



Exit Capacity User Commitment - Strawman

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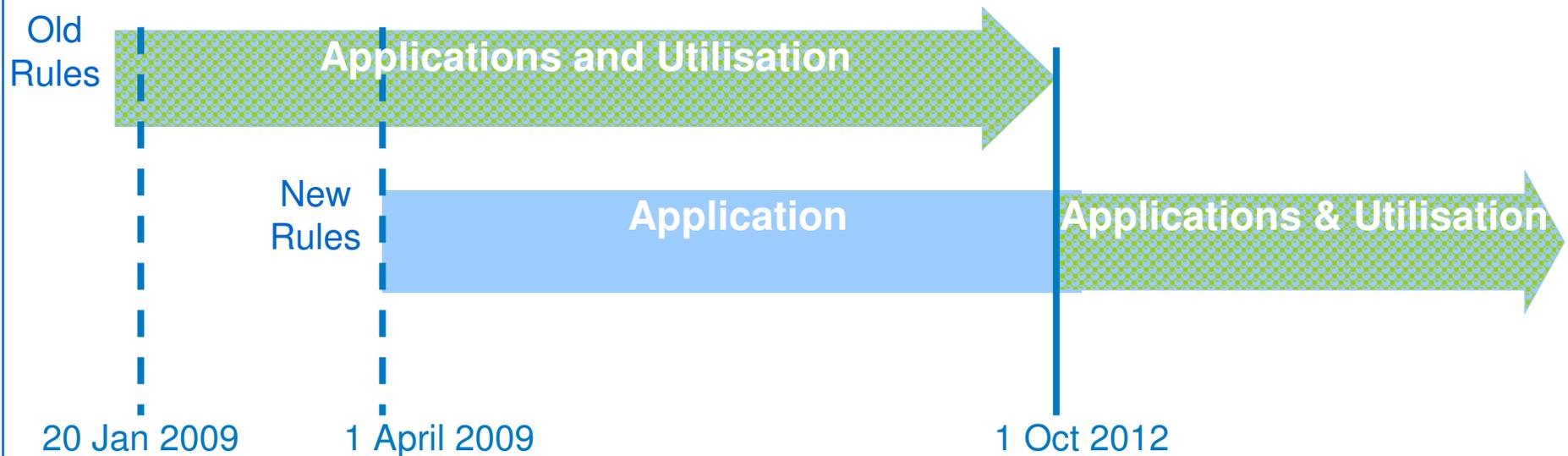
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Background - Application of new Exit Capacity regime

- ◆ **Mod 0195AV is only applicable to capacity being utilised from 1 October 2012 onwards**

- ◆ 'New' rules will apply to capacity being utilised from gas flow day 1 October 2012 onwards
- ◆ Today's rules will continue for capacity to be used before 01 October 2012



Background – Key factors of new Exit Capacity regime

◆ **Initialised Enduring Annual (Flat) Capacity allocated to Users at NTS Exit Points. Enduring Annual Capacity will be based on:**

- ◆ Peak 2007/08 Capacity Holdings and/or interruptible flows for DCs
- ◆ OCS statement for year 2011/12 (as agreed in 2008) for DNs
- ◆ If necessary DNOs and Shippers scaled back to baseline (Special Condition C8E, Annex A, Table 2)

◆ **NTS notifies Users of allocation (Initial Capacity rights) on May 1st 2009**

- ◆ No User Commitment (4 years capacity charges) associated with initialised rights

◆ **Users can choose to reduce their initialised value in July '09 reduction window**

◆ **Shippers & DNOs can apply for additional Enduring Annual Capacity in the July Window or through an adhoc application (from 1 October - 30 June)**

Background – Mod 0195AV Exit Capacity User Commitment

4 years' User Commitment for Enduring Flat Capacity at each NTS Exit Point

- ◆ Defined in ExCR
- ◆ Applies to Enduring Annual Exit Capacity applications only

Demonstration Date and Demonstration Information applies to Adhoc Capacity applications and ARCAs

