

Exit Capacity Release: User Commitment & Enduring Annual NTS Exit (Flat) Capacity Reductions.



Transmission Workgroup 1st December 2011

Background

- As part of the 2011 review of the Exit Capacity Release Methodology Statement, and at September Transmission Workgroup, National Grid sought views on aspects of User Commitment detailed in the ExCR.
- This was triggered by the effect of increases in indicative exit capacity prices, from a low initial base, and the impact this had on a User's exposure to capacity charges in certain areas of the network.

Issue: An Example

Moffat Exit Point

Date	Action	Indicative Price p/pdkWh/day	User Commitment	Daily Charge	Time taken to satisfy User Commitment amount.	Minimum exposure
July 2009 Application Window	Capacity increase (effective Oct 2012) of 1 GWh/day. (Increases obligated level)	0.0001	$1 \cdot 10^6 \cdot 0.0001 \cdot 365 \cdot 4 / 100 = \text{£}1460$	£1	4 years	£1460
July 2010	Indicative prices revised. Higher obligated level triggers price increase.	0.0154	£1460	£154	4 years / 154 = 10 days	£56210
July 2011	Reduction request.	0.0154	Rejected: User Commitment not satisfied.			
July 2012	Reduction request.	Actual price*: not yet known.	Accepted** with effective date 1 st October 2013, i.e. 14 months notice.			unknown

* The actual price may differ significantly from the latest indicative value if the current pricing review (mod 356/356A) is implemented.

** Assuming no significant reduction from latest indicative to actual price.

User Commitment

- The principles of the User Commitment are fundamental to the release of NTS capacity. For exit capacity these were developed through extensive meetings of the exit reform workgroups. In their notice of implementation of 195AV, the Authority noted that:
 - all of the 116/195 proposals (except 0116A) would introduce user commitment under which users triggering new investment would be required to commit to pay the prevailing transmission charge at that offtake point for a period of four years. The move to a four-year user commitment regime would promote efficient and economic system operation.
 - a four-year user commitment regime would provide NGG NTS with more efficient investment signals. In particular, the introduction of long term user commitment models should encourage users to consider more carefully their capacity requests. This will reduce the risk of NGG NTS investing in more capacity than is required.
 - a four-year user commitment framework would also lead to a more proportionate allocation of risk to shippers, suppliers and customers. Shippers are better placed than the network companies to manage the risks associated with whether investment should be triggered on the NTS.
- These principles have been introduced into the UNC and ExCR and are (subject to some specific exceptions) that the User:
 - pays, by way of exit capacity charges, an amount no less than four years indicative (at the time of the application) exit capacity charges [i.e. not the prevailing]; and
 - gives a minimum of 14 months notice of a reduction in its capacity allocation [i.e. at least one years prevailing charge].

Options Considered

1. Amend the Transmission charging model.
2. Revise the 14 month reduction notice period.
3. Allow User to pay off the User Commitment Amount outside normal exit capacity charges.

Option 1: Amend the Tx Charging Model

- Currently being pursued through UNC mod 356/356A to address issues with the model.
 - But has consequential impacts on this issue.
- Changes the modelled flow at exit points from “obligated” to:
 - Forecast; mod 356, or
 - Booked; mod 356A.
- Both proposals reduce the indicative exit capacity price in some areas of the network.
 - But there are increases elsewhere.
- Decision not expected until February 2012 at the earliest.
- Is this change sufficient?

