Session 3 Questionnaire – Bundled Capacity

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Prevailing Capacity

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

a. ***If so, what period?***
The period should reflect the User Commitment Model supported by the CC – i.e. 36 months

b. ***Do you believe that there should be any exceptions and if so, what and for whom?***
When NGG were able to deliver capacity before the investment lead time and this is acceptable to the requesting party than this should be promoted. However, SSE does not support the Licence mechanism where credits are earned for early delivery of a project and are subsequently used to offset the penalties of delivering another project late. This mechanism lacks transparency and is unfair and as such does not promote competition.

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

a. ***If so, what period?***
4 years

b. ***Should this period be fixed or related to any NPV criteria?***
A user commitment signal for 4 years or until the investment costs were recovered, which ever was the smaller, but not an NPV test.

c. ***Do you believe that there should be any exceptions and if so, what and for whom?***
Existing sites, sites that have signed an ARCA, and those who have already paid off the cost of the investment should be exempted.
Storage/bi-directional sites that have given a permanently obligated incremental investment signal at Entry should be exempt from being made to underwrite the same infrastructure investment at exit.

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%?***
Agreement to *a* minimum duration for allocation of Prevailing Flat Exit Capacity of 4 years is sufficient a determinant. An NPV test of 50 % is overly onerous and lacks transparency. Entry now uses 50% of the project costs, which is not transparent, rather than the previous 50 % of the NPV based on the UCA of the ASEP.

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. We see no reason to artificially constrain NGG's investment decisions, provided this was not detrimental to the UK's security of supply. However the complexity associated with this, as witnessed under entry capacity transfers, trades and substitutions may prevent this.

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

a. ***If not, what changes to the above terms should apply?***

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?***
In principle a staged commitment reflecting NGG's investment requirements would be acceptable, however we would require further information on how this model would work.

a. If so what are the basic principles that should apply?
The staged commitment should reflect the off take customers' requirements, it should be transparent and calculable by any party requesting the capacity.

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

For new or incremental capacity this would represent an artificial constraint. However, to provide a form of control, those requests below a yet to be agreed amount should await a July window. Thought can also be given to an open window type approach where an initial request for capacity to NGG initiates a process to identify further interest in that ASEP or zone.

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:

a. Aggregate quantity allocated.

b. Aggregate quantity of reductions accepted with their effective dates

c. Aggregate quantity allocated in excess of Baseline

d. Number of Users applying for additional capacity rights?

Yes

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?

Yes

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

Yes – UIOLI of any unutilised capacity.

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?

1 year as per existing rules.

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

No

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? No

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 – exit nodes are generally single party off-take points or CSEPs with ancillary agreements. Auctions are therefore unnecessary and create complexity and confusion that do not assist in the efficient operation of the network.

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?

No these rules are too complex.

a. If not, what changes do you propose?

Simpler. A potential solution would only to be to hold an auction when there was more capacity requested than available – as envisaged for flex.

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?
No same priority so as to ensure UK's security of supply.

13. Do you accept the principle of Daily Pay as Bid Auctions for Remaining Flat Exit Capacity?
No these rules were too complex.

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?
At the same shared exit point i.e. storage or interconnector site this should be allowed. But given the initial disappointing results of entry T&T & uncertainty over substitution between ASEPS we do not see benefits to the UK security of supply of transferring capacity between exit points at this time.
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?
Given the initial disappointing results of entry T&T & uncertainty over substitution between ASEPS we do not see benefits to the UK security of supply of transferring capacity between exit points at this time.

Overruns

16. Do you accept the principle of Overrun charges where the User flows in excess of its capacity booking?
The principle works at single User, or single direction sites, however it becomes very complex to administer at multi User bi-directional sites. It therefore becomes important to ensure that any overrun is calculated on a physical basis and targeted at those who cause the overrun.
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?
These cash out prices and the existing cash out prices stipulated in the code should provide a sufficient incentive to discourage people from Overrunning, however it may be appropriate to only apply these charges when the system is constrained.
b. If not, what structure do you suggest?
The existing code.

17. Do you accept the principle of an overrun User, if appointed that incurs all the liability for overruns at that exit point?
It is important that a system is developed that will allow NGG to identify and charge the overrun User. A mechanism needs to be in place that allocates over –runs on the actual flows from bi-directional shared sites where the operator is not a shipper.

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 – any overrun should be calculated on physical flows and not nominations.
a. If so, outline the calculation of overrun quantity.
In order to ensure bi-directional points are not artificially constrained the overrun should be calculated on physical flows, and UK Link should reflect this. This would avoid the need for complex calculations.

Buy Back

19. Do you accept the Principle of buy-back as a means by which National Grid NTS can address constraints?
As NGG has the choice of either investing, or not, and is responsible for managing the system it appears appropriate that it has buy back tools at its disposal. However clear rules need to be developed to ensure that NGG takes buy backs first before scaling back firm capacity.

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.
Yes.

Neutrality

21. Which costs and revenues in respect of the above should be included in Exit Capacity Neutrality?
As SSE does not advocate the adoption of complex annual, day ahead and within day auctions the only revenues that should be included are those incurred from overrun charges. Buy back costs should be excluded and represent a cost to NGG, as ultimately they have the choice between choosing to deliver the investment to underpin the exit capacity or choosing not to and being exposed to the risks of buy backs.

Jeff Chandler
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