Capacity Conversion – 616s

nationalgrid

3rd August 17

Recent Activity

- 24th July – ENTSOG publishes Capacity Conversion model.

- 25th July – National Grid & Xoserve begin Feasibility & Analysis workshops for EU phase 4 (2018 delivery).

Recap of Main Developments / Changes to Solution

Old > new

- Legacy > any unbundled capacity

- Must be Registered unbundled capacity holder > must hold sufficient unbundled capacity entitlements. (allows traded in capacity to be converted).

- Conversion duration must match the duration of the bundled auction product > monthly conversion(s) of capacity allowed following any long term auction.

- Managing Cash flows - tbd

Managing Revenues associated with process

- Last workgroup NG stated intention to make a proposal on managing revenues.

  - *The treatment of revenue is not a matter for the UNC (unless neutrality is involved), however for transparency then NG will explain how it will be managed within the modification.*

  - *NG will further review the treatment of revenue, and discuss matter with Ofgem, before finalising proposal ahead of the August workgroup*

- NG has reviewed issue. The proposal is detailed in the next few slides.

Scope of issue

- There are 2 parts to consider:

  - Revenue 'foregone' following the bundled auction if there is a conversion. (note: no difference if we don't collect, or if we collect and re-imburse);

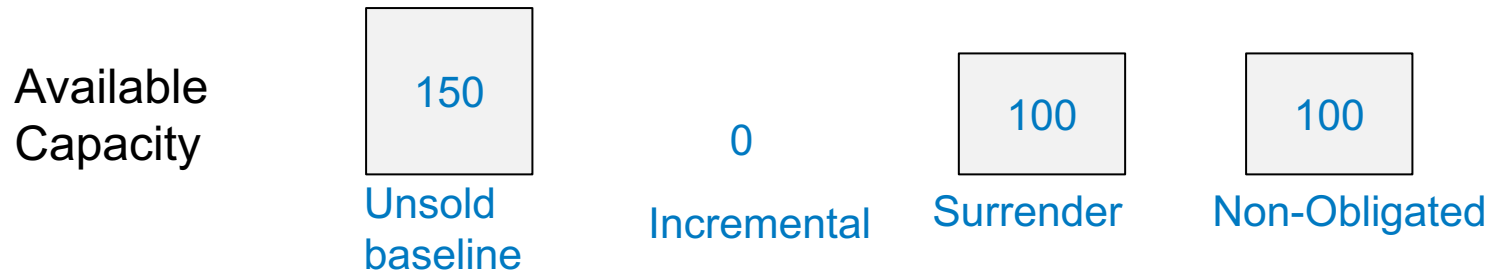 - Revenue received following the 'resale' of the converted capacity.

Auction Revenue

- Capacity is associated with various 'pots' in the following merit order after an auction.

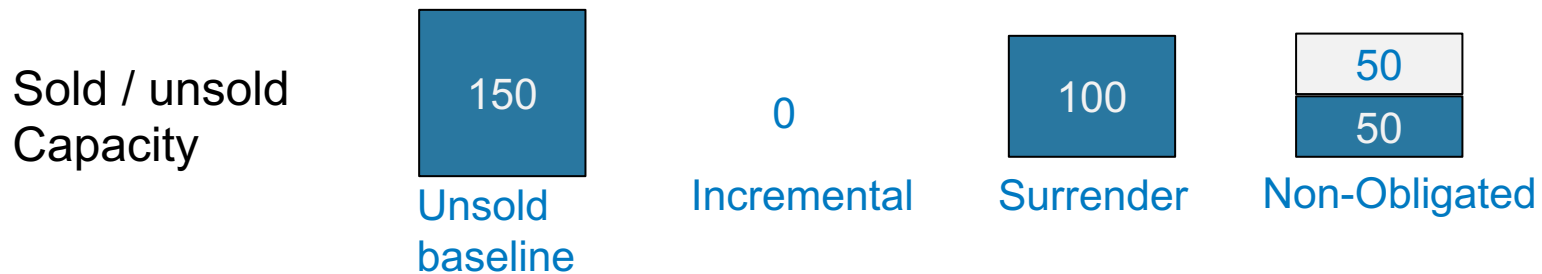| Type of Available Capacity from NG	TO / SO / neutrality
Technical (baseline)	TO
Technical (incremental < 5yrs)	SO
Surrender	neutrality
Withdrawals	neutrality
Non-Obligated	SO/neutrality

- Revenue will be foregone from some of these pots following a bundled auction, if there is a conversion, to generate the credit.

