

Representation - Draft Modification Report UNC 0765

New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020

Responses invited by: **5pm on 20 September 2021***
extended to 5pm on 24 September 2021

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Alex Nield
Organisation:	Storengy UK Limited
Date of Representation:	22 nd September 2021
Support or oppose implementation?	Oppose
Relevant Objective:	<p>c) Negative</p> <p>d) Negative</p> <p>g) Negative</p>
Relevant Charging Methodology Objective:	<p>a) Negative</p> <p>b) Negative</p> <p>c) Negative</p>

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

Storengy UK strongly oppose the proposals in UNC Mod 765 as we believe that changing historic financial transactions is highly detrimental to many aspects of the industry, creating huge uncertainty in the market and in business finances, eroding confidence in the industry, increasing business risks and market volatility, and increasing costs to consumers. In addition, we believe that these proposals do not address many of the problems created during this period and will only distort the markets further for the period in question and for future periods, reducing market stability.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Storengy UK do not believe that it is beneficial for the industry to implement these proposals. However, if the proposals are to be implemented then they should be implemented as soon as possible to minimise the detrimental effects, with monies redistributed over as long a period as is reasonable to minimise further distortions of the energy markets and market competition.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

Storengy UK has major concerns about the impacts of these proposals, as we believe that they will have a detrimental impact on many aspects of the industry.

Changing historic financial transactions many months after the event sets a dangerous precedent, creating significant uncertainty in the industry going forwards, adding risk and cost to businesses in the industry in managing the risk of changes to historic transactions going forwards. This added burden will hamper businesses both operationally and financially within the industry, and therefore reduce the ability of the industry to respond to changes in gas demand and supply, increasing gas prices and price volatility. We believe it will damage the competitive environment, increasing business risks, increasing the likelihood of supply shortages as the market becomes less responsive to changes in demand, and seeing resultant risks and costs passed on in higher bills for consumers.

Resultant Debits and Credits for these proposals may be as high as £8m (from National Grid' analysis) for individual businesses, which may cause cashflow issues for some businesses. With net transactions potentially being as high as £5m, these proposals could cause significant financial issues for some businesses, especially for those such as gas storage facilities where large amounts of gas are moved at small trading margins. This will add to the significant unnecessary financial pressures for businesses in the industry who move large amounts of gas or are new businesses looking to establish themselves within the industry. With any potential implementation of these proposals there are already significant accounting impacts for businesses as resultant transactions will be taking place one to two financial years later than the period in question, impacting on profits/losses in different financial years, and ultimately shareholder valuations of businesses.

These proposals potentially undermine the NBP market in changing the nature of trading transactions after the event. This will reduce confidence in the UK market, potentially encouraging investors to move finances to other industries and markets, shrinking the UK market and competitive environment, and potentially seeing an increase in gas prices and price volatility. This again is likely to have an impact on consumers in increasing energy costs.

Storengy also has concerns in the way that the issues raised in this modification and modification 0748 have been managed. Major industry and financial uncertainty has been created by National Grid in:

- raising of these proposals
- minimalist justification for the changes proposed, and investigation of the issues
- announcements made in relation to these issues and the resultant RRCs, and
- assessment of the impacts of neutrality arrangements prior to the implementation of the new charging

The way in which these issues have been managed has caused significant distortion to markets, prices, and competition in the UK industry; creating far greater issues than the original problem. If implemented, then these proposals are likely to exacerbate the situation further and cause additional damage for the UK industry.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

No, Storengy UK does not believe that these proposals provide a solution to the problems during this period, or that changing payments and receipts retrospectively is feasible or legal, and so therefore does not believe that the legal text will deliver an effective solution.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

The Modification only looks at the redistribution of monies resulting from the higher neutrality charges/rebates than the previous charging regime. It fails to consider the trade and gas price impacts, individual business (financial and operational) impacts, increase in ongoing uncertainty, distortion of competition, or the impacts of the actions taken by National Grid both over the period in question and since.

The Modification fails to assess the reasoning for the original calculation of the neutrality charges/rebates, whether this reasoning should still apply, and whether these calculations should have been applied in periods prior to the introduction of the new charging regime. This reasoning is especially important as changes to the neutrality calculations were not considered to be needed in proposals for the new charging regime prior to its implementation.

Storengy UK also does not believe that the proposals have been fully assessed against both EU legislation and UK business law, as they primarily appear to apply more uncertainty to the market and businesses finances, further distorting the balance of the competitive environment, and providing further uncertainty on the pricing of energy going forwards.

The proposals do not address the overall effects on consumers, who are likely to see higher costs due to increased business risk, loss of market confidence, reduced market responsiveness to demand, and reduced competition. It is vital that further analysis of these effects is carried out prior to any suggested changes, as the increase in consumer costs could be significant.

Please provide below any additional analysis or information to support your representation

Storengy UK does not believe that any of the criteria set by Ofgem for retrospective changes to the industry have been met as:

- the issue is not caused as a result of a fault or error in the charging calculations.
- the change in booking behaviour was foreseen, impacts reviewed, and no change was considered necessary prior to the implementation of the new charging methodology.
- the possibility of changes to neutrality charges was not flagged until half way through the period in question, and remained unclear for a long time afterwards.

Many of the issues raised in our response, and more issues across the industry were also shared by Energy UK in their initial representation for this modification early in the review process. This representation can be found at:

<https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-04/Initial%20representation%200765%20-%20Energy%20UK.pdf>