CMP – LTUIOLI: Interim Solution

6 February 2014

CMP: Long-term Use-it-or-lose-it Mechanism

- CMP includes LTUIOLI – required by October 2014
  - NG-NTS intends to raise a Modification for February Panel for development at workgroup
  - Applicable at IP's only, and only when capacity is "sold out"
  - Two key parts:
    - Monitoring
    - Withdrawal
  - This presentation provides additional detail from January's discussion and includes some examples on key aspects

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CMP: Long-term Use-it-or-lose-it Mechanism

- **Monitoring requirements: Proposed approach for discussion**
  - ***CMP**: "Transmission system operators shall regularly provide national regulatory authorities with all the data necessary to monitor the extent to which contracted capacities with effective contract duration of more than one year or recurring quarters covering at least two years are used."*
    - Obligation for NG to supply Ofgem with necessary data
    - Detailed monitoring guidance published on NG website <u>not</u> in UNC
    - **In UNC:** clarify timelines of process, record that relevant shippers will be individually notified of underutilisation and given opportunity to justify utilisation

CMP: Long-term Use-it-or-lose-it Mechanism

- **Withdrawal: Proposed approach for discussion**
  - Withdrawal process based on existing surrender process
  - Amend text in UNC Section B as required to incorporate Withdrawal process
  - UNC will not specify quantity and duration of withdrawal but simply record that the NRA shall require transmission system operators to **partially or fully** withdraw systematically underutilised contracted capacity on an interconnection point for a **given period or for the remaining effective contractual term** (i.e. aligned to CMP reg.)
  - Text could be inserted e.g. that relevant auctions shall offer any unsold capacity **plus any withdrawal quantity as directed by the Authority**.
  - Mod would contain details of reporting timings, shipper utilisation notifications and "justification process" timeline.

CMP: Long-term Use-it-or-lose-it Mechanism

- Considerations
  - Compliance with CMP
  - Clear process with objective test for underutilisation
    - Performed by TSO & reported to NRA and affected shippers
  - Allow for Shipper justification for utilisation
  - Determination if withdrawal should occur
  - Withdrawal mechanism
    - Calculation of withdrawal quantity
    - TSO to use surrender process to manage withdrawal
    - Process reviewed as part of CAM implementation in 2015

Who and what gets monitored?

- Underutilisation of capacity at an IP "*with an effective contract duration of more than one year*"
  - CMP defines relevant capacity as "*only contracts with duration of more than one year or recurring quarters covering at least two years, for bundled and unbundled capacity, are effected by this CMP*."
  - With this interpretation then in current GB system we propose underutilisation shall be deemed to occur for
    - Entry, where shippers underutilise **4** consecutive quarters and hold **8** consecutive quarters (e.g. Bacton QSEC Oct13-Sep15)
    - Exit, underutilisation for exit shall have to occur for a year where shipper holds ESEC or 2 consecutive years of ASEC at IUK or Moffat.

Monitoring of Utilisation – Initial Thoughts

- What is underutilisation according to CMP?
  - *“the network user uses less than on average 80 % of its contracted capacity both from 1 April until 30 September and from 1 October until 31 March with an effective contract duration of more than one year for which no proper justification could be provided”*
- Key issue is what to monitor.
- For UNC regime it is our view that **entitlements** rather than **holdings** should be used to monitor utilisation .
- Why choose net entitlement over specific holdings?
  - In UNC system shippers flow against entitlements not specific capacity contracts
  - Entitlement takes account of capacity trades
- This approach maintains current arrangements.

