August Tx Cap/Con workgroup – Draft revised business rules / rationale for discussion

1. Comparison of PARCA security straw man with current security arrangements under UNC and ARCA

The existing 17% security model (where phase 2 works are required) was originally proposed to take the stage one revenue driver off the critical path i.e. relatively simple calculation utilising the transportation model as a basis for the approximation of PARCA phase 2 costs, where Phase 2 works were not needed the security required would be based upon 10% of an indicative UNC capacity value. Ofgem have indicated a preference for the PARCA package of changes to not introduce a licence change in this area at this time and therefore the current RIIO-T1 revenue driver approach would continue (i.e. single revenue driver triggered upon allocation of capacity, with allowed revenue 2 years in advance of capacity delivery) and that to the industry should be given the opportunity to consider having consistent security requirements regardless of whether works are required. Additionally, industry have raised concerns that using the 17% transportation model approach as a proxy for phase 2 work costs may result in the PARCA security for similar sized projects with similar phase 2 work requirements being significantly different due to the geographical variables that affect the output from the transportation model. Given this feedback we we have been exploring the potential for a change of approach for the security required under a PARCA.

The absence of a two stage revenue driver approach provides scope to de-link the PARCA security from cost of works and also provides further scope to apply consistent security requirements through the PARCA regardless of whether works are needed or not. An alternative approach is for the security required under a PARCA to be derived from capacity user commitment principles that are already well established in the regime. In the event of the PARCA being terminated within Phase 2, the security provided up to that point would then be invoiced i.e. the costs/committed spend would not be payable by the PARCA Applicant.

The following straw man illustrates how this could work from a calculation perspective:

Total PARCA security Amount Exit (£) = PARCAEXind / 100 x Qex x (365*4 + 1) (i.e. the existing Enduring NTS Exit User Commitment calculation)

PARCAEXind = the indicative NTS Exit Capacity price (p/kWh/Day) for the relevant Enduring Annual NTS Exit (Flat) Capacity at the NTS Exit Point included in the Phase 1 PARCA Works Report.

Note: This price may differ from the actual price determined at a later date and used to calculate actual transportation charges.

Qex = the maximum amount of Enduring Annual NTS Exit (Flat) Capacity to be Reserved by the PARCA Applicant (kWh/Day) as specified in the Phase 1 PARCA Works Report

Total PARCA security Amount Entry (£) = $[(PARCAENind_1 / 100 \times Qe_1) + (PARCAENind_2 / 100 \times Qe_2) + (PARCAENind_3 / 100 \times Qe_3) + (PARCAENind_4 / 100 \times Qe_4) \ldots\ldots\ldots\ldots\ldots + (PARCAENind_n / 100 \times Qe_n$

Where:

PARCAENind = the indicative clearing price for each individual quarter for the Quarterly NTS Entry Capacity requested for Quarters 1 to n where n is the last quarter of capacity requested and confirmed by the PARCA Applicant.

Qe = total Quarterly NTS Entry Capacity quantity requested in the PARCA for each day for each quarter, for the first quarter up to and including the last quarter, n, for which capacity is requested.

The security amount will be calculated within Phase 1 of the PARCA and could be phased on an annual basis (note phasing is shown for illustrative purposes only – we are now seeking further views on the phasing and straw man in general):

Y	Y+1	Y+2	Y+3	Y+n
[25]%	[50]%	[75]%	[100]%	[100]%

Where Y is the gas year within which Phase 2 of the PARCA is initialised.

If Phase 2 goes beyond [4] gas years, the security flattens out at 100% of capacity value and would need to be renewed on an annual basis. If Phase 2 is less than [4] years, for example up to and including Y+1, the security required would not go beyond 50%. The nature of both the phasing profile and the % value has potential implications for how long the customer would seek to reserve capacity for before being prepared to either purchase the capacity (i.e. capacity allocation) or terminate the PARCA, hence this also has implications for the length of time we can expect to see capacity reserved for.

The table below shows how the straw man detailed above compares with existing security arrangements.

