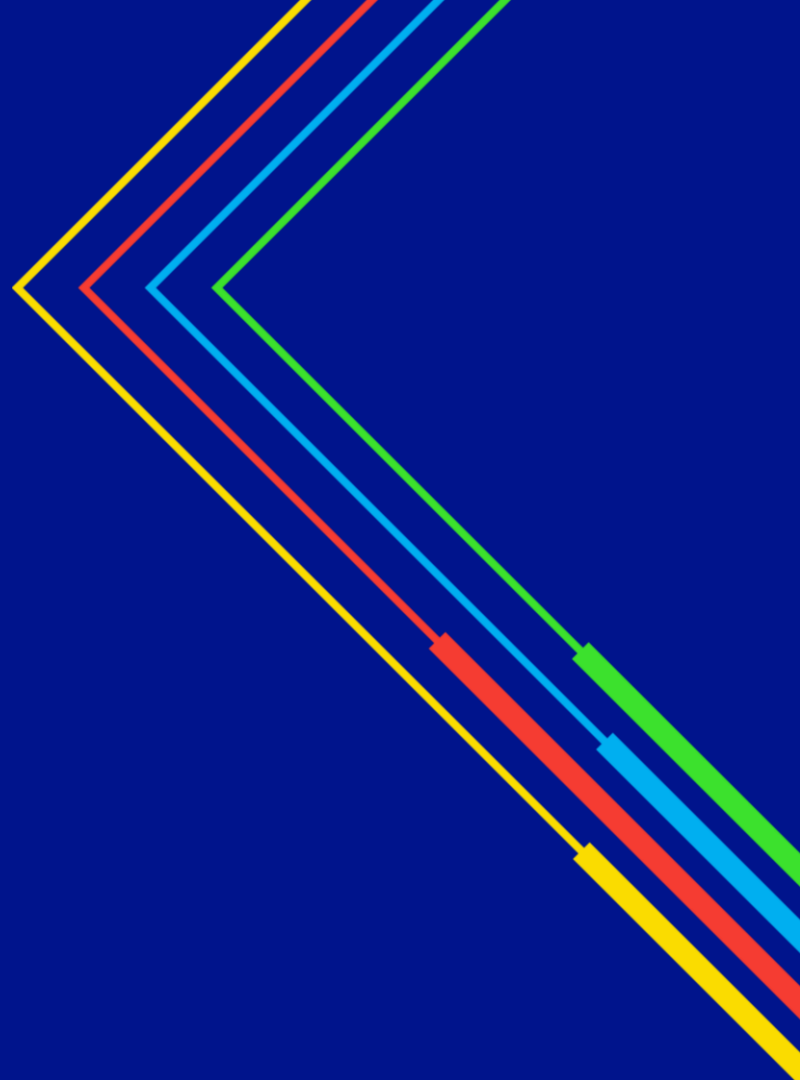


Capacity Access Review: User Commitment

Transmission Workgroup
2nd April 2020



Entry User Commitment: Current

Requirement	Capacity Commitment	Financial Commitment
Existing Capacity (PARCA)	16 quarters x application amount	
Substitution (PARCA & QSEC)	16 quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	
Obligated funded incremental (PARCA)	16 quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	Min 50% notional project cost



Industry believe:

- The capacity commitment, together with the financial commitment for Funded Obligated Incremental results in a User Commitment cost which is higher than National Grid's estimated project costs and therefore is not cost reflective.
- Capacity commitment means Users have to book up significant amount of capacity at an entry point which may not be utilised and could result in sterilising that capacity which is inefficient and uneconomic

Entry User Commitment: Option A

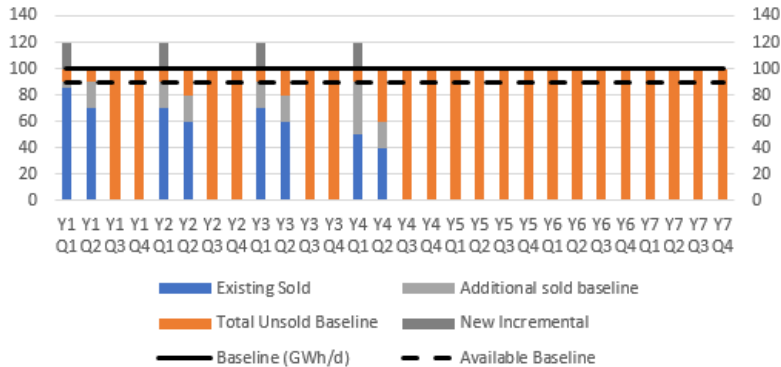
Requirement	Capacity Commitment	Financial Commitment
Existing Capacity (PARCA)	4 quarters x application amount	
Substitution (PARCA & QSEC)	4 quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	
Obligated funded incremental (PARCA)	4 quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	Min 50% notional project cost