- If revenue is foregone we need clear rules on how this is managed (which pot is affected) to avoid any accidental cross-subsidy, and so the money can be accounted for correctly.

Example – bundled auction

- Available Capacity = 350

Available Capacity

150	0	100	100
Unsold baseline	Incremental	Surrender	Non-Obligated

- 300 units of capacity sold

Sold / unsold Capacity

150	0	100	50 / 50
Unsold baseline	Incremental	Surrender	Non-Obligated

Example – credit / revenue foregone following a conversion

- Clearing price for auction is 5p (4p reserve and 1p premium)

- A conversion for 100 units is completed.

Sold / unsold Capacity

150
Unsold baseline

0

Incremental

50
50

Surrender

50
50

Non-Obligated
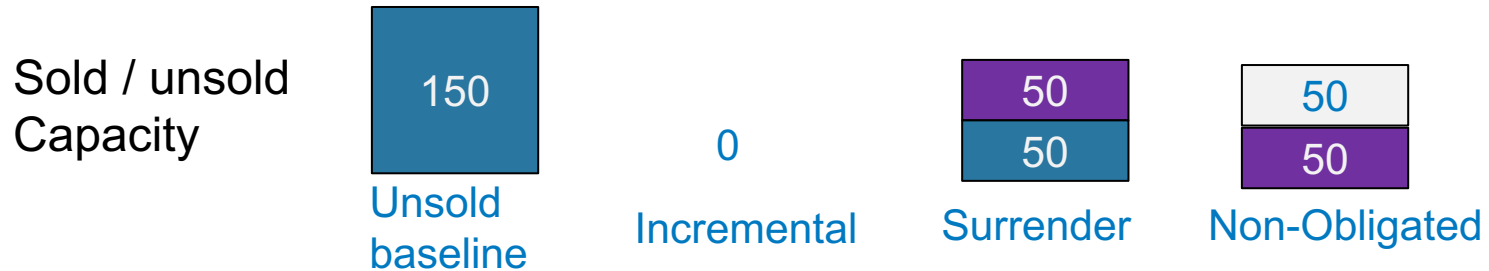
Capacity Type	Pot	Capacity Sold	Initial Revenue	Rev. foregone (credit)	Amended Revenue
Baseline	TO	150	750p	0	750p
Incremental	SO	0	0	0	0
Surrender	neutrality	100	500p	50 x 4p = 200p	300p
Non-ob	SO / neut.	50	250p	50 x 4p = 200p	50p

Money to be returned (if paid) to shipper converting = 400p

Future Auctions – Available Capacity

■ In the event of a resale of the conversion quantity, how is the new revenue treated? NG will identify where the capacity came from, in order to identify where the revenue should go to. The revenue received will be used to replenish the revenue foregone in the earlier conversion auction.

■ Additionally the conversion capacity will be prioritised to the top of the queue for allocating capacity in future auctions. This maximises the opportunity for the foregone revenue to be replenished by any resale of the conversion qty.

Available Capacity	100	0	0	x	y
	Conversion	Unsold baseline	Incremental	Surrender	Non-Obligated

Source of conversion capacity	qty	Pot
baseline	0	TO (SO if daily)
Incremental < 5yrs	0	SO
Surrender	50	neutrality
Non-ob	50	SO / neut.

Conclusion - text for modification

- Text to be added to Modification:

  - *The credit identified under 6b) shall be generated out of revenue received following the bundled auction. Revenue shall be taken from revenue streams in the reverse order in which they are allocated. This follows a last in, first out principle and respects the existing merit order.*

  - *Where converted capacity is reoffered and subsequently sold in a future IP auction, the treatment of the associated revenue shall reflect where the revenue was foregone at the time of the conversion process, e.g. if baseline capacity had revenue foregone, then the conversion revenue will be treated as TO revenue; if surrendered capacity had revenue foregone then the conversion revenue will be treated as a neutrality feed etc. This approach will replenish any revenue foregone in the bundled auction preceding the conversion.*