

Planning & Advanced Reservation of Capacity Agreement (PARCA) Overview

National Grid Transmission



Contents

- About this document..... 3
- Summary & Introduction 4
- Chapter 1 - Drivers for Change 6
 - Current regime and the impact of the Planning Act 6
 - The Cost of Doing Nothing 8
 - Our Stakeholders’ View of these Drivers for Change 10
 - What our Stakeholders Want 11
- Chapter 2 - Options Considered and PARCA Benefits 12
- Chapter 3 - Features of the PARCA Proposal..... 20
 - a. PARCA Overview 22
 - b. Lead time for the delivery of Funded Incremental NTS Capacity..... 23
 - c. Capacity Reservation..... 24
 - d. PARCA Application Window 25
 - e. Ad-hoc QSEC Auction 26
 - f. PARCA Phases & Contract Structure..... 28
 - g. Demonstration Information 29
 - h. PARCA Financial Proposals..... 30
 - i. Termination of a PARCA 34
 - j. Impact upon and Interactions with the existing Capacity Auction / Application Processes..... 35
 - k. Interaction with proposed European Codes 36
 - l. Incentives proposals 36
 - m. Publication of information 37
- Chapter 4 – Implementing the PARCA Proposal 38
 - a. Uniform Network Code 38
 - b. National Grid’s Gas Transporters Licence..... 39
 - c. Exit Capacity Release methodology statement (ExCR) 40
 - d. Entry Capacity Release methodology statement (ECR) 41
 - e. Exit Capacity Substitution and Exit Baseline Revision methodology statement (ExCS)..... 41
 - f. Entry Capacity Substitution methodology statement (ECS) 42
 - g. Entry Capacity Transfer and Entry Capacity Trade methodology statement (T&T) 42
 - h. Generic Revenue Driver Methodology Statement..... 42
 - i. Systems / Processes 43
- Appendix 1 – How our customers and Stakeholders have shaped the PARCA Proposals..... 44
- Appendix 2 – Detail on PARCA Alternatives 46
- Appendix 3 – PARCA Phases 49
- Appendix 4 – Demonstration Information Requirements 54
- Appendix 5 – Security Calculation..... 55
- Appendix 6 – Publication of PARCA Information 56

About this document

This PARCA overview document sets out National Grid Gas plc's ("National Grid's") proposed approach to changing the long term Gas Access arrangements within the gas transmission commercial and regulatory frameworks that govern how NTS Entry and Exit Capacity is released to our customers.

The proposed approach focuses on our customers' requirements and the impacts of the Planning Act 2008. We are proposing to introduce a Planning & Advanced Reservation of Capacity Agreement (PARCA) into the commercial and regulatory framework, which would allow UNC parties and project developers to signal their long term capacity requirements in the early stages of their own project development through a consistent, transparent, certain and flexible process.

This PARCA overview document has been produced to provide Ofgem with further information and rationale on the PARCA proposals in order to inform their decision when considering the implementation of UNC Modification Proposal 0452 and the associated changes to our Gas Transporters Licence and our NTS Entry and Exit Capacity Release and Substitution Methodology Statements. We also recognise that the content of this document may also be of interest to industry stakeholders to allow them to better understand the different elements of the PARCA proposals and how they interact.

An alternative to UNC Modification Proposal 0452 has been proposed by SSE plc (UNC Modification 0465 – Introduction of the Planning and Advanced Reservation of Capacity Agreement (PARCA), Weighted Average PARCA Security). This modification retains the majority of the elements described in UNC Modification Proposal 0452, and this overview document, with only the proposed level of customer security provision being different.

The majority of the aspects detailed in this document have been consulted upon and developed with our stakeholders through monthly UNC Transmission Workgroup meetings, bilateral meetings and customer seminars. The supporting material has been published on our dedicated Capacity and Connections webpage

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/>

This overview of the PARCA proposals is not intended to be a formal consultation, however we welcome any further points raised by our customers and stakeholders as a result of the publication of this document and we remain committed to listen and will respond to such further points.

If you require further details about any of the information contained within this overview document, or if you wish to raise any issues that you believe are not suitably covered, please contact our UK Transmission Gas Charging and Capacity Development team at box.transmissioncapacityandcharging@nationalgrid.com or by post to:

Steve Fisher
Gas Charging and Capacity Development Manager
Transmission Network Service
NG House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Summary & Introduction

The Planning Act 2008 “the Planning Act”, which came into effect in December 2008, introduced a new streamlined process for planning decisions for Nationally Significant Infrastructure Projects (NSIPs), which includes gas pipelines.

The Planning Act introduces more intensive pre-planning application activities meaning that the views of stakeholders are included in the process earlier, improving the certainty of the outcome. A greater level of earlier engineering design activities and wider community consultation processes are also required which means that the time required to complete the overall planning process for a major infrastructure project has increased.

National Grid supported the implementation of the Planning Act. However we have previously raised concerns that an infrastructure project required to increase the capability of our gas transmission system, following customer requests for Incremental NTS Entry and/or Exit Capacity, was unlikely to be delivered within the obligated lead times currently defined in our Gas Transporters Licence. Under such a scenario, we may be required to undertake constraint management actions, potentially resulting in constraint management costs for ourselves, the industry and end consumers.

We currently have a range of tools at our disposal to mitigate potential constraint management costs, such as our Lead Time Incentive, (also known as permits). This incentive was devised to allow National Grid to “fine-tune” the current NTS Entry and Exit Capacity lead times (of 42 and 36 months respectively) to accommodate more challenging construction projects. We recognise that the lead time incentive potentially affords National Grid the ability to positively affect the impact of the Planning Act on the likelihood of constraint management actions, however in response to our customers’ feedback following the introduction of the Planning Act we do not consider that the lead time incentive provides the timely, certain or transparent process that our customers require to invest in their own projects.

During the process of developing our RIIO-T1 business plan, we discussed both NTS Capacity and NTS Connections with our customers and stakeholders through our Talking Networks events. **Chapter 1** of this PARCA overview document provides more detail on the impact of the Planning Act on development of major gas infrastructure projects, what our customers and stakeholders have said is important to them and, as a result, we believe that it is appropriate to change the existing NTS Capacity regime.

Through our stakeholder engagement programme, we sought and received views on the options available to introduce changes to the gas access framework, with a focus on how to make the NTS Capacity release processes more certain, transparent and economic for all parties.

These options were further developed through working closely with our stakeholders. As a result several options were discounted where our stakeholders felt the options did not offer suitable benefits, were too complex and where they did not align with other developing industry changes such as the proposed European Codes. We are now in a position to submit a proposal for commercial and regulatory change that we believe improves the gas access arrangements with respect to long term capacity release, and which reflects the needs of our customers.

We propose to broaden and combine our existing Planning Consent Agreement (PCA) and Advanced Reservation of Capacity Agreement (ARCA) contracts to introduce a Planning & Advanced Reservation of Capacity Agreement (PARCA). The PARCA will be available to both UNC parties and project developers and allows the reservation of NTS Exit and /or Entry Capacity ahead of its purchase by a UNC party.

Chapter 2 explains the options that we considered with our customers and stakeholders and provides more information on why we are proposing the PARCA solution. We have also provided an assessment of the benefits and impacts of the PARCA proposals.

A PARCA will enable customers to approach us early in their project’s lifecycle and reserve NTS Entry and / or Exit Capacity without the need to fully commit to the formal capacity booking at that stage. It will help to align a customer’s project timelines and planning requirements with our own in order that the respective projects can progress together. A PARCA will provide customers with greater certainty of when their NTS Capacity will be delivered, should their own project progress to completion and

allows them the flexibility to either align their NTS Connection and NTS Capacity processes, or to keep them separate.

Chapter 3 provides further details on the benefits and features the PARCA proposals, including

- what our customers would need to do,
- what services and information we would provide to customers and the market,
- what the phases of the PARCA contract would be,
- what types of capacity could be reserved through the PARCA process
- what the funding, security and payment arrangements would be

Implementing PARCA through the proposed UNC modification is accompanied by a suite of proposed changes to other documentation that require an Ofgem decision. These include our Gas Transporters Licence and our Entry and Exit Capacity Release and Substitution Methodology Statements.

Chapter 4 summarises what those changes are, and what the other implementation impacts are for industry parties.

Chapter 1 - Drivers for Change

The primary drivers for the proposed change to the gas access arrangements outlined in this document are

- the requirements of our customers for a clear, flexible, transparent and more certain long term capacity process, and
- the impacts of the Planning Act, which introduced a new process for obtaining planning permission for major infrastructure projects, including gas pipelines.

Through the discussions that we have held with our customers and stakeholders over the last two years, they have told us that the existing NTS Capacity processes should be redefined in a similar way to the recently implemented NTS Connection offer process. By introducing the proposed change, we would be able to better meet our customers' requirements by introducing consistency between the NTS Capacity and NTS Connection processes and enabling them to be aligned, thereby improving our customers' own commercial decision making process.

This chapter describes:

- How the Planning Act has led to increased timescales for the development of major infrastructure projects and how we have achieved industry consensus on the impact through our stakeholder engagement.
- How this may impose risk of increased constraint management costs on National Grid, the industry & end consumers given our existing capacity release obligations as defined in our Gas Transporters Licence. We have provided an example of the potential risk and cost of constraint management actions for a single power station connection, in the absence of a change to the regime, and the effectiveness of the tools that we currently have available to mitigate this risk.
- Our customers' views on the current long term NTS Capacity processes and how these should be better defined in a similar way to that introduced for NTS Connections through UNC Modification 0373 (Governance of NTS connection processes). It includes their views on developing a clear, simple, flexible process which would provide certainty as to when NTS Capacity could be made available and would allow customers to financially commit to that capacity, once they have surety that their own development / project will progress.

Current regime and the impact of the Planning Act

Under the current regime, we have an obligation under our Gas Transporters Licence to release Funded Incremental NTS Entry Capacity in 42 months from the month following capacity signal and Funded Incremental Obligated NTS Exit Capacity in 36 months from the October following the allocation of that NTS Exit Capacity. The release of Funded Incremental Obligated NTS Capacity can only be triggered by our customers' signalling demand for NTS Entry Capacity through Quarterly System Entry Capacity (QSEC) auctions, and signalling demand for NTS Exit Capacity through Enduring Annual NTS Exit (Flat) Capacity applications (for UNC parties) or a bi-lateral Advanced Reservation of Capacity Agreement (ARCA) (for non UNC parties).

