

Postponement of Storengy UK November Auctions

Storengy UK has regrettably found it necessary to postpone the upcoming auctions scheduled for 26th November 2020. The auctions were due to offer up to two years of Storengy UK's Flat 30:30 Standard product. Unfortunately, Storengy UK reflected that recent developments in network charging and the regulatory environment make it increasingly difficult for shippers to value Gas Storage capacity. Storengy UK has therefore made the difficult decision to postpone the auctions to Quarter One of 2021 to ensure that all interested parties have a better view of the market and regulatory landscape.

There are currently two critical factors influencing the valuation of storage capacity, which Storengy UK believes need to be resolved before a clear view of the costs of utilising Gas Storage capacity can emerge:

- **The level of discount to be applied to transmission charges at Gas Storages is still awaiting OFGEM's decision.** This was raised by Storengy UK as an urgent Modification (UNC 727) of the Network Code, requesting that the storage discount be raised to 80%. This is intended to reduce some of the transmission cost on stored gas that is already in the network, as this gas has already contributed to network costs. The encouraging language in the OFGEM decision to implement the new Gas Charging Regime was supported by their quantitative impact assessment. The subsequent agreement to fast-track the modification suggested that a decision would be forthcoming quickly. This has not been the case as of today and we now expect a decision shortly before the deadline date of 3rd January 2021.
- **The large shortfall in revenue announced by National Grid on 10th November that will require substantial increases in capacity charges from early 2021.** This announcement of the large under-recovery of capacity revenue in October '20 after just one month of the new capacity pricing regime will result in additional capacity charges for shippers. The magnitude of the charge is currently unknown, resulting in a large uncertainty for market participants in general and for storage users in particular.

These uncertainties mean shippers are unable to calculate a reasonable level for transmission costs and must therefore factor significant risk into any Gas Storage capacity valuation. This reduces the value they can offer for storage capacity. Storage capacity derives its profitability from tiny differences in the price of gas at different points in time and any increase in network costs reduces the ability to capture these opportunities. Given that the predictability and stability of network prices is in limbo and no improvement is foreseen by the 26th November, Storengy UK views the postponement of the auctions as a prudent action.

We will continue to engage with interested shippers and customers to discuss the best way forward in light of the challenging situation and thank you for your understanding.

For any media enquiries please email: communications@storengy.co.uk