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UNC 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC

06/12/2018

30/11/2018

Other Solutions

1. Exit User Commitment Test

- Any Incremental Capacity has a commitment of 4 years, however if the User Commitment amount is achieved prior to this the capacity holder has the opportunity to reduce, as per the exit capacity arrangements
- Initial Thoughts
 - Entry has quarterly capacity product (versus annual on Exit). Could this result in capacity being inefficiently booked (i.e. summer vs winter quarters) if flat annual profiles?
 - Entry does not have the reduction mechanism that Exit has, and therefore with floating prices this may not work. Unless introducing capacity reduction on Entry, however this would require a change to the Entry capacity regime.

2. Upfront Payment

- A new mechanism where by User Commitment amount is signalled upfront and any capacity (still profiled) would be offset against the User Commitment test
 - Initial thoughts
 - There is currently no mechanism to differentiate between new and old baseline once capacity is allocated, therefore it wouldn't be possible without systems changes or a fundamental change to the User Commitment test to apply the offsetting.
- » Both options would require significant changes to UNC Section B and/or Systems Changes, whilst ultimately achieving the same result in terms of User Commitment amount provided by the PARCA applicant. Therefore we do not propose to go forward with either of the above and continue with the current solution in the Mod.

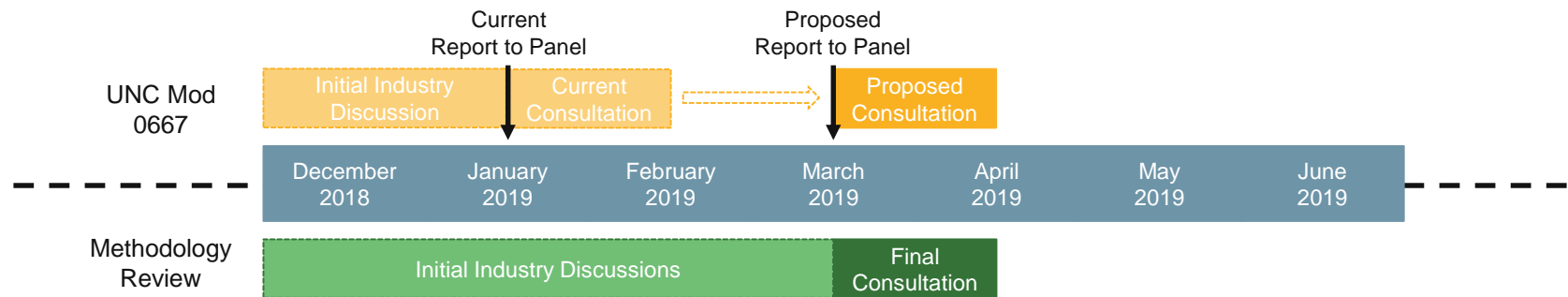
Proposed Link to Code

- » Within ECRM Chapter 6, which currently contains the rules for the NPV test, there are already 5 instances where there are links to processes and calculations which are contained within UNC TPD Section B and TPD Section Y
 - Incremental Capacity signalled in accordance with UNC TPD Section B2
 - Calculation of Estimated Project Values as detailed in UNC TPD Section Y A1

- » The proposal is to move the detail behind the NPV test into UNC Section B and then subsequently remove the details of the NPV test from the ECRM and refer to UNC Section B (where the new rules will be inserted as per Mod 0667) similar to those links already in ECRM. For example,
 - Paragraph 147 currently reads;
 - *147. Where paragraph 146(a) applies, if the NPV equals at least 50% of the “estimated project value”, then National Grid will reserve Obligated Entry Capacity at the relevant ASEP.*
This can be reworded to say;
 - *147. Where paragraph 146(a) applies and the NPV is passed in accordance with the requirements of UNC TPD Section B then National Grid will reserve Obligated Entry Capacity at the relevant ASEP.*
 - Paragraph 149 currently reads;
 - *149. Where paragraph 146(a) applies, if the NPV does not equal at least 50% of the “estimated project value”, then National Grid would not make a proposal to the Authority to release and/or reserve capacity at any ASEP.*
This can be reworded to say;
 - *149. Where paragraph 146(a) applies, if the NPV is not passed in accordance with the requirements of UNC TPD Section B then National Grid would not make a proposal to the Authority to release and/or reserve capacity at any ASEP.*
 - We propose that the NPV test is entered into UNC TPD Section B (either within 1.17 or as a new 1.18) which **includes** the PARCA process and refers to the NPV test

Next Steps

- » Given the timeline associated with the Methodology Review we are proposing to ask Panel for an extension
 - Given the timing of a legal text request, it is unlikely to be done for Workgroup in January 2019 therefore a extension is likely to be needed at least until February
 - Given the similarities in subject matter between Mod 0667 and the Methodology Statement Review we are proposing to ask for an extension to March 2019 to align Mod 0667 with the Methodology Review timelines
 - This allows SHG and NGG to continue working together on an optimal solution, and for any potential learnings from workgroup discussions to be adopted in either proposal



- » As per NGG Special Licence Condition 9A.8 any modification to methodology statements require;
 - Better facilitation of the capacity objectives
 - Consultation with industry
 - Consultation period not less than 28 days
- » Therefore we propose an extension allowing Mod 0667 to report to March 2019 Modification Panel
 - Should the consultation period be 28 days as NGG Special Licence Condition 9A.8?