The release of Funded Incremental Obligated NTS Entry Capacity is subject to a Net Present Value test and the release of Funded Incremental Obligated NTS Exit Capacity is subject to a NTS User Commitment level equivalent to 4 years of Exit Capacity charges

Should a customer provide a signal for NTS Capacity that would trigger the release of Funded Incremental Obligated Capacity, this can be partly, or fully, met through the substitution of Unsold Baseline NTS Capacity from other NTS Points. The Net Present Value test and User Commitment principles described above also apply to NTS Capacity provided via substitution.

The Planning Act legislation requires the developers of major infrastructure projects to undertake extensive work early in the planning process, to consider all potential options and alternatives to investment in order to ensure that projects are well justified. Developers are also required to consult with communities affected by the proposed project and to act upon their views and concerns before the project is considered by The Planning Inspectorate and ultimately passed onto the Secretary of State for Energy and Climate Change to decide whether a Development Consent Order (DCO) should be granted. This means that the overall timeline for the full planning and construction process is likely to be extended when compared to the previous planning consent regime.

For complex construction projects, we currently estimate that the time required from the point of a formal capacity signal to delivery of that capacity could be between 72 and 90 months. The table below shows the stages and their approximate timescales for gas infrastructure projects. The actual timeline duration will depend on the nature and complexity of the project, and is likely to be shorter when a Development Consent Order (DCO) is not required.

In the table below, the Planning Act timescales are shown sequentially. It is possible that certain activities can overlap which will reduce the end-to-end timeframe and these are likely to vary on a project by project basis.

Planning Stage		Activity	Maximum Stage Duration (months)	Aggregate Duration (months)
1a	Strategic Optioneering	Establish the need case and identify technical options	6	6
1b		Develop Strategic Options Report (SOR)	6	12
2	Outline Routing and Siting	Identify Preferred Route Corridor / Siting Studies	15	27
3	Detailed Routing and Siting	Undertake EIA (Environmental Impact Assessment) and detailed design	24	51
4	Development Consent Order (DCO) Application			
5	DCO Application, Hearings and Decision	Submission and examination	15	66
6		Approval process		
7	Construction	Construction of Infrastructure in line with Planning Permission	24	90

Given the timescales described, it is unlikely that new infrastructure to increase the capability of our gas transmission system could be built (where a Development Consent Order is required), in order to support the Funded Incremental NTS Entry & Exit Capacity provided to customers within the obligated lead times that are currently defined in National Grid's licence.

We shared our view of the timescales imposed by the Planning Act on major gas infrastructure projects during the extensive stakeholder consultation as part of our RIIO-T1 business plan submission, during 2011.

The views of our stakeholders were captured and documented in the report created by Brunswick (who facilitated and documented some of our engagement programme):

“Many stakeholders expressed deep concerns about the significantly increased timelines that are likely to result from the [Planning] Act. A concerted effort is required across the industry to ensure that the connections and capacity processes can operate as smoothly as possible and minimise lead times in the future.....Many stakeholders believed that a seven year project timeline is not workable. Stakeholder representing organisations that had been through this process themselves thought the timescales looked realistic.”

Brunswick report of workshop dated 9th Nov 2011

This has been reiterated in the industry discussions we have had with our customers and stakeholders since 2011, for example one stakeholder commented that

“the Planning Act has given rise to the need for change; the market has therefore changed and the context (for revising the capacity regime) needs re-assessment to reflect that development timescales will be more protracted”

UNC Transmission Workgroup Minutes - Tuesday 18 September 2012

The Cost of Doing Nothing

National Grid has an obligation in our Gas Transporters Licence to release Funded Incremental Obligated NTS Entry Capacity in 42 months from the month following capacity signal and Funded Incremental Obligated NTS Exit Capacity in 36 months from the October following allocation of that NTS Exit Capacity.

If Incremental NTS Entry and/or Exit Capacity were to be released to these timescales, and we were unable to build the necessary supporting infrastructure in time, we may be required to instigate constraint management actions. This creates uncertainty for our customers and may generate constraint management costs for National Grid, the industry and ultimately the end consumer.

As part of Transmission Workgroup action TR0601, National Grid analysed the impact of connecting new sites to the NTS without the necessary investment. This analysis calculated the likely occurrences of NTS Capacity constraints, based upon a range of future supply and demand patterns, should these new sites connect to the NTS without any associated system reinforcement. From this analysis, an approximate constraint management cost could then be calculated. A range of new sites, including new CCGTs, storage sites and entry points which were anticipated to connect to the NTS during the RIIO-T1 price control period, were considered as part of this analysis. For the purposes of this PARCA overview document we have refreshed this analysis to focus on an illustrative example

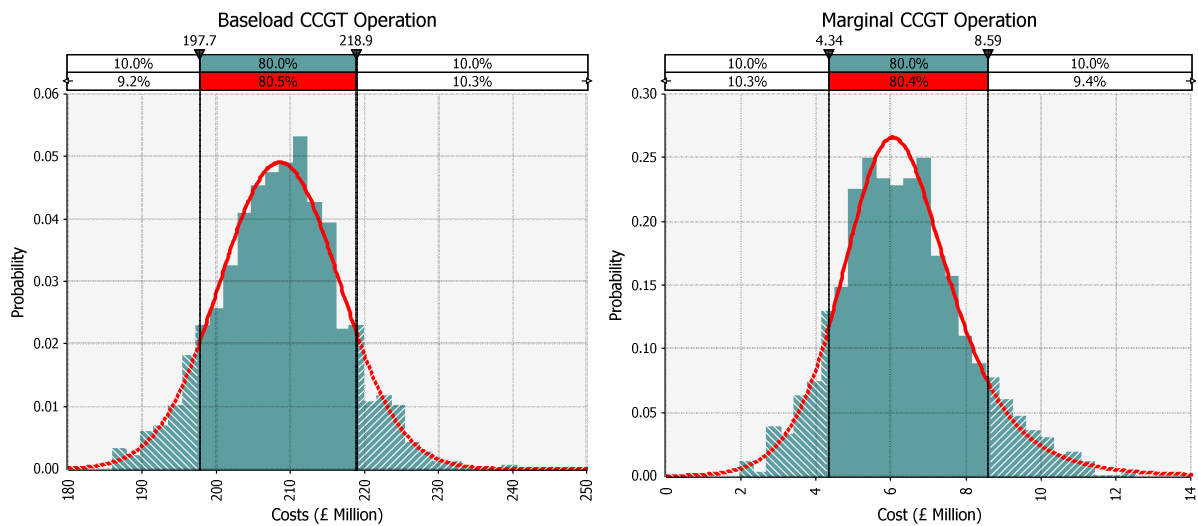
[REDACTED]

[REDACTED]

This updated analysis has used a similar methodology to the constraint management analysis modelling used for our RIIO-T1 business plans, whereby a large range of updated potential future supply and demand patterns were considered, and assessed against existing NTS capability (assuming an intact network i.e. no compressor or pipeline maintenance outages) using Monte Carlo analysis to produce a constraint forecast. In addition, two different assumptions as to how the newly connected facility could operate alongside neighbouring power stations [REDACTED] were also included. These were as follows:

1. The power stations provide baseload electricity generation
2. The power stations provide marginal electricity generation

All analysis was conducted using end of day demand flows (which is an approximation to real-time operations) and a range of annual constraint management costs was calculated for both modes of CCGT operation using the same methodology as set out in our RIIO-T1 submission. This is shown in the graphs and table below:



	Costs (£million/ year)		
	P10	P50	P90
Baseline Operation	198	209	219
Marginal Operation	4	6	9

The annual constraint management costs included in this example are based upon the behaviour of these power stations only, and do not include wider constraint management costs for other connected NTS demands [REDACTED]. This analysis also does not take into account any additional factors or costs that may result from the implementation of Electricity Market Reform.

The potential annual constraint management costs as a result of this single large connected load are considerable, as the table shows, approximately £200m per annum. If the total annual constraint management costs incurred by National Grid are in excess of the cap on our constraint management incentive, the costs will be shared by all NTS Users and ultimately end consumers.

This example is not based upon a single worst case scenario, as a wide range of localised supply and demand patterns have been considered and analysed. It has been provided to highlight the potential level of annual constraint management costs that may be required in each year should Incremental NTS Exit Capacity for a large power station be released [REDACTED] and we are unable to complete necessary levels of network investment. [REDACTED]

As previously described, our lead time (permits) incentive was devised to allow us to “fine-tune” the current capacity lead times to accommodate more challenging construction projects. Given the increased timescales required to complete a major infrastructure project, we consider that the permit incentive is no longer the most appropriate long term solution for a timely, certain or transparent process, which our existing customers and potential new connectees require to invest in their own projects.

For this example, a total of 4,716 permits would be required to extend the 36 month lead time for the provision of the capacity to 72 months (131GWh/d x (72-36) months). If we assume a value of £5,000 per permit, the value of the permits for this single connection alone would equate to approximately £24m.

Our Stakeholders' view of these Drivers for Change

National Grid held a series of stakeholder consultations through our Talking Networks Events as part of the development of our RIIO-T1 price control submission. It was clear through these and subsequent industry discussions, that the majority of our stakeholders agreed with our assessment of the impact of the Planning Act on infrastructure build times, and that the majority of stakeholders considered a change to the current arrangements for obtaining NTS Capacity would be beneficial.

Following the implementation of UNC Modification 0373 (Governance of NTS Connection Processes), which described an improved process for obtaining an NTS Connection offer and incorporated this into the UNC, some of our stakeholders told us that they believe there is benefit in an equivalent process for the application for, and allocation of, NTS Entry and Exit Capacity as the current processes were overly complex, and understood by few.

As new connectees will require both a NTS Connection and NTS Capacity, they told us that any proposed change to the NTS Capacity regime should introduce consistency between the two processes, and should allow for greater alignment so that customers can progress these together if they so desire.

The current long term NTS Entry Capacity Auction and NTS Exit Capacity application processes require our customers to financially commit to any capacity signalled, potentially many years in advance of delivery of the associated capacity. Given the increase in the timescales required to build NTS infrastructure projects there is potential that, in order to guarantee timely delivery of capacity, our customers would have to provide this commitment at a very early stage of their own project development and therefore subject to a high degree of uncertainty.

Our customers told us that any new process for the application for, and allocation of, long term NTS Entry and Exit Capacity should be flexible enough to allow them to provide a signal for NTS Capacity without having to financially commit to the capacity at that stage. This would allow them to manage the uncertainty of their own project without exposing themselves, or rest of the industry, to the unnecessary financial risks associated with providing a signal for NTS Capacity without, for example, first obtaining full planning permission for their project / development.