Pros	Cons
Maintains the volume of Incremental Capacity required to be signalled	Doesn't provide the sustained baseline capacity commitment as current
Maintains the current Financial Commitment to investment	Risk that investment may not be justifiable under the Planning Act
Reduces amount of unsold capacity to be bought (compared to current)	If sufficient baseline isn't booked there is a risk that funding for the investment is disallowed
Quarters bought which are likely to be used (e.g. winter quarters)	

Entry User Commitment: Option B

Requirement	Capacity Commitment	Financial Commitment
Existing Capacity (PARCA)	4 quarters x application amount	
Substitution (PARCA & QSEC)	[8] quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	
Obligated funded incremental (PARCA)	[8] quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	Min 50% project cost



Pros	Cons
Provides a more sustained baseline capacity commitment	Doesn't provide the sustained baseline capacity commitment as current
Maintains the current Financial Commitment to investment	Risk that investment may not be justifiable under the Planning Act
Maintains the volume of Incremental Capacity required to be signalled	If sufficient baseline isn't booked there is a risk that funding for the investment is disallowed
Reduces amount of unsold capacity required to be bought (compared to current)	
Quarters bought which are likely to be used (e.g. winter quarters)	

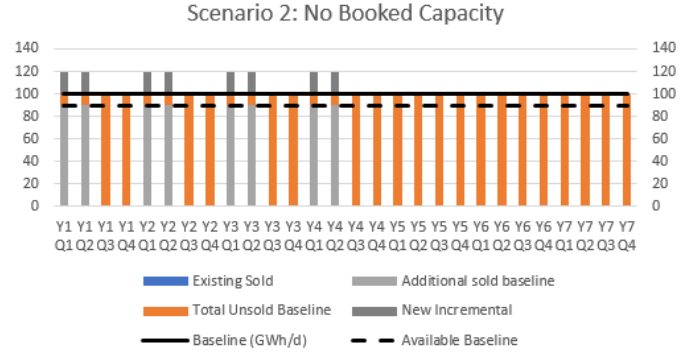
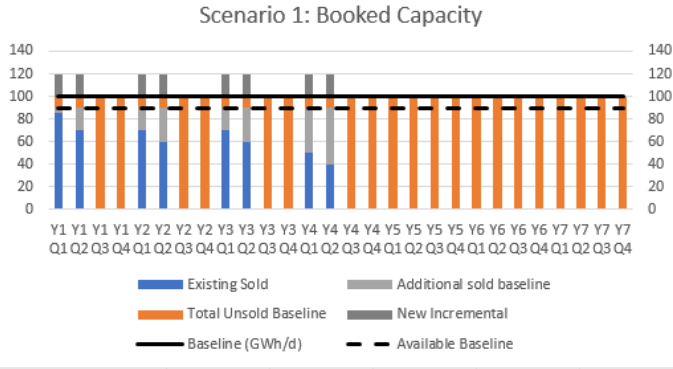
Entry User Commitment: Option C

Requirement	Capacity Commitment	Financial Commitment
Existing Capacity (PARCA)	4 quarters x application amount	
Substitution (PARCA & QSEC)	[8] quarters x application amount <i>Of which [8] quarters in 4 years is incremental amount</i>	
Obligated funded incremental (PARCA)	[8] quarters x application amount <i>Of which [8] quarters in 4 years is incremental amount</i>	Min 50% project cost

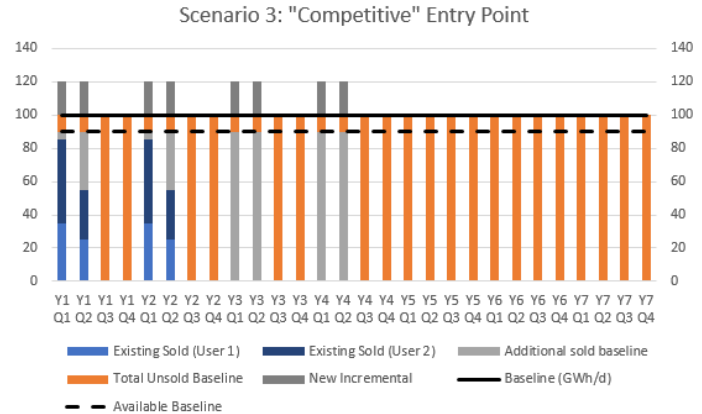
Pros	Cons
Provides greater incremental capacity commitment than current	Reduces sustained baseline commitment than current
Increased incremental capacity signalled, reduce risk that investment may not be justifiable through the Planning Act and that funding is disallow ed	Decrease of sustained baseline capacity commitment increases the risk that investment may not be justifiable through the Planning Act and than funding is disallow ed

