Long Term Non Firm Capacity
Business Principles

Option A: Long Term Non Firm through the release of a new Interruptible Entry and/or Off-peak Exit capacity product[1]

Summary

- This option introduces a new Long Term Non Firm capacity product by extending the release of the current interruptible entry / off-peak exit products.

- These business principles assume that this product will only be made available where an Incremental Firm Entry/Exit Capacity[2] signal has previously been provided in respect of a new or existing entry or exit point (through, for example, a bilateral contract) and where the customer requests earlier access to the NTS i.e. in advance of Incremental Firm Entry/Exit Capacity delivery.

  Question: Should access to the product be limited to the user who has provided the incremental capacity signal or should it be limited only to the location where the signal has been received but available to all users?

- The existing products are currently released on a daily basis only; these business principles propose that a new capacity product is released annually with monthly tranches using ad-hoc auctions/application windows and with a reserve price of [*x*].

- The quantity of long term non-firm capacity released would be sufficient to cover the customer's capacity requirement (taking into account their obligation to utilise any firm capacity that may become available prior to each annual release) for the period up to the expected Incremental Firm Entry/Exit Capacity delivery date (the 'early capacity period'),

- An annual capacity release mechanism is proposed, since it allows greater flexibility, fits with annual capacity price setting and provides customer certainty on the basis that the capacity would be made available every year up to the Incremental Firm Entry/Exit Capacity delivery date.

- Draft Business Principles for the release of Long Term Non-Firm capacity under both the entry and exit capacity regimes are outlined below. Note that these are high level principles for discussion, and not intended to define process timings at this stage.

Business Principles

<u>Initial notification of capacity requirements (process trigger)</u>

1. The customer signals their requirement for Incremental Firm Entry/Exit Capacity in respect of a new or existing NTS Entry or Exit Point (through, for example, a bilateral contract).

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[1] **Interruptible/Offpeak Capacity** is Entry/Exit Capacity (respectively) which is subject to curtailment, with the User receiving no financial compensation for that curtailment.

[2] '**Incremental Firm Entry/Exit Capacity**' means Firm NTS Entry / Exit Capacity released over and above the existing obligated Entry / Exit Capacity levels that increases this obligation on an enduring basis.

For reference and in the context of these business principles, **'NTS Baseline Entry / Exit Capacity'** means the amount of Firm NTS Entry / Exit Capacity that National Grid NTS is obliged to make available to Users in accordance with National Grid NTS' Transporter licence (including the substitution of capacity from one ASEP to another ASEP).

2. NG NTS analyse and determine how the incremental quantity should be satisfied (e.g. via firm unsold, substitution, etc). If an NTS build decision is made, NG NTS would then ascertain whether the customer requires access to the NTS earlier than the expected Incremental Firm Entry/Exit Capacity delivery date (i.e. the ‘early capacity period’).

3. If the customer requires access to the NTS during the early capacity period, long term non-firm capacity would then be released (as outlined in the release mechanism section later).

<u>Capacity type</u>

4. The capacity released as long term non-firm would either be Interruptible Entry Capacity or Off-peak Exit (Flat) Capacity, as appropriate, each with monthly sub-transaction periods.

<u>Capacity duration</u>

5. Long term non-firm capacity would cover some or all of the early capacity period up to the estimated Incremental Firm Entry/Exit Capacity delivery date subject to demonstration date principles being satisfied for the project, where a bilateral agreement is in place. Additionally, this rule should probably be incorporated into that agreement.

<u>Capacity release frequency</u>

6. A staged release mechanism would seem appropriate, releasing up to 12 months worth of long term non-firm capacity, year ahead, in each release.

7. A staged release mechanism has a number of benefits:

    - Capacity release can be flexible; allows the customer to tailor the capacity to their requirements and to correspond with any changes made to the estimated date of Incremental Firm Entry/Exit Capacity delivery as that date approaches.

    - The customer would be able to manage their credit exposure more flexibly, as they could review their financial position on an annual basis rather than being committed for a set number of years from the start. Current UNC credit rules would apply.

    - Fits with the current charging methodology, which is carried out annually.

    - Greater customer certainty is provided; in that long term non-firm capacity is guaranteed to be made available every year during the early capacity period - the actual release mechanism would only be an annual process for the above reasons.

8. At entry, each annual release would need to be held between May/June and September, to ensure all unsold firm capacity had been utilised, where available. At exit, the annual releases would need to be held after the July Application Window, to ensure all unsold firm capacity had been utilised, where available.

<u>Capacity release mechanism</u>

9. A new Long Term Interruptible Capacity auction (entry) or Long Term Off-peak Application window (exit) would be held for the release and allocation of long term non-firm capacity

10. An annual auction/application window frequency would seem appropriate for the release of the long term non firm product, given that the existing long term auctions and application windows are held annually.

11. The capacity allocation results of the existing long term auctions/application windows would need to be taken into account when determining the quantity of long term non firm capacity to be released.

12. Prior to each annual long term non firm capacity release via auction/application window, the customer would be expected to purchase any firm NTS Baseline Entry/Exit Capacity that had become available for the next Gas Year that could satisfy all or part of the customer's capacity requirement. Should there be a bilateral agreement in place, it may be appropriate that this rule is included within the terms of that agreement.

13. Any remaining capacity requirement would be met through the release of that quantity of long term non-firm capacity.

Question: Would any information need to be published following long term non-firm capacity allocations, considering customer confidentiality?

<u>Release criteria</u>

14. A quantity of long term non-firm capacity up to the Incremental quantity signalled would be made available depending on the quantity required by the customer and whether any of that quantity could be met using non-enduring unsold firm capacity.

15. National Grid NTS will discuss and agree quantity to be released with the customer following completion of the curtailment risk analysis

16. It is required that any unsold firm entry/exit capacity that is available for the early release period would be purchased by the customer before release of Long Term Non-Firm capacity is considered. If there is any remaining unsold firm capacity available for purchase in auctions/application windows the quantity of Long Term Non-Firm to be made available would be reduced accordingly.

17. Where a bilateral contract is in place between the customer and National Grid NTS, demonstration principles must be satisfied by the dates agreed within the contract. If the demonstration date has not been met then long term non firm capacity would not be released on the next scheduled release date, or thereafter.

<u>Additional criteria</u>

18. The relevant ASEP/NTS Exit Point must already be established and set up in the Licence..

19. Current UNC credit provisions would apply.

20. System changes and impacts need to be understood.

<u>Frequency of Curtailment</u>

21. Curtailment could occur on all days on which the long term non-firm capacity is held.

22. An indication of the likelihood of curtailment would be provided, to the relevant user, for the capacity release period at each annual release although the granularity and appropriate level of detail in such a report would need to be considered.

Long term non-firm capacity pricing

23. The Auction/Application Window is suggested as 'Pay as Bid' with a reserve price set at [*x*] p/kWh/day for the interruptible/off-peak capacity, as it allows the customer to 'value' the capacity.