When we discussed the increased timescales for delivering NS infrastructure projects, we presented our stakeholders with a number of options that could be explored to facilitate the early release of NTS capacity, such as accelerated construction. Design and construction works are ordinarily completed during normal working hours and this generally meets most of our customers' requirements. Sometimes customers require shorter timescales and so we proposed that we could provide 24 hour, seven day working, providing that safety is not negatively impacted.

Stakeholders expressed moderate support, but also had many questions about what this would cover and whether it would actually be needed if the NTS Connection and NTS Capacity processes were improved. It was felt the construction times were out of step with our licence and with UNC. If works were better planned and scheduled, this option would not be needed. Generally stakeholders were more in favour of better aligning the two processes rather than accelerating capacity delivery through the method described above.

"GSOG believes that NGG shall deliver in a timely and efficient manner new connections to the NTS. This should be a comprehensive arrangement of physical infrastructure and commercial capacity."

Gas Storage Operators Group, May 2011 consultation response

"As proposer, E.ON is advocating a more structured, certain and transparent process which is likely to result in changes to NG NTS' current practice and procedures. In light of the expected changes, RIIO will need to consider how NG can be best obliged/incentivised through licence arrangements to deliver gas NTS connections in a timely and efficient manner."

E.ON, May 2011 consultation response

What our Stakeholders Want

In developing the proposals described in this document, we supported the following principles that our stakeholders believe are important to them:

- **Simplicity and Transparency**

Any proposed solution to resolve the issues outlined above should be a simple, transparent process that is clear for connectees plus other customers and stakeholders.

- **Certainty and Flexibility**

Our customers told us that any proposed solution should provide a connectee with certainty as to when NTS Capacity would be made available to them. Also, flexibility is important to some customers that already have a project/development with no further need for planning consent, but they are awaiting the right commercial environment before connecting or requesting additional NTS Capacity on the NTS, and so any proposed process should allow for this.

- **Staged User Commitment**

Our customers told us that any proposal should allow customers to signal their requirement for capacity by providing a form of financial commitment without the need to purchase the capacity (and therefore be financially liable for that capacity) so early in the lifecycle of their own development project.

- **Consistency**

Our customers told us that any proposal should not be inconsistent with other proposed industry codes, and should not be inflexible to future industry changes.

- **Collaboration**

Our stakeholders agreed that any proposed solution should be informed and developed in partnership with the industry to ensure that the final proposals meet both National Grid's and their own requirements. They were also keen that the solution allows them to work "hand in hand" with ourselves throughout the capacity / connection delivery process so that our respective investment projects can progress together, thereby improving decision making.

The feedback that we have received through all these routes provided a clear consensus that the current NTS Capacity and NTS Connections processes and timelines should be improved to encourage investment in gas infrastructure in the UK.

Chapter 2 - Options Considered and PARCA Benefits

This chapter provides an overview of the options that we proposed to overcome the issues that our customers and stakeholders told us were important to them. It describes what we did, what our customers told us and how we acted upon the feedback provided. For further details of how our customers and stakeholders have shaped the final PARCA proposals, please see Appendix 1

Following the description of the options considered, we have also provided an assessment of the benefits and impacts of the PARCA proposals for our customers and ourselves.

Options Considered

What we did	When	What our customers told us
<p>National Grid presented an overview of the Planning Act, the associated impact upon investment timescales and what this could mean for customers, stakeholders, end consumers and ourselves.</p>	<p>Talking Networks Events 2011</p>	<p>Many of our customers and stakeholders expressed concerns about the significantly increased timelines that are likely to result from the implementation of the Planning Act. They encouraged a concerted effort across the industry to ensure that the NTS Connections and NTS Capacity processes can operate as smoothly as possible and minimise lead times in the future</p>
<p>National Grid presented 5 options which could be introduced to reduce the impact of the Planning Act, whilst meeting the requirements of our customers. These included:</p> <ul style="list-style-type: none"> • Doing Nothing • A Connect & Manage Regime • Anticipatory Investment • Extended Licence Lead Times • The Contractual Alignment of Planning & Capacity Timescales <p>We presented the Pros & Cons of each option with the potential impacts upon National Grid and our customers. For further info on these options see Appendix 2 of this document or our March 2012 RIIO Business Plans</p>	<p>UNC Transmission Workgroup Jan 2012</p>	<p>Our customers told us that a number of the options could be discounted as the negative aspects of these proposals outweighed the positives and did not warrant further development.</p> <p>Customers were prepared to consider the Contractual Alignment of Planning & Capacity Timescales option further and requested that National Grid develop this option further</p>
<p>Based upon the feedback received we developed a proposal based upon the contractual solution option. This proposal was known as the Split Auction / Application option.</p> <p>The Split Auction / Application option was included in our March 2012 RIIO-T1 Business Plans and presented at UNC Transmission Workgroup to seek Stakeholder feedback</p> <p>Under this proposal, the existing Capacity Auction / Application processes would be split so that Unsold Baseline NTS Capacity</p>	<p>RIIO-T1 Business Plan March 2012</p>	<p>Customers expressed concerns as to the complexity of the approach. They believed that having to potentially participate in 2 auction / application processes should they need to buy both Unsold Baseline NTS Capacity & Funded Incremental NTS Capacity to meet their requirements was overly complex and burdensome for customers.</p> <p>They also told us that they simply want access to the NTS, and require NTS Capacity in order to do so and that they should not be required to determine whether their NTS Capacity requirement would be</p>

would be made available through the existing capacity allocation mechanisms whilst ad-hoc auction / application process would be used to allocate Funded Incremental NTS Capacity to customers that had previously signed a bi-lateral agreement to allow planning activities to be undertaken and planning permission received, ahead of a formal capacity signal.

The bi-lateral contract would be based upon the existing Planning and Consent Agreement (PCA) which we agree with a customer to undertake any necessary planning activities, ahead of that customer submitting a formal capacity signal.

As part of this proposal we recommended that the lead time for the delivery of Funded Incremental NTS Capacity would be reduced to 24 months to cover two construction seasons.

We also proposed that a two stage Revenue Driver approach be introduced allow our Allowed Revenue to change in line with the costs of any construction activities that may be required. The first revenue driver would be triggered upon signature of the bi-lateral contract and would cover all necessary activities up to receipt of planning permission. The second revenue driver would be triggered upon allocation of capacity and would cover construction activities.

**UNC
Transmission
Workgroup
May 2012**

made up of Unsold Baseline NTS Capacity, Funded Incremental NTS Capacity or a combination of the two

In its RIIO-T1 Initial Proposals, Ofgem expressed concerns that the changes proposed in our business plans had not been fully discussed with industry stakeholders and that any proposal should fully take into account stakeholder view.

They also believed it inappropriate to introduce changes to the commercial regime under a price control framework & timetable.



Given the clear messages and feedback received, we considered other contractual options that could be employed to address the underlying issue without creating an onerous process for our customers.

We then proposed an alternative approach utilising and further developing the existing Planning Consent Agreement (PCA) and Advanced Reservation of Capacity Agreement (ARCA) processes.

ARCAs are currently only available to project developers (i.e. not to NTS Users) and can be used to reserve NTS Exit Capacity until such time that any required investment works are completed and/or an appropriate User is nominated.

Under this proposal, the existing PCA and ARCA processes would be combined to allow all customers to reserve both NTS Entry and/or Exit Capacity whilst National Grid and/or the customer undertook any necessary planning activities.

The resultant contract would be known as a Planning & Advanced Reservation of Capacity Agreement (PARCA)

In order to reserve NTS Capacity, a

**UNC
Transmission
Workgroup
June 2012**

Having considered this proposal, our customers and stakeholders told us that it seemed simpler, flexible and therefore preferable to the Split Auction / Application option.

We proposed that we work together with our customers to further develop this option into a workable solution.

It was clear that the proposal would have wide reaching implications for the UNC, our Gas Transporters Licence and the various Methodology Statements that we produce.

As a result, over the next 12 months we worked with our customers and stakeholders to consider and develop aspects of the proposal in sequence in order to build a well developed solution which met the requirements of our customers, Ofgem and National Grid

customer would be required to provide an appropriate level of financial security and any such capacity would be exclusive to that customer and therefore unavailable to other NTS Users. The NTC Capacity would remain reserved until both National Grid's and the customer's timelines were suitably aligned to allow it to be formally allocated.

This bi-lateral contractual arrangement of timescales would therefore better facilitate the alignment of the NTS Capacity and NTS Connections processes for our customers.

Finally, we proposed that the reduction in lead time to 24 months plus the two stage Revenue Driver mechanism as described for the previous Split Auction / Application option be incorporated into the PARCA proposals.

In our discussions with stakeholders, many felt that the UNC Transmission Workgroup should play a prominent role as a forum for future discussions, and it was recognised that whatever forum is used would need to be flexible to allow interested parties to join different stages of the discussion as and when they felt necessary.

It was therefore agreed with stakeholders that the development of the PARCA proposal should initially be developed through a UNC Transmission Issues Workgroup, chaired by the Joint Office of Gas Transporters, until a formal UNC modification was developed and progressed through the associated UNC governance processes.

The features of the PARCA proposal, as described in Chapter 3 below, were developed through collaboration with stakeholders at UNC Transmission Workgroup meetings. We have also engaged with our wider customer base outside of the UNC Transmission Workgroup on this issue including:

- Numerous bilateral meetings with our customers
- Industry meetings including those with Energy-UK and the Gas Storage Operators Group (GSOG)
- A National Grid Developer Workshop in Oct 2012
- A National Grid Gas Customer Seminar in July 2013

Benefits and Impacts of the PARCA Proposals

The following tables provide an assessment of the benefits and impacts of the PARCA proposals for customers who wish to use a PARCA, other customers and ourselves.