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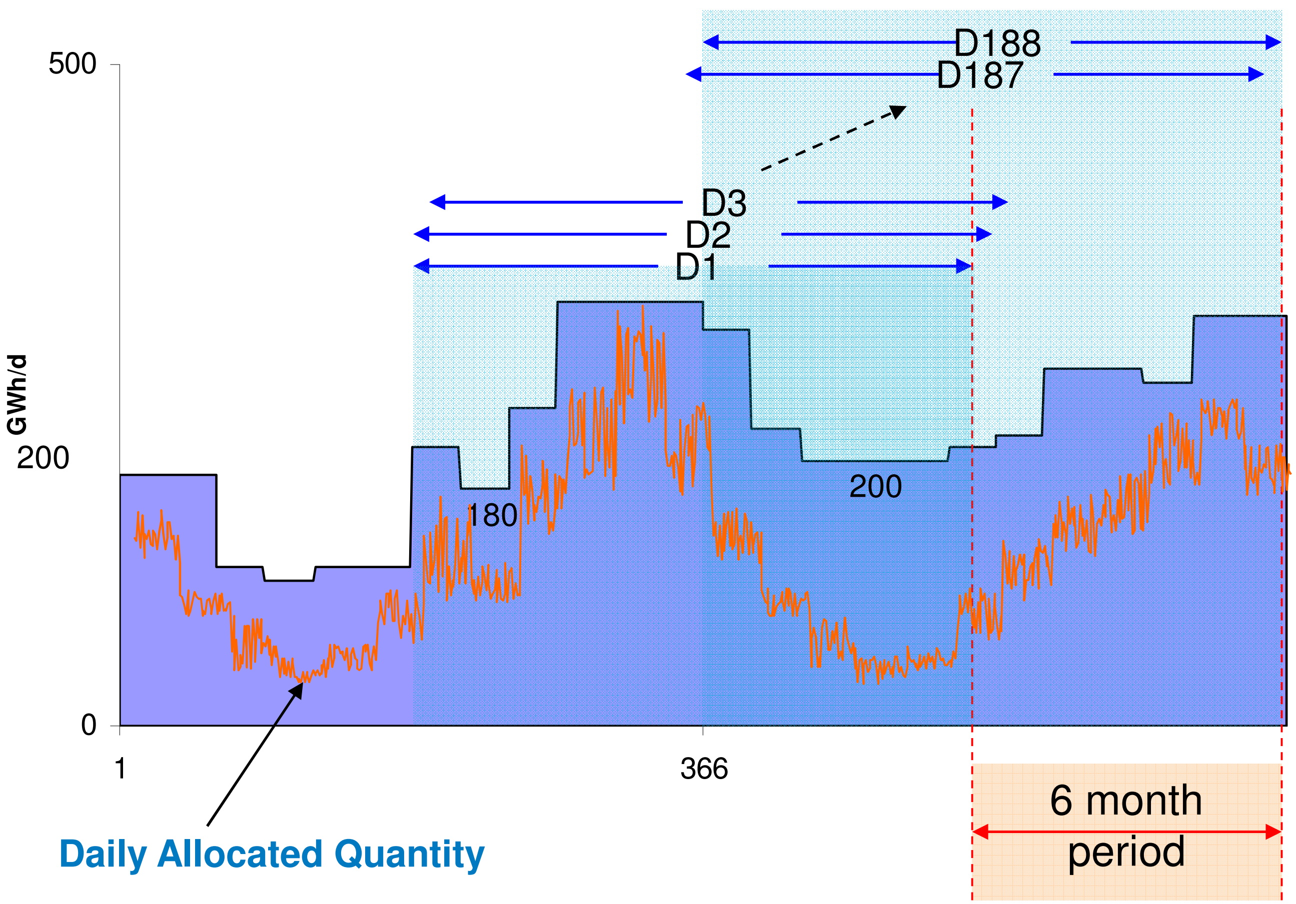
Monitoring of Utilisation – Initial Thoughts

- Utilisation determined on a daily basis
- Based on:
  - Shipper’s daily allocation at IP
  - Shipper’s firm entitlement with “an effective contract duration of more than one year”
    - As entitlements may differ each day this means need way of calculating “effective contract ……”
    - Calculated as minimum firm entitlement held over relevant gas day and previous 365 days

Determining effective contract duration > 1 year: - Calculation for each Day (Initial Thoughts)

Calculate the effective contract duration > 1 yr for every gas day in period.



Capacity with effective contract duration > 1 year could vary day to day. For example:

For D1: 180 GWh/d

For D188: 200 GWh/d

Utilisation Example

The utilisation of capacity of a shipper at an interconnection point over the six month monitoring period is calculated by taking the average of the ratios of its daily allocated quantity (DAQ) and the effective daily contracted capacity (EDCC).

	Day	D1	D2	D3	…..	D187	D188	Average
DAQ	Daily Flow (GWh/d)	106	90	93		140	214	
	Daily Entitlement (GWh/d)	220	220	220		310	310	
EDCC	Daily Contracted capacity with contract duration > 1yr	180	180	180		200	200	
UT	Utilisation (%)	58.9	50.0	51.7		70.0	107.0	**67.5**

Shipper Notification and Justification – Initial Thoughts

- NGG notifies Ofgem and all relevant shippers on their utilisation rate at each IP every six months (Oct-Mar, Apr-Sept)
- Report utilisation as “traffic lights”
  - **GREEN** = utilisation 80% or over
  - **AMBER** = utilisation under 80% over 6 month period
  - **RED** = utilisation under 80% over two consecutive 6 month periods

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Shipper Justification

- Triggering the LTUIOLI mechanism also requires:
  - *"where that user has not **sold or offered** under **reasonable conditions** its unused capacity and where other network users request firm capacity."*
- Justification process:
  - Identify any unsuccessful Surrender offers and recalculate utilisation calculation by adjusting historic entitlements as if offers had been accepted.
  - Shippers to provide evidence to support "justifications"
    - Trade offers?

Potential Default Calculation of Withdrawal Quantity – Initial Views

- **CMP: "*Withdrawal shall result in the network user losing its contracted capacity partially or completely for a given period or for the remaining effective contractual term".***
- **Should NGG provide Ofgem with "default" withdrawal quantity?**
- Some options for default withdrawal quantity calculation
  - **Option 1:** Withdraw all forward entitlement from affected shipper
  - **Option 2:** Withdrawal of a set percentage
  - **Option 3:** Calculated % reduction that would have created 80% utilisation over monitoring period
- **Option 3** suggested as default
  - Ofgem can direct different quantity to be withdrawn
- Earlier example shown 67% utilisation would lead to Withdrawal of 16% of entitlement using the default Option.

Determination of Withdrawal Period – Initial Views

- Proposed default withdrawal period = 1 year (or balance of "long term" holding if less that 1 year)
  - Aligns to monitoring period

- Ofgem can direct withdrawal for longer period.

