

Session 3 Questionnaire – Bundled Capacity

Name: Christiane Sykes **Organisation:** Statoil (UK) Ltd **Stakeholder Group** (if any): Shipper, Storage User, Interconnector User

STUK's response to this questionnaire is to inform debate, only and should not fetter STUK's discretion to amend our views, in light of further discussion.

Prevailing Capacity

1 Do you accept the principle of a minimum notice period for provision of Prevailing Flat Exit Capacity?

Statoil (UK) Ltd (STUK) does not support the principle of 'Flat' Exit Capacity as it presupposes the existence of a 'Flexibility' Capacity product, the need for which has not been proven, through the UNC modification process. For this reason, we have answered the remainder of this questionnaire, relating to the provision of NTS Exit Capacity, as currently defined within the UNC.

STUK does not recognise the need for a minimum notice period for the provision of prevailing Exit Capacity rights, above those defined within the existing UNC rules, given that the gas should already be available for offtake.

(a) If so, what period?

For incremental NTS Exit Capacity requirements, which may develop into prevailing rights, STUK acknowledges that a minimum notice period may be appropriate, with reference to the licence obligation for NGG NTS to adhere to a default lead-time of 38 months for the delivery of offtake related investments.

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

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

(a) If so, what period?

Where incremental investment is required, we would consider that arrangements, similar to an ARCA would be appropriate, i.e. a one or two year ARCA, guaranteeing the payment of one year's exit capacity charges. This seems sufficient to minimise the risk to NGG NTS of gas not being offtaken, of being offtaken at a reduced rate, to the extent that NGG NTS may not be able to recover the costs of the associated reinforcement. Along these lines, a minimum duration of one year might be considered appropriate, where an ARCA has not been signed.

(b) Should this period be fixed or related to any NPV criteria?

Fixed would seem most appropriate, however, please see our response to 2(b)

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

Storage sites need to be considered, with respect to the investment, which they will have already made for firm Entry Capacity, to ensure that the facility is not exposed to the risk of paying twice for the same facility. Furthermore, storage sites are also interruptible and so do not impose the same costs on the system (and may provide a benefit to the system on peak days) as some other larger sites, connected to the NTS.

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%?

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?

A mechanism within the UNC already exists, with respect to the requirement for National Grid Gas NTS to consider surrendered NTS Exit capacity, when deciding whether it is feasible to make gas available for offtake at such NTS Exit Point at an increased rate or in an increased amount in any period. In doing so, NGG NTS consider whether a more efficient or economical alternative exists, before providing additional capacity.

In the longer term, extreme caution must be exercised if considering the option of substituting capacity from one exit point, to make it available at another as this would have long term system implications.

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

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

ARCAs should remain available to non Users, to enable developers and NGG NTS to mitigate the risks, associated with incremental investment. Under the existing arrangements, the ARCA has always been considered sufficient to mitigate the risk of both parties. STUK is not currently aware of any evidence to suggest that ARCAs need to be reinforced in any way, through the addition of identical arrangements to the 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?

This seems to be a sensible principle, worthy of further consideration.

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

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

Without an application window, there is the potential to create a first come, first served approach, however, an application window may also delay timely investment signals to NGG NTS, for incremental capacity. Each of these concerns should be addressed in any discussion.

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

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?

Yes, aggregate quantities should not expose the commercial positions of any User but will facilitate improved understanding of available capacity.

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

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?

Yes.

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

Given that we do not know what the enduring regime might entail, it is difficult to answer this question, however, we support the principle of existing NTS Exit Capacity holdings, automatically rolling over year to year, in the existing regime and in an enduring regime.

At what stage existing rights ought to be considered as prevailing however, needs further consideration, for example, calculating prevailing rights, based on the maximum booked by a shipper in a given year.

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

Yes. Perverse incentives might exist for Users to over-book capacity, if they believe that this will increase their prevailing rights, going forward. An appropriate balance must be sought to ensure prevailing rights represent an accurate reflection of a User's offtake requirements, whilst not creating perverse incentives for Users to over-book.

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

Yes.

(a) If so, what period?

As stated in the current drafting of the UNC.

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

This would appear to be appropriate.

(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?

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

Annual and Daily Capacity

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. Whilst STUK acknowledges the principle of entry auctions to facilitate competition, in allocating a limited volume of capacity, STUK does not consider that auctions are necessary for the enduring NTS exit regime. Competition at supply offtake points is minimal to non-existent, compared to Aggregated System Entry Points. For this reason, we have not provided a response for the related questions. We would refer also to our response to proposal 0116V, for more detail.

(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

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

In the interests of timely implementation of incremental proposals, which seek to address potential shortfalls in the existing arrangements, we do not consider that consideration of a trade and transfer mechanism is appropriate, or within the remit of the 0166 Review Group. We have not, therefore, answered the related questions.

(a) For a specific term?

(b) Permanently?

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

Overruns

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

Yes

(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?

STUK is unaware of any evidence to suggest that the current overrun mechanisms need to be amended.

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

STUK accepts the principle of an overrun User, however, in practice, this may be extremely difficult to implement.

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?

No. Storage Facilities are classed as interruptible and, therefore, are not liable to pay NTS Exit overrun charges.

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

Buy Back

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

Yes.

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.

This needs to be considered alongside the ability to interrupt Users, against the decision whether or not to invest.

Neutrality

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