This assessment has been categorised into two main sections:

- Long Term Value for Money for Existing and Future Customers
- Impact upon competition

Long Term Value for Money for Existing and Future Customers

Benefit	Status Quo / Do Nothing	PARCA Proposal	Impacts of PARCA Proposals
Making economic and efficient investment decisions	<p>Under the existing Capacity Auction and Allocation mechanisms there is no direct link between the progress of the customer's project, the allocation of NTS Capacity and the works that National Grid may be required to undertake to increase NTS capability.</p> <p>Decisions to increase system capability are based upon signals from NTS Users which are often received / agreed many years in advance of the customer being granted appropriate planning permission.</p> <p>In a situation where a customer's project fails (for example, due to failure to achieve planning permission), any construction costs incurred by National Grid up to this point may be socialised across NTS Users through increased NTS Capacity Charges..</p>	<p>Under the proposed PARCA arrangements there is a direct link between a PARCA applicant's project, the NTS Capacity allocated to them and the works that National Grid may be required to undertake to increase NTS capability.</p> <p>We would only allocate any reserved NTS Capacity once the PARCA applicant has provided evidence of full financial backing, full planning permission, and signed contracts for construction of their facility.</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> • As NTS Capacity would not be allocated until the PARCA applicant had received full planning permission there is a reduced risk of National Grid construction costs, and costs of sterilised NTS Capacity, being shared across all industry parties. • Should a customer terminate their project, they would also be able to terminate their PARCA <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> • As above <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> • As NTS Capacity would not be allocated until the PARCA applicant had received full planning permission, we can be assured that the need case for any investment would be based upon clear, demonstrable customer commitment.
Delivering efficient network infrastructure solutions	<p>If Funded incremental NTS Capacity were to be released at the current capacity lead times, National Grid may be required to accelerate delivery of a project in market conditions that re stretched and National Grid may become a distressed buyer</p>	<p>Under the proposed PARCA arrangements there is a direct link between a PARCA applicant's project, the NTS Capacity allocated to them and the works that National Grid may be required to undertake to increase NTS capability.</p> <p>We would only allocate any reserved NTS Capacity if the PARCA applicant has provided evidence of full financial backing, full planning</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> • n/a <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> • Network Investment costs that are shared across all industry parties are the most efficient as planned accelerated cost premiums are avoided.

		permission, and contracts for construction of their facility.	<p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> n/a.
Avoidance of excessive Future Constraint Management costs	<p>If Funded incremental NTS Capacity were to be released under the current capacity lead times and we were unable to build the necessary infrastructure in time, National Grid may be required to instigate constraint management actions, resulting in increased constraint management costs (We currently use our Lead Time Incentive to manage this risk).</p> <p>This is demonstrated by the results of the constraint management analysis undertaken by National Grid as described in Chapter 1 of this document.</p> <p>If the total annual constraint management costs incurred by National Grid are in excess of the cap applied to our constraint management incentive, the additional costs would be shared with all NTS Users and ultimately end consumers</p> <p>Given the increased timescales for delivering infrastructure projects it is increasing likely that these costs would be socialised across the industry as a result of a large capacity signal provided by a single NTS User.</p>	<p>Under the PARCA proposals, the risk of National Grid undertaking constraint management actions leading to excessive constraint management costs is reduced.</p> <p>The increase in timescales for delivering infrastructure projects results from the increased level of pre-planning application activities that are required.</p> <p>The PARCA arrangements allow us and customers to undertake, and complete, all planning activities prior to the allocation of the reserved NTS Capacity.</p> <p>As a result, the proposed lead time of up to 24 months, in most situations, would provide National Grid with sufficient timescales to undertake construction activities prior to delivery of the NTS capacity.</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> Under the PARCA proposals, the risk of large constraint management costs being incurred and shared with all NTS Users (including those who may also be PARCA applicants) are reduced. <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> Reduced risk of socialised costs <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> Under the PARCA proposals, the risk of constraint management costs being incurred are reduced.
Certainty of Capacity Availability	<p>It is likely that there will be increased uncertainty for NTS Users as to whether or not they will be able to physically flow against any allocated NTS Capacity as a result of National Grid being unable to build the necessary infrastructure within the time available between the customer's capacity auction signal and expected first gas flow day.</p>	<p>The capacity delivery date in a PARCA is contractually aligned to the timescales for completion of investment to increase system capability thereby giving greater certainty to the customer of their ability to flow gas when required.</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> The contractually aligned capacity delivery date provides PARCA applicants with certainty of being able to flow on the date agreed with National Grid and the flexibility to change the capacity delivery date by agreement if necessary. <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> Other customers would reassured that Unsold Baseline NTS Capacity would not be unduly held away from the market. <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> National Grid would have increased clarity as to when a customer intends to, or would be able to, flow gas against their NTS Capacity holdings.

<p>Impact of Termination of a PARCA</p>	<p>n/a</p>	<p>The Termination Amount as derived from the level of security provided and received from the PARCA applicant, would be invoiced and treated as Collected Allowed Revenue under the terms of our Gas Transporters Licence and would be included in the calculation of Transportation Charges from the next available financial year</p> <p>In order that National Grid can recover the costs (if any) incurred in developing the investment projects up to the point of PARCA termination an adjustment would be made to our Allowed Revenue and this would be recovered from NTS Users via NTS Capacity charges.</p> <p>Any NTS Capacity reserved for the PARCA applicant could be used for another PARCA (if applicable) or it would be returned to the market and would be available for other NTS Users.</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> The PARCA applicant would be liable for the Termination Amount derived from the level of security provided. As security is phased and increases over time, this incentivises a PARCA applicant who may wish to terminate their PARCA to do so as early as possible. <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> Based purely on the termination effect, where our incurred costs are less than the Termination Amount, future NTS Capacity Charges would reduce. Based purely on the termination effect, where our incurred costs are greater than the Termination Amount, future NTS Capacity Charges would increase but these increases would potentially be less than under the existing regime where total project costs are more likely to be recovered. NTS Users could bid/apply for the previously reserved NTS Capacity through the annual auction/application mechanisms or could enter into a PARCA to reserve any such capacity. <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> National Grid would be able to recover costs incurred in developing required investment projects.
<p>Implementation</p>	<p>n/a</p>	<p>No changes to industry systems have been identified.</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> No IS system costs have been identified and therefore it is expected that the PARCA proposals can be quickly implemented. <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> As above <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> As above

Impact upon competition

	Status Quo / Do Nothing	PARCA Proposal	Impacts
Participation	All NTS Users can participate in the existing NTS Capacity Auction and Allocation mechanisms. ARCA currently allow Exit Project Developers to reserve NTS Exit Capacity however there is no equivalent process for Entry Project Developers.	All NTS Users can continue to participate in the existing Capacity Auction and Allocation mechanisms. A PARCA would be available to all NTS Users and both Entry and Exit Project Developers thereby increasing the number of potential industry participants able to take advantage of these arrangements.	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> As PARCAs would be available to both UNC parties and project developers, a wider range of customers would be able to reserve NTS Capacity (when compared to signals provided via the existing Auction / Application / ARCA mechanisms), therefore potentially reducing barriers to entry to the GB gas market and improving competition. <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> NTS Users would be unable to trigger the release of Funded Incremental Capacity via the existing annual Auction / Application processes <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> n/a
Transparency	Once a NTS User has provided a signal for Funded Incremental Capacity, the relevant NTS User has no sight of the process that National Grid will undertake to determine how the capacity will be provided. Should a NTS user enter into a PCA prior to the provision of a capacity signal we would provide outputs to the relevant customer under the terms of the PCA (similar to proposed PARCA Phase 1 outputs) but we are under no obligation to share any additional information with that customer or other NTS Users and industry stakeholders.	Throughout the PARCA process, National Grid will share information with the PARCA applicant and with the rest of the industry to demonstrate progression through the PARCA Phases. We will publish where NTS Capacity has been reserved and is therefore unavailable for other NTS Users. Upon signature of a PARCA, we will publish information allowing other NTS Users and/or project developers to participate in the PARCA Application Window and/or the Ad-hoc QSEC Auction.	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> PARCA applicants would need to be aware that information relating to quantity and location of any reserved NTS Capacity would be published to the industry. <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> A greater quantity of information would be published to the industry under the PARCA proposals, improving transparency and allowing NTS Users to also sign a PARCA or compete for NTS Entry Capacity prior to it being reserved. <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> n/a
User Commitment	Upon allocation of NTS Capacity, NTS Users and Exit Project Developers are financially committed to their capacity at what is likely to be at an early stage of their project development. For smaller Users or developers this potentially large financial commitment, so early in the development of their facility, may act as a barrier	A PARCA would allow a customer to signal a requirement for NTS Capacity without having to provide full financial commitment for that capacity at the early stage of their own project development. The PARCA applicant would provide phased incremental security as a commitment to the NTS	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> PARCA applicants would not be fully financially committed, under the terms of the UNC, to any NTS Capacity reserved for them PARCA applicants would need to provide financial security earlier than under current UNC provisions.

	<p>to participation in the market.</p> <p>Under the current UNC arrangements NTS Users are not obliged to provide security for this financial commitment until 1 year before their capacity delivery date. In the event that the customer is unable to fulfil their security and/or user commitment requirements, this would result in a shortfall in National Grid's Collected Allowed Revenue. This in turn may result in the wider industry incurring socialised costs as a result of the actions of a single customer.</p>	<p>Capacity being reserved, without being fully financially committed.</p> <p>Upon allocation of NTS Capacity, existing UNC security and User Commitment provisions would apply.</p>	<ul style="list-style-type: none"> PARCA applicants may incur costs of providing financial security (for each year of the phased security requirement) and may be liable for the full Security Amount, depending on when a PARCA is terminated. <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> PARCA User Commitment requirements provides further assurance that Unsold Baseline NTS Capacity would not be unduly held away from the market. <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> As for other customers
EU	<p>Incremental NTS Capacity can be released following a customer signal in the annual NTS Entry Capacity Auction and NTS Exit Capacity Application processes. Project Developers can signal a long term requirement for NTS Exit Capacity via an ARCA.</p>	<p>We believe the PARCA proposals to be consistent with the ENSTOG favoured approach for EU incremental capacity arrangements at Interconnection Points by allowing flexibility for NTS Users to provide long term signals for NTS Capacity through auctions or an open season process.</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> n/a <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> n/a <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> n/a
Simplicity	<p>Our customers have told us that the current NTS Capacity and NTS Connection mechanisms and processes are complex, and that newer industry parties can find these extremely challenging to interpret.</p> <p>This has partially been addressed following the implementation of UNC Mod 0373 (Governance of NTS connection processes) however the complexities of how this new process interacts with the capacity allocation mechanisms remain.</p>	<p>The PARCA proposals have been designed with simplicity in mind. The multi-phased PARCA process would provide a step by step process which can be tailored to a PARCA applicant's requirements.</p> <p>The PARCA process mirrors the NTS Connection process and would allow the two to be aligned and progressed effectively and efficiently.</p>	<p><u>Impacts on customers who wish to use a PARCA</u></p> <ul style="list-style-type: none"> PARCA applicants would be able to follow a simple and logical process to signal, reserve and ultimately be allocated NTS Capacity. PARCA applicants could align their PARCA process with the NTS Connection process should they value this <p><u>Impacts on other customers</u></p> <ul style="list-style-type: none"> n/a <p><u>Impacts on National Grid</u></p> <ul style="list-style-type: none"> The clearer, simpler PARCA process will be easier to explain to our customers and stakeholders

Chapter 3 - Features of the PARCA Proposal

This chapter provides further details on the benefits and features of the PARCA proposals along with an assessment of the impacts upon

- Customers who would wish to use a PARCA
- Other customers, and
- Ourselves.