- ◆ Offer specifies Demonstration Date and Capacity Delivery Date –
 - Where works are required, the User must provide NTS with certain information (agreed at time of application) by a pre-agreed date e.g. S36 consents
- ◆ If a User/developer does not provide the appropriate demonstration information (e.g. relevant consents are not secured) NTS can re-set the demonstration date and the delivery date. If the demonstration date is reset 3 times (including original demonstration date), NTS can either:
 - Agree with User/developer a further demonstration date
 - Cancel the User's/developer's capacity holding and recover all costs and expenses incurred in performing design works

Credit – looks forward at the User's next 12 months' worth of capacity holdings and feeds this in to the User's credit position

- ◆ Capacity Application will be rejected if a credit sanction is in place

Proposal Summary

Security to cover long term Enduring Annual Exit Capacity

- ◆ It is proposed that current Mod0195AV credit arrangements and commitments remain in place
- ◆ It is proposed that only Shippers are captured by the Enduring Annual Exit Capacity User Commitment
- ◆ It is proposed that security is also provided to cover long term Enduring Annual Exit Capacity for initialisation and/or the time of the application:

Amount of security to be provided

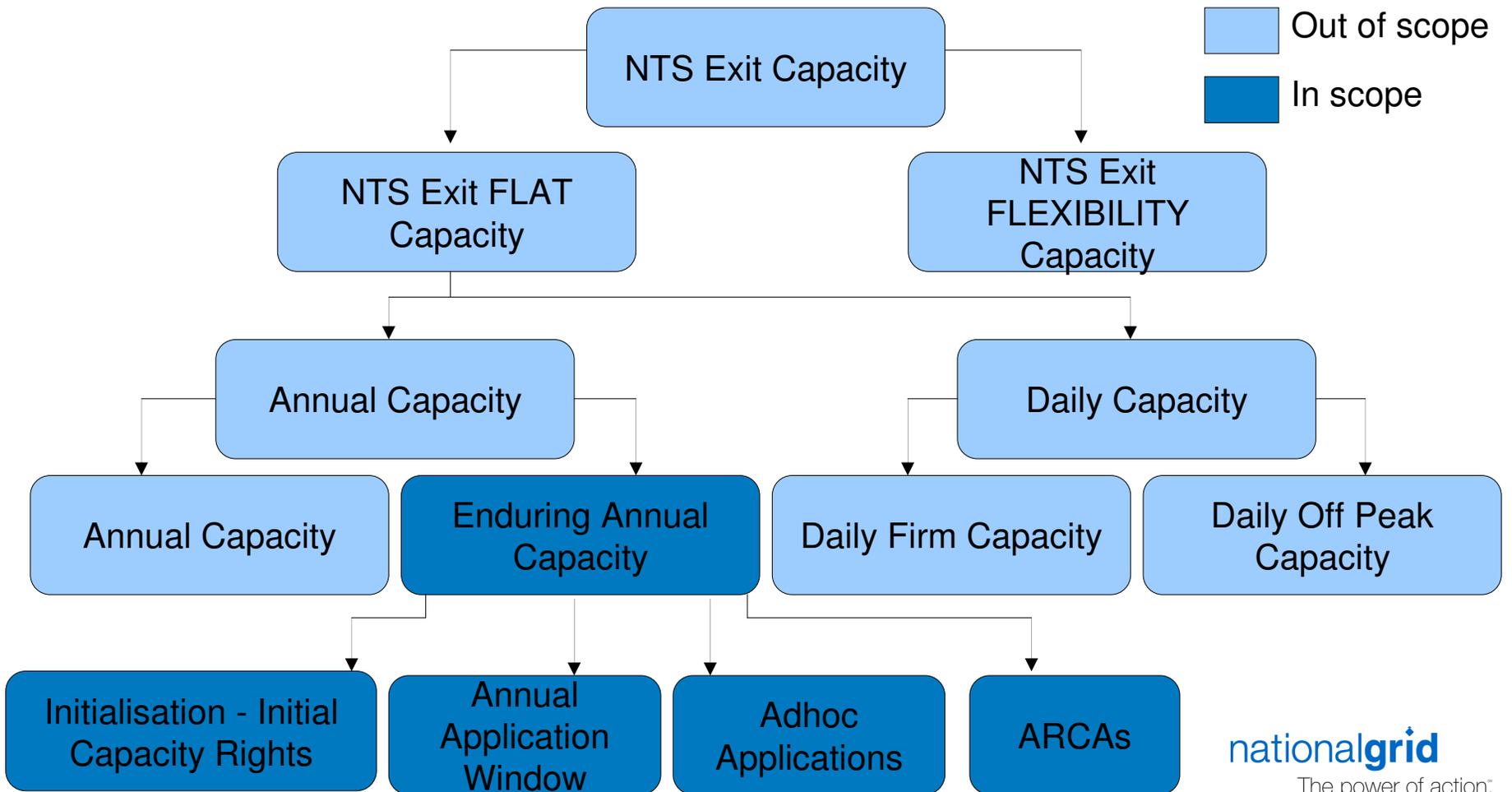
- ◆ User Security Value (USV) = ACV + VAT
- ◆ Allocated Capacity Value (ACV) = capacity holding between Y2 to Y6 * [0.1]
- ◆ Only Letter of Credit (LoC) or deposit deed allowed.

