

Questions for Informal Consultation – GCD12

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

Triton Power is concerned that the proposals are far too generic and will fail to achieve the primary objective of ensuring that customers will remain connected to the NTS where it is economic for them to do so. It is not practical to apply a simplistic costing methodology to fit all circumstances and we expect that on implementation of any of the proposals the outcome will be sub-optimal and not in the interests of GB customers. The application of an arbitrary distance cap, configured to achieve a desired level of cross-subsidy, built upon a methodology which assumes that all connecting pipelines will incur the same level of costs, is both discriminatory and inefficient.

In particular, the methodology fails to recognise that in many cases offtakes will be able to redirect routes to enable multiple connections and a sharing of capital costs. To assume that bypass costs can be derived by applying unit costs to specific point to point routes is so removed from reality that it will create clear winners and losers and distort competition.

In order to correctly deter bypass, Triton believes that National Grid should be permitted to enter into bilateral arrangements with large NTS offtakes which more reasonably reflect the costs and probability of bypass. Such an approach would ensure that charges are cost reflective and benefits accrued to all Users of the NTS. Clearly, in the interests of transparency and equitability, the terms of these arrangements should be made available for industry scrutiny.

In addition to these methodological limitations common to all proposals, Triton is concerned that at a practical level they are too restrictive. By excluding secondary capacity from capacity discounts Users will incur higher costs and capacity will become sterilised. It is illogical that a User should be forced to acquire capacity directly from National Grid in order to qualify for a discount, rather than utilise capacity which has already been sold, but held by a third party. This restriction is highly inefficient and will result in capacity overbooking, the costs of which will end up in customer bills.

The only aspect of the proposals we do believe to be sensible is the concept of discounted Non-Transmission Charges, as set out in UNC 0718A/B. Certainly, when reviewing the possibility of bypass, Users will consider all NTS costs and as such will compare the costs of operation, as well as construction. In this instance, we believe that the methodology described in the two proposals is practical. A standardised discount to the base element of National Grid's allowed revenue based on the maximum, aggregate distance of the identified routes will produce a reasonable cost estimate which might reasonably be applied to all shorthauled throughput.

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

The importance of a shorthaul product should not be underplayed. Historically, access to discounted transportation charges has been a factor in determining locational decisions for large customers and not unreasonably there is an expectation that the service will not be removed in such an abrupt manner as envisaged by UNC 678/A. In order to develop a shorthaul product which deters bypass, while delivering tangible benefits to all customers and the wider economy, it is essential that industry is

afforded sufficient time to develop a replacement product which fulfils these finely balanced objectives. As stated above, the proposals currently under consideration fall short of this ambition and more time is needed to consider more radical alternatives. To this end, we recommend one of the two following options:

- Delay in implementation of UNC 0678 until such time as a workable shorthaul product is ready for implementation
- The continuation of the current shorthaul arrangements for a transition period, until its replacement by a longer term solution

In terms of lead times, we propose that at least 12 months is needed to arrive at an appropriate shorthaul solution, however, it should be borne in mind that Users and customers will require a minimum of 6 months to accommodate the new service within supply contracts.

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

As stated above, the exclusion of secondary capacity for shorthaul will generate additional costs for all customers, as Users are required to acquire additional capacity in order to obtain a shorthaul discount.

The timing of the implementation of any of the proposals is critical. Not only should it be aligned with UNC 0678, but it should also provide sufficient lead time to enable National Grid to accurately forecast take-up and utilisation. Any deviation from actual utilisation will necessarily feed through to Revenue Recovery Charges, which goes against the primary objectives of charging reform; to facilitate stability and predictability. As stated by Ofgem, the recovery of revenue associated with fixed and sunk costs should be via capacity charges; an over-emphasis on commodity-based charges results in the misdirection of costs, economic inefficiencies and market distortions.

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

No comment