Reporting and Assessment

- Utilisation Monitoring Report produced for NRA every 6 months
- The report would include
  - the average utilisation values for each shipper at each IP
  - “Traffic light” status
  - If Red then utilisation recalculation allowing for unsuccessful Surrender offers (part of justification process)
  - Withdrawal quantity
  - Data file showing how all derived values were calculated
- Ofgem can reject any default withdrawal quantity (i.e. if shipper appeals to Ofgem) or direct withdrawal for different quantity and duration.

Withdrawal Process – Initial View

- Based on existing surrender process
- NGG would submit surrender offers (on behalf of any affected shipper) per calendar month/quarter (or annual quantity) per affected IP
- Hierarchy of allocation needs to be considered
  - Unsold -> voluntary surrender -> withdrawal -> non-obligated
- **ENTRY**
  - First available AMSEC
  - Could be QSEC auction following Ofgem instruction for withdrawal period greater than default.
- **EXIT**
  - First available ASEC auction
  - Could be ESEC process following Ofgem instruction for withdrawal period greater than default.

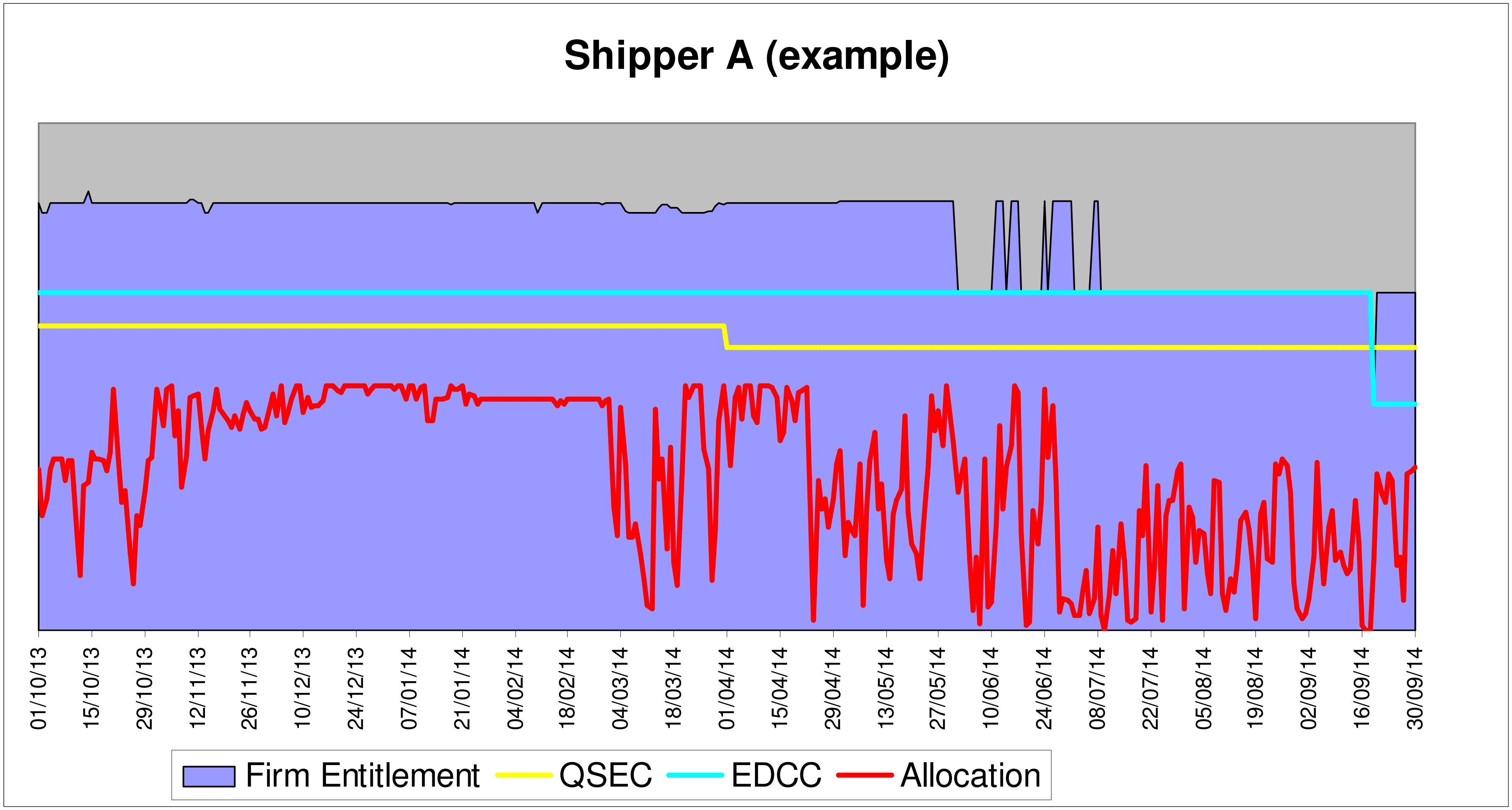
Withdrawal Process for Entry Capacity

- Withdrawn capacity will be reallocated where capacity bids exceed unsold available capacity plus voluntary surrender offers
  - All withdrawn capacity from all relevant shippers would have the same time stamp (which would be after the time stamp of the last voluntary surrender offer)
  - Any allocation would be prorated amongst relevant shippers
- Revenues for resold withdrawn capacity will feed into entry capacity neutrality arrangements
- Where withdrawn capacity is reallocated NG NTS will undertake the withdrawal through a Forward Agreement
  - The capacity management charge (i.e. what the relevant shipper is paid for the Forward) will be zero p/kWh