Users within Scope

- ◆ **Modification Proposal 0246 security requirements will not apply to DNO Users because they do not book entry capacity**
- ◆ **Question arises should DNO Users be subject to the same security requirements in respect of Exit Capacity?**
- ◆ **It is proposed that DNOs should be excluded and the proposal shall only apply to Shippers.**
 - ◆ Licence obligations related to determining the level and utilisation of NTS Exit Capacity and these activities are appropriately funded by the Authority.
 - ◆ Shipper Community not at risk to any DNO default, since the DNO cannot choose to cancel its capacity.
 - ◆ If the DNO became unable to pay its debts - obligations fall within the scope of an energy administration order and so subject to rescue or transfer prescribed by the Energy Act 2004.
 - ◆ Including the DNOs would ultimately result in unnecessary costs being levied on Shippers/customers through increased charges.

Proposal outline – Provision of Security

- ◆ Users (Shippers) will be required to provide security to cover their long Term Enduring Annual Exit Capacity



UNC Classes of Capacity within Scope - Initialisation

Initialisation

- ◆ **Initialisation - security will be required by the end of July 2009 and will be based on the initial capacity rights and indicative prices communicated on 1 May (volume * price).**
- ◆ **Users can choose to reduce their initialised value in the July reduction window (ends 15 July)**
 - ◆ Subject to User Commitment validation/checks or NTS being able to utilise the Capacity to meet a request at the same Exit Point
 - ◆ Any reduction will come into to force after 14 months but not before 1 October 2012.
 - ◆ Users will only be required to provide security for the revised/lower amount, by the end of July. However if the reduction is not accepted (September) then security will need to be provided for the original amount within 10 business days.

UNC Classes of Capacity within Scope - Applications

Post Initialisation application/auctions

- ◆ **Users entering subsequent Enduring Annual Exit Capacity applications will need to provide security in accordance with the following timescales:**
 - ◆ Users can increase their registered capacity during the **Annual Application window** in July.
 - This application covers capacity to be utilised from 1 October Y4, Y5 and/or Y6.
 - **Users will be required to provide security for the revised amount by the end of July.**
 - ◆ Users can also increase their initialised value via an **Adhoc application** (can apply from 1 October - 30 June).
 - This application covers capacity where the first gas flow is no earlier than 6 months from date of application or no later than 1st October Gas Year Y+4 from application.
 - Must be a New Site, or an Existing Site that passes threshold (10 GWh/Day or 125% baseline)
 - NTS must make an offer in 15 days / 90 days if think that Works will be required / more than 90 days if both parties agree
 - User has 30 days to accept
 - **As part of the offer, Users will be required to provide security for the revised amount prior to/upon acceptance.**

