
ENTRY CAPACITY TRANSFERS IN CONSTRAINED PERIOD – PROPOSED MODEL

INTRODUCTION

1. Under the current regime we are obliged to release a baseline level of capacity at each Aggregate System Entry Point (ASEP) in at least one clearing allocation (i.e. all capacity sold or made available at zero price). This provides certainty to shippers of the available capacity amounts, but does not allow the flexibility for unsold capacity to be reallocated to where users value it most once the baselines have been set at the start of a price control.
2. A simple example of this issue is where there are two entry points using the same part of the system with potentially a high degree of substitutability. Users at one entry point may not wish to purchase the full amount of baseline capacity, whereas users at the other entry point may wish to purchase capacity above the baseline set for that entry point. Under the current regime, we could release non-obligated capacity to meet additional demand, but this is likely to be impeded if we still have an obligation to sell the remaining unsold capacity at the other entry point.
3. Ofgem have therefore proposed as part of their Initial Proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between entry points.
4. In anticipation of such an obligation, this strawman presents a potential model to facilitate the transfer of entry capacity between Aggregate System Entry Points (ASEPs) in the constrained period (i.e. period for which we would be unable to complete required system investments).

OVERVIEW

5. In the event that any ASEP sells out for any month in the following Capacity Year (Apr – Mar) as part of the Annual Monthly System Entry Capacity (AMSEC) auction, National Grid NTS will hold another pay as bid auction; the Annual Monthly Transfer System Entry Capacity (AMTSEC) auction.
6. The AMTSEC auction will allow users to bid at sold out ASEPs for any unsold capacity at ASEPs within the same zone at a 1:1 exchange rate, subject to local maxima which will be determined in advance of the auction to limit the increase in buy back risk due to system constraints.
7. Bids in the AMTSEC auction will be allocated in price order (highest price first) by transferring capacity from unsold ASEPs within the zone starting with the ASEP with the lowest reserve price. Bids at each sold out ASEP must meet the reserve price set for that ASEP as used in the AMSEC auction.
8. The following sections provide more detail on each step of this potential process.

INITIATION OF TRANSFER PROCESS

9. The Annual Monthly System Entry Capacity auction will be held in January in Capacity Year Y (as opposed to February) to make available capacity up to baseline levels for the following two Capacity Years (April Y+1 to March Y+2).
10. In the event that any ASEP (defined as "Recipient ASEPs") sells out for any month in the following Capacity Year (April Y+1 to March Y+1), and there is unsold capacity at ASEPs (defined as "Donor ASEPs") within the same transfer zone (see Appendix 1) for the same month, then National Grid NTS will hold another annual auction, the Annual Monthly Transfer System Entry Capacity (AMTSEC) auction, to facilitate the potential transfer of capacity from Donor to Recipient ASEPs.

CAPACITY TRANSFER INVITATION

11. Where required, the AMTSEC auction will be held between [1 March and 20 March] in Capacity Year Y.
12. National Grid NTS will issue an invitation for the AMTSEC auction, specifying
 - a. The day on which the auction will be held
 - b. The zones for which capacity transfers are to be facilitated; the "transfer zones"
 - c. For each Recipient ASEP in each transfer zone:
 - i. the applicable reserve price (set at same level as for AMSEC auction)
 - ii. month(s) for which capacity can be applied for
 - iii. maximum amount of capacity that can be transferred for each month; the "local maxima"
 - d. For each Donor ASEP in each transfer zone:
 - i. quantity of unsold capacity for each month
 - e. The Available Transferable NTS Entry Capacity for each transfer zone and each month (based on sum of unsold capacity for each Donor ASEP in the transfer zone), subject to the Local Maximum for each Recipient ASEP.
13. The annual invitation will be issued [14] days prior to the day on which the AMTSEC auction is to be held.

LOCAL MAXIMA

14. A Local Maximum for a Recipient ASEP will represent the maximum amount of capacity that can be transferred to the Recipient ASEP in a month without a risk

of increased buy back costs due to local constraints in the transmission system capability.

15. Any required Local Maxima will be determined by National Grid NTS in accordance with principles to be defined in the IECR Methodology Statement.

