

# Developing the connections and capacity processes



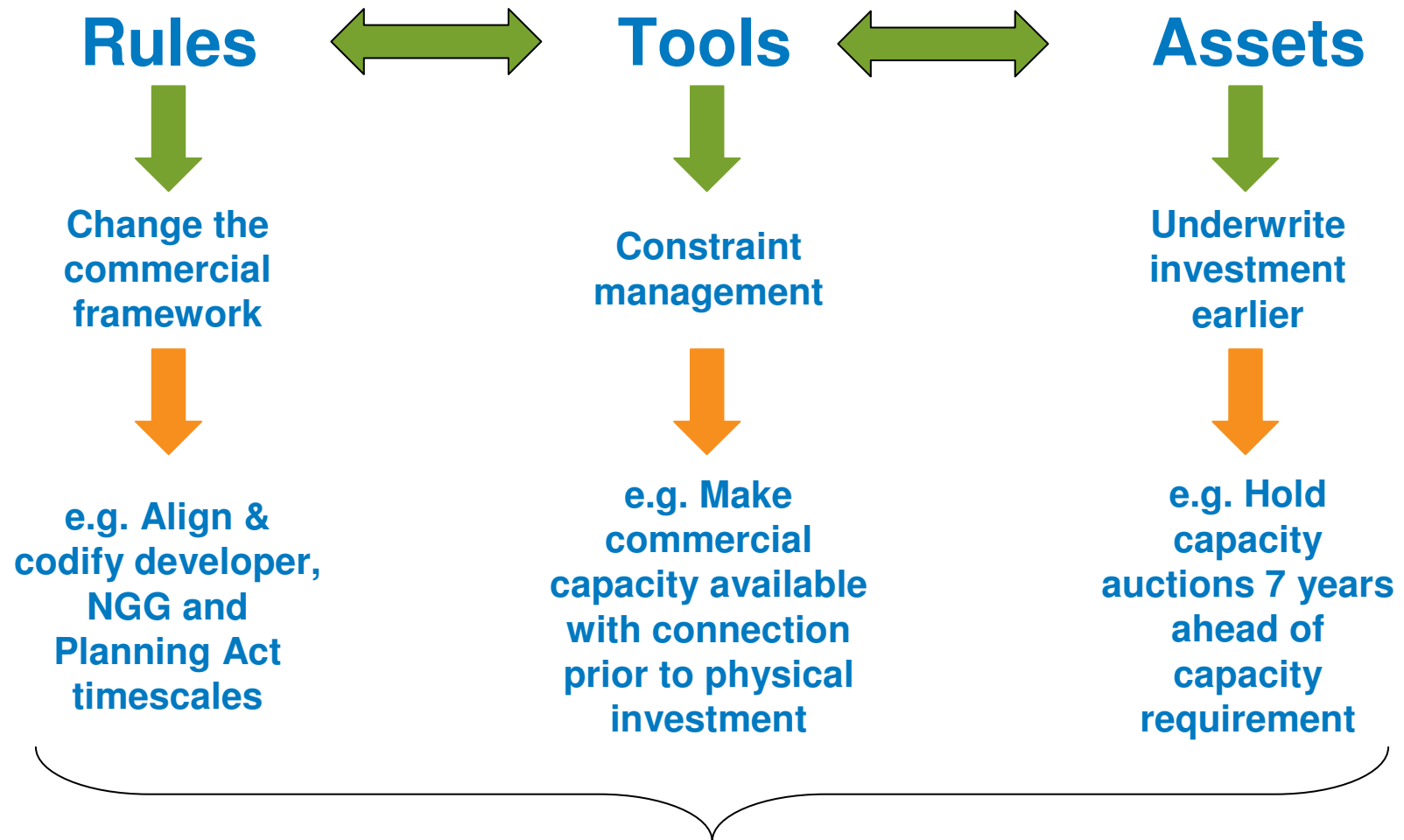
# Introduction

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What are we seeking to cover?