A PARCA is a multi-phased bilateral contract, between National Grid and a customer, which, would allow Firm Quarterly System Entry Capacity and / or Firm Enduring Annual NTS Exit (Flat) Capacity to be reserved for that customer, whilst they develop the initial phases of their own project.

Any NTS Capacity initially reserved via a PARCA would, subject to the need case for that capacity being sufficiently demonstrated and any necessary planning permissions being received, be allocated exclusively to the PARCA applicant, or, where the PARCA applicant is not a UNC party, a NTS User(s) nominated by the PARCA applicant.

The features of the overall PARCA proposal, as outlined in this chapter, provide a number of benefits for customers who would wish to use a PARCA, other customers and ourselves. These include

Customers who would wish to use a PARCA

- A PARCA would facilitate customers approaching National Grid early in the development of their own project in order to reserve NTS Entry and / or Exit Capacity without the need to fully financially commit to the formal capacity booking at that stage, thereby reducing a potential barrier to participation.
- Reserved NTS Capacity would be exclusive to the PARCA applicant (or their nominated NTS User) and therefore unavailable to other NTS Users through other auction / application mechanisms.
- A PARCA would provide the customer with greater certainty, earlier in their own project timescales, of when National Grid can provide their capacity requirements, should their project progress to completion.
- A PARCA would facilitate the customer and National Grid being able to align project timelines and planning requirements in order that projects can progress together, should the customer deem this to be of benefit. A PARCA would also allow the customer to align the NTS Capacity process with the equivalent NTS Connection process, should this be of benefit to them.
- The PARCA processes would be flexible, with logical “drop out points” ahead of capacity allocation. Capacity allocation would occur closer to the customer’s first gas day, than under current arrangements. As a result the customer would be able to take advantage of these “drop out points”, should their project become uncertain.
- PARCAs would be available to both UNC parties and project developers and therefore available to a wider range of customers when compared to the existing annual NTS Capacity Auction and Application processes.

Other Customers

- Throughout the lifecycle of a PARCA, we would publish increased levels of information, when compared to the existing auction / application mechanisms, thereby increasing transparency for other NTS Users.
- The PARCA Entry Capacity process would include an ad-hoc QSEC Auction mechanism to allow other NTS Users to complete for unsold Quarterly System Entry Capacity prior to it being reserved through a PARCA.
- The PARCA process also includes a PARCA Application Window where other NTS users can approach us to sign a PARCA. This provides a focal point for customers considering entering into

a PARCA and would allow multiple PARCAs to be considered together. Therefore National Grid could make best use of unsold levels of NTS Capacity and existing system capability when determining how to meet our customers' requirements, enabling that the most economic and efficient investment decisions could be made.

- Throughout the lifecycle of a PARCA, the customer would be required to regularly provide information to National Grid, demonstrating the progression of their project. Should a customer fail to provide the required information by in the required timescales, this may result in the termination of their PARCA and any reserved NTS Capacity would either be used for another live PARCA or returned to the market and made available for sale in the next applicable release process. This would ensure that NTS Capacity is not unduly held away from other NTS Users.
- A customer would be required to provide financial security under a PARCA as a commitment to the reserved NTS Capacity, and, in the case of that customer cancelling their PARCA, a Termination Amount would be derived from the level of security provided. This would then be credited to other NTS Users through the existing charging mechanisms.
- The timescales for the release of Incremental NTS Capacity to the PARCA applicant would be aligned to National Grid's timescales for providing increased system capability under the Planning Act, if required. As a result, the risk of constraint management actions being undertaken and any costs being potentially shared with end consumers would be reduced.

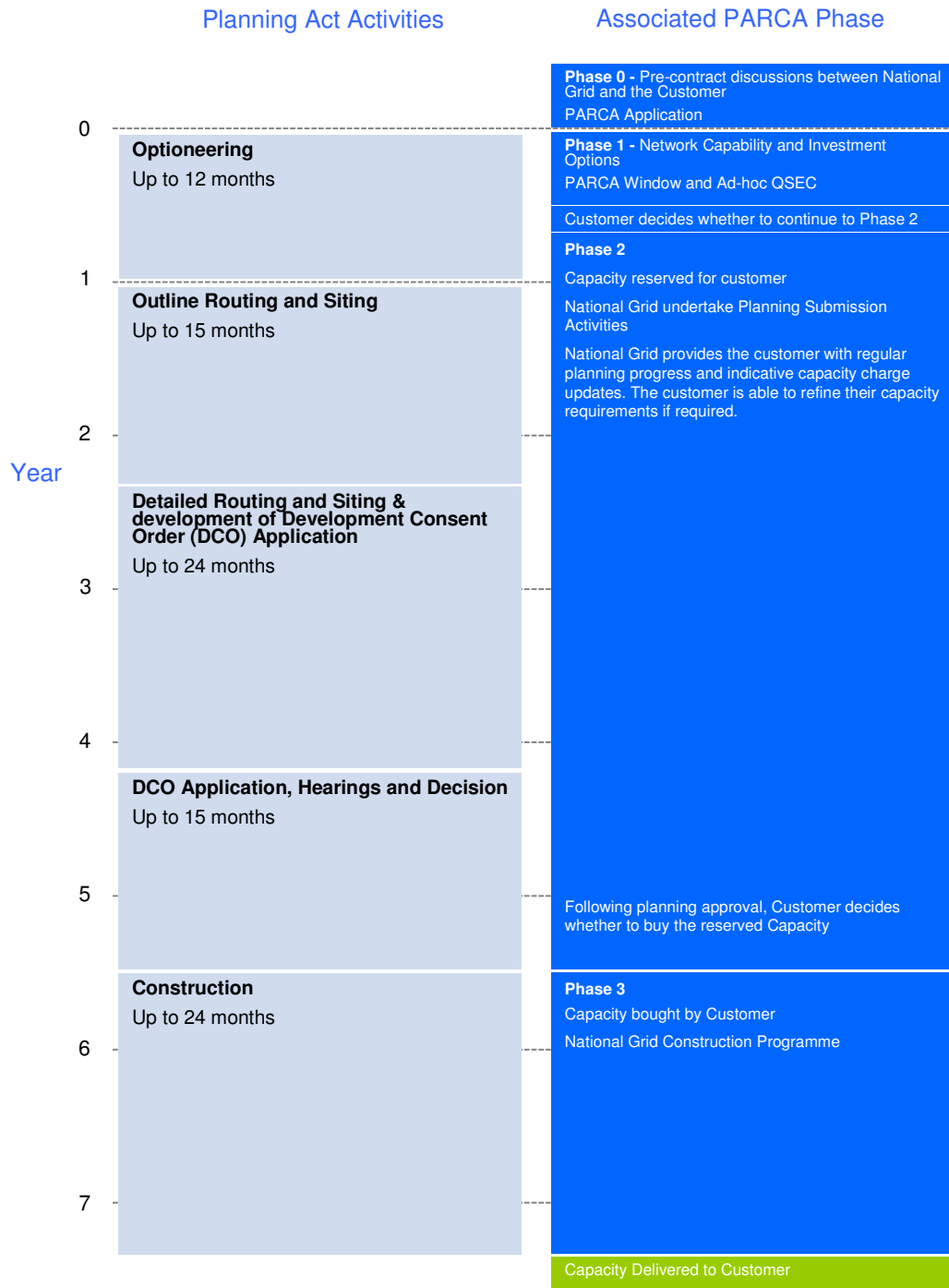
National Grid

- As previously described, throughout the lifecycle of a PARCA, the customer would be required to regularly provide information to National Grid, demonstrating the progression of their project. This would allow our need case for any required investment to be based upon clear, demonstrable customer requirements. Also, we would not begin construction on any investment projects until the customer had received full planning permission for their project, enabling economic and efficient NTS investment.

The following sections of this chapter, provide further details on each of the features of the PARCA proposal.

a. PARCA Overview

We propose that the PARCA process would be split into 3 Phases, each with different activities and outputs. The diagram below demonstrates the 3 PARCA Phases and the work that would be undertaken by National Grid to deliver NTS Capacity to the PARCA applicant or their Nominated NTS User when a Development Consent Order is required under the Planning Act.



Further information on the activities that would be undertaken in each PARCA Phase can be found later in this chapter and in Appendix 3.

It is important to note that in the above diagram, the Planning Act timescales are shown sequentially. It is possible that certain activities can overlap which will reduce the end-to-end timeframe and these are likely to vary on a project by project basis depending on project complexity. For example if during PARCA Phase 1, should we determine that a Development

Consent Order is not required for the investment identified (or no investment is required), then the PARCA Phase 2 timeframe is likely to be reduced.

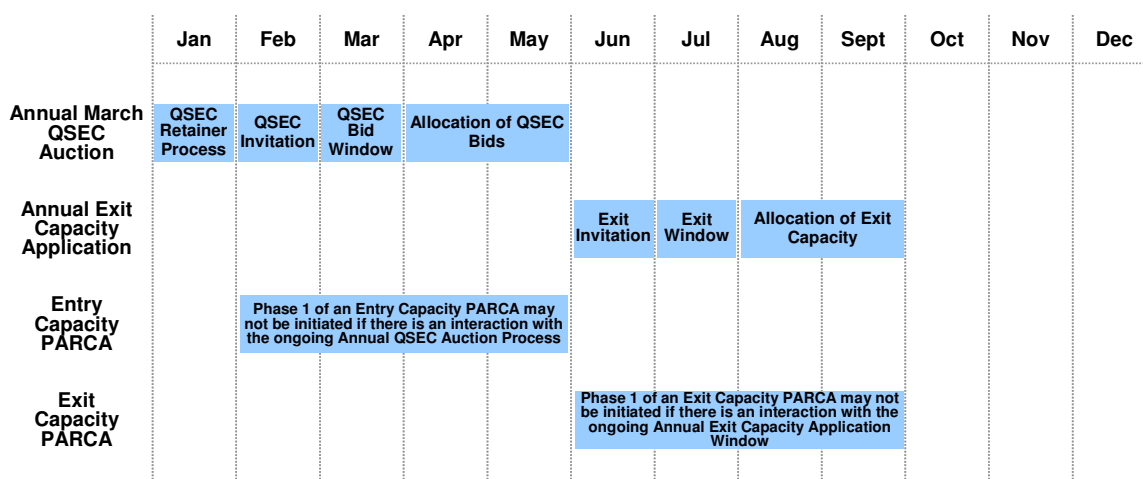
A customer would apply to enter into a PARCA by completing a PARCA Application using a template published by National Grid. The information to be provided via the PARCA application can be found in Appendix 3, in the section on PARCA Phase 0.

