

Response to National Grid Gas Capacity Access Review: Strategy Consultation

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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.

We welcome the opportunity to provide input to the National Grid Gas (NGG) Capacity Access Review. As an existing gas-fired generator that is also seeking to construct new offtakes in the near future, we have a number of comments on the gas exit capacity regime. We have provided an overview of our concerns below, followed by a response to the specific questions posed in the consultation document.

Overview of key issues with exit capacity regime

Gas substitution arrangements

It is important that all available network capacity is utilised as efficiently as possible and that users can react to capacity signals. However, under the current capacity access regime users have little information about or the ability independently to assess how much capacity may be available at any point in time and how it could be reallocated between locations. The capacity substitution rules and applicable exchange rates are complex and opaque. This can lead to a risk-averse approach to capacity bookings. For example, because of the lack of transparency about capacity availability, a new CCGT project may enter into a PARCA prior to participating in the electricity capacity market to be certain that it will have access to gas capacity if it is successful in an electricity capacity auction despite the fact it would often be more logical for a CCGT project to wait until it has secured a capacity agreement before entering into a PARCA.

We consider that user understanding could be improved through a simplified and more transparent capacity substitution process. This could consist of a zonal substitution arrangement by which all capacity can be substituted within a zone or between zones at a standard exchange rate. Provision of a model to allow parties to make their own assessment of capacity availability over time would also be helpful together with a high-level initial assessment of whether a capacity request is likely to require any reinforcement before embarking on the full PARCA process.

Existing generation

Existing power stations' gas capacity requirements are likely to change over the next decade as the load factors of CCGTs decrease and operating patterns become less predictable in response to increased renewable generation. CCGTs with very low factors are unlikely to book annual capacity products as they will want to match their capacity bookings as closely as possible to their gas flows. This will be further encouraged by the gas charging reforms under UNC0678 as many power stations holding enduring firm capacity currently do so at a low cost and will pay more from October 2020. It will therefore be crucial that these generators can rely on more flexible daily (or even within day) gas capacity products.

Power stations will therefore require certainty about the volumes of capacity that will be available through shorter term capacity products. However, offtakes operating on short-term capacity products would face the risk that their obligated baseline capacity could be reduced through substitution and power stations could then theoretically be unable to obtain gas capacity when they want to generate. This is likely to drive a suboptimal, risk-averse approach to capacity bookings. This could be addressed by:

- Greater transparency about the methodology and process by which NGG can make non-obligated capacity available at exit points above the baseline and how capacity can be substituted or traded between exit points on a daily basis. It should be explored whether a traded market in gas exit capacity can be established.
- Notifying sites during a PARCA window if they are potentially affected by substitution so that they can apply to retain some or all their baseline capacity. Parties may still be unwilling to lock themselves into onerous user commitment arrangements in this scenario and so we consider that the user commitment arrangements should be reviewed.

New build generation

For new gas-fired power stations, the decision to proceed to construction is likely to depend on securing an electricity capacity market agreement in the four year ahead auction. Whether and when a capacity agreement is accepted will depend on the clearing price in these auctions. Project plans also change over time, with the planned number of generating units and technology used being updated as market conditions change. There is therefore a high risk that many power station projects that have entered into a PARCA will not proceed (which is a normal outcome of healthy competition in the electricity capacity market), that those which do proceed will be delayed beyond their initial expected commissioning and gas capacity registration dates, and that the amount of gas capacity they require will change over time.

The current PARCA regime does not incentive parties to release capacity which they no longer need. Once a PARCA has been entered into, high termination liabilities immediately begin to accrue and there is no way of reducing these by surrendering capacity as they are linked to the level of capacity originally reserved. The termination liabilities cap out after four years and, if the reservation party eventually utilises a small amount of capacity, all termination liabilities would fall away. After a certain point in time, the termination liability will therefore have reached such a level that there is no incentive for parties to surrender capacity but instead they would be better to retain it in the hope that some of the capacity may eventually be used.