ARCAs

ARCAs

- ◆ Developers can request Enduring Flat Capacity via an Advanced Reservation of Capacity Agreement “ARCA”
- ◆ New Site, or an Existing Site that passes threshold (>125% of the prevailing baseline of 10GWh/day)
- ◆ A bi-lateral contract with principles based on UNC ad hoc application rules
- ◆ Developer (Reservation party) must nominate a Shipper to register the capacity and National Grid NTS will notify the User of the nomination
- ◆ **The Shipper must provide the associated security prior to them accepting the nomination as the User holding the registered capacity,**
 - ◆ i.e. provide security within 4 days of the nomination being lodged with National Grid NTS
- ◆ **Proposal will not deal with ARCA security for the Developer**

Proposal outline - Amount of security to be provided

Amount of security to be provided

- ◆ **User Security Value (USV) = ACV + VAT**
- ◆ **The Allocated Capacity Value (ACV) will be equal to Enduring Annual Exit Capacity , at all exit points, across Years Y+2 to Y+6 multiplied by the indicative price**
- ◆ **Indicative Prices are updated on 1 May each year and apply from the July application window**

Allocated Capacity Value (ACV)

£368m* too much - options considered for ACV:

- ◆ 10% = £37m
- ◆ 20% = £74m
- ◆ 30% = £111m

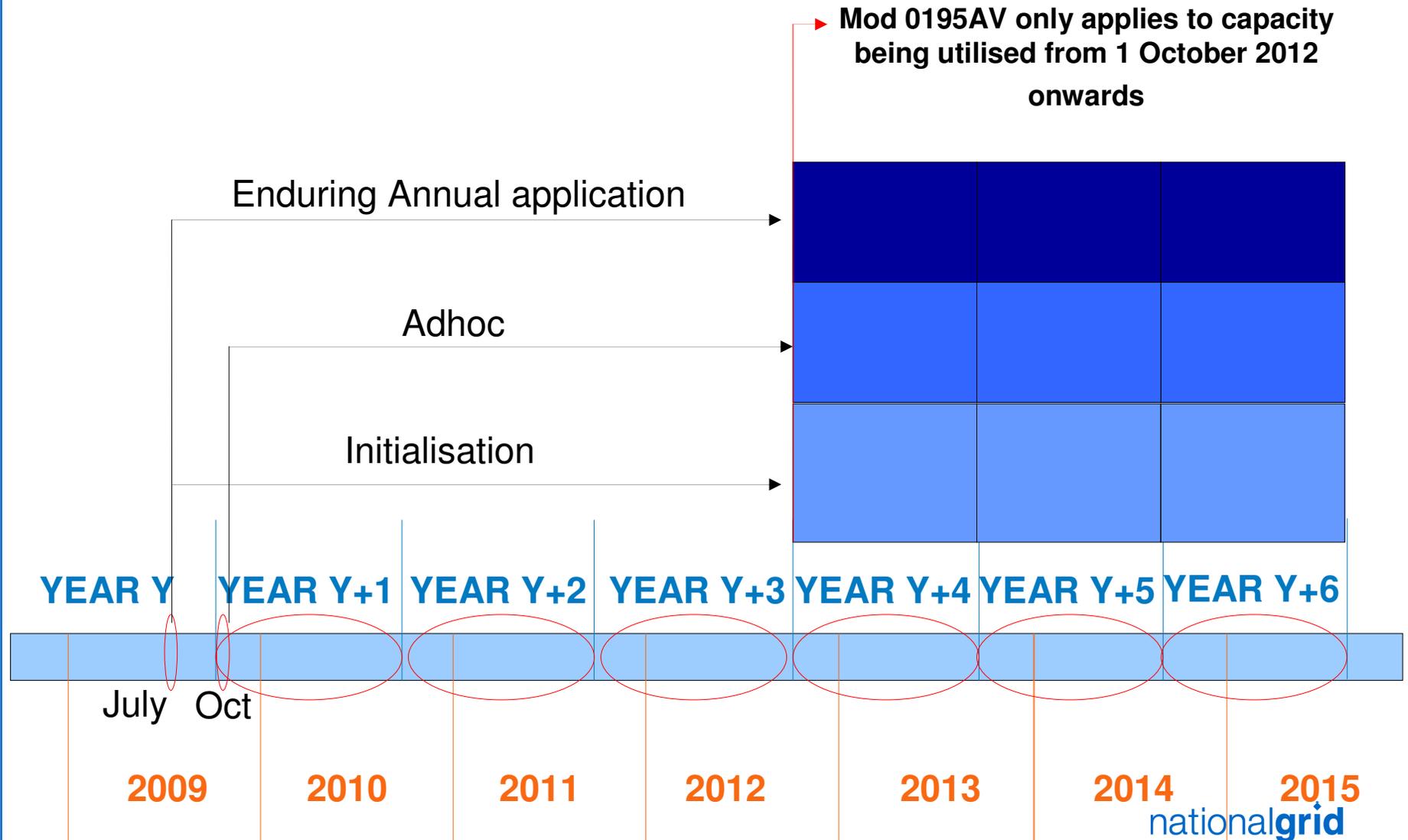
10% proposed for entry and for consistency this percentage has also been chosen for Exit

