EPUKI Response to Initial Modification Report No. 17

EP UK Investments (**EPUKI**) welcomes the opportunity to respond to this report concerning Modification 17 – Introduction of Mechanism to Enable Booking of Exit Capacity for Commissioning. This modification was proposed by EP Ballylumford, a subsidiary of EPUKI, and represents a key strategic priority to support the delivery of new electric generation in Northern Ireland.

Within this modification report, the Transporter put forward a number of positions in relation to the proposed modification. This response addresses each of the positions.

Relevant Objective

EP Ballylumford state, within the modification, that the objective is to "*support the efficient and economic development of the NI Network and promote effective competition by removing economic barriers to potential new Shippers".* The Transporter disputes this, stating that the proposed modification will only apply to Shippers registered at a Power Station Exit Point. Additionally, it is stated that economic barriers to new entry are already addressed through Proposed Modification No. 16, which enabled monthly exit capacity booking during Commissioning.

EPUKI acknowledges that Proposed Modification 17 would only be available to Shippers registered at a Power Station Exit Point but consider this to be aligned with the economic development of the NI Network and beneficial to other Shippers using the network. Analysis provided in Utility Regulator of Northern Ireland's (**UREGNI**) Consultation on Short-Term Exit Capacity in the Gas Transmission System indicate that new electricity generation connections in Northern Ireland will result in reduced contribution for all other Shippers.

This modification would significantly reduce the costs associated with Commissioning a gas power station in Northern Ireland and as such would encourage future investment in the network. The Transporter states in the initial modification report that economic barriers to new Shippers have already been removed through the introduction of monthly capacity products. EPUKI does not agree with this assertion as the nature of Commissioning and Grid Code testing means that there are number of cases where a Shipper would be required to pay capacity costs which far outweigh their expected usage on the system. These include, but are not limited to:

- Where a Shipper begins testing and is unable to continue due to electricity scarcity. The Transmission System Operator (**TSO**) will not permit electrical testing during times of system scarcity. This means that when wind is low during the summer, any outage may result in days or weeks where testing cannot proceed. Scarcity events can transpire with little to no warning period, meaning that Shippers would not be able to mitigate this and would need to have monthly capacity booked at all times, despite potentially being prevented from testing.

- Where testing begins late in a month and finishes early in another month, a Shipper will be required to book exit capacity for the entirety of both months.

- Where a participant fails testing and is required to undergo testing again in a later month. Re-testing might take no more than a day but under the current regime participants would be required to purchase capacity for the whole month.

- If a single 24-hour run test is required, a Shipper will be required to purchase sufficient exit capacity for this test for the entire month. This will likely represent 30 – 31 times the actual capacity requirement of a Shipper, resulting in costs which are significantly greater than the volume of exit capacity required by a Shipper.

In all of the above cases, a new generation unit may be exposed to high costs which it is unable to recover through the electricity market. This is prohibitive for new shippers. Additionally, any excess revenue recovered from a Shipper carrying out Commissioning and Grid Code Testing is re-distributed to other Shippers. This essentially means that the Shipper undergoing Commissioning will be funding the network use of other users.

<u>Daily Exit Capacity Products</u>

The Transporter states that the process of introducing daily exit capacity is complex and that UREGNI's consultation on Short-Term Exit Capacity should be completed before daily exit products can be introduced. EPUKI does not agree with this position. While we acknowledge potential complexity in the introduction of daily exit capacity, we believe that this complexity is reduced considerably under the proposed modification as it will only be available to units undergoing power station Commissioning. This means it will be available to only very select units at select times, hence meaning it will be less complex than an enduring introduction as explored in the UREGNI consultation.

In fact, EPUKI recognise certain benefits in a limited introduction of daily exit capacity, as proposed in Modification 17, over a full-scale roll-out as proposed under the UREGNI consultation. Limited and time-bound deployment of these products will allow the GMO and UREGNI, as well as other Shippers, the opportunity to understand the impact of short-term exit capacity products, as well as the behaviour of Shippers who have access to short-term products.

This would significantly reduce any risks associated with UREGNI's review and maximise the potential realisable benefits of introducing short-term products.

<u>Capacity Allocation</u>

EPUKI is grateful for the clarifications provided by the Transporter in relation to the drafting of this modification. Specifically, the Transporter notes that under the current drafting of the modification there is a misalignment between the proposed allocation process and the requirement to submit applications for allocations by 30 April on a preceding gas year, as well as section 3.3.3 (d) which requires Exit Capacity booked within a Gas Year to be booked in complete month.

Considering the above, EPUKI is proposing to amend the drafting of the modification to facilitate more flexible allocations for plants. The following amendments are proposed to be included in the modification:

3.4 Application for Exit Capacity in future Gas Years

[…]

"3.4.5 Section 3.4.1 to Section 3.4.4 shall not be applicable to Exit Capacity booked for the purposes of supplying gas to a power station during the relevant Power Station Commissioning Period"

The inclusion of this drafting within the Gas Transmission Code (**GTC**), would mean that the April 30 application requirement would no longer apply to Shippers for any capacity which is sought for the purpose of Commissioning. This addresses the misalignment identified by the Transporter and facilitates daily exit capacity booking.