A customer could approach National Grid to apply for a PARCA at any time. However it would not be appropriate for us to make Unsold Baseline NTS Entry and/or Exit Capacity available through two processes at the same time i.e. via a PARCA and via the existing UNC capacity release processes (March QSEC Auction and/or July Exit Capacity Application window) as this may lead to confusion for participants.

Therefore, whilst a PARCA could be applied for at any time of the year, it we would not initiate PARCA Phase 1 of an NTS Entry and/or Exit Capacity PARCA whilst any Unsold Baseline NTS Entry and/or Exit Capacity, that we determine may otherwise be reserved through that PARCA, is being made available through the aforementioned UNC capacity release processes.

Unsold Baseline NTS Entry and/or Exit Capacity which had been reserved via a PARCA at the time of the annual auction and application processes running would not be made available for sale through those processes and therefore would not be available to other NTS Users.

The timescales where we may be not be able to initiate PARCA Phase 1 are shown in the diagram below:



b. Lead time for the delivery of Funded Incremental NTS Capacity

We propose to reduce the licence defined lead time for the delivery of Funded Incremental NTS Entry and Exit Capacity to 24 months from the October following the allocation of that capacity.

This 24 month lead time would cover a minimum of two construction seasons and would apply to PARCA Phase 3 e.g. following the receipt of planning approval (if required by National Grid and/or the customer) and subsequent allocation of reserved NTS Capacity.

Should we be able to provide the required NTS Capacity ahead of the default lead time, we would use the existing Accelerated Release Capacity Incentive, to release the required capacity in the period prior to the default lead time, should the PARCA applicant value this. For further information on PARCA related incentives see section I of this chapter.

Should we require longer than two construction seasons to provide the level of capacity requested, this can be agreed with the customer, should this align with customer’s own timescales and requirements. If not, we may be required to undertake constraint management actions.

The 24 month lead time would also apply to the annual QSEC Auction and NTS Exit Capacity Application processes, however a customer signal for NTS Capacity, which is in excess of the

level of Unsold Baseline NTS Capacity at a relevant NTS Entry/Exit Point, would only be allocated via these processes if it can be fully provided via the Substitution of Unsold Baseline NTS Capacity from another relevant NTS Entry/Exit Point. We do not propose to change the existing timescales for Substitution of Unsold Baseline NTS Capacity as part of the PARCA proposals.

c. Capacity Reservation

A PARCA could be used to reserve the following types of capacity

- Unsold Baseline NTS Entry Capacity
- Funded Incremental Quarterly NTS Entry Capacity
- Unsold Baseline NTS Exit (Flat) Capacity
- Funded Incremental NTS Exit (Flat) Capacity

Our customers told us that the proposed PARCA process should be as flexible and inclusive as possible and should not require a customer to have to undertake separate processes for Unsold Baseline and Funded Incremental NTS Capacity as this could add unnecessary delay and complexity. They also told us that they simply want access to the NTS, and require NTS Capacity in order to do so and that they should not be required to determine whether their NTS Capacity requirement would be made up of Unsold Baseline NTS Capacity, Funded Incremental NTS Capacity or a combination of the two. They told us that they want to be able to state their total NTS Capacity requirement and for National Grid to manage how that capacity requirement is made up and provided to them. As a result, we propose that both Unsold Baseline and/or Funded Incremental NTS Capacity (including that provided via substitution of Unsold Baseline NTS Capacity) could be reserved via a PARCA, ensuring that customer's requirements could be considered and provided through a single application process.

Capacity could be reserved

- At an Exit Point or ASEP specified in a PARCA, as agreed with the relevant PARCA applicant. This could be Unsold Baseline NTS Capacity, Funded Incremental Capacity or a combination of both.
- From a donor Exit Point or ASEP, should National Grid propose to utilise capacity substitution to provide the PARCA applicant's capacity requirements. (Substitution will utilise Unsold Baseline NTS Capacity only).

In order to reserve capacity, a PARCA applicant would be required to provide an appropriate level of financial security (see section h of this chapter on PARCA Financial Proposals for further information) in order to demonstrate a financial commitment to the reserved capacity.

Once the customer had confirmed that they wish to reserve NTS Capacity (following the completion of the PARCA Phase 1 Works) and had provided the necessary security, the NTS Capacity would be reserved by National Grid, on behalf of the PARCA applicant, at the start of PARCA Phase 2.

Within 10 days of the reservation of NTS Exit Capacity and / or Entry Capacity, we would publish appropriate levels of information, including the quantity and location of any NTS Capacity reserved, thereby facilitating transparency for other customers and stakeholders.

Throughout the course of the PARCA processes, a PARCA applicant's NTS Capacity requirement may change and may therefore differ from the level of capacity reserved at the start of PARCA Phase 2. This may be because the scope of their project changes or because the equipment to be used in their facility differs from that initially envisaged.

When a customer initially applies for a PARCA they would be required to request a level of NTS Capacity to be reserved plus a maximum and minimum level which would represent a range of NTS Capacity that the customer reasonably expects to require.

During PARCA Phase 1, we will assess this range of NTS Capacity and will determine whether the maximum and / or minimum quantities requested would materially change any potential need case for investment for the anticipated capacity level and/or could negatively impact other Users.

If it is likely that the need case would be affected, and/or other Users could be negatively impacted, we would provide a narrower range of NTS Capacity and this would represent a Fine-Tuning Range whereby the PARCA applicant would be able to refine their reserved NTS Capacity requirements throughout PARCA Phase 2.

Should a PARCA applicant wish to change the level of NTS Capacity reserved during PARCA Phase 2, providing this is within their Fine-Tuning Range, we will update the quantity reserved and will publish updated information to the industry.

Should a PARCA applicant wish to change the level of capacity reserved, to a quantity outside of their Fine-Tuning Range, this request may be rejected by National Grid.

d. PARCA Application Window

The PARCA proposals have been designed such that multiple PARCAs could be considered together, allowing National Grid to make best use of levels of Unsold Baseline NTS Capacity and existing system capability when determining how to meet our customers' requirements, enabling the most economic and efficient investment decisions to be made.

In order that multiple PARCAs could be considered together, a PARCA Application Window has been included in the proposal. A PARCA Application Window is a defined period of time where multiple PARCAs are guaranteed to be considered together by National Grid when determining how the capacity requirements for each of those PARCAs could be delivered. For example, where Unsold Baseline NTS Capacity is available to be reserved, such Unsold Baseline NTS Capacity would be considered equally for reservation across the PARCA that triggered the PARCA Application Window and all subsequent PARCAs received within that PARCA Application Window, assuming that they are in an applicable area of the NTS.

The opening of a PARCA Application Window would be triggered by the initiation of PARCA Phase 1. In order that a customer can determine whether they should approach National Grid to sign a PARCA during a PARCA Application Window, within 10 business days of initiation of PARCA Phase 1 of the PARCA that triggered the window, we would publish:

- The geographical area of the PARCA NTS Exit Point and/or NTS Entry Point (or, if known, the PARCA NTS Entry Point and/or PARCA NTS Exit Point)
- An indicative range of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity to be reserved based upon the maximum quantity of capacity requested.
- The indicative Capacity Reservation Date
- The requested Capacity Registration Date
- Where a PARCA Application Window is not currently open, a notice that a PARCA Application Window is open for a period of maximum of 40 consecutive business days

A PARCA Exit Window would be triggered by a PARCA that requests NTS Exit Capacity and a PARCA Entry Window would be triggered by a PARCA that requests NTS Entry Capacity. Only one Entry and/or Exit PARCA Application Window would be open at any one time.

For the avoidance of doubt, a PARCA agreed and signed within a PARCA Application Window would not trigger a subsequent PARCA Application Window.

The inclusion of a PARCA Application Window in these proposals was discussed with our customers and stakeholders and, initially, there was a concern that if a PARCA Application Window is opened, it would extend the timescales for the delivery of PARCA Phase 1 outputs to the PARCA applicant that triggered the window. We reassured our customers that we have committed to the timescales for each PARCA Phase, as described in this document, and as such the PARCA Phase 1 timescales for the PARCA that triggered the PARCA Application Window would not be extended beyond the 6 month maximum unless otherwise agreed.

The inclusion of a PARCA Application Window does mean however that the timescales for delivering PARCA Phase 1 outputs to those PARCA applicants whose capacity requirements can be provided via existing system capability or substitution could take longer than without a window

i.e. National Grid may be required to wait until the end of the PARCA Application Window in order to issue the PARCA Phase 1 outputs.

In order to reduce the impact of the PARCA Application Window and not to unduly delay the issue of the PARCA Phase 1 outputs, our customers encouraged National Grid to consider including a timescale (within the 40 business day maximum) whereby a PARCA Application Window could close if another customer had not approached National Grid to sign a PARCA.

We considered this to be a sensible suggestion and as such it has been included in the proposals. As a result, a PARCA Application Window would be open for a maximum of 40 business days however if National Grid is not contacted by a 2nd customer within the first 20 business days, the PARCA Application Window would close after 20 business days.

Upon closure of the PARCA Application Window, we would publish:

- Notice that the PARCA Application Window had closed
- The number of PARCAs requested within the window

It is important to note that the closure of the PARCA Application Window would not prevent further PARCAs being agreed at any other time. Where a PARCA is agreed outside of an open PARCA Application Window, the capacity requested in that PARCA would still be made available to the PARCA Applicant by National Grid, however the means by which the capacity is provided and therefore the date that requested capacity is made available from may be impacted by other PARCAs (if any) already requested and in progress.

e. Ad-hoc QSEC Auction

The PARCA proposal would allow Unsold Baseline NTS Entry and Exit Capacity to be reserved for a customer and such reserved capacity would be unavailable for sale to other NTS Users through the annual NTS Entry and Exit Capacity auction / application mechanisms.

Our customers may base their capacity purchase strategies (through the existing capacity release mechanisms) on a number of factors including the quantity of Unsold Baseline NTS Capacity available at an NTS Point, and their view of the risk of that Unsold Baseline NTS Capacity being substituted to another NTS Point to meet a signal for Funded Incremental NTS Capacity provided by another customer.

