

## **Response to Ofgem consultation on UNC728A/B/C/D ('Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS'): minded to decision and impact assessment**

19 February 2021

### **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 6<sup>th</sup> 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.

### **General comments**

EPUKI supports Ofgem's minded to decision to approve UNC0728B. We consider that this solution targets sites at risk of bypassing the NTS in a proportionate way. As previously highlighted to Ofgem, particularly in our response to the minded to decision on UNC0678 in February 2020, EPUKI considers that a shorthaul tariff is necessary to deal with the risk of bypass from offtakes that are located within 28 km of an entry point. The analysis undertaken as part of the assessment of UNC0728 supports our view that there is credible risk of bypass from such sites. We urge Ofgem to confirm its decision to implement UNC728B as quickly as possible.

### **Response to consultation questions**

**Question 1: Do you agree with our assessment of the modification options against the applicable UNC objectives? If you disagree, please provide a fully reasoned explanation.**

We broadly agree with Ofgem's assessment of the modification options. EPUKI has the following observations:

- We are aware of exit points up to 28 km away from an entry point that present a credible risk of bypassing the NTS, particularly as part of potential bypass clusters. We therefore agree that 28 km is a sensible distance cap for a shorthaul discount.
- We consider that a mechanism that varies the available discount with route length is the most efficient approach rather than one that provides a flat discount for all eligible sites.

- While we consider that there is a good argument for applying a discount to the General Non-Transmission Service Charge as this is part of the overall gas network costs faced by a user, we agree with Ofgem's assessment that the overall discount proposed for eligible routes under UNC0728D is excessive compared to the other proposed UNC0728 options and would therefore have a negative impact on competition.

**Question 2: What are your views on our conclusion that the proposed modification proposals constitute a 'benchmarking' adjustment to the application of the reference price methodology (Article 6(4) TAR NC)? If you disagree, please provide a fully reasoned explanation.**

We agree with Ofgem's conclusion that these proposals would constitute a benchmarking adjustment under TAR NC.

**Question 3: Do you agree with our assessment of the quantitative analysis? If you disagree, please provide a fully reasoned explanation.**

Yes, we agree with the assessment of the quantitative analysis.

**Question 4: Do you agree with our assessment that UNC728C is discriminatory because of the risk that the discount may be used for a route other than a qualifying nominated route? If you disagree, please provide a fully reasoned explanation.**

Yes, we agree that the determination of eligible quantities under UNC0728C could allow the discount to be used for other routes.

**Question 5: Do you agree with our assessment of the modification options against our statutory duties? If you disagree, please provide a fully reasoned explanation.**

Yes.

**Question 6: Do you agree with our minded to decision to approve UNC728B? We would expect any stakeholders alleging a risk of bypass to provide robust evidence demonstrating that risk, including any confidential commercial information (for instance, specific capital and operational costs required for the construction and operation of a bypass pipeline as well as - where possible - a structural representation of any bypass pipeline(s) they are considering).**

We agree with Ofgem's minded to decision to approve UNC0728B. We consider UNC0728B to be a pragmatic solution which captures sites that present a credible risk of bypassing the NTS. As noted above, we consider that UNC0728D has too short a distance cap to capture all sites at risk of bypass and provides an excessive discount to those sites which would be eligible compared to other proposed solutions.

We consider that a 28 km distance cap is required to mitigate the risk of clustering, whereby exit points near to each other could seek to build a shared bypass pipeline thus reducing the cost for each user. EPUKI has been involved in discussions about a potential cluster involving offtakes between 18 and 28 km from an entry point. We note that such cluster opportunities have been considered in the CEPA analysis (in particular, Cluster 1), which concluded that they may present a credible risk of bypass. The CEPA analysis suggests that some offtakes involved in Cluster 1 have also developed alternative options to bypass the network under Cluster 2. This indicates that parties are assessing all possible opportunities for bypass. The available options may not always be a direct point-to-point connection to the nearest entry point and in some cases parties may seek to utilise existing private infrastructure to bypass the NTS.

Clustering is likely to be attractive in some industrialised areas close to an entry point, such as the Humber region. Such areas have many industrial and power station offtakes, which could make a shared pipeline viable. Furthermore, plans for the development of Carbon Capture Usage and Storage and hydrogen in these areas could extend the timeframe for which gas offtake is required and the permitting and installation of new pipeline infrastructure to transport carbon could provide opportunities to install new private gas pipeline infrastructure at the same time. A shorthaul tariff which covers such regions, as UNC0728B does, would mitigate the risk of bypass.

**Question 7: What are your views on our minded-to decision that implementation of UNC728B should take place from 1 October 2021?**

We agree that implementation should take place from 1 October 2021.

**Question 8: Are there any other matters, whether or not addressed in our analysis or minded-to findings, which you think we should take into account in reaching our final determination?**

We encourage Ofgem to reach its final decision swiftly. The debate around a suitable shorthaul tariff has been ongoing for several years and the continued uncertainty has made it difficult for companies to take long-term decisions on future gas offtake options. A quick decision will allow companies to know where they stand and, if necessary, begin work on future options.