Withdrawal Process for Entry Capacity

- **Example using existing surrender process for AMSEC**
- Individually notify relevant shippers of withdrawal concurrently with invitation to submit surrender offers in AMSEC
- Shipper remains liable to pay for any capacity withdrawn
- Withdrawal notice will state:
  - IP
  - Amount to be withdrawn and treated as a surrender offer
    - Subject to Ofgem direction all capacity allocated for that shipper could be offered for surrender
  - Calendar months for which surrender offer applies
    - Proposed to be at least 1 year – e.g. from start of AMSEC release period but subject to Ofgem direction
    - First withdrawal could be Feb 2015 for April 2015

Withdrawal Process for Entry Capacity



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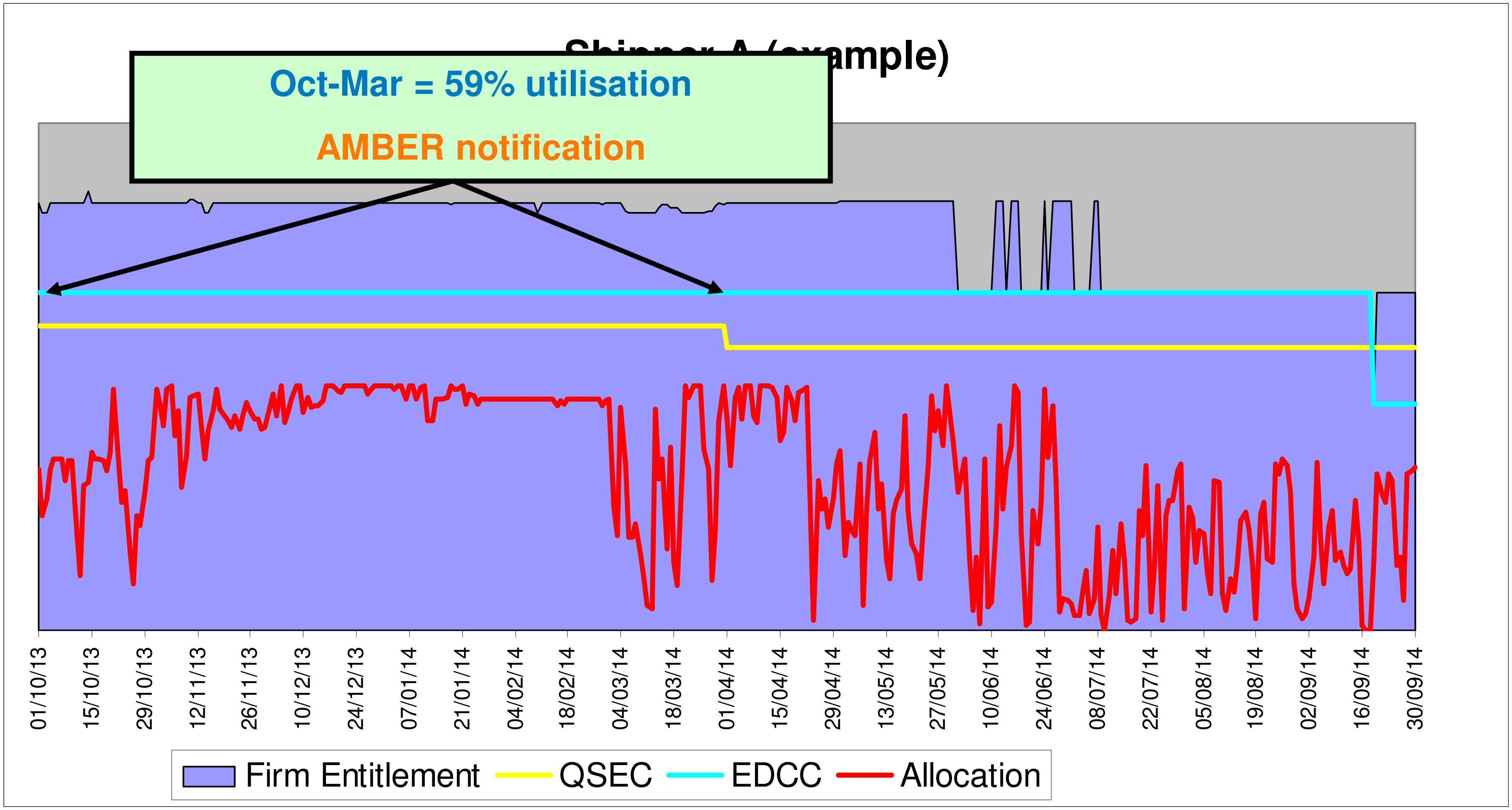