The agreement of a PARCA may therefore affect a customer's capacity purchase strategy and, as there is no fixed window for PARCAs to be agreed, a mechanism to allow other NTS Users to compete for Unsold Baseline NTS Entry Capacity before it is potentially reserved for a PARCA applicant has been included in the PARCA proposals.

The UNC already allows for the provision of an Ad-Hoc QSEC Auction however these currently only apply to new ASEPs and only allow Users to signal demand for incremental capacity at that new ASEP. The PARCA proposals redefine the purpose of the Ad-hoc QSEC auction so that all Entry Users could signal demand for Unsold Baseline NTS Entry Capacity at any ASEP, outside of the annual March QSEC Auction, that may otherwise be reserved through a PARCA.

Where NTS Entry Capacity has been requested through a PARCA, within 10 business days of initiation of PARCA Phase 1, National Grid would invite Users to participate in an Ad-hoc QSEC Auction with at least 28 days notice (in accordance with the current UNC provisions).

In addition to the existing Ad-hoc QSEC Auction invitation provisions, the invitation would include information that is pertinent to the relevant PARCA (whilst respecting commercial confidentiality).

Only Unsold Baseline NTS Entry Capacity would be made available for sale at each ASEP through the PARCA triggered ad-hoc QSEC auction. Funded Incremental Obligated NTS Entry Capacity and/or substitution would not be a function of this ad-hoc auction.

As per the existing UNC provisions for both the Annual and Ad-hoc QSEC Auctions, the PARCA triggered auction would be open for a maximum of 10 days. Given that only Unsold Baseline NTS Entry Capacity will be made available for sale, the allocation process would be significantly simpler than would otherwise be the case (for example, no substitution analysis is needed) and

therefore we would allocate NTS Entry Capacity to successful bids within 10 business days of the closure of the final bid window.

Unsold Baseline NTS Entry Capacity would not be made available for sale through two processes at the same time and therefore the PARCA triggered Ad-hoc QSEC Auction could not occur at the same time as the annual March QSEC Auction. Therefore, the ad-hoc QSEC would not run between, and including, the months of February to May of the same Gas Year to allow the annual March QSEC process to reach a conclusion.

Also, should a second PARCA requesting NTS Entry Capacity be agreed whilst a QSEC Auction process is ongoing (either PARCA triggered or annual March QSEC), an invitation for the subsequent auction would only be issued when the final bid window for the ongoing auction has closed.

Following discussions with our stakeholders, it has been agreed that an equivalent process for NTS Exit Capacity would not be required as there is already the provision within UNC for an ad-hoc process for NTS Exit Capacity which could be used by NTS Users to buy Unsold Baseline NTS Exit Capacity should they deem it to be at risk of substitution to another NTS Exit Point.

f. PARCA Phases & Contract Structure

As described earlier, the proposed PARCA process would be split into 3 Phases, with the activities and outputs of each being dependent on how National Grid is able to provide the required level of capacity to the PARCA applicant.

The phasing of the process would provide the PARCA applicant with natural decision points between phases allowing them to determine whether they wish to progress further. This would improve flexibility for the customer and reduce the financial risks associated with customers purchasing NTS Capacity before their own project is suitably developed.

The proposed PARCA Phases are shown below:

PARCA Phase	Activities	Approximate Timescales	Activities and Outputs
0	Pre-PARCA Signature discussions		Bi-lateral discussions between National Grid and a customer before a PARCA has been agreed. <i>This is not technically a PARCA Phase however it has been included for completeness</i>
1	PARCA Application Window & ad-hoc QSEC Auction (if required) Network Capability Assessment & Investment Options Identified	Up to 6 months	The PARCA Application Window would be opened and National Grid would undertake an Ad-hoc QSEC Auction if a PARCA requesting NTS Entry Capacity has been signed. We would undertake network analysis to determine how the requested level of capacity could be provided to the PARCA applicant / applicants given our existing capacity obligations and forecast future supply and demand patterns. We would make best use of existing system capability and / or NTS Capacity substitution, before considering investing in increased system capability. If network investment is required, we would determine the different available investment options. The outputs of the PARCA Phase 1 process would be issued to the PARCA applicant in order that they can confirm whether they wish to proceed to PARCA Phase 2. Further information on the information that would be provided to a PARCA applicant in the PARCA Phase 1 outputs can be found in Appendix 3.
2	Capacity Reserved & Planning Submission Activities undertaken	Up to 60 months	Upon confirmation from the PARCA applicant that they wish to proceed to PARCA Phase 2, the level of NTS Capacity identified in the PARCA Phase 1 outputs would be reserved at the appropriate NTS Exit and/or Entry Points for the PARCA applicant. National Grid would undertake the appropriate works, if required, and will progress investment design works and an appropriate planning application. PARCA Phase 2 would apply up to receipt of planning approval. If no planning works are required to provide the NTS Capacity to the PARCA applicant, it will be reserved until their respective capacity allocation date as identified in the PARCA Phase 1 outputs.
3	Capacity Allocation & Construction Activities	Up to 24 months	Following the completion of PARCA Phase 2 activities and upon confirmation from the PARCA applicant, the reserved NTS Capacity will be allocated and construction activities (if required) would begin. If a contractual or commercial solution can be agreed as an alternative to construction then it would also be finalised and agreed during PARCA Phase 3. Upon allocation of any reserved NTS Capacity, UNC User Commitment applies.

g. Demonstration Information

Throughout the lifecycle of a PARCA, any NTS Capacity reserved for a customer would be unavailable for sale to other NTS Users through all NTS Entry and Exit Capacity auction / application mechanisms.

To ensure that reserved Unsold Baseline NTS Capacity is not unduly held away from the market for unnecessarily long periods, the PARCA applicant would be required, in addition to security, to provide Demonstration Information throughout PARCA Phase 2 to provide assurance to National Grid and other NTS Users that their project is progressing towards completion and that the reserved NTS Capacity would be allocated in the timescales agreed.

The provision of Demonstration Information is currently used in our Advanced Reservation of Capacity Agreement (ARCA) and ad-hoc Enduring Annual Exit Application processes to provide confidence that it is appropriate for National Grid to proceed with significant capital expenditure when required and that capacity is not being held away from the market for good reason.

We consider the provision of Demonstration Information to be key to the PARCA proposals, as it would provide confidence that a PARCA applicant is committed to the progression of their project, and therefore to the NTS Capacity reserved for them. This provides reassurance for other industry stakeholders that Unsold Baseline NTS Capacity could not be unduly hoarded and that any investment that we build would be warranted, economic and efficient.

We have worked closely with our customers and stakeholders to develop appropriate Demonstration Information requirements. To this end, we have utilised the ARCA Demonstration Information as the basis for our proposed PARCA arrangements whilst remaining cognisant of the varied scenarios that customer projects and statutory planning obligations might present to National Grid. It has been acknowledged by customers, stakeholders and National Grid that whilst categories of Demonstration Information have been identified, these might be subject to change as we all gain practical experience of the PARCA arrangements and the effects of the Planning Act.

The Demonstration Information requirements for a PARCA may change depending on the type of project being developed by the PARCA applicant (entry / exit / storage etc). At the completion of PARCA Phase 1, a PARCA applicant would be made aware of the specific Demonstration Information requirements for their project and the associated Demonstration Date for submission of this information.

A list of example Demonstration Information can be found in Appendix 4.

If specific Demonstration Information is not provided by the specified Demonstration Date, National Grid may reset the Demonstration Date in order to allow the customer extra time to provide the necessary information. National Grid would agree a revised Demonstration Date up to a total of 3 times per PARCA (including the original). In the event that the PARCA applicant fails to provide the Demonstration Information by the 3rd Demonstration Date, this may result in the termination of the PARCA and any reserved Unsold Baseline NTS Capacity would either be used for another live PARCA or returned to the market and made available for sale in the next applicable release process. For further information on Termination of PARCAs, see the section i of this chapter.

We have also considered including within the PARCA contract a maximum reservation timescale, to limit the period for which NTS Capacity can be reserved. This approach was deemed to be unnecessarily restrictive given that the Demonstration Information requirements serve a similar purpose. Also, the timescales to provide NTS Capacity will vary for each PARCA applicant, depending on their requirements and the levels of investment that we may have identified. Given the limited amount of industry, and National Grid, experience of the actual timescales required under the Planning Act, we do believe it is appropriate for a maximum reservation timescale to be considered in the future, where the introduction of such an arrangement may be beneficial. We propose that this is considered again when all parties have more experience of major gas pipeline projects being progressed through the Planning Act.

h. PARCA Financial Proposals

The following section provides information on the financial arrangements to be introduced via the PARCA proposals. It outlines the payment and security requirements for a PARCA applicant and the proposed means by which National Grid would receive additional allowed revenue in order to fund planning and construction activities, if required. It also describes alternative security and allowed revenue options that were considered during the development of the PARCA proposal and the reasons why these were dismissed in favour of those proposed. The table below provides an overview of the proposed financial implications, in each PARCA Phase, for PARCA applicants and for National Grid.

PARCA Phase	Customer Payment/Security Requirement	National Grid Funding Provisions
0	A customer is not required to pay anything for PARCA Phase 0	National Grid would receive no additional allowed revenue for PARCA Phase 0 discussions with the customer
1	<p>In order to initiate PARCA Phase 1, a customer would be required to pay a PARCA Phase 1 Amount. We currently anticipate this to be approximately £130,000.</p> <p>This value has been based upon the estimated National Grid costs to complete Phase 1 Works for an average sized connection project and capacity requirement and will be reassessed periodically.</p>	<p>National Grid would use the PARCA Phase 1 Amount to fund its activities to determine how the PARCA applicant's capacity requirement can be provided.</p> <p>At the end of PARCA Phase 1, a reconciliation of the actual costs incurred by National Grid and the PARCA Phase 1 Amount would be calculated and any monies refunded to the PARCA applicant, or recovered by National Grid, as appropriate.</p> <p>Payments from customers for the PARCA Phase 1 Amount would be treated as an Excluded Service under the terms of National Grid's Gas Transporters Licence.</p> <p>Further information on the PARCA Phase 1 Amount can be found later in this section.</p>
2	<p>In order to initiate PARCA Phase 2, the PARCA applicant would be required to provide a level of financial security in order to demonstrate a financial commitment to the NTS Capacity to be reserved.</p> <p>The level of PARCA Phase 2 Security would be linked to the level of NTS Capacity to be reserved for the PARCA applicant. National Grid would calculate the level of security to be provided and this will be included in the PARCA Phase 1 outputs issued to the PARCA applicant.</p> <p>Further information on the level of security to be provided by PARCA applicants can be found below.</p>	<p>National Grid would fund PARCA Phase 2 and PARCA Phase 3 activities via a single Revenue Driver, which would be calculated during PARCA Phase 2.</p> <p>The Revenue Driver would be calculated using National Grid's Generic Revenue Driver Methodology and would be triggered (i.e. an adjustment to National Grid's allowed revenue will take place) by the allocation of Funded Incremental Obligated Capacity, 2 years prior to the delivery of that NTS Capacity as per the existing arrangements in National Grid's Gas Transporters Licence. The increase to National Grid's allowed revenue, as a result of the Revenue Driver being triggered, would be included in the calculation of Transportation Charges from the next available financial year.</p>
3	No payments and/or provision of financial security are required for PARCA Phase 3, however appropriate UNC user commitment will apply after the reserved capacity has been allocated to the PARCA applicant.	We initially proposed a 2 stage Revenue Driver arrangement covering PARCA Phase 2 and PARCA Phase 3 activities separately; however the introduction of such a proposal is not possible at this time. Further information on Revenue Drivers and their use for PARCAs can be found below.

