

Developing the Capacity and connection processes – commercial changes

Transmission Workgroup
Tuesday 1st May 2012

Recap

- 31st January 2012 – we sought feedback on some initial high level options on how the gas access regime can be developed to:
 - Take into account longer lead times (Planning Act 2008)
 - Align / bundle / co-ordinate the capacity and connection processes
 - Provide greater certainty and clarity of incremental capacity
- We agreed to further consider options 1 (status quo), 2 (connect and manage) and 5 (Contractual Alignment of Timescales)

So what are we covering?

- We would like to detail at a high level the “what” and “why” of potential commercial regime changes which we believe are necessary
 - This session will largely focus on the potential commercial regime that we believe needs to be put in place via the UNC change process
- What are we seeking from you?
 - Do you believe the proposed straw man is workable?
 - What are your concerns?
 - Do you believe there are viable alternatives beyond those that we are proposing?

Key principles of potential change

- To provide alignment of National Grid NTS and customer processes in the planning act world
- To establish a stable planning need case (i.e. certainty of the incremental quantities required)
- To provide greater certainty and transparency of incremental release to both the customer and NTS ahead of a formal signal
 - Through incremental release that is User driven through a bi-lateral Pre Capacity Agreement (PCA)
- To consider change impacts as much as possible

High level proposed changes

- March QSEC and July Enduring exit windows remain as-is except:
 - No “incremental” release
 - Non-obligated release via the March QSEC and potentially the July Enduring window
- Incremental Capacity is made available through refined entry and exit application processes
 - Available to signatories (or an associate) of a bilateral PCA
 - Quantity, location and timescales agreed through the PCA
 - Refines the existing ad-hoc QSEC and ad-hoc exit enduring processes
- Development of a PCA is required as this will be a pre requisite to incremental release
- Substitution
 - Potentially introduce the option for Users to reserve capacity for substitution
 - Potentially introduce a retainer for Exit

Proposed Key changes – Baseline release

- Unsold Baseline capacity continues to be released as it is currently
- Potential for non-obligated release via the July Enduring window (already a feature of QSEC)
 - Allows the opportunity to signal demand for capacity over and above obligated levels outside of the incremental process
 - National Grid NTS discretion (ex post) as to the release quantity

Baseline processes summary

	Baseline Release Mechanism - Entry		Baseline Release Mechanism - Exit	
	Current	Straw man	Current	Straw man
Product	Quarterly (Y+2 to Y+16)	Quarterly (Y+2 to Y+16)	Enduring evergreen (Y+4 onwards for July process, 6 months out for ad-hoc)	Enduring evergreen (Y+4 onwards for July process, 6 months out for ad-hoc)
Frequency	Annual - March	Annual - March	Annual – July, Ad-hoc October to June	Annual – July, Ad-hoc October to June
Auction type	Clearing price	Clearing price	Application - fixed price	Application - fixed price
Stability measure	Yes	Yes	n/a	n/a
User commitment	Users committed to the Capacity booked; NPV for capacity met through substitution	Users committed to the Capacity booked; NPV for capacity met through substitution or alternative? e.g. over a 32 quarter period, 16 quarters must be booked to incremental level.	Up to 4 years	Up to 4 years
Default Baseline Lead Time	Y+2	Y+2	M+6 to Y+6	M+6 to Y+6
Capacity "type"	Incremental / Baseline / non-obligated	Baseline / non-obligated	Incremental / baseline	Baseline (fixed amount) / non- Obligated
Substitution	Yes	Yes	Yes	Yes
bid/application pro ration?	Yes	Yes	No	Yes
DN adjustment window	n/a	n/a	Yes	Yes

Substitution

- Unsold quantities, and hence substitution availability, may vary throughout the PCA lifecycle.
 - May result in unstable incremental capacity quantity needed
 - Leads to a risk that a planning application becomes invalid due to need case changing
- The customer and National Grid NTS need to understand the level of investment needed at the earliest opportunity in order to inform the end to end process
- Would the introduction of a Substitution “reservation” for entry and exit aid this process?
 - Allow a User to reserve unsold capacity for substitution prior to providing the incremental signal
 - Refundable fee?
 - Held at the same time as the retainer process (currently Entry only)? Interaction with substitution retainer – what should the merit order be e.g. retainers take priority over reservations?
 - Substitution retainer introduced on Exit?
- Are there any alternatives that provide a stable need case?