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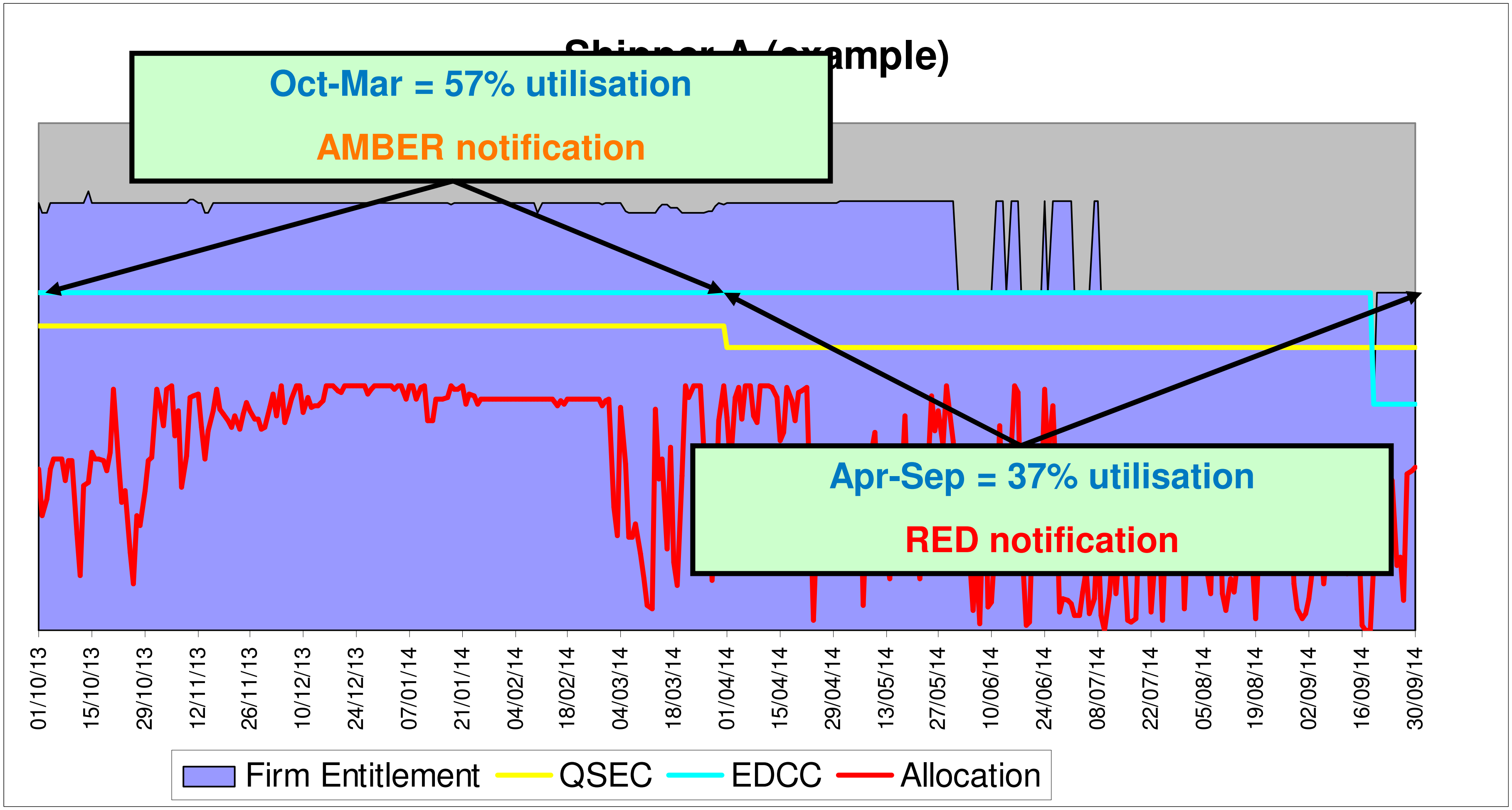