We consider it beneficial that parties should accurately signal their future capacity requirements to the market and NGG, including surrendering capacity which they no longer require. We therefore consider that the following changes to PARCA arrangements could be made:

- Inviting sites holding PARCAs which have been fulfilled through substitution to release capacity with no penalty and an associated drop in ongoing termination liabilities when this capacity could be used to help satisfy a new request for capacity elsewhere. This would free up capacity from sites that no longer want it before impacting obligated capacities at existing offtakes or delivering incremental capacity.

- Allowing partial termination of PARCAs so that parties can reduce their reserved amounts and lower their ongoing liabilities. This should incentivise surrender of unwanted reserved capacity as early as possible once parties know it is no longer required.
- Lowering the termination fees for PARCAs to be reflective of the costs incurred by NGG for making this capacity available. This would prevent PARCA holders from being tied into excessive termination fees and better reflect the fact that there is little cost to NGG of delivering capacity via substitution.
- Where a PARCA request is met through substitution, profiling the termination liabilities so that they increase over a number of years prior to the stated capacity allocation date to reach their maximum at the point of expected commissioning rather than increasing over 4 years from the point of PARCA signature. A similar approach is already used for electricity connections. This would incentivise PARCA holders to notify NGG of a delay to the expected capacity allocation date as soon as they become aware of it (eg. following an electricity capacity market auction) as they would be able to 'pause' the increase in termination liabilities. This should in turn help NGG better plan for future capacity requirements.

To implement these changes, we consider that existing PARCAs should be “reset” through a PARCA amnesty during which parties can give up capacity without penalty and have all termination liabilities and security requirements adjusted to reflect the revised arrangements.

Response to consultation questions

Q.1 Do you wish your consultation response to remain anonymous?

No.

Q.2 How would you describe your interest within the gas industry? E.g. (Shipper, Distribution Network, Storage Facility Operator etc.)

Shipper and power station operator.

Q.3 On a scale of 1-10, (1-very strongly disagree, 10-very strongly agree). Do you agree with the long-term ambition statement set out by National Grid NTS in section 6?

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Q.4 Do you have any other comments to add regarding the ambition statement?

We consider that the following should be added to the ambition statement in its current form:

The capacity access regime will allow users to respond to network capacity signals, encourage them accurately to signal their own current and future capacity requirements and ensure that available capacity is utilised as efficiently as possible.

However, in general we consider that the ambition statement is trying to capture too many ideas and could be simplified along the following lines:

The gas capacity regime will support ongoing use of the transmission network by existing and new users, technologies and sources of gas. To do this it will be:

- **Adaptable:** *accommodating changing market requirements and physical network developments;*
- **Cost-effective:** *offering good value products and efficiently allocating available capacity; and*

- **User-friendly:** *it will be simple, transparent, predictable and non-discriminatory.*

Q.5 On a scale of 1-10, (1-very strongly disagree, 10-very strongly agree) Do you agree with the following functions set out by National Grid NTS in section 7.

Q.5a Signal a need for capacity requirements.

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Q.5b Manage network access where there is a short-term constraint.

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Q.5c Provide users with commercial certainty on network access.

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Q.5d Collect Transporter allowed revenue.

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Q.5e Enable new entrants, including new sources of gas and technologies, to easily and efficiently access the NTS.

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Q.6 Do you have any other comments regarding the 5 future functions?

We consider that collecting transporter allowed revenue is not a primary function of the capacity access regime, but rather of the charging regime. While we consider that the capacity access regime should accommodate new entrants, there must not be different treatment of existing and new users and so we do not consider that enabling new entrants should be identified as a primary function of the access regime.

Q.7 Are there any other issues you are experiencing with the current regime that are not outlined in Section 9 Fig. 1?

Please see our comments in the 'Overview of key issues with exit capacity regime' section above.