

Representation - Draft Modification Report

UNC 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I; 0678J;

Amendments to Gas Transmission Charging Regime

0678	Amendments to Gas Transmission Charging Regime
0678A	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678B	Amendments to Gas Transmission Charging Regime
0678C	Amendments to Gas Transmission Charging Regime (Postage Stamp)
0678D	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678E	Amendments to Gas Transmission Charging Regime – Treatment of Storage
0678F	Amendments to Gas Transmission Charging Regime – Treatment of Unprotected Entry Capacity Storage
0678G	Amendments to Gas Transmission Charging Regime including a Cost based Optional Capacity Charge
0678H	Amendments to Gas Transmission Charging Regime (Postage Stamp) including a Cost based Optional Capacity Charge
0678I	Amendments to Gas Transmission Charging Regime including Wheeling and an Ireland Security Discount
0678J	Amendments to Gas Charging Regime (Postage Stamp) including a Cost Based Optional Capacity Charge

Responses invited by: 5pm on 08 May 2019

To: enquiries@gasgovernance.co.uk

Representative:	Scott Keen	
Organisation:	Triton Power Ltd	
Date of Representation:	08/05/2019	
Support or oppose implementation? (Please note you will be asked for your reasoning further below)	0678	Oppose
	0678A	Oppose
	0678B	Support
	0678C	Oppose
	0678D	Support
	0678E	Oppose
	0678F	Oppose
	0678G	Support
	0678H	Support
	0678I	Oppose
	0678J	Support
Expression of Preference (Please note you will be asked for your reasoning further below)	If EITHER 0678; 0678A; 0678B; 0678C; 0678D; 0678E; 0678F; 0678G; 0678H; 0678I OR 0678J were to be implemented, which Modification would be your preference? One of 0678B/0678D/0678G/0678H/0678J	

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

0678/A/C/E/F/I – Oppose.

Triton Power Ltd opposes all modifications which omit an optional charging arrangement. Both CWD and Postage Stamp charging methodologies are very punitive to exit points in close proximity to entry points when compared with the current charging arrangements. The sizable increase in charges for these sites undermines previous investment decisions relating to use of the NTS rather than build private pipelines so this option should be retained as an efficient mechanism in any new charging methodology. The absence of an Optional Charge will lead to a proliferation of private pipelines and decreased use of the NTS, increasing the cost to all remaining users and ultimately increasing cost to UK consumers.

0678B/D/G/H/J – Support.

Triton Power Ltd supports all modifications which provide for an Optional Charge to promote use of the NTS via discounted charges rather than bypass of the NTS by recommissioning existing onshore and offshore pipeline networks and/or inefficient build of new private pipelines.

Implementation: *What lead-time do you wish to see prior to implementation and why? Please specify which Modification if you are highlighting any issues.*

The effective date if any of the proposals is implemented should be 1st October. This is supported by SSE's QC legal advice as published on the Joint Office website in the document [Modification 0678C SSE Effective Date Legal Advice \(08 April 2019\)](#).

There should be adequate notice between any decision and the effective date to ensure the notification timescales are not shortened and the changes are brought in in a managed way to avoid price shocks. As such, the earliest implementation date should be deemed as 1st October 2020. However, Triton Power is concerned that insufficient analysis and modelling has been carried out on the impacts of the various modifications and their achievement of the relevant objectives due to lack of time available under the urgent status of the process. Any changes implemented through this process are fundamental to the efficient operation of the UK gas market and ample time should be allocated for an industry assessment analysis of the wider impact on industry and consumer benefit. To ensure this can be carried out in a thorough, unhurried manner without encroaching on adequate lead time for certainty before implementation, an **implementation date of 1st October 2021** is required.

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

The cost increase to Triton Power Limited is significant for all of the proposed modifications, Exit capacity charges increasing exorbitantly between 13,000% to 15,400%, and on a holistic gas charging basis (Capacity + Commodity), and should a modification without Optional Charge be implemented, then Triton Power would be exposed to cost increases up to 330% higher than in the current charging regime. More detailed cost impact will be disclosed to Ofgem during their consultation period under confidentiality due to the sensitive nature of such a disclosure.

The cost to consumers must be considered in both direct and indirect terms. The power sector, with its high dependency on gas fired generation to provide cost effective security of supply as the industry transitions to low carbon technologies, is particularly affected therefore changes in gas charging methodologies impacts consumers indirectly through elevated electricity bills. The total impact on GB consumers must be calculated so that improvements in one area are not negated or surpassed by increased charges in another. A methodology which moves more of the cost recovery from commodity charges to capacity charges whilst at the same time removing the ability to access short-term capacity and substantially reducing the discount for off-peak capacity has a multi-million pound impact on gas fired power generators; this will increase wholesale electricity prices and result in higher electricity bills for GB consumers.