	PARCA straw man	**ARCA**	**Existing UNC Enduring Exit**	**Existing UNC QSEC**
Security required	Annual requirement of [25]% of indicative value of capacity reserved (cumulative up to 100% i.e. year 1 = [25]%, year 2 = [50]% etc) Security requirement under PARCA ceases upon allocation of the reserved capacity. Existing UNC security requirements are then applied.	Upon agreement of the ARCA 100% of 4 years indicative value of maximum capacity quantity reserved. The Security amount, in accordance with the above, is renewed annually until the capacity is allocated to a User who is then bound by the UNC rules (see existing UNC – Enduring Exit)	UNC V3.3.4 Rolling 12 months of actual capacity value allocated i.e. each month the value of capacity booked for the following 12 months by the User is securitised (excludes DNO Users).	UNC V3.3.4 Rolling 12 months of actual capacity value allocated i.e. each month the value of capacity booked for the following 12 months by the User is securitised

It should also be noted that in addition to the security required under the existing UNC routes, the User is also financially accountable for the capacity purchased.

To further illustrate this, if we assume a simple theoretical scenario where 100 units of capacity have been requested from Y+8 (where Y is the date of the PARCA / ARCA being agreed and the date the QSEC / enduring Exit application is made) and the value of that capacity is £160 per annum, the security requirements for obtaining that capacity via each of the routes would be as follows:

		Y		Y+1	Y+2	Y+3	Y+4	Y+5	Y+6	Y+7	Y+8	
ARCA	**Activity**	**ARCA agreed**	**Capacity reserved**						**Capacity Allocated**		**Capacity Delivered**	
	Security	£640	£640	£640	£640	£640	£640	£640	£0	£160	£160	£160
PARCA	**Activity**	**PARCA Agreed**	**PARCA Phase 1**	**Capacity reserved**					**Capacity Allocated**		**Capacity Delivered**	
	Security	£0	£0*	£160	£320	£480	£640	£640	£0	£160	£160	£160
QSEC	**Activity**	**Capacity allocated**									**Capacity Delivered**	
	Security	£0	£0	£0	£0	£0	£0	£0	£0	£160	£160	£160
Enduring Exit Application	**Activity**	**Capacity allocated**									**Capacity Delivered**	
	Security	£0	£0	£0	£0	£0	£0	£0	£0	£160	£160	£160

*Note: PARCA Phase 1 Fee is required to be paid upfront (i.e. no security required, but fee is reconciled to actual PARCA Phase 1 work costs)

2. PARCA window and Ad-hoc QSEC

Following feedback we are considering introducing both a PARCA window and a PARCA triggered ad-hoc QSEC into the solution. Further detail on the rationale for potential inclusion, how we believe this could work and the interactions with existing capacity release processes follows:

PARCA Window

Purpose:

1. The "PARCA Window" is a window that provides a defined set period of time where multiple PARCAs are guaranteed to be considered together by National Grid NTS in determining how each of those PARCAs "needs" can be delivered and the potential interactions (if any). For example, where

Unsold NTS Capacity is available for reservation, such Unsold NTS Capacity will be considered equally for reservation across the PARCA that triggered the PARCA Window and all subsequent PARCAs received within that PARCA Window.

PARCA Window draft business rules:

2. Within [10] (ten) business days of initiation of the Phase 1 PARCA Works, a PARCA Window of [40] consecutive business days will be triggered, unless that PARCA is agreed within an existing PARCA window, in which case no PARCA window will be triggered.

3. A PARCA Exit Window will be triggered by a PARCA that requests NTS Exit Capacity; a PARCA Entry Window will be triggered by a PARCA that requests NTS Entry Capacity.

4. National Grid NTS guarantees that any Remaining Available NTS Capacity (including available substitution) will be considered for the PARCA that triggered the opening of the PARCA Window and all PARCA requests received and the Phase 1 PARCA Works initiated within that PARCA window.

5. Unsold NTS Entry and/or Exit Capacity will not be made available through the PARCA process and the existing UNC capacity release processes (i.e. the March QSEC and/or July Annual Application window) at the same time. Therefore National Grid NTS will not initiate the Phase 1 PARCA Works of an Entry and/or Exit PARCA whilst any Unsold NTS Entry and/or Exit Capacity, that National Grid NTS determines may otherwise be reserved through that PARCA, is being made available through the aforementioned UNC capacity release processes.