APPLICATIONS TO TRANSFER CAPACITY

16. Users will be able to bid for Available Transferable NTS Entry Capacity at each Recipient ASEP(s) specifying:

- a. the identity of the User
- b. the Recipient ASEP
- c. the calendar month for which Monthly NTS Entry Capacity is applied for
- d. the amount (not less than the minimum eligible amount of 100,000 kWh) of Monthly NTS Entry Capacity applied for (in kWh/day)
- e. minimum quantity that would be acceptable (in kWh/day)
- f. the bid price (in p/kWh) which shall be not less than the reserve price at the Recipient ASEP

17. A User may have, at any one time in aggregate up to but no more than 20 monthly capacity bids for each month for each Recipient ASEP.

18. A capacity bid

- a. may not be submitted before 08:00 hours or after 17:00 hours on the day of the auction; and
- b. may be withdrawn or amended after 08:00 hours and until, but not after, 17:00 hours on the day of the auction.

19. National Grid NTS may reject a bid where

- a. the requirement of 16, 17 or 18 are not complied with; or
- b. National Grid may reject a bid in accordance with UNC Section V3

20. National Grid NTS will run credit checks during the allocation process and bids will be rejected if a User has a credit sanction in place.

CAPACITY TRANSFER ALLOCATIONS

21. Following the completion of the AMTSEC auction the Available Transferable NTS Entry Capacity will be allocated as follows;

- a. All valid capacity bids submitted for a zone (excluding any rejected bids) will be ranked in order of price (the highest priced ranked first)

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- b. The bids will then be allocated (highest priced first) until all bids have been allocated or there is no more Available Transferable NTS Entry Capacity or the nodal maxima at the Recipient ASEP has been reached (see example 1).
 - c. Where the amount of NTS Entry Capacity applied for under a bid exceeds the amount of remaining available capacity then the User will be allocated an amount equal to the remaining unallocated amount.
 - d. Where two or more bids specify the same price and the amount of relevant capacity remaining applied for in aggregate under such bids exceeds the remaining available capacity then the remaining available capacity will be allocated pro rate the amounts applied for in each such bid; (see example 2)
 - i. If after carrying out this first proration the level of capacity to be allocated to a bid at the Recipient ASEP is in excess of the nodal maxima then the bid will be partially allocated to the level of the remaining available capacity (see example 3).
 - ii. If after carrying out this first proration the level of capacity to be allocated to two or more of the bids for one Recipient ASEP is in excess of the nodal maxima then the remaining available capacity will be allocated pro rate the amounts applied for in each such bid.
 - iii. In the event that either of the above occurs then the remaining bid(s) will go through a revised allocation process with any remaining equal priced bids or in respect of the next priced bid.
 - e. Where the amount to be allocated in respect of a bid pursuant to 21 (d) is less than the minimum amount specified in the bid then the bid will be disregarded and a revised allocation will take place with any remaining equal priced bids or in respect of the next priced bid.
22. Where the amount to be allocated in respect of any bid is less than the minimum eligible amount then National Grid NTS will not accept any further bids.
23. Any bids successfully allocated will increase the relevant Users holding by the allocated quantity and be utilised in the calculation of Entry Capacity Overrun charges.
24. The User shall be liable for the quantity allocated multiplied by the allocated price.

TRANSFER OF UNSOLD CAPACITY

25. For each unit of capacity sold through the AMTSEC auction a unit of unsold capacity will be deemed transferred from the Donor ASEP.

26. In the event that there is more than one Donor ASEP then unsold capacity will be transferred first from the Donor ASEP that has the lowest reserve price (as set for the AMSEC auction).
27. If there are two or more Donor ASEPs with the lowest reserve price then capacity will be transferred pro rata.
28. The level of unsold capacity in any future auctions at the Donor ASEP will be reduced by the amount of unsold capacity deemed transferred to a Recipient ASEP through the AMTSEC auction.