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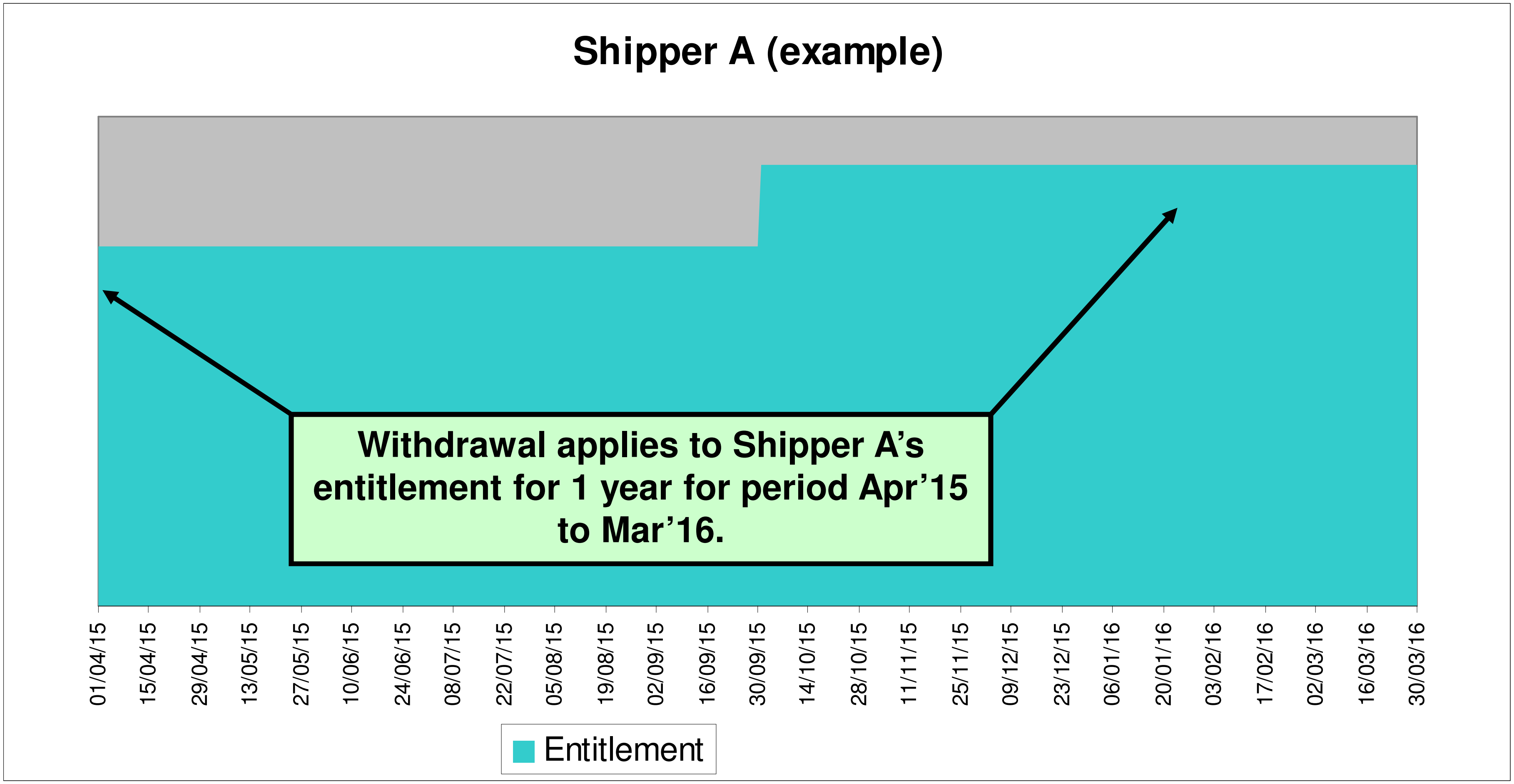

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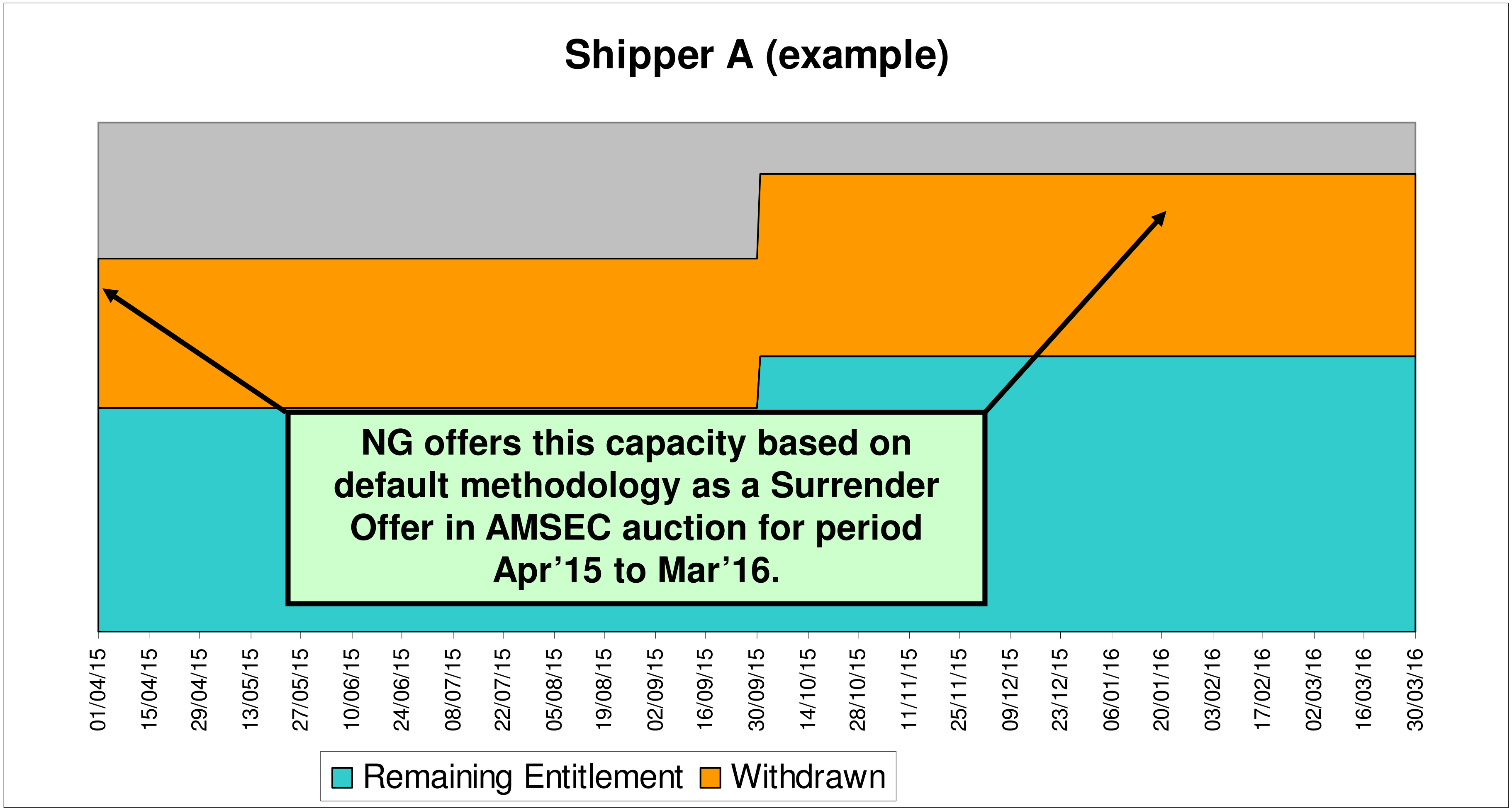