6. Where National Grid NTS determine it is not currently possible to initiate the Phase 1 PARCA Works in accordance with the above, National Grid NTS will inform the PARCA Applicant accordingly. In any case, the initiation of the Phase 1 PARCA Works will occur no later than the date upon which the relevant existing UNC Capacity release processes conclude, or where National Grid NTS determine it is able to do so, an earlier date.

7. Only one Entry and/or Exit PARCA window will be open at any one time (an Entry Window and Exit window may be open at the time.

8. Within [10] (ten) business days of initiation of the Phase 1 PARCA Works, National Grid NTS will publish:

    a. The geographical area of the PARCA NTS Exit Point and/or NTS Entry Point (or, if known, the PARCA NTS Entry Point and/or PARCA NTS Exit Point)
    b. An indicative range of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity based upon the maximum quantity of capacity requested.
    c. The indicative Capacity Reservation Date
    d. The requested Capacity Registration Date
    e. Where a PARCA Window is not currently open, notice that a PARCA Window is open for a period of [40] consecutive business days

9. Upon closure of the PARCA window, National Grid NTS will publish:

a. Notice that the PARCA window is now closed
b. The number of PARCAs requested within the window

Note: for the avoidance of doubt, the closure of the PARCA window does not prevent further PARCAs being agreed at any other time. Where a PARCA is agreed outside of an open PARCA window, the capacity requested in that PARCA will still be made available to the PARCA Applicant by National Grid NTS, however the date that requested capacity is made available from may be impacted by other PARCAs already requested and in progress.

10. Where a PARCA window has been opened, the Phase 1 Works timescales for the PARCA that triggered the PARCA Window will not be extended (i.e. the phase 1 timescales remain as up to 6 months). National Grid NTS intend that the Phase 1 Works for the PARCA that triggered the PARCA Window can progress as originally intended regardless of whether or not additional PARCAs are agreed within the PARCA window.

Ad-hoc QSEC

Purpose:

UNC (TPD B2.2.18) details the provisions for Ad-hoc QSEC auctions, which currently apply to new ASEPs only. This solution redefines the purpose of the Ad-hoc QSEC auction as an auction that allows all Entry Users opportunity at any ASEP, outside of the annual March QSEC, to signal demand for Unsold Baseline NTS Entry Capacity that may otherwise be reserved through a PARCA.

Draft Business Rules for the PARCA Ad-hoc QSEC (built upon those detailed above for the PARCA Window):

11. Where Quarterly NTS Entry Capacity is requested through a PARCA, within [10] (ten) business days of initiation of the Phase 1 PARCA Works of that PARCA, National Grid NTS will invite Users to participate in an Ad-hoc QSEC with at least 28 days notice (i.e. in accordance with current UNC provisions). In addition to the existing UNC ad-hoc QSEC invitation provisions, the invitation will include information to the industry that is pertinent to the relevant PARCA (whilst respecting commercial confidentiality) e.g. identify where Available Unsold Capacity maybe at risk.

12. Paragraph 11 will not apply where initiation of the Phase 1 PARCA Works occurs between February and March of the same gas year and the final bid window of the March QSEC has not closed.

13. The ad-hoc QSEC will not run between and including the months of February to May of the same Gas Year (to allow the March QSEC process to reach conclusion).

14. Where further NTS Entry Capacity is requested through subsequent PARCAs and National Grid NTS has published details of that PARCA in accordance with paragraph 8 above, a further Ad-hoc QSEC invitation will only be issued where the final bid window for the previous ad-hoc QSEC has closed or where the final bid window of the March QSEC has closed (i.e. two QSECs can not be run at the same time).