As new regime applies to Enduring Annual Capacity being utilised from gas flow day 1 October 2012 onwards, then there is a soft landing:

- ◆ 2009: only Y4 to Y6 are in scope
- ◆ 2010: only Y3 to Y6 are in scope
- ◆ 2011: all years Y2 to Y6 are in scope from 2011 onwards

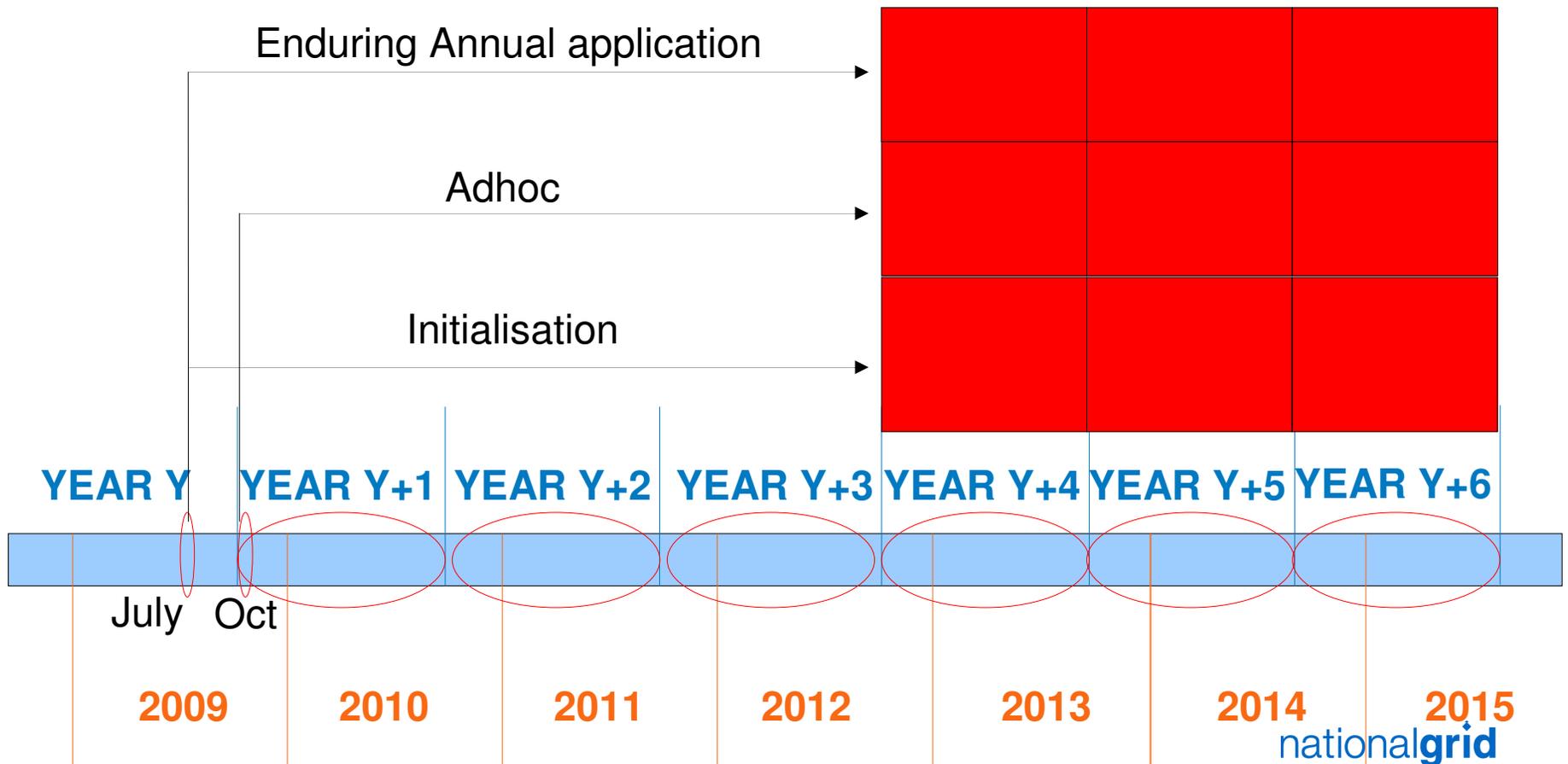
¹²Note: *Figures may change when Indicative prices are published 1 May