Similar changes are proposed to address the whole month booking requirement:

"3.3.1 (d) in multiples of one Gas Year, except in the Gas Year in which the Exit Capacity Application is made, in which case the Exit Capacity Application may be for *(i)* each complete Month in the remainder of the Gas Year*, or (ii) each complete Day where the exit capacity is booked for the purposes of supplying gas to a power station during the relevant Power Station Commissioning Period*."

The Transporter has further identified a misalignment between the allocation of Capacity as per the modification referring to Chapter 7 of the GTC, which refers to allocation of flows. The Transporter suggests that this would be more appropriate within Section 3 of the Code. In addition, this section of the Code should address application timescales, method, allocation, and reasons for rejection of the application.

EPUKI believes that some of these matters can be addressed through minor amendments to the GTC. Specifically:

- Application timescales; are addressed under 3.3.3 (b), whereby a Shipper may apply for Exit Capacity no later than 10 Business Days (or any such shorter period as the Transporter may agree in relation to that application) before the first Day in the Month in which it requires Exit Capacity *or before the Day on which it requires Exit Capacity for the purposes of supplying gas to a power station during the relevant Power Station Commissioning Period.*

- Method; the method for application for Exit Capacity for Commissioning is consistent with the method for application set out in Section 3.3.2 of the GTC. The original modification includes an additional item (g) which specifies where Exit Capacity is booked for the purpose of Commissioning.

- Allocation; EPUKI propose the addition of the following text to the GTC – *"3.6.3 If a Shipper applies for Exit Capacity at an Exit Point in the Gas Year in which its Exit Capacity Application is made Exit Capacity shall be allocated by the Transporter (on a first come first served basis) and the Shipper's Registered Exit Capacity and Available Exit Capacity shall be amended accordingly within 5 Business Days of receipt of an Exit Capacity Application. The Exit Capacity so allocated shall be capable of being utilised with effect from the Day with respect to which an application was made for allocation of Exit Capacity for the purposes of supplying gas to a power station during the relevant Power Station Commissioning Period".*

- Reasons for Rejection; EPUKI considers the reasons for rejection for an application for daily exit capacity to be consistent with the reasons for rejection already established under Section 3.3.6 of the GTC.

<u>Nominations, Allocations, and Imbalances</u>

The Transporter has identified practical challenges in relation to the parallel booking of exit capacity for commercial use and Commissioning. It is further posited that commercial generation would not be permissible while a power plant was undergoing Commissioning and on this basis two types of flow nominations would not be necessary.

EPUKI agree with the Transporter's position that it is not practical, nor likely, for a Shipper undergoing plant Commissioning to submit separate gas flow nominations for a single period. We believe that under the proposed modification, this would be treated as a single nomination.

Under the proposed Section 3.3.2 (g), an application for exit capacity shall specify: "*whether or not the Exit Capacity will be used for the purposes of supplying gas to a power station during the relevant* *power station's Commissioning Period".* This would prevent a Shipper from making parallel applications, given that an application would be required to specify whether or not it was intended for Commissioning.

The proposed Section 6.9.1 (e) requires an exit nomination to specify the volume (if any) of exit capacity to be used for the purpose of Commissioning. It was envisioned by EP Ballylumford, while drafting this modification, that this specification would only be required where <u>all of a Nomination is for the purpose of Commissioning.</u> Where an application has been made for any purposes other than set out in proposed Section 3.3.2 (g) we expect the value of Section 6.9.1 (e).

The intention of this system was to differentiate the treatment of standard Exit Capacity, compared to the treatment of Commissioning Exit Capacity. EPUKI is not opposed to an alternate drafting of this section if it could be implemented in a more straightforward manner.

The Transporter states that it is unclear how instances will be treated where an entire nomination is used for Commissioning and metered quantity differs from nominated quantities. EPUKI believes that all of a nomination would always be used for Commissioning. As such, it would not be necessary to treat differences between metered and nominated quantities for Commissioning exit capacity any differently to those of standard exit capacity.

It is noted that no changes are applied to Section 8.3 to account for Exit Allocation for Commissioning. EPUKI believe that this can be corrected through the introduction of the following text:

8.1.4 Where applicable, in this section, all references to Exit Allocation shall be understood to include Exit Allocation for Commissioning.

<u>Commodity Charges</u>

The Transporter notes that the modification does not suggest changes to the application of Commodity Charges. EPUKI does not consider it necessary at this point for any change to the treatment of commodity charges with respect to booked capacity.

<u>Commissioning Charges</u>

The Transporter has noted concern around the inclusion of the proposed Section 8.6 Commissioning Charges in Section 8 of the GTC. It was the intention of the modification for daily exit capacity charges to be fed through the postalised charging arrangements, consistent with the treatment of regular exit capacity charges.

