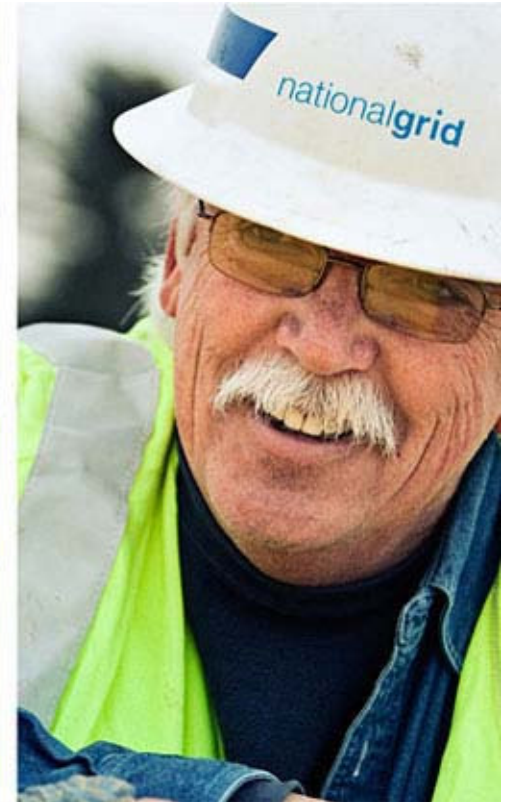


RG0252 Topic: V3.3.4 Exit capacity/VAR credit arrangements

November 2009



nationalgrid

The power of action.™

V3.3.4 Exit capacity/VAR credit arrangements

- ◆ RG252 Terms of reference - Impact of the implementation of Modification Proposal 0195AV (*'Introduction of Enduring NTS Exit Capacity Arrangements'* (changes to UNC TPD Section V))
- ◆ National Grid NTS has raised concerns previously about the above RG252 ToR – User specific issue rather than a Network Operator credit arrangement issue
- ◆ National Grid NTS suggest that discussions with regards to this topic would be better placed outside of this review group
- ◆ However, some areas for consideration have been provided by NTS

Risk Analysis

- ◆ NTS analysis indicated overall risk related to **longer term** exit capacity (Y+2 to Y+6) is low and therefore additional (Mod 0246 type) credit is not required
 - ◆ Shipper Community are not at financial risk from a DNO default
 - ◆ Licence obligations related to determining the level and utilisation of NTS Exit Capacity and these activities are appropriately funded by the Authority
 - ◆ DNO cannot choose to cancel its capacity
 - ◆ If the DNO became unable to pay its debts - obligations fall within the scope of an energy administration order and so subject to rescue or transfer prescribed by the Energy Act 2004
 - ◆ Demonstration Dates
 - ◆ Some risk of a Shipper default or a single exit point Shipper deferring capacity - more focused proposal (Mod 0261) developed to remove current UNC text enabling Users to defer NTS exit capacity commitments
- ◆ However, analysis did not look at risks associated with **short term** exit capacity invoicing/credit arrangements

Modification Proposal 0195AV (E.ON)

- ◆ 0195AV Credit Arrangements
 - ◆ Current Credit rules in respect to System Entry Capacity will be extended to NTS Exit Capacity
- ◆ Entry capacity credit rules apply to all Users that may deliver gas to the NTS
- ◆ Exit capacity credit rules also applied to all Users offtaking gas from the NTS/required to pay exit capacity charges
 - ◆ Shipper User
 - ◆ DNO User
- ◆ Potential discrimination issues with excluding a group of Users?

Modification Proposal 0195AV - Ofgem Decision Letter

- ◆ Proposal introduces user commitment for Users that trigger new investment
 - ◆ Users required to commit to pay the prevailing transmission charge for a period of four years upon commissioning of the asset
 - ◆ Four year user commitment framework would also lead to a more proportionate allocation of risk to shippers, suppliers and customers
 - ◆ Users who trigger investment in the network should bear a higher proportion of the risk associated with this investment than they currently do
 - ◆ Framework will provide NTS with more efficient investment signals/reduce the risk of NTS investing in more capacity than is required
- ◆ Robust credit arrangements are required to underpin the four year user commitment framework and the payment of exit capacity charges?