

Joint Office of Gas Transporters  
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Date: 11<sup>th</sup> December 2020

**Re: UNC Modification 0748 – Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements**

Dear Joint Office,

Further to the proposed UNC Modification 0748, we are writing in response to the current consultation on these proposals.

In light of the oversight of several key aspects of the newly implemented charging methodology, and subsequent under-recovery of capacity revenues by National Grid, we would like to **support this modification** proposal in addressing these issues and returning the market environment to a more stable situation.

However, although we agree that the situation should be addressed as soon as possible, we are **extremely concerned at the ongoing and proposed timescales** for industry review and assessment, time for consultation responses, and proposed rushed implementation date for this modification. We do not feel that this provides sufficient time to fully assess the impact of proposals and whether they are the best solution for the current situation in under-recovering National Grid revenues.

In addition, we would like to raise our concerns with regards to:

- **The lack of detail in the proposals**, indicating that there is still not a clear understanding of the situation and how it should best be resolved. This appears to suggest a blanket approach to changes in allocations, without consideration for the reasons and methodology originally behind these allocations.
- **Failure to address the current under-recovery and mis-allocation of revenues for Exit Capacity**. This results in extra financial burdens being placed on some areas of the market, especially for gas storage who incur extra TO charges, but see no benefit in reductions in SO charges.
- **Market uncertainty and further wholesale market price shifts influenced by announcing RRC rates before carrying out a full assessment of the situation**. Changes to timescales under this proposed modification will potentially result in further changes to charges at short notice. This is likely to affect wholesale prices further and due consideration and

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scrutiny should be taken to avoid significant uncertainty in security of supply over the coming months.

- **Excessively short period of recovery for revenue recovery charges** has also placed a large burden on shippers, with extremely high additional costs being charged to shippers at short notice distorting the competitive environment. This shows a clear **lack of understanding of the effects of these charges on the market**, and raises concerns over National Grid's understanding as to how modification 0748 may affect the market. Impacts on the market and industry financial pressures of these additional charges would be minimised by **spreading these costs over a longer period, and potentially into the next gas year through the K factor**.
- With this modification seemingly granted 'extremely urgent' status, this is effectively allowing these **proposals to be rushed through by National Grid with little, if any consideration and scrutiny by other members of the industry**.
- The 'extremely urgent' status of this modification also appears to have resulted in other **modifications granted 'urgent' status being delayed for decisions and potential implementations**. This is particularly the case for the proposals related to gas storage (UNC Modifications 0727 and 0729), and the short-haul proposal (UNC Mod. 0728); with the absence of a decision placing some businesses in a very difficult situation following the implementation of UNC Modification 0678A, which has already been recognised to be an incomplete package of work.
- **Short timescales for further pricing changes again places significant unnecessary pressures and uncertainties on the market**, potentially creating further damage to the industry rather than providing the beneficial effects that would normally be expected from implementing a solution to this problem.
- **UNC and TAR NC rules may not have been complied with** in announcing the large RRC charges, with this proposal potentially providing further divergence from compliance with these rules.

In summary, although **Storengy welcomes proposals to address the current financial uncertainties in the market, we have major concerns in rushing through proposals without taking suitable time to assess their potential impacts on shippers and the market, as this increases the risk of further unforeseen problems in the future and distortion of the market environment.**

Best regards

*Alex Nield*

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