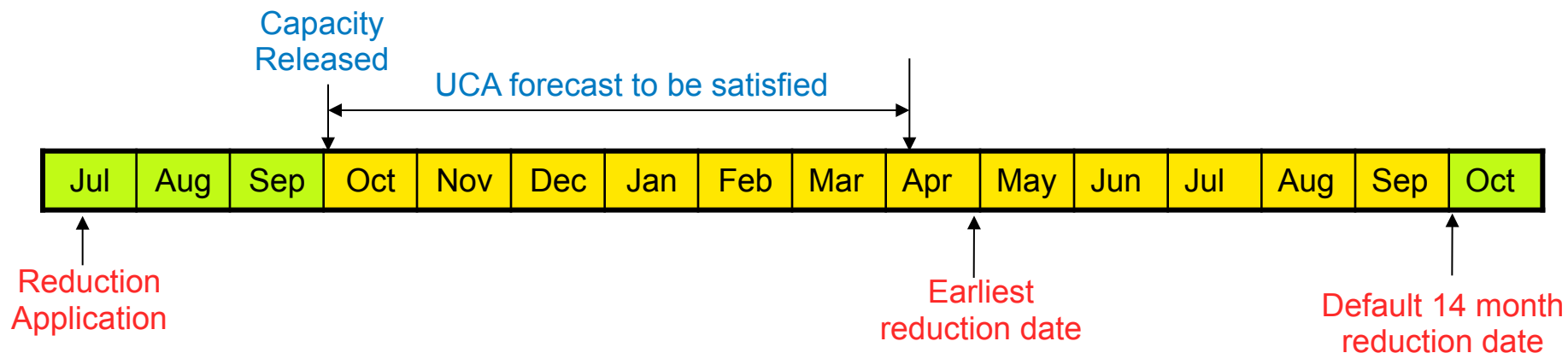
Effect of Mod 356/356A

The exposure of Shippers will be reduced if mod 356 or 356A is implemented. For the earlier example, both have been analysed and estimates produced that suggest the outcomes shown below.

Date	Action	Indicative Price p/pdkWh/day	Daily Charge	Time taken to satisfy User Commitment amount.	Minimum exposure
July 2009 Application Window	Capacity increase (effective Oct 2012) of 1 GWh/day. (Increases obligated level)	0.0001	£1	4 Years By Oct Y+4	£1460
July 2010	Indicative prices revised. Higher obligated level triggers price increase.	0.0154	£154	10 Days	£56210
July 2012	Reduction request. Accepted with effective date 1 st October 2013, i.e. 14 months notice.	Mod 356 implemented 0.0021	£21	70 days	£7665
		Mod 356A implemented 0.0044	£44	34 days	£16060

Option 2: Reduced Reduction Notice To < 14 Months.

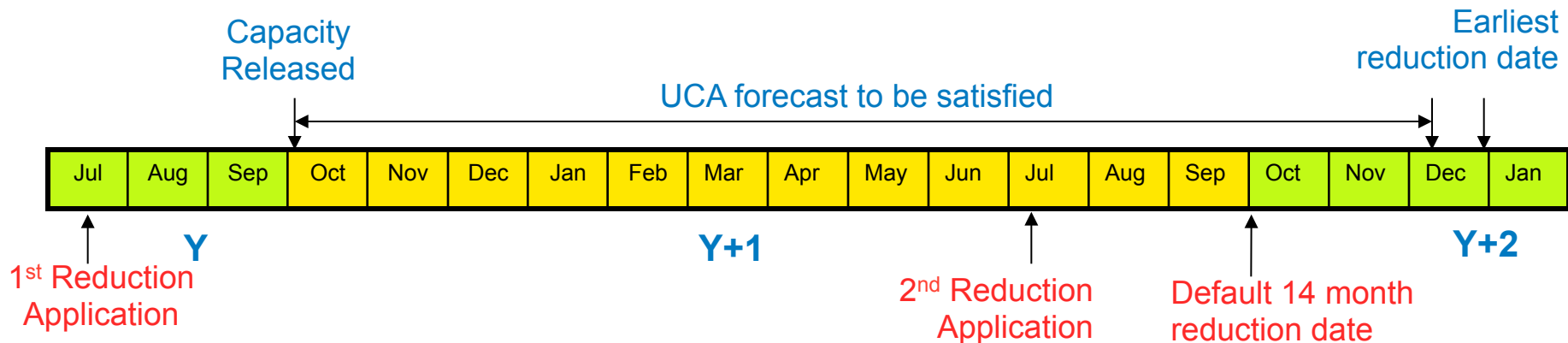
- A User sees a significant increase (>4 fold) in the indicative exit capacity price.
- When the actual price is known the User Commitment Amount will be determined to be satisfied in less than 12 months from the capacity release date.
- In this situation, a reduction will be accepted with less than 14 months notice.



- Request will only be accepted for a date after the User Commitment Amount will have been satisfied (and will be 1st of the month).

Option 2: Reduced Reduction Notice To < 14 Months.