1. Initial options and views on how the gas access regime can be developed to:
  - Take into account longer lead times (Planning Act 2008) and align / bundle / co-ordinate the capacity and connection processes
  - Provide greater certainty and clarity of incremental capacity availability
2. Pros and cons of each option
  - Including potential impacts and considerations
3. Gain views on viable alternatives
4. Transitional solutions
  - Are there any solutions that can minimise impacts in the absence of change?

# There are a number of ways to take this forward....



Not mutually exclusive – optimum solution may be a combination of Rules, Tools & Assets

# Considerations

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- Through the development of any option we will need to further consider:
  - Ensuring the solution is flexible to further regime change as required e.g. Europe
  - RIIO impacts e.g. funding and revenue driver form and function & incentive schemes
  - Development costs – system changes / process changes
  - Other costs?
  - Charging impacts
  - How does substitution fit in with the options?
  - Exit and Entry regime differences
  - Different User scenarios e.g. transitional issues or where a User does not require planning consent etc.

# ..some initial options

1. Status Quo	Manage planning act risk under the current arrangements
2. Connect and Manage	Contractual solutions, potential new products, increased constraint management funding
3. Anticipatory Investment	Zonal reinforcement based on commercial intelligence rather than customer signal
4. Extended Lead Times	[72] months obligated lead times
5. Contractual Alignment of Timescales	Earlier user commitment outside of capacity auction / application process

# 1. Status Quo

- This option assumes the regime remains as-is
- Managed under the existing incentive schemes structures, lead times, capacity products and market based release mechanisms

Pros	Cons
Familiar and established regime	Increasing likelihood that physical reinforcement (where required) will not be in place to coincide with incremental capacity effective start date
No industry development time needed	
Level playing field	
No system development costs	Increased uncertainty
	Not flexible to differing customer requirements
	May set false expectations
	If incentive schemes & lead times do not change then likely impact on constraint management costs

## 2. Connect and Manage

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- This option makes incremental NTS capacity available to Users for the gas day of first commercial gas flow (subject to lead-time)
  - Irrespective of whether physical reinforcement is required or has been delivered
- Incremental Firm NTS Capacity made available to current lead times
  - Will require additional funding for the potential constraint management costs and/or contract solutions in the absence of build
  - Could introduce a longer term interruptible product until reinforcement is in place
- Consideration needs to be given to how any required NTS reinforcement would be delivered when the project is fully operational (i.e. project may need to be taken offline to deliver NTS reinforcement and commissioned)

## 2. Connect and Manage – Pros and Cons

Pros	Cons
Potential for more efficient build decisions based on real world experience	1 in 20 compliance needs to be considered
Equitable treatment of customers	Increased risk of capacity not being available on the day & Users not being able to flow
Existing release mechanisms and regime principles largely retained	May lead to higher constraint management costs to NTS and the industry which will potentially require greater incentive "pot" and greater costs to industry
Introduction of longer term interruptible product could meets transitional needs	Existing customers more likely to be constrained off as Network becomes more constrained
	Potential increased level of constraints may result in GB becoming unattractive
	Some system development may be needed
	Constraint / contract availability and costs uncertain



## 3. Anticipatory Investment

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- The NTS could be reinforced in advance of a specific Incremental NTS Firm Capacity signal
  - Based upon commercial intelligence and in anticipation of the likely national requirement i.e. planning / build / contract could be ahead of release to market
  - Potentially where multiple parties / sites have expressed an interest and we believe some are likely to proceed
- Incremental NTS Firm capacity could be made available to Users through existing auction/application processes or newly developed release mechanisms (e.g. first come first served)
- Funding impacts to be further considered
  - e.g. Revenue drivers – zonal? nodal? timing?
- Potentially divorces build from specific User commitment
  - Could be underpinned through contracts e.g. “PCA”