INFORMATION PUBLICATION

29. National Grid NTS will, by no later than [2] days after completion of the AMTSEC auction, inform Users of their allocated bids and inform the industry of the following aggregate information for each Recipient ASEP for each transfer month:
 - a. The weighted average price of all accepted bids
 - b. The weighted average price of highest 50% bids
 - c. Aggregate allocated capacity
 - d. Highest and lowest bids accepted
 - e. Volume allocated at highest and lowest prices
 - f. Total number of shippers who submitted successful capacity bids
 - g. Total number of shipper that submitted unsuccessful capacity bids
30. For each Donor ASEP, National Grid NTS will also publish for each transfer month:
 - a. Amount of transferred capacity
 - b. Remaining Unsold Baseline Entry

TREATMENT OF REVENUES

31. All revenues generated from the sale of capacity through the AMTSEC auction will be treated in same manner as for AMSEC auctions.

APPENDIX 1. ENTRY ZONES

NORTHERN TRIANGLE

St Fergus
Teesside
Barrow
Glenmavis LNG

NORTH WEST

Hole House Farm
Point of Ayr
Partington LNG

EASINGTON AREA

Easington terminal (inc Rough)
Hornsea
Hatfield

THEDDLETHORPE

Theddlethorpe terminal

SOUTH EAST

Bacton (inc UKIC)
Isle of Grain LNG

WEST UK

Milford Haven
Dynevor Arms LNG

APPENDIX 2. ALLOCATION EXAMPLES

Example 1.

Zone A		Recipient ASEP A			
Available Transferable Capacity		75	Available capacity before Nodal Maxima reached	50	
Bid List				Remaining available transferable capacity in the zone	Remaining available capacity until Nodal maxima reached
Bid No.	Volume	Price	Allocated		
1	10	10	Yes	65	40
2	10	9	Yes	55	30
3	10	8	Yes	45	20
4	20	7	Yes	25	0
5	10	6	No	-	-

Example 2.

Zone A		75	Recipient ASEP A		50	Recipient ASEP B		45
Available Transferable Capacity			Available capacity before Nodal Maxima reached			Available capacity before Nodal Maxima reached		
Bid List					Remaining available transferable capacity in the zone	Remaining available capacity until Nodal maxima reached at Recipient ASEP A	Remaining available capacity until Nodal maxima reached at Recipient ASEP B	
Bid No.	Recipient ASEP	Volume	Price	Allocated				
1	A	10	10	Yes	65	40	-	
2	B	10	10	Yes	55	-	35	
3	A	20	9	Yes	35	20	-	
4	B	20	9	Yes	15	-	15	
5	A	10	8	Yes ¹	7.5	12.5	-	
6	B	10	8	Yes ¹	0	-	7.5	
7	A	10	7	No				
8	B	10	7	No				
9	A	10	6	No				
10	B	10	6	No				

¹ Bids 5 and 6 are equally priced and the remaining capacity in the zone (15) is less than the bid volumes (20) therefore the bids will be prorated each bid receiving 7.5 units

Example 3.

Zone A		75	Recipient ASEP A		50	Recipient ASEP B		35	
Available Transferable Capacity			Available capacity before Nodal Maxima reached			Available capacity before Nodal Maxima reached			
Bid List						Remaining available transferable capacity in the zone (after allocation of bid)	Remaining available capacity until Nodal maxima reached at Recipient ASEP A	Remaining available capacity until Nodal maxima reached at Recipient ASEP B	
Bid No	Recipient ASEP	Volume	Price	Allocated	Volume Allocated				
1	A	10	10	Yes	10	65	40	-	
2	B	10	10	Yes	10	55	-	25	
3	A	20	9	Yes	20	35	20	-	
4	B	20	9	Yes	20	15	-	5	
5	A	10	8	Yes ¹	10	5	10	-	
6	B	10	8	PA ¹	5	0	-	0	
7	A	10	7	No	0	-	-	-	
8	B	10	7	No	0	-	-	-	
9	A	10	6	No	0	-	-	-	
10	B	10	6	No	0	-	-	-	

PA = Partially allocated

- ¹ Bids 5 and 6 are equally priced and there is not enough available transferable capacity (15 units) to allocate all the capacity (20) therefore they will be prorated resulting in 7.5 units being allocated to each bid. However once this has been done Bid 6 is now in excess of it's nodal maxima so it can only be allocated the remaining capacity up to that point, which is 5 units. A revised allocation will then take place with the remaining equally priced bid resulting in Bid 5 receiving the full 10 units.