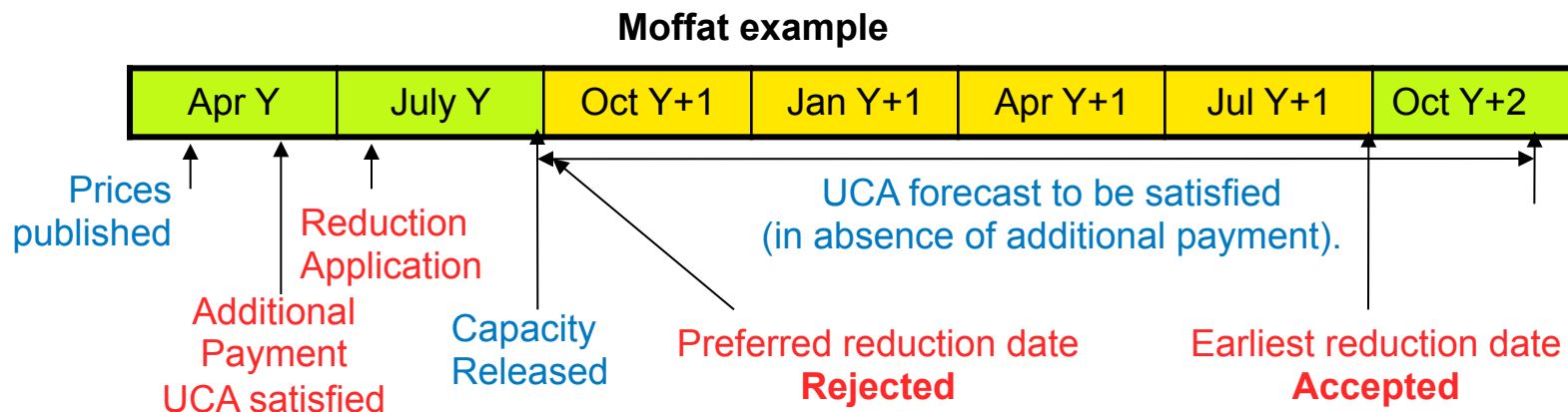
- What happens if the User Commitment Amount will be satisfied between 12 and 24 months?



- 1st reduction application will be rejected because Y+2 prices are unknown.
- 2nd reduction application will be subject to 14 month rule,
 - unless this option is extended to all scenarios where the User Commitment Amount is satisfied in < 24 months (& hence extended to cover < 48 months).
- Should this option also be extended to cover Users with initialised capacity, i.e. no outstanding UCA?

Option 3: Satisfy User Commitment Amount Outside Capacity Charges.

- A User could be allowed to pay a sum, before the July reduction window, equal to the User Commitment Amount remaining at Oct Y+2.
 - Any reduction request would not be restricted by the need to assess future exit capacity charges.
- This option does not override the 14 month notice period for a reduction, but allows early satisfaction of the UCA.
- Too late to resolve the issue for Users affected from October 2012.
 - Would have allowed reductions in July 2011 effective October 2012.



Risks and Benefits

Option 1: Amend the Transportation Charging Model.	
<p>Work already underway: to resolve issues with inputs to the model.</p> <p>Maintains the existing principles of User Commitment.</p> <p>Addresses the root cause of the issue.</p>	<p>Only partly resolves the issue for some Users: does not reduce Users' exposure to original levels.</p> <p>Risk of non-implementation of both UNC modification proposals.</p>
Option 2: Reduced Reduction Notice To < 14 Months.	
<p>In limited form, option focuses any change to affected User/locations, so limits risk of unforeseen consequences.</p> <p>Shorter notice of reductions may increase opportunity for National Grid to release non-obligated capacity.</p> <p>If extended to all scenarios, rules are concise and clearer and system development is not required (subject to confirmation of system acceptance tests).</p>	<p>In limited form, this could be seen as discriminating against initialised capacity holders and sites with "smaller" price increase.</p> <p>Rules could become complex to cover more scenarios.</p> <p>Option tends towards removal of 14 month notice period entirely.</p> <p>Shorter notice of reductions may result in unnecessary investment.</p> <p>Undermines the User Commitment, investment may not be allowed if Ofgem deem the commitment insufficient.</p> <p>Override of UC required. Could be manual, but longer term systems development required to avoid manual errors.</p> <p>Cost to be identified but would be User Pays.</p> <p>Conflict with mod 356A. July reduction notices will affect "booked capacity level" but will not feed through to prices published in May.</p>
Option 3: Satisfy User Commitment Amount Outside Capacity Charges.	
<p>Minimal impact on User Commitment.</p> <p>Allows early satisfaction of UC, without compromising User Commitment Amount, and hence allows earlier reductions.</p>	<p>Does not resolve the issue for all Users: the 14 month notice remains.</p> <p>Treatment of revenue to be confirmed, with possible change to Transportation Charging Methodology or Licence.</p> <p>Needs additional contractual terms to be developed and agreed.</p> <p>Potential systems development: User Pays.</p>

Proposal

- Progress UNC Mod 356/356A.
 - Users should understand the impact of 356/356A outcome prior to considering further changes.

- Review after 2012 application window.
 - Revised charging methodology employed
 - Enduring regime established
 - Progress on RIIO-T1