Session 3 Questionnaire – Bundled Capacity

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Prevailing Capacity

For clarity EDF Energy understands that the review group agreed the topics of exit capacity were being progressed on the principle of bundled capacity and not differentiating between flat and flex capacity. We are therefore answering these questions under the assumption that flat exit capacity is referring to a bundled product.

1. Do you accept the principle of a minimum notice period for provision of Prevailing Flat Exit Capacity? Yes – provided that this was automatically transferred when a Shipper left the site and a new Shipper was registered.

    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? It would appear reasonable that in instances when NGG were able to deliver capacity before the investment lead time suggests, and this is acceptable to the requesting party than this should be promoted. In particular this should apply to capacity provision where no investment is required. A system similar to the "Top Trumps" regime employed in entry capacity may be suitable – whereby NGG can earn a "Top Trump" every time it delivers capacity early which can then be used to delay the provision of other entry capacity. If this were to be instigated than it would be important to ensure that the requesting party was aware of any delay or early provision of capacity.

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 as proposed in most of the 116 variations was acceptable.

    b. Should this period be fixed or related to any NPV criteria? It would appear reasonable to require a User commitment for 4 years or until the investment costs were recovered, which ever was the smaller.

    c. Do you believe that there should be any exceptions and if so, what and for whom? It would appear reasonable that existing sites, sites that have signed an ARCA, and those who have already paid off the cost of the investment could be exempted.

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%? The current 50% NPV test appears reasonable and aligns with the arrangements in entry.

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? This depends on the regime in the User commitment regime in place. 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 – provided adequate security was available.
   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 NGG's investment decision processes, 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 existing capacity this is acceptable as it reflects existing business practices, for new or incremental capacity however this would represent an artificial constraint.

   a. If not, what alternative would you suggest? Fixed application window for existing Users and ad hoc application for new or incremental requirements.

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?

9. 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 and automatic transfer of capacity when a new Shipper is registered to the site.

10. 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? 24 months, as supported by the CC would be acceptable, or 36 months to correlate with investment process may be acceptable.

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

    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

11. 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? Whilst theoretically efficient the questions surrounding how much this mechanism would be used needs to be raised and answered. However any solution needs to be simple and transparent and avoid the complexity associated with the original proposal.
    a. If so, how many rounds? At least two to aid price discovery

12. 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 were unduly 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.

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

    a. If so, should such reductions have a lower priority for sale than Remaining Flat Exit Capacity? Higher or equal to ensure that the UK's security of supply was protected.

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

15. Subject only to credit criteria, do you believe that any User should be free to trade capacity with another User? At an exit point this principle is acceptable, however we would expect automatic transfer when a site was transferred between Shippers. We note that a similar principle is being explored of transferring capacity across ASEPs, and given the complexity and security of supply implications associated with this we would have some concerns.

    a. For a specific term? At an exit point only.

    b. Permanently? At an exit point only.

16. Should both Transfers and Assignments (where the liability continues to rest with the original capacity holder) be permitted? Yes, although automatic transfer when the site is transferred between Shippers.

Overruns

17. 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 bidirectional 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 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?

18. 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. If this requires the appointment of an overrun User than this suggests that the methodology is overtly complex.

19. 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

20. 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.

21. 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 appears acceptable and corresponds to the arrangements in electricity.

Neutrality

20. Which costs and revenues in respect of the above should be included in Exit Capacity Neutrality? As EDF Energy 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.