As such, EPUKI is not opposed to removing the proposed new Section from Section 8 of the GTC and re-positioning it accordingly. As noted by the Transporter, this would mean that Commissioning Charges are not treated as Code Charges, which is more appropriate and would not represent any downside to other Shippers.

EPUKI would propose that this section is relocated to Section 3 of the GTC, which is concerned with Exit Capacity. The intention of this modification is to treat the proposed Daily Exit Charges the same way as standard Exit Charges, with the exception that they are calculated as per the equation set out in the proposed Section 8.6 (rather than monthly booking). EPUKI is therefore somewhat indifferent to the exact location of this proposed section within the Code.

<u>Ratchet Charges and Overrun</u>

This modification proposes that the 'ratchet mechanism' will not apply to daily exit capacity. As there are no overrun charges currently for Exit Capacity, it is identified by the Transporter that this modification would mean that Shippers undergoing Commissioning may over-use their daily exit capacity without incurring any penalty. EPUKI view this as an unintended outcome of the modification and consider it appropriate for this to be corrected.

Given that there are no overrun charges for Exit Capacity EPUKI would be supportive of applying balancing charges to the difference between a Shipper's final Exit Capacity allocation and the allocated Exit Capacity for a given day. It may be necessary to consider an appropriate multiplier for these balancing charges to ensure that it is not economically advantageous for a Shipper who is Commissioning a power plant to book zero daily Exit Capacity.

Revenue Treatment

The Transporter notes that it is not possible under its current Licences to recover Daily Exit Capacity. If this modification is approved, then EPUKI supports any necessary modifications to the Transporter's Licence to enable such products to be offered. Based on this restriction, EPUKI proposed that the Transporter would seek a derogation under Condition 2.4.D.4 of their Licence. This derogation would allow the Transporter to offer special conveyance products to a Unit for the purpose of Commissioning and Grid Code Testing.

It is noted once more that the original modification proposes to include these charges under the Code Charges section of the CGT. Following commentary made above, EPUKI is supportive of the relocation of this section of the Code so that any Daily Exit Capacity charges are treated the same way as standard Exit Capacity. The only difference in treatment should be the calculation of those charges (i.e., on a daily basis with no ratchet), whereas the method for applying and recovering monies should be consistent.

Definitions

The Transporter has noted a number of terms which have been introduced through the modification but not defined. EPUKI has proposed amended drafting to introduce definitions for each of the following:

- Operational Certificate *refers to a certificate awarded by the electricity Transmission System Operator under Section B.7.2.1 (c) of the SEM Committee's Trading and Settlement Code.*

- Capacity Market Code *refers to the document published by the SEM Committee.*

- Commissioning Charges *refer to the postalised charges for Daily Exit Capacity for a Shipper which is undergoing Commissioning, as calculated under Section [8.6]* [section reference to be updated as necessary].

- Exit Capacity for Commissioning *refers to the volume of Exit Capacity applied and allocated for the purposes of Commissioning of an electric power plant as specified under Section 3.3.2 (g).*

Implementation Issues

The Transporter has raised concerns in the Initial Modification Report that current IT systems do not support the functionality to implement this modification. Additionally, concerns around the Transporter Licence have been re-iterated. Given the criticality of this modification to the delivery of new electrical capacity to support Security of Supply, EPUKI is supportive of the urgent implementation of any changes to IT Systems or Licences required to implement this modification.

The Transporter further notes that in the interim, UREGNI may provide written consent for such products to be offered outside of the Licence. EPUKI is supportive of this approach given the material benefit which would be realised through Daily Exit Capacity.

A number of timeline concerns have been raised by the Transporter within the Initial Modification Report. This issue was first raised and communicated to the Transporter in early 2022. Given the Security of Supply benefits of implementing this modification, as well as the advance engagement between the Proposer and the Transporter, EPUKI do not think it would be appropriate for this modification to be rejected on the basis of timeline.

Conclusion

EPUKI welcomes this consultation process and the opinions presented by the Transporter. There is significant benefit for consumers, through increased competition and Security of Supply, in bringing on new electrical capacity as soon as possible. This modification is significant for the connection of new capacity by removing difficult economic barriers from the process.

While we acknowledge some of the concerns raised by the Transporter within the Initial Modification Report, it is clear that the benefit of introducing these products for Commissioning significantly outweighs any downside associated with the implementation.

EPUKI welcomes the alternative approaches put forward by the Transporter, such as written consent from UREGNI in lieu of a licence modification and are keen to continue exploring amendments or approaches which will ensure that this modification is implementable and practical from a Transporter and wider industry perspective.

As such, we would be open to further engagement to discuss this response in more detail, or to discuss and confirm any amendments to the legal drafting of this modification (such as the correct position in the GTC for the currently proposed Section 8.6).