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Dear Julian,

**Re: Modification Proposals 0116/0116A/0116B/0116C: “Reform of the NTS Offtake Arrangements”**

This response is sent on behalf of International Power’s UK CCGT generation assets. In the UK, these comprise 100% of Deeside Power Development Co Ltd, and a 70% stake in Saltend Co-generation Company Ltd in partnership with Mitsui and Co., Ltd of Japan. Worldwide, International Power is a leading independent power generation company with interests in 38 power stations in 18 countries around the world with a net generating capacity of 18GW.

**Summary**

International Power supports the implementation of Modification Proposal 0116A.

International Power does not support the implementation of Modification Proposal 0116.

Whilst International Power does not support the implementation of Modification Proposal 116BV, it is preferable to 116.

Whilst International Power does not support the implementation of Modification Proposal 0116CV, it is preferable to 116BV and 116.

Amongst the Proposals which we believe, if implemented, would better facilitate the relevant objectives, we would rank the degree of facilitation in the following order (most favourable first): 116A, 116CV, 116BV, 116DV, 116V.

International Power cannot understand the need for NG to raise modification 116. 116 treats all offtakes in the same manner in order to demonstrate that there is no discrimination between different types of connectee. This has not been an issue in the past and going forward could be monitored using information which NG should publish in order to comply with the EU Gas Regulation on access to transmission networks. It will also be the case that treating all offtakes in the same manner will fail to recognise the very real differences between the offtakes in terms of whether they are a commercial or regulated entity and the complexity of operation at multi-shipper offtakes.

Earlier attempts to reform the NTS exit capacity arrangements were considered in 2005 but failed to find a way forward. Now as well as modification 116, we have four alternatives, three of which are from parties with significant interests in NTS connected gas-fired generation. These demonstrate a lack of consensus in the industry over the need for these changes and concerns over the potential impact intended or otherwise that the implementation of National Grid's original varied proposal 116V may have.

Our comments are as follows:

**Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

*Gas Transporter Licence Standard Special Condition A11.1*

(a) *the efficient and economic operation of the pipe-line system to which this licence relates;*

E.ON has taken legal counsel (see Mod 116A) which has concluded that proper application of the non discrimination provision requires the users to be comparable and that there are no valid reasons for the differences of treatment. E.ON concludes that the classes of User are not comparable and that the current arrangements better facilitate Condition A11.1

(b) *so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

See above.

(c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Mod 116 does discharge the licensee's obligation in respect of raising an UNC mod to address the perceived discrimination between DNs and NTS connects. However, the proposals go much too far and we have argued above that they are not even necessary.

*(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:*

*(i) between relevant shippers;*

The vast majority of flat exit capacity will be allocated as prevailing rights. It is not clear how this facilitates effective competition between shippers and in any case rights are bought at exit nodes and generally there is only one connectee per exit node.

Competition for flat capacity will therefore only occur at multiple shipper offtakes such as storage and interconnectors in the shorter term, but only then for capacity above the prevailing rights level and up to baseline. At these offtakes it is not entirely clear that competition is desirable as it could have unintended consequences that are not consistent with normal commercial operation, that could undermine commercial flows to storage facilities, Europe or Ireland. We expect such offtakes will need to take steps to ensure these undesirable consequences are avoided; therefore the proposal cannot be justified on this basis.

### **The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

International Power has concerns that that implementation of any variants of mod 116 apart from 116A may lead to a reduction in the supply security. This is because the concept of long-term interruptible NTS sites will no longer exist. Due to the lack of certainty over the availability of daily interruptible capacity under the new proposals, many currently interruptible sites will want to secure firm prevailing capacity rights with the remainder possibly seeking to secure interruptible capacity on a daily basis. However as NG is required to offer baseline capacity up to and including on the day, these sites may choose to secure firm daily capacity at peak times. It then follows that there would be less interruptible capacity available to call at stage 1 of a network gas supply emergency than is currently the case. This would lead to a more rapid progression and escalation of the emergency to stage 2 & 3 and potentially to stage 4 as well. We therefore consider that implementation of any variant other than 116A could have the unintended consequence of leading to a reduced level of supply security. In addition, if an interruptible site goes firm, it may permanently decommission its backup fuel system, such that its interruptible capability would not be available to the NTS in the future should the requirement for interruptible capacity increase, thus further decreasing the level of supply security.

### **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk.**

Developers have a small window in which to apply for prevailing exit (flat) capacity. If they miss this window, they will have to wait a further year. This will increase operational and contractual risk and may also impact on security of supply.

## **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

*We have identified the following advantages:*

International Power has not identified any advantages of introducing Mod 116 or the alternatives 116BV and 116CV (other than that these are better than 116). We support the approval of Mod 116A as this will allow the current exit arrangements for direct connects to continue.

*We have identified the following disadvantages:*

As well as the overarching disadvantage that mods 116, 116BV, CV and DV are unnecessary, International Power has some specific concerns on the interaction between the proposals and the impact they will have on the operation of the electricity market.

For mods 116 and 116BV, systems will have to be developed and maintained to monitor NTS exit flexibility requirements. Where OPNs are accepted, costs will be incurred in processing low and quite possibly zero value invoices. If OPNs are not accepted, the proposed regime could impose excessive costs on users even though the system is not constrained. Whilst we do not support 116B, the suggestion that overrun charges should only apply on Flexible Constraint Days seems highly pragmatic. This will allow users to reduce implementation costs and limit inefficient cost pass through to the electricity market. Setting all this aside, we question the need for the flexible capacity product at all since the system is rarely constrained and the proposals are highly disproportionate when there is rarely a problem.

The introduction of Flexibility may have a consequential effect on the cost of balancing the electricity system. CCGTs will have to submit a revised OPN every time a BM offer is accepted. We understand that National Grid will collect these at the hour bar and then decide if the revised profile is acceptable. By then, the CCGTs may well have delivered the offer.

If the revised OPN proves unacceptable, to avoid the penal overrun charges that have been proposed, the User will either have to later reduce its offtake (and renotify the OPN) or increase offtake after 2200 in order to avoid using flexibility

utilisation across the day. Alternatively, the User could factor the overrun charge into its BM offer price to cover the risk of the OPN being rejected after the offer has been delivered. Either way, these actions are inefficient, either more expensive generation must be brought on to make up the output shortfall or balancing costs will increase. In summary, the flexibility proposals do not sit at all well with the balancing arrangements in electricity.

The proposed 1.5% tolerance on flexible capacity is too tight. NExA tolerances are 3%. The User could inadvertently be exposed to overrun charges whilst believing he had operated within its NExA parameters. Users will have to submit OPNs for very small increases in offtake to avoid overruns which will increase costs both to Users and National Grid who will have to process OPN submissions. If modification 116 is approved, this tolerance should be increased to 3% as per mod 116B.

No arrangements have been made to cater for intertrips or forced outages. If these occur after 2200, they will reduce the average offtake and hence increase flexibility utilisation and the User will incur overrun charges for circumstances beyond their control. Overrun charges should be based on the prevailing OPN at the time the reduction in offtake occurred.

Yours faithfully

Libby Glazebrook  
International Power