Proposed key changes – Incremental release

- Incremental release available through refined application processes
 - Available to PCA signatories (or an associate e.g. Shipper allied to a developer)
 - Subject to demonstration information being satisfied
- Allows agreed release of incremental to specific Users at specific locations to agreed quantities and timescales through a User driven process
- Incremental Entry Capacity release through the existing ad hoc QSEC process
 - Currently only permitted for new ASEPs but would be broadened to allow incremental to be triggered at any ASEP (subject to PCA)
- Incremental Exit Capacity release through the enduring ad-hoc process
 - Potential to remove 125% and 1 GWh limit – may not be needed due to PCA being a pre requisite for incremental release
 - Ad-hoc utilised for both incremental and unsold baseline release but likely to be through separate ad-hoc applications

Incremental processes summary

	Incremental Release mechanism - Entry		Incremental Release mechanism - Exit	
	Current	Straw man	Current	Straw man
Product	Quarterly	Quarterly	Enduring evergreen	Enduring evergreen
Frequency	March (Annual) for existing ASEPs. Ad hoc QSEC auctions for new ASEPs.	ad hoc for all ASEPs at a pre agreed date	July (Annual) and October to June via the Ad-hoc process (October to June)	ad hoc only – October to June but specific date can be agreed through PCA
Auction type	Clearing price	Clearing price	Application - fixed price	Application - fixed price
Stability measure	Yes	Yes	n/a	n/a
User commitment	NPV - 32 Quarters	NPV - 32 Quarters	Up to 4 years	Up to 4 years
Default Incremental Lead Time	42 months (Licence defined)	Agreed through PCA (default obligation of Y +2)	Y+4 default	Agreed through PCA (default obligation of Y +2)
Capacity "type"	Incremental, baseline & non-obligated released through same process	Incremental (unsold baseline may also be available)	Incremental & baseline released through same process	Incremental (unsold baseline may also be available)
Substitution?	Yes	No – only applies to baseline process	Yes	No – only applies to baseline process
Bid/application proportion?	Yes	No	No	No
DN adjustment window	n/a	n/a	Yes	No
Quantity	normally up to 150% of baseline	As agreed through the PCA	No limit	As agreed through the PCA

Transitional

- Transitional – what do we mean?
 - In flight projects that may have planning consent (or planning consent not needed) but are yet to provide an incremental capacity signal
 - We intend to hold specific sessions with those customers we are aware of who have in flight projects
- What options do we have to manage transitional incremental requests?
 - Seek to introduce long term non-firm capacity product?
 - May benefit industry as product in its own right i.e. not just a transitional solution
 - No guarantee it will always be available
 - What granularity? Annual? monthly or annual product?
 - Allow connection and firm capacity release to current lead times (42 months Entry, 38 months exit)?
 - May require revised incentive arrangements (we' ll cover this later)
 - Discretionary Incremental release?
 - National Grid NTS release incremental where possible, but discretion over such release

Other considerations

- Europe – e.g. CAM and CMP development. Watching brief, may impact upon the solution we develop.
- Systems – e.g. Gemini may need to be developed
- Other industry UNC modifications – unknown, but may impact
- RIIO-T1 – SO incentives, TO submission subject to change and consultation
- Replace ARCAs with PCA
- Charging impacts

Next steps

- Potential draft UNC modifications could be developed:
 - Alignment of capacity and connections
 - Long term “non-firm”
 - Substitution – introduction of a substitution “reserve” for Entry and Exit and an Exit “retainer”
 - April 2013 achievable?
- Development of Entry and Exit capacity release and substitution methodology statements
- Development of generic PCA
- Organise specific sessions with customers who have in flight projects
- Next meetings and Agenda – July?
- Any others?