EP UK Investments

Response to NTS GCD 12: Informal consultation on Modifications raised to introduce a Conditional Discount to Avoid Inefficient Bypass of the NTS

15 May 2020

About EPUKI

EP UK Investments (EPUKI) is a UK energy company, primarily focusing on power generation from conventional and renewable sources.

EPUKI represents the UK and Ireland interests of Energetický a průmyslový holding (EPH), a leading Central European energy group that owns and operates assets in the Czech Republic, the Slovak Republic, Germany, Italy, the UK, and Hungary. EPH is a vertically integrated energy utility covering the complete value chain ranging from highly efficient cogeneration, power generation, and natural gas transmission, gas storage, gas and electricity distribution and supply. EPH is the 6th largest producer of power in Europe, employing over 25,000 team members.

In the UK, EPUKI owns Langage and South Humber Bank combined cycle gas turbine (CCGT) power stations, with a combined capacity of 2.3 GW, as well as the 420 MW Lynemouth biomass power station. EPUKI actively pursues other acquisitions and new build opportunities in the GB electricity market, including two new build CCGT projects at Eggborough and King's Lynn, with a combined capacity of 4.3 GW. In 2019, EPUKI acquired the Ballylumford gas-fired power plant, Kilroot coal and oil-fired power plant, and Kilroot Energy Storage facility in Northern Ireland. EPUKI is also the majority shareholder in Tynagh Energy Limited, a 400 MW CCGT in the Republic of Ireland.

Questions for Informal Consultation

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

EPUKI supports the introduction of a product to discourage inefficient bypass of the NTS (a 'Conditional Product') if such a product is not included in the UNC0678 gas charging reform option approved by Ofgem. We consider that without a Conditional Product, there is a strong possibility that some power stations and industrial sites may build private bypass pipelines or may face significant unrecoverable costs that could impact their lifetime and operations, reducing overall flows on the NTS. We therefore consider that a Conditional Product would support the efficient and economic operation of the pipeline system.

We consider that any Conditional Product should take into account the overall scale of transmission charges faced by users as this is what will determine whether they seek to bypass the NTS or not. The likelihood of bypass rather than level of socialisation should therefore be the primary consideration in the design of a Conditional Product. For this reason, we support the two options (0718A and 0718B) which include a discount to Non-Transmission Service Charges. The Non-Transmission Service Charge is designed to recover SO allowed revenue. However, most of the costs associated with operating the NTS would not be incurred by operators of a private pipeline. If no discount is applied to the Non-Transmission Service Charge then users would continue to face disproportionately high costs for using the gas transmission network compared to building a private pipeline, which would increase the likelihood of them seeking to bypass the NTS.

The economics and method of system bypass will be determined by site-specific factors and a bypass option does not necessarily have to consist of a pipeline between a single exit and entry point. There is the potential for unintended consequences where a number of offtakes in close proximity could seek to share the costs of bypass infrastructure. We therefore consider that analysis should be undertaken of this cluster risk and any distance threshold under the Conditional Product should be set to avoid it. We consider that a 28 km distance cap would be more likely to avoid these unintended consequences than an 18 km distance cap and we therefore believe that 718B may be more effective at reducing the overall risk of NTS bypass.

We are concerned that the analysis of the proposals in the discussion document overstates the potential level of socialisation arising from the Conditional Product as the volumes have not been adjusted for Existing Contracts or traded capacity. The rules preventing the conditional discount being claimed against these forms of capacity could stop some users from realising the full value of the discount available. As these users would continue to face higher overall costs, there would still be an incentive for them to bypass the NTS. We are unclear why Existing Contracts are considered to be flowed against first or why traded capacity should not be eligible for the conditional discount, although we recognise this would require a small change to the capacity trading rules. If this is because of systems issues, then these should be addressed as a matter of urgency in order to allow the Conditional Product to work as effectively as possible.

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

We consider it essential that the Conditional Product is implemented on the same timescale as UNC0678. Without the Conditional Product in place, some users currently benefiting from the Optional Commodity Charge will see large increases in their network charges and will start investing to bypass the NTS at the earliest opportunity. Given the restricted timescale to implement any changes by October 2020 and the additional pressures being placed on companies as a result of the coronavirus pandemic, we consider that the ideal outcome would be for both the implementation of UNC0678 and the introduction of the Conditional Product to be delayed until October 2021.

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

The implementation of the Conditional Product may require users to renegotiate agreements with counterparties and update internal analysis. However, in the absence of a Conditional Product then there would be larger costs incurred in the development of bypass pipelines.

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

Yes, we are satisfied with the legal texts.