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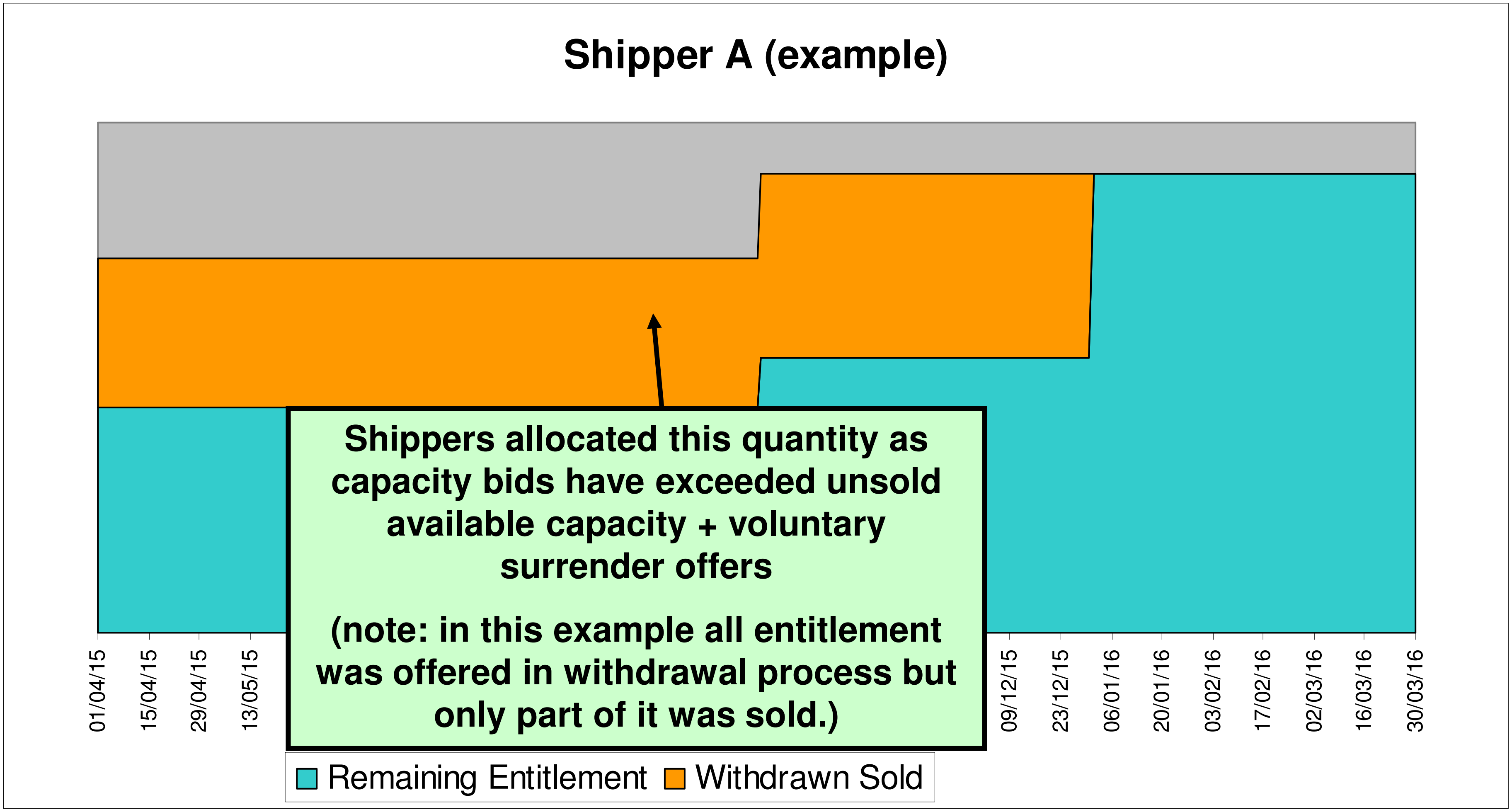