It is essential Ofgem commissions a full impact assessment and analysis of changes to behaviour these modifications are likely to bring about. The impact on the efficient running of the GB gas market, on industrial consumers, on domestic gas prices, and on electricity prices should be evaluated and sufficient time provided to ensure the analysis is thorough and accurate, and modifications can be changed to address any unintended consequences prior to implementation rather than rushing in a flawed methodology simply to meet compliance targets. Ofgem has a duty to ensure a change of this magnitude, and the consequences of such change, are fully understood.

Legal Text: *Are you satisfied that the Legal Text will deliver the intent of the Solutions for each Modification? Please specify which Modification if you are highlighting any issues.*

The legal text should be sufficient to deliver the proposed solutions and each proposer has issued positive legal opinion on compliance of the various modifications which includes legal compliance of Optional Charge proposals. Triton Power will disclose further legal opinion confirming that Optional Charge methodologies are compliant with TAR NC as part of its response to the forthcoming Ofgem consultation.

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

Triton Power is concerned that the original proposal 0678 by National Grid represents the minimum required to meet the compliance guidance provided by Ofgem in its letter of rejection of Mod 0621 and Alternatives. The alternatives to 0678 have also been built upon this premise of compliance first rather than putting the requirements of the GB consumer first. Ofgem has given the impression that compliance with TAR NC is its primary and overriding objective and we fear this is to the detriment of the other principals which should be held in equal, if not higher, regard i.e. providing the best solution for fair and efficient operation of the GB gas system and providing the best value proposition for GM consumers.

The modification working group has had a near impossible task to work through such a complex issue under the expedited timescales demanded under Urgent Status. This is reflected in the poor quality of the Draft Modification Report. The report process has allowed for only superficial discussion on all of the key points and no substantial analysis and improvement of the proposals has been undertaken. It is essential Ofgem undertakes this analysis in a root and branch manner.

The Draft Modification Report, in trying to be impartial, gives too much weight to an individual working group member who is a disruptor, serving the interests of a client outside of the GB market, rather than the welfare of the GB consumer, and whose views are not shared by the majority of the work group. When reporting the counter arguments to the single voice, the reports states "some members" which undermines the level of opposition to the parochial member as, in my experience having attended meetings, the vast majority held the counter view. This is particularly evident when discussing the merits of Optional Charge which is supported by the majority of participants with just a single vocal dissenter.

We consider it vital that Ofgem should undertake a Regulatory Impact Assessment and the Panel should strongly recommend this. As the proposals have various distributional impacts it will be important to assess the impact on consumers and consider a number of trade-offs between various compliance and regulatory issues. We call on Ofgem to be explicit and transparent in how these trade-offs are made. We note the recent [report from the National Audit Office¹](#) and the extract below

Faced with these challenges and differing views over their effectiveness, it is vital that regulators measure and report transparently their intentions and achievements in meeting their duties towards consumers. This means they need to ensure that they:

- set out clearly their intended consumer outcomes, how they have dealt with competing incentives such as those of consumers and industry stakeholders, and any barriers or constraints they face in delivering their outcomes;
- examine whether they are achieving their intended outcomes and take corrective action where necessary; and
- demonstrate credibly to Parliament and other stakeholders how well they are discharging their duties and addressing the key issues for consumers.

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

A key concept which must be included in any new charging methodology is that of Optional Charge which disincentivises the inefficient bypass of the NTS through build of private pipelines. This provides a fair discount to users where a private pipeline is a realistic alternative due to the proximity of the exit point to an entry point. Whilst we acknowledge that Review Group 0670R is looking into this specific issue, work to date has focused in on the methodologies which have been presented in Modification 0678B and that present in Modification proposals 0678D,G,H&J. Given one of these will likely come forward as a subsequent modification proposal it is cleaner and more efficient to implement an Optional Charge component in 0678 rather than address the issues after the event.

Should no Optional Charge be included in the chosen methodology, the outcome will be a proliferation of new build private pipelines and recommissioning of existing (but currently unused) onshore and offshore pipelines external to the NTS. Triton Power has commenced work on a feasibility study for a private pipeline at its Saltend Power Station to the Easington gas entry facility just a short distance away via relatively low value farm land. In parallel, Triton Power is working with other industry parties on a jointly funded study for a private pipeline infrastructure connecting Saltend and neighbouring gas fired power stations to Easington, thereby benefiting from economies of scale and enhancing the benefit of commissioning a private pipeline as opposed to paying high fees to use the NTS over a short distance. It is the intention of Triton Power to disclose these studies to Ofgem during its consultation, under confidentiality due to the sensitive commercial nature of such disclosures, to demonstrate the real and present intention to bypass the NTS if economically beneficial to Triton Power Ltd.