Entry User Commitment: Option C Scenarios

This option could have different consequences depending on the underlying position in different scenarios:



Pros	Cons
In this scenario 1 (booked capacity), the amount of unsold capacity required to be bought could be reduced and more of the commitment goes towards meeting the NPV test	In Scenario 2 (no booked capacity), significantly more User Commitment would be required (buy unsold capacity to signal incremental)
	In Scenario 3 ("competitive" entry point), at entry points where there is competing Users capacity is potentially sterilised for other Users (although those users have the opportunity to purchase that capacity)



Exit User Commitment: Current

Requirement	Capacity Commitment	
Existing Capacity (PARCA)	4 years application amount	
Substitution (PARCA or Enduring)	4 years application amount	Implicitly at least one year above baseline
Obligated funded incremental (PARCA)	4 years application amount	Implicitly at least one year above baseline

The User will remain the registered User for any additional and existing EAFLEC for 4 years from the date the increased capacity allocation becomes effective (User's can't reduce until after 4 years). Except where the User Commitment is satisfied early where actual Charges paid (or to be paid) by the relevant User in respect of the NTS Exit Point equal or exceed the User Commitment Amount.

- Difficulties to accurately forecast demand 4 years ahead
- User Commitment means that Users cannot release exit capacity when no longer needed
- Overbooking capacity that subsequently is not required, for risk of substitution and 1 in 20 obligations
- Over-booking capacity would mean capacity bookings are not reflective of flows and does not enable efficient access to the NTS

Exit User Commitment: Option A

1 year User Commitment, with inclusion of a financial commitment for funded obligated incremental capacity to be signalled

Requirement	Capacity Commitment	Financial Commitment
Existing Capacity (PARCA)	1 year of application amount	
Substitution (PARCA or Enduring)	1 year of application amount <i>(with that 1 year being incremental amount)</i>	
Obligated funded incremental (PARCA)	1 year of application amount <i>(with that 1 year being incremental amount)</i>	TBC

Pros	Cons
Capacity can be used more flexibly	Doesn't provide the long-term investment signals required to plan the network efficiently
The financial commitment test provides the commitment to the obligated funded incremental capacity	Could result in additional constraint management actions being taken if NG do not build due to lack of commitment
	Potentially result in sub-optimal investment
	User's still have to predict capacity requirements 4 years ahead of requirement to book enduring capacity, although do have ad-hoc option (if still signalled through enduring product)
	Unsold capacity more at risk due to less User Commitment being required to trigger substitution

Exit User Commitment: Option B

Differing levels of User Commitment dependent on how capacity signal is met; capacity commitment more akin to Entry for funded obligated incremental

Requirement	Capacity Commitment
Existing Capacity (PARCA)	1 year of application amount
Substitution (PARCA or Enduring)	1 year of application amount <i>(with that 1 year being the incremental amount)</i>
Obligated funded incremental (PARCA)	4 years of application amount <i>(with those 4 years being the incremental amount)</i>

Pros	Cons
Long-term investment signal provided for funded obligated incremental which means efficient network planning can be achieved	Doesn't provide the long-term commitment where substitution is used to meet capacity signal
Allows access to baseline capacity with reduced User Commitment	Unsold capacity more at risk due to less User Commitment being required to trigger substitution
Greater similarities of duration of capacity commitment to Entry (4 quarters over 4 years)	
Differing levels of required User Commitment is more reflective of varying levels of risk	

Exit User Commitment: Option C

Ability to move User Commitment between Exit points within a zone for capacity below baseline.

- Coordinate increases in Enduring capacity at offtakes with the equal decrease at others within the same NTS Exit Zone where the capacity increase does not take the capacity at the increasing offtake above baseline at that offtake.
- User Commitment remains for the remaining capacity at the decreasing offtake

Pros	Cons
Allow greater flexibility for Users to book and subsequently adjust their capacity based on revised forecasts. Avoids sterilisation of capacity if it can be moved to where it is needed	Not all Exit Zones have a 1:1 exchange rate. Possible workarounds for this include: <ul style="list-style-type: none">• Allowing for the movement of an amount of capacity that a 1:1 exchange rate would be applicable• Non-standard exchange rates• Smaller zones
	Efficient long-term network planning hampered as NG would not know where capacity is going to end up

Exit User Commitment: Option D

Removal of enduring product, replacing with shorter-term applications / auctions (quarterly / monthly)

- Users would bid for capacity in competing auctions. No hand-back mechanism, Users would hold capacity for as long as they have booked it for.
- Triggering of investment signals would be required to be developed
 - Capacity duration + financial commitment

Pros	Cons
User Commitment would be inherent in the capacity booking	More significant change to regime (time / costs to implement)
User's would be able to buy the capacity they want (e.g. seasonal, monthly, quarterly)	Would rarely be "competing" auctions for Exit

national**grid**