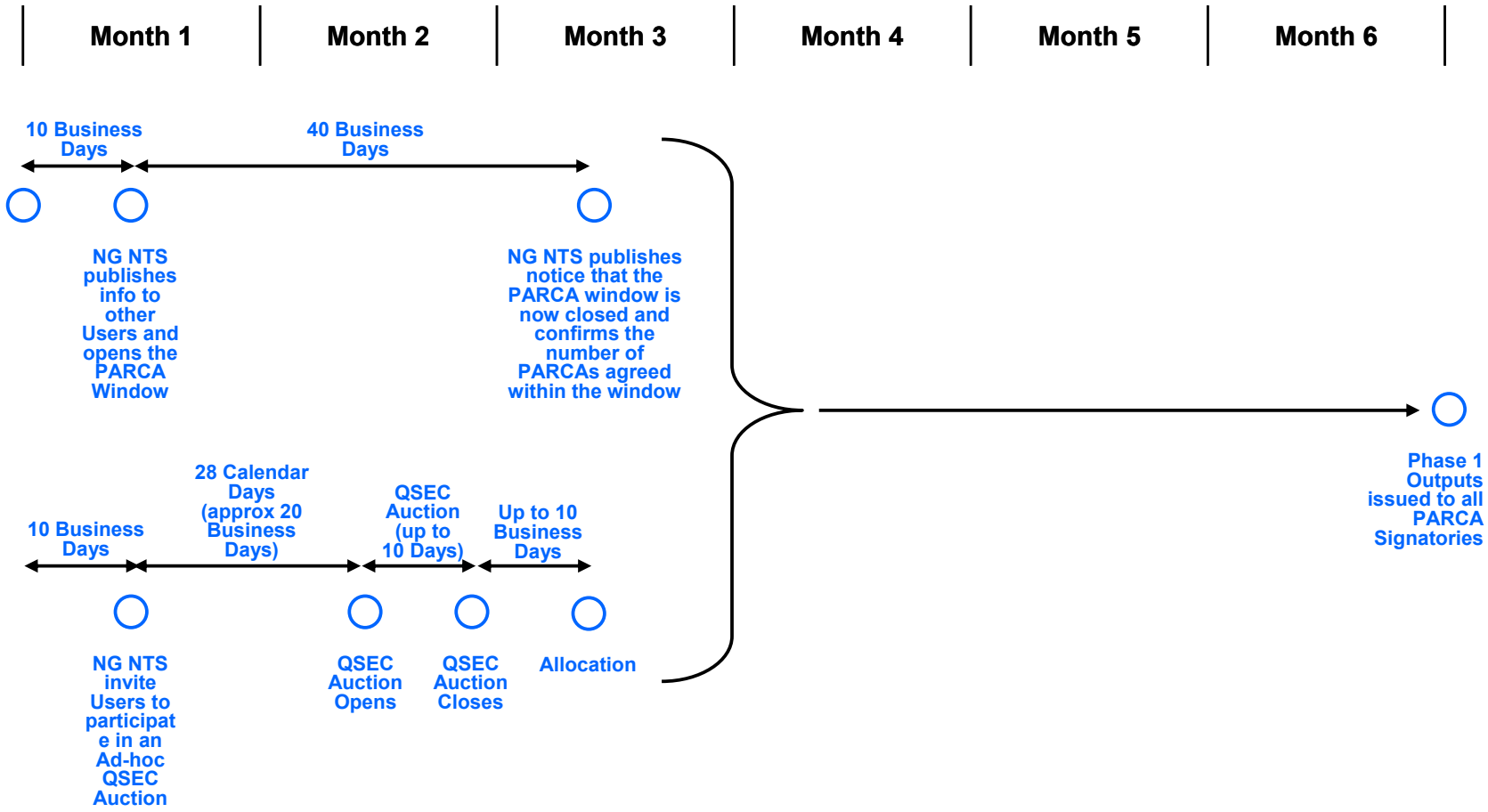
15. Only Available Unsold Baseline NTS Entry Capacity will be made available through the ad-hoc QSEC auctions, hence price steps will be published but supply levels will not (i.e. no incremental capacity will be released and no substitution will occur through the ad-hoc QSEC).

16. Given the above changes, secondary ad-hoc QSEC auctions (ref TPD UNC B2.2.18 d) will no longer be required.

17. National Grid NTS will allocate Quarterly System Entry Capacity to successful bids within [10] (ten) business days of the final bid window closing.

18. No other changes to the existing UNC Ad-hoc QSEC provisions are anticipated.

Draft Timeline of the PARCA Window and Ad-Hoc QSEC and existing UNC Capacity release processes



Draft Timeline to show interactions of existing UNC processes, the PARCA window and the PARCA Ad-hoc QSEC