

Session 3 Questionnaire – Bundled Capacity

Name: **Peter Bolitho** Organisation **E.ON UK Stakeholder Group** (if any) Shipper, generator, storage and interconnector user

This questionnaire appears to refer to terms defined in 116V rather than the current UNC drafting. Although this questionnaire will certainly assist discussion it is important to note that in its Decision the Competition Commission did not endorse the details of the 116V user commitment, it simply said that GEMA did not err in its evaluation of the 116V proposal with respect to user commitment.

Prevailing Capacity

1 Do you accept the principle of a minimum notice period for provision of Prevailing Flat Exit Capacity? NO.

Prevailing Flat Exit Capacity is a 116V concept which does not form part of the UNC. I think it is more useful to refer to Exit Capacity (the current 'bundled' capacity product), and my answers assume this.

(a) If so, what period?

Where Exit Capacity is currently available within the current 6 month booking window it should be allocated asap in accordance with the current UNC rules. For Exit Capacity for periods beyond 6 months and for incremental a user commitment of 4 years would be required.

(b) Do you believe that there should be any exceptions and if so, what and for whom?

If capacity is available now make it available, if no make it available in future based on investment lead times. When incremental capacity is request will inevitably affect the lead time as reinforcement works tend to take place in summer.

2 Do you accept the principle of a minimum duration for allocation of Prevailing Flat Exit Capacity?

YES for Exit Capacity but this should only apply fro new incremental capacity or where shippers wish to reserve capacity more than 6 months in advance. The later may not be required to 'underwrite' NGG investment but this should exist to dissuade hording of capacity.

(a) If so, what period?

4 years based on the circumstances described in 2a.

(b) Should this period be fixed or related to any NPV criteria? NO

This approach is not particularly transparent or fair. In our view it should be a fixed value based on the relevant prevailing NTS exit capacity charges at the time of application.

Investment on the NTS is inevitably 'lumpy' and it is difficult to accurately allocate the costs of reinforcement of the NTS to one particular load. This is why we have transmission charging arrangements based on long run marginal costs (LRMCs) to smooth out how the costs of 'chunky investment' and arrive at a fair allocation of costs for the use of the system.

It is therefore far simpler and more transparent to simply make the user commitment a sum of money equivalent to x years prevailing relevant NTS Exit Capacity charge. This is the current approach taken in the Langage and Marchwood decisions (see documents circulated ahead of the meeting)

(c) Do you believe that there should be any exceptions and if so, what and for whom?

User commitments are only relevant where capacity is not currently available for booking in the next 6 months. Any user should have the right to book capacity in advance (beyond 6 months) but must make the user commitment.

3 What do you believe would be the appropriate determinant for National Grid NTS to invest on the basis of prevailing capacity applications eg NPV test of 50%?

NGG must invest as appropriate to meet all firm demands from its system on a 1 in 20 peak day. How it invests is up to it and its decisions will be overseen by Ofgem.

4 Do you believe that National Grid NTS should be able to choose the more efficient/economical alternative of installing additional capacity or reducing the baselines at other exit points?

Yes it does this anyway as part of its investment planning process anyway. At any point in time it must be in a position to meet all the firm loads that have been booked in accordance with the 1 in 20 obligation. Clearly there will be diversity across the network which can be taken into account in this planning process.

There does not need to be complex auctions, buy back and transfer mechanism to do this!

5 Do you believe that identical arrangements to the above should be offered to non Users under ARCA arrangements?

Equivalent terms would need to be made available to non-code parties such as project developers. The project developer would make a user commitment which would allow a future as yet to be appointed shipper to register and book capacity at a future date.

(a) If not, what changes to the above terms should apply?

See general comment above

6 Do you believe that there should be a staged commitment option available so that Users or non Users can signal potential requirements without making an initial commitment to the full cost of the capacity?

Yes if this is practical. This is applied in electricity wrt to Final Sums Liabilities for new generation plant connecting to the electricity transmission system. The lead times for investment in the grid necessarily require commitments before a the project developer has his full consents – so lower commitments apply in the early years and goes up with the anticipated investment in the grid.

I don't think the lead times for NGG are long enough for this to be necessary both others may have a view

User commitments must be flexible for users!!

What is essential is that users have the ability to reschedule capacity bookings if a project becomes delayed. This is effectively allowed under the current ARCA commitments. Under these circumstances the user commitment is carried forward to future years. Not to have this would mean NGG investing (inefficient investment) even though they could see with their own eyes that the field where a power station was to be is still green. Arguably interest on the delayed payment of the user commitment might be appropriate in such cricumstances

(a) If so what are the basic principles that should apply?

If practical user commitments could ramp up at given milestones (e.g. Secion 36 consents).

7 Do you accept the principle of an application window in July each year?

NO this is unnecessarily restrictive and can introduce delays for developers if this is just missed. NGG should endeavour to accommodate the needs of its customers rather than being tied to such an inflexible annual process

(a) If not, what alternative would you suggest?

Capacity should be applied for on a similar basis as ARCAs now. Clearly any lead times for making capacity available would necessarily have to take into account when reinforcement works can take place. If NGG is able to bring forward works to support a new load on the system it should be allowed to do this.

8 Do you accept that, following the July application window, National Grid NTS will, after notifying the relevant Users, publish the following for each exit point:

- (i) Aggregate quantity allocated.**
- (ii) Aggregate quantity of reductions accepted with their effective dates**
- (iii) Aggregate quantity allocated in excess of Baseline**
- (iv) Number of Users applying for additional capacity rights?**

Forget the restrictive July application window!