Enduring Annual Capacity within Scope (example 1)

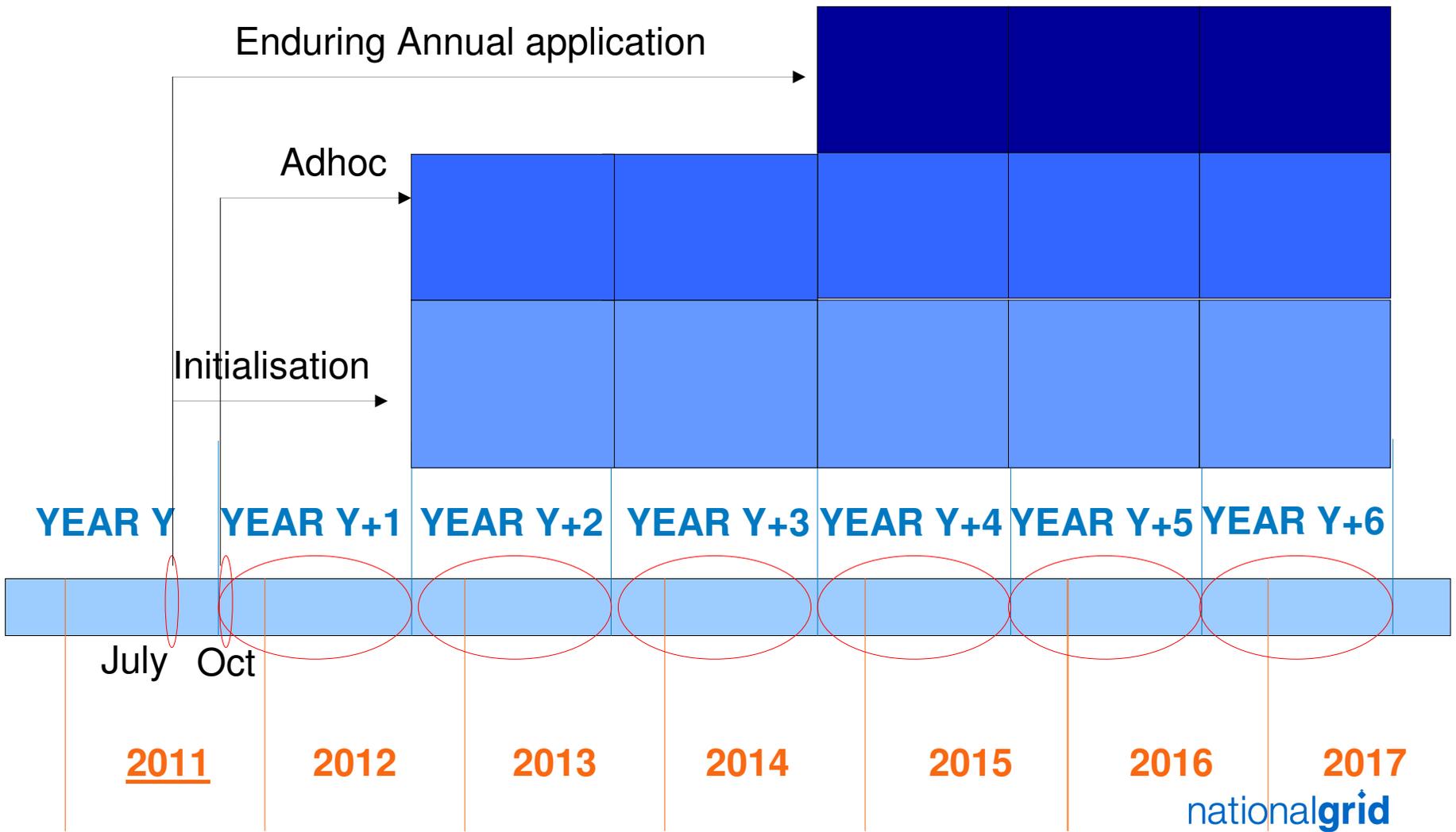


Enduring Annual Capacity Years covered by security requirement

Years covered by security requirement are shown in red

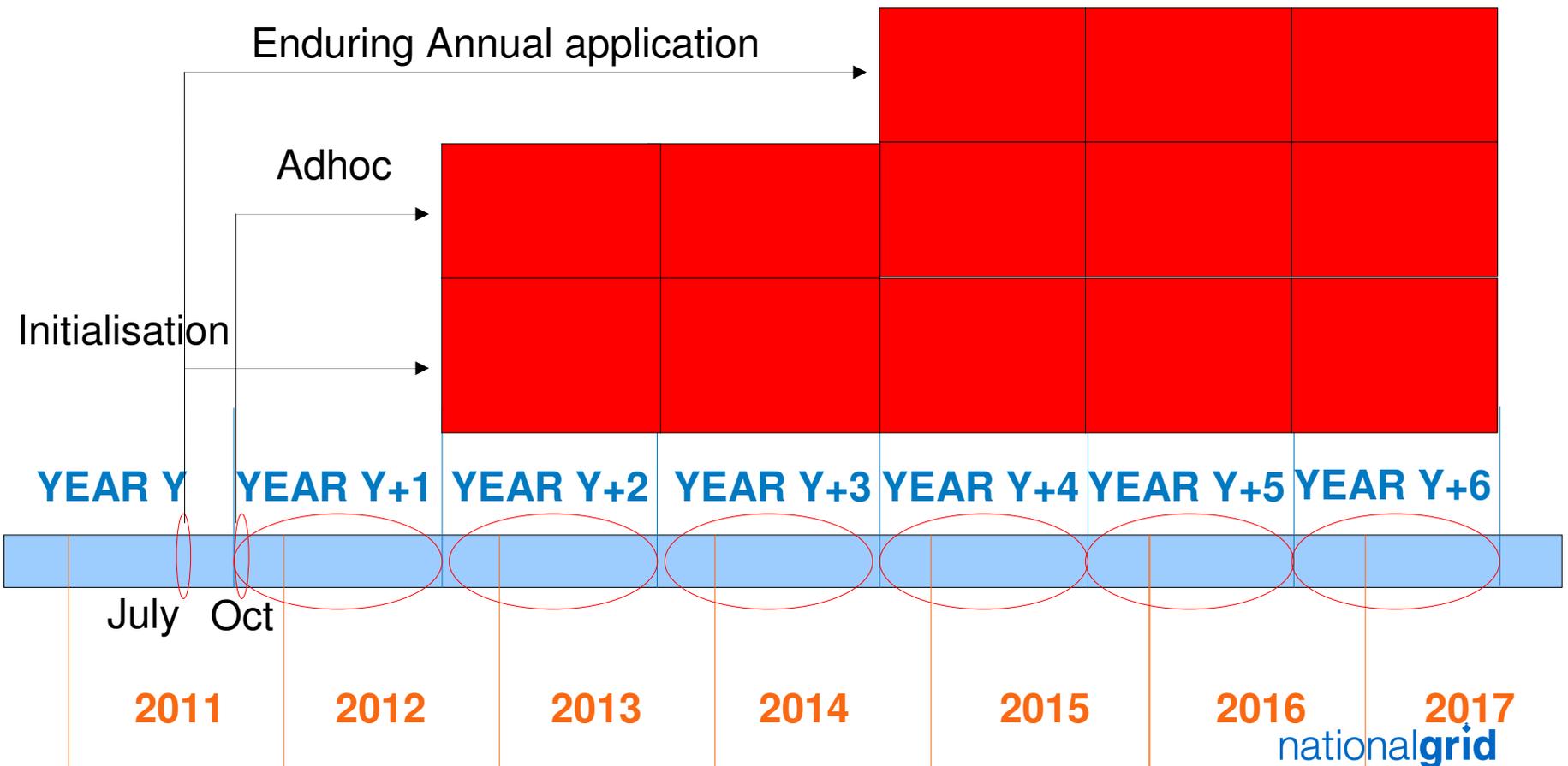


Enduring Annual Capacity within Scope (Example 2 - 2011)



Enduring Annual Capacity Years covered by security requirement (example 2)

Years covered by security requirement are shown in red. Y+2 & Y+3 are now in scope



Level of Security Required

◆ Estimated level of security (USV) required (soft landing basis)

- ◆ 2009 = £22m
- ◆ 2010 = £29.5m
- ◆ 2011 (onwards) = £36.8m

◆ Operating cost (based on 2.5% Loc cost)

- ◆ 2009 = £0.55m
- ◆ 2010 = £0.74m
- ◆ 2011 (onwards) = £0.9m

Proposal outline – Other Aspects

Security tools

