responsibility between government bodies, which has made it difficult to address, let alone to solve.

Action is urgently needed to ensure gas storage in the UK remains viable, operating in an undistorted market. The cost of inaction for the end consumers of gas and electricity would be far greater than what is needed to improve the cost base of storage operators.

We would welcome the opportunity to discuss these issues further and we look forward to the conclusion of the inquiry.

Yours sincerely,



Benoit Enault

Head of Commercial, Business Development and Business Services

³<https://www.gov.uk/government/speeches/after-the-trilemma-4-principles-for-the-power-sector>