All the above information could be published on an annual basis based on the applications and capacity held that date.

(a) If not, what alternative would you suggest?

The current exit capacity booking process works fine all that is need is to bolt on a user commitment for incremental capacity/advanced bookings beyond 6 months.

8 Do you believe that Prevailing Flat Exit Capacity should roll-over automatically year to year unless the User has applied to reduce its capacity holding under 9 below?

The current annual roll-over rights should continue as should the existing minimum 1 year notice based on non use for 1 year capacity reduction process.

(a) If so, should this principle also apply to capacity holdings prior to the onset of the enduring regime?

Yes as the existing roll-over, capacity reduction would continue.

(b) Should there be any rules in place, in respect of roll-over rights, to avoid to gaming and if so what?

There are sufficient safeguards under the current rules. Indeed the existing capacity reduction rules are more onerous than the 116V reduction rules.

9 Do you accept the principle of a minimum notice period for voluntary reduction of Prevailing Flat Exit Capacity held?

(a) If so, what period?

Yes it already exists under the current rules and depends on giving notice in a given window based on non usage for a year

A minimum of one year as per existing rules.

(b) Should this be subject to any minimum duration set in 2 above?

Yes – reductions would not be allowed until the financial user commitment had met by payment of transportation of charges. The existing rules requiring a minimum of 1 year no use for a reduction to take place would effectively add another year of user commitment. This may need to be taken into account.

(c) Should this period be subject to the return National Grid NTS or its predecessors has already made on the relevant Transmission assets and if so how?

The test is whether the transportation charges paid have covered the user commitment value.

(d) Do you believe that there should be any exceptions and if so, what and for whom?

Annual and Daily Capacity

This is completely unnecessary if we stick to the current Exit Capacity booking process. These complex process simply add to shipper costs.

10 Do you accept the principle of Annual Pay as Bid Auctions for Remaining Flat Exit Capacity ie excess of Baseline Capacity above previously booked Capacity?

NO, NON, NEIN!

It is not worth answering these questions

(a) If so, how many rounds?

11 Do you accept the rules for the Auction embodied in Annex B-1 of the legal text submitted for Modification Proposal 0116V?

(a) If not, what changes do you propose?

12 Do you believe that Users should be permitted to use the Annual Auctions to reduce their Prevailing Flat Exit Capacity held?

(a) If so, should such reductions have a lower priority for sale than Remaining Flat Exit Capacity?

13 Do you accept the principle of Daily Pay as Bid Auctions for Remaining Flat Exit Capacity?

(a) If so, are the following times acceptable: 15:00 D-1, 08:00, 14:00, 18:00, 22:00 and 01:00 D?

(b) If not, what times do you suggest?

Transfer/Trading of Capacity

Booking exit capacity merely the process by which a party goes through to obtain rights to offtake gas. That is all user really care about. Its real purpose is to fairly charge the cost for use of the system in accordance with the peak usage of that system.

We see little value in creating complex trade and transfer mechanisms. Such arrangements will simply create uncertainties and more complexity which will harm customers and undermine competition in the shipping and supply of gas

14 Subject only to credit criteria, do you believe that any User should be free to trade capacity with another User

Trading may be relevant at interconnectors , shared supply points or and this should be allowed (if it is not done already). But transfers forget it!

- (a) **For a specific term?** *Yes (see comment above)*
- (b) **Permanently?** *Yes (see comment above)*

15 Should both Transfers and Assignments (where the liability continues to rest with the original capacity holder) be permitted?

In theory why not but somewhat academic

Overruns

16 Do you accept the principle of Overrun charges where the User flows in excess of its capacity booking?

The current Exit Capacity overrun principles should continue so don't need to answer these questions

(a) If so, do you accept the structure of the highest of the following for that exit point:

- (i) Eight times the highest price paid for capacity**
- (ii) Eight times the highest reserve price; and**
- (iii) 1.1 times any buy-back purchased on that Day?**

(b) If not, what structure do you suggest?

Stick with the current arrangements

17 Do you accept the principle of an overrun User, if appointed that incurs all the liability for overruns at that exit point?

Yes – is this not what we can already have!

18 For bi-directional points such as Storage Facilities and Interconnectors do you accept the principle of an overrun quantity based on net flows and nominations?

Yes –but this assumes storage facilities should be required to go firm. In our view these parties should continue to enjoy interruptible status albeit under amended rules.

(a) If so, outline the calculation of overrun quantity

Don't need to assuming storage continues to appropriately enjoy interruptible status.

Buy Back

19 Do you accept the Principle of buy-back as a means by which National Grid NTS can address constraints?

In principle yet but the terms and conditions for buy back need to be specified under the code. If an up front interruptible service continues to be offered we do not necessarily need to go down this route.

20 If so, do you believe that National Grid NTS should have the option of buy-back through option and forward contracts as well as through within day.

No. This is non transparent and risks inappropriately distorting the market. Ultimately it means some parties are able to enjoy favourable deals at the expense of others. Non discriminatory arrangements are best achieved by open and up front terms and conditions that are overseen by UNC governance. [The current transparent up front interruptible service offers such non-discriminatory arrangements]

Neutrality

21 Which costs and revenues in respect of the above should be included in Exit Capacity Neutrality

Exit capacity neutrality is only relevant when one introduces complex auction and buy back mechanisms. The respondent does not advocate such mechanisms