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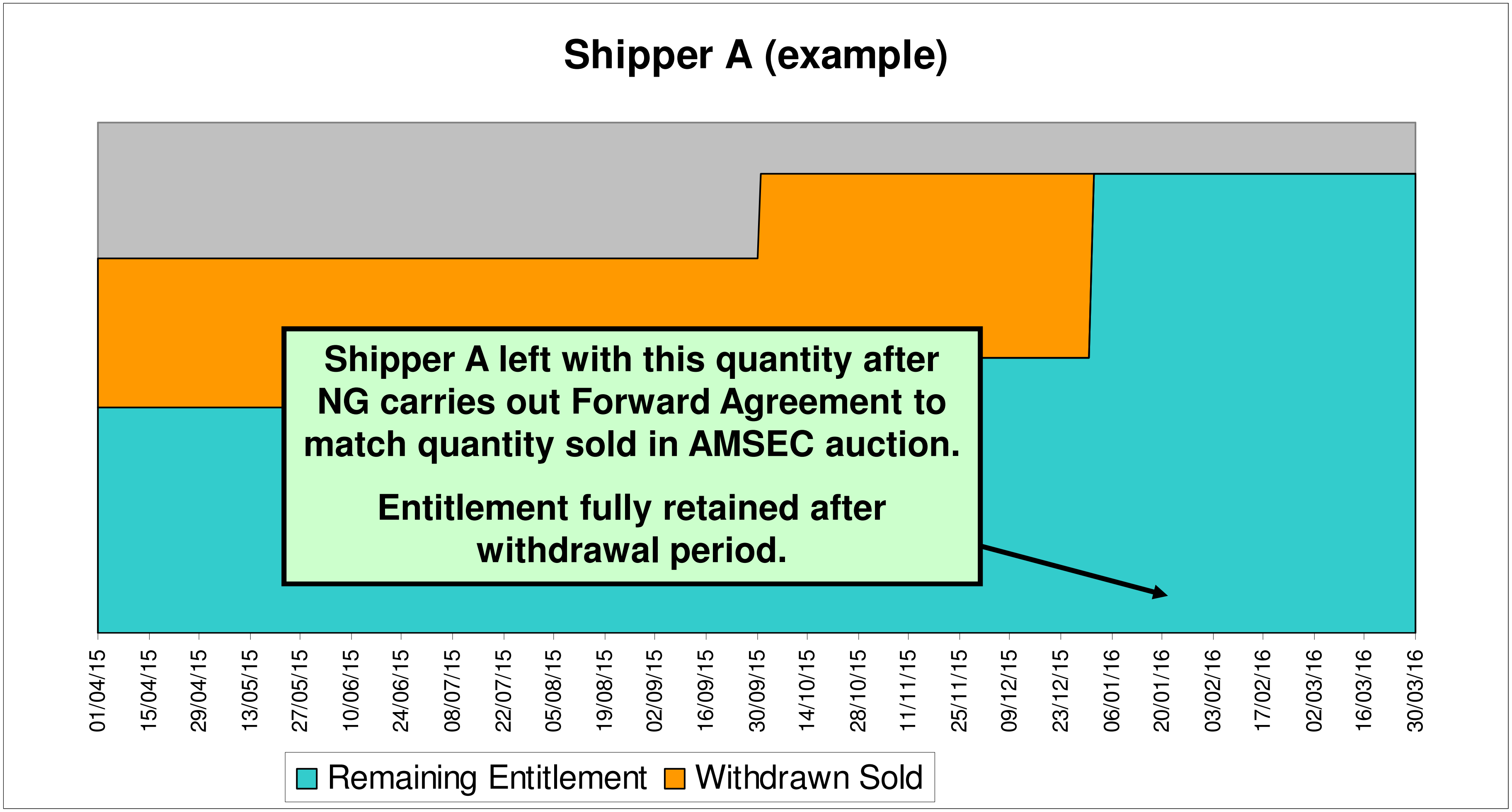
Withdrawal Process for Entry Capacity



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Withdrawal Process for Exit Capacity

- **Could use existing surrender process for Annual (Flat) Exit**
- Withdrawal based on capacity allocated to shipper – therefore not relevant if withdrawn capacity is registered as Annual or Enduring
- Individually notify relevant shippers of withdrawal concurrently with invitation to submit surrender offers in Annual (Flat) Exit
- Shipper remains liable to pay for any capacity withdrawn
- Withdrawal notice will state:
  - IP
  - Amount to be withdrawn and treated as a surrender offer
    - All capacity could be offered for surrender
  - Period for which surrender offer applies
    - e.g. 1st October to 30th September Y+1

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Long-term Use-it-or-lose-it: Summary

- Only triggered if no unsold
- Aim to minimise changes to systems and look to utilise existing functionality
- Uses transparent utilisation test
- Allow period for shipper challenge to “justify” utilisation
- Withdrawal based on existing surrender processes (arising from Mod 449) until CAM is implemented
- Utilisation monitoring from 1st October 2013
- First report ~April 2014
- LTUIOLI withdrawal instruction from Ofgem could occur post-October 2014
- First withdrawal could be Feb 2015 AMSEC or March 2015 QSEC auction for entry and July 2015 for annual enduring exit

Next Steps

- Submit proposal to UNC Modification Panel (February)
  - Include draft guidance on calculation of utilisation (and derivation of default withdrawal quantity) for discussion at March workgroup.