- ◆ Only Letter of Credit (LoC) or deposit deed allowed.

Assignments

- ◆ User can assign all its Capacity to another User
- ◆ Users' holdings adjusted
- ◆ User buying the rights becomes liable for payment to NTS and must provide associated security prior to assignment taking affect, i.e. within first 4 days of the request being lodged

Default rules

- ◆ Enduring Annual Exit Capacity at all exit points is withdrawn from User and User incurs cancellation fee equivalent to security provided by that User

Default Rules

Long term Enduring Annual Exit Capacity “events of default” will be:

- ◆ Security < USV
- ◆ The security tool (LOC/Bank Deed) is about to expire (less than 28 days).
- ◆ The credit rating of the financial institution providing the LoC has gone below the minimum credit rating specified in UNC TPD Section V.
- ◆ The User is Terminated (UNC Section V4) for other reasons under UNC.

Default Rules - process

- ◆ User will be notified and given 10 business days to rectify (except where Termination is for other reasons under UNC).
- ◆ If not rectified:
 - Invoice will be raised for the Secured amount (cancellation fee)
 - NG will call on the USV pending payment of the above invoice.
 - The User loses the right to acquire NTS Exit Capacity for the next 12 months
 - NG will re-call the User's Enduring Annual Exit capacity at all exit points across all years
 - NG offer capacity to trading party
 - NG could re-release capacity should an application be received
 - NG will use the cancellation fee to offset any allowed revenue, hence reducing other charges