### 3. Anticipatory Investment – Pros & Cons

Pros	Cons
Potentially reduces constraint risk	Risk that we get it wrong - stranded capacity or not enough to meet demand
More robust to extended lead times - assume reinforcement delivered to customer needs	Doesn't resolve the transitional issues (e.g. in flight customer projects)
Provides equal rights to capacity through auction / application mechanisms	Ability to prove Planning Act (2008) case without specific User commitment
	May result in socialised rather than targeted costs
	May overlap with Network flexibility debate
	Potentially high system development costs
	Investment may not be wholly underpinned by User commitment

## 4. Extended Lead Times

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- This option would seek to amend the licence defined default lead times to [6 to 8] years and assumes the access regime largely remains as-is
- Alternatively could seek to increase lead times through incentive(s) (e.g. permits)
- Industry concerns raised regarding having to signal and commit to incremental capacity [up to 8] years in advance of the project lead time
  - Customer demonstration date information and phased User commitment could be introduced to allow users and NGG to break out or defer delivery at certain critical points (further detailed in contractual alignment).
- Need to consider how this could work with lead time incentives (e.g. permit schemes / incremental buy back)
- Need to also consider appropriateness if no / minimal build is needed?
  - e.g. Substitution or planning consent not needed

## 4. Extended Lead Times – Pros & Cons

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Pros	Cons
Potentially reduces constraint risk	Customer to "commit" at early stage of project development
Delivers consistent message / equitable	Default lead-time may be excessive if planning
Minimal commercial regime change likely to be needed	Risk of inefficient build / sterlised capacity ie need case could change over the [6 to 8] years
Certainty of lead time and incremental capacity availability	
Familiar and established regime	

## 5. Contractual Alignment of Timescales

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- This option would place an obligation on customers to provide phased User Commitment (UC) and demonstration date information through a contract agreement in order to secure firm incremental NTS capacity.
  - e.g. UC from the time of the initial connection request with UC increasing up to the point of a formal incremental capacity signal.
  - UC could be refunded / netted off against the User's capacity charges paid
  - Capacity availability being guaranteed and build progression occurring only where certain activities have been carried out by the interested parties
  - Firm incremental capacity could be made available through a bespoke auction and/or application process
- Where planning consent is necessary for both parties, the customer and NGG would endeavour to undertake the planning processes in parallel
- Default lead times, from auction/application signal through to delivery of the incremental capacity, would likely be reduced (e.g. [24 months]) under this option due to the initial User commitment signal being given upfront to initiate our activities rather than through the capacity signal

# 5. Contractual Alignment – Pros & Cons

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Pros	Cons
Minimises constraint risk and risk of sterilised capacity	May require complex UNC modification
Delivers consistent message to the industry	System costs / development possible
Better aligned to customers needs and individual requirements	Customer requirements may change from point of initial User commitment
User commitment phased to fund activities at critical points	
Prevents unanticipated Capacity signals	

## Revenue Drivers

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- Funding needs to be considered in the development of any of the options presented.
- How should we be funded for delivering incremental firm capacity going forward?
- Revenue drivers (RD) for Entry points were set in licence up-front as part of the 5 year TPCR4 settlement
  - Tax-band type
  - Same approach for all ASEPs (regardless of physical size)
- Some RDs for Exit were set at TPCR4, but others have been set when required, but have been based on TPCR4 cost assumptions
- Ofgem has suggested a “Generic Revenue Driver” methodology consultation
  - To set obligation on NGG to produce a methodology statement
  - We are seeking clarification from Ofgem when this would apply and to what time period and how it fits with RIIO-T1 debates

## Revenue Drivers (continued)

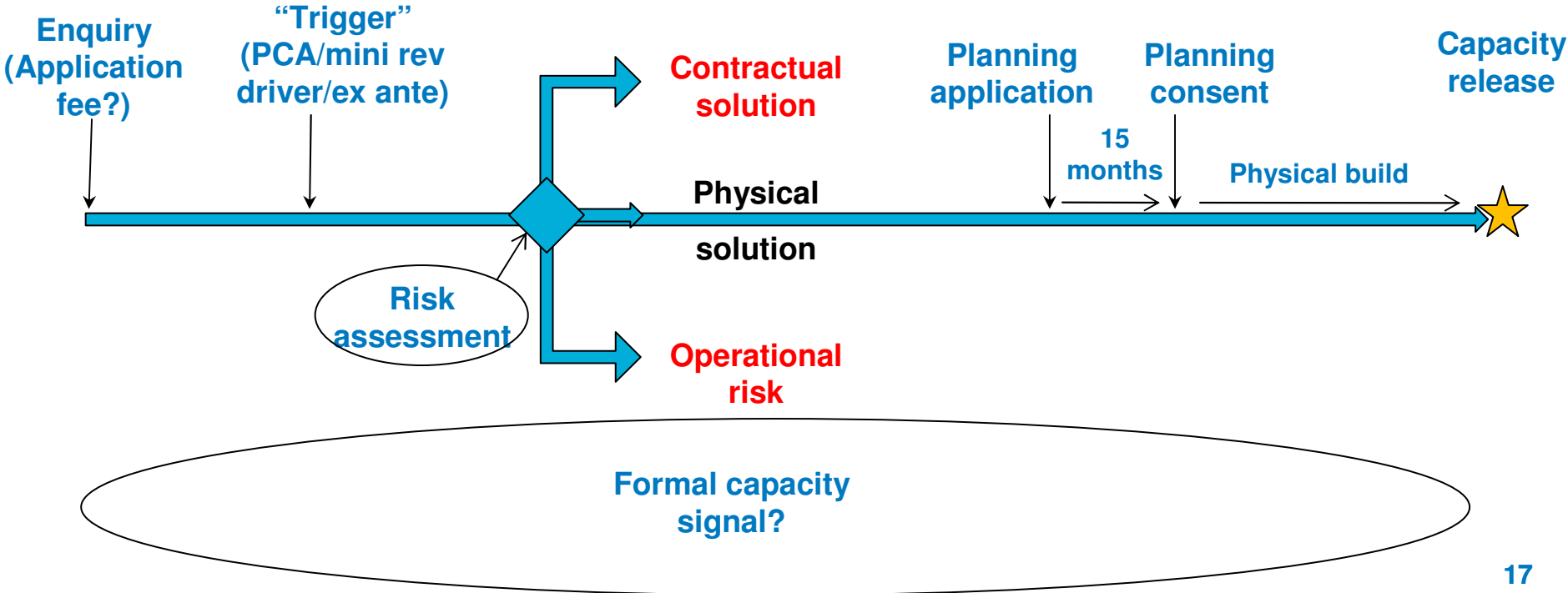
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- There have been only 3 Entry triggered RDs in TPCR4
- RIIO-T1 is 8 years – material increase in uncertainty compared to TPCR4
- Propose removal of all RDs from Licence & use of generic methodology to agree RDs as required
  - More accurate RD as set closer to trigger point
  - Can better reflect NTS assets commissioned at the time of trigger
  - Agreed upfront process should prevent setting of RD being on the critical path for incremental capacity
  - Can be updated to reflect evolution of planning regime
    - Impact of wider consultation on route selection & consent conditions
  - Easier to reflect changes to planning standards (Transmission Planning Code)



# Revenue Drivers cntd.

- As part of our July submission, we suggested that the process should be amended to take account of developments from capacity and connections debate
- Need to consider appropriate timing of *when* to set RD



## Transitional Solution

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- There may be in flight projects or new projects between now and when / if a revised gas access model is in place
- Manage under current regime?
  - Increased constraint costs possible
- Could we develop new products to manage this that may also be suitable beyond any transitional period?
  - e.g. Long term interruptible?

## Way Forward

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- Any views or preferences from today?
- Further workgroup meeting(s) to build upon some or all of the options
- Our RIIO submission date is 2<sup>nd</sup> March 2012
  - We are keen for RIIO not to drive commercial change and would like to use the RIIO opportunity to ensure revenue drivers fit with the development of the gas access regime