PARCA Phase 1 Amount

In order to initiate PARCA Phase 1 a customer would be required to pay a PARCA Phase 1 Amount. We currently anticipate this to be approximately £130,000.

This value has been based upon our estimated costs to complete Phase 1 Works for an average sized connection project and capacity requirement and will be reassessed periodically.

Payments from customers for the PARCA Phase 1 Amount would be treated as an “Excluded Service¹” under the terms of our Gas Transporters Licence, and would therefore not impact upon NTS Transportation Charges (in a similar way to payments associated with NTS Connection works).

An alternative to this approach would be to class the PARCA Phase 1 Amount as a Transportation Charge. However, following discussions with our stakeholders and customers it was agreed that this was not appropriate, as a PARCA can be agreed between National Grid and non-UNC parties, as well as existing NTS Users. If the PARCA Phase 1 Amount were treated as a Transportation Charge, it is likely that project developers would be required to become UNC parties in order to enter into a PARCA. Also, as NTS Capacity is not reserved until PARCA Phase 2, we believe it is inappropriate for the PARCA Phase 1 Amount to be classed as a Capacity Transportation Charge. Finally, treating the PARCA Phase 1 Amount as an Excluded Service would allow it to be associated to a specific project and PARCA applicant, which may serve to provide an incentive to further limit the number of speculative, anti-competitive, or customer “optioneering” PARCA applications.

Revenue Driver

Throughout the development of the PARCA proposal, we regularly discussed with our stakeholders the means by which we would fund the planning and construction activities that may be required in PARCA Phases 2 and 3.

Following these discussions it is proposed that the existing Revenue Driver arrangements, as currently defined in National Grid’s Gas Transporters Licence, would apply to the PARCA proposals outlined in this document.

National Grid would fund all PARCA Phase 2 & 3 works via a single Revenue Driver which would be calculated during PARCA Phase 2, and triggered 2 years before delivery of allocated capacity to the PARCA applicant, or their nominated NTS User(s).

Upon the Revenue Driver being triggered, National Grid would receive 20% of the value of the Revenue Driver in Year T-2, and 80% of the value of the Revenue Driver in Year T-1, where T is the year of capacity delivery.

The Revenue Driver would be calculated using our existing Generic Revenue Methodology Statement, as published on our website.

These Revenue Driver arrangements are not as originally proposed. In our RIIO-T1 business plan submission in March 2012, which described our original contractual alignment of timescales proposal (Split Auction / Application Option - as outlined in Chapter 2 of this document) we proposed a 2 stage Revenue Driver mechanism which would align to the works required to develop infrastructure projects requiring a planning application under the terms of the Planning Act.

The 2 stage proposal, would allow National Grid’s Allowed Revenue to adjust in line with anticipated levels of expenditure, providing more certainty as to how we would fund our activities. This is described further below:

¹ In our Gas Transporters Licence, Excluded Services are defined as a service provided by National Grid as part of our Transportation Business in respect of the NTS but where the service is not already remunerated under NTS Transportation Owner Charges, NTS System Operation Charges or charges arising from any activity carried out under the Network Innovation Competition which results in Returned Royalty Income.

- We proposed that a Pre-Capacity Allocation Revenue Driver would be triggered upon initiation of PARCA Phase 2 and subsequent reservation of NTS Capacity and would be used to fund all of our required activities, up to submission and receipt of planning approval.
- A Post Capacity Allocation Revenue Driver would then be triggered upon allocation of the reserved NTS Capacity, at the start of PARCA Phase 3, and would be used to fund all construction activities.

Following the development of proposals to align such a mechanism with PARCAs, which included the discussion and agreement of these arrangements with industry stakeholders, Ofgem subsequently stated their preference not to introduce a 2 Stage Revenue Driver mechanism as they considered it inappropriate to make significant changes to the funding arrangements, as described in our Gas Transporters Licence, at such an early stage of the RIIO-T1 price control period.

Following further discussions with Ofgem and our stakeholders, we agreed to remove the 2 stage Revenue Driver from our proposed solution in order to aid the timely implementation of the PARCA proposals and hence we will continue with the existing revenue driver arrangement as described above.

As previously described, the 2 Stage Revenue Driver arrangement has been an integral part of our proposals to reduce the impact of the Planning Act, whilst meeting the requirements of our customers, since the submission of our RIIO-T1 proposals in March 2012. We consider that during the RIIO-T1 discussions, Ofgem recognised that changes may be required to the regulatory regime, as a result of the proposed solution, and that modifications to our licence arrangements would be undertaken.

We continue to believe that the 2 Stage Revenue Driver approach is the most appropriate long-term arrangement, and we will continue to keep this proposal under review.

It is our intention to seek such changes to our funding arrangements in the medium term, however we will ensure that any proposal is thoroughly discussed and agreed with our customers and stakeholders before any changes the existing arrangements are made.

PARCA Phase 2 Security

Throughout PARCA Phase 2, a PARCA applicant would be required to demonstrate a commitment to the NTS Capacity being reserved, via the provision of phased financial security.

We consider security and therefore the associated financial liability to be important to the PARCA proposals, in a similar way to the provision of Demonstration Information, as the PARCA applicant would have some financial commitment to the NTS Capacity reserved for them. This would therefore provide reassurance for other industry stakeholders that Unsold Baseline NTS Capacity will not be unduly held away from the market.

Should a PARCA be terminated during PARCA Phase 2, the PARCA Applicant would be liable for a Termination Amount derived from the level of security provided. The Termination Amount, received from the PARCA applicant, would be treated as Collected Allowed Revenue (and would not increase our Allowed Revenue), under the terms of our Gas Transporters Licence and would be included in the calculation of Transportation Charges from the next available financial year. For further information of Termination of PARCA, see section i of this chapter.

Security is already required under the existing UNC provisions for the release of NTS Capacity and therefore the PARCA security proposals are based upon established and familiar arrangements for NTS Users.

Following initial discussions regarding security being linked to Revenue Drivers, and financial liabilities linked to incurred investment costs, we subsequently agreed with our customers that the level of security to be provided by the PARCA applicant would be linked to the level of NTS Capacity to be reserved, and the financial liability would be derived from the Security Amount. This would allow a consistent approach to be applied across all PARCAs and means that the associated liability is consistent with the Security Amount provided and therefore is not dependent on how we intend to provide the reserved NTS Capacity to the PARCA applicant.

We proposed a number of options as to how an appropriate level of capacity linked PARCA security could be calculated, and sought feedback from our customers and stakeholders. Our customers told us that the level of security should not be so high as to become a barrier to entry, but not so low to be insignificant which may ultimately lead to anti-competitive behaviour, such as capacity hoarding.

Given this feedback, we initially discussed a proposal whereby the PARCA applicant would provide a Security Amount equal to

- The indicative level of NTS Exit Capacity User Commitment to be demonstrated by the NTS User once any reserved capacity had been allocated (i.e. 4 years of indicative NTS Exit Capacity Charges based upon the maximum capacity quantity requested) or
- the total indicative value of NTS Entry Capacity requested, within a 32 quarter period (over the NPV period)

where the level of security would be phased such that it increases over a maximum of 4 years, reflecting the PARCA Phase 2 timescales. The proposed phasing of security to be provided on an annual basis is shown below:

Year1 = 25% x Security Amount
 Year2 = 50% x Security Amount
 Year3 = 75% x Security Amount
 Year4 and beyond = 100% x Security Amount

Our customers were concerned that the level of the Security Amount was excessive, and may discourage potential connectees from entering into a PARCA. We therefore agreed to revise the level of security to be provided and proposed that the total Security Amount should be equal to 1 year of indicative capacity charges for the maximum capacity requested (for both NTS Entry and Exit Capacity), with the above phasing.

This proposal is similar to the existing security requirements stipulated in UNC where a 12 month rolling level of security is required from NTS Users. It is important to note that NTS Capacity pricing is subject to geographical differences which could lead to the value of security being different for similar sized projects.

The level of security that a PARCA applicant would be required to provide in order to reserve NTS Capacity at the start of PARCA Phase 2 will be calculated in accordance with UNC (please refer to Appendix 5 for the details) and communicated in the outputs of PARCA Phase 1.

PARCA applicants would be required to provide annual financial security up to the date upon which the reserved NTS Capacity is allocated to the PARCA applicant or their nominated NTS User(s) (i.e. at the start of PARCA Phase 3). Upon allocation of the reserved NTS Capacity, the existing UNC security requirements would apply as detailed under UNC TPD Section V.

Whilst we have agreed the above phasing of security with our customers, there are likely to be instances where, at the end of PARCA Phase 1, we anticipate that PARCA Phase 2 requires a longer or shorter timescale than 4 years. We propose that in these instances, the Security Amount and phasing of security would remain the same, however the PARCA applicant would only provide annual financial security for the number of years identified in the PARCA Phase 1 outputs. For example, should we anticipate that PARCA Phase 2 would take 3 years, the PARCA applicant would provide the following security.

Year1 = 25% x Security Amount
 Year2 = 50% x Security Amount
 Year3 = 75% x Security Amount
 Security would not be required for Year4

Should we anticipate that PARCA Phase 2 would take 5 years, the total level of required security would be capped at 100% but would still need to be renewed on an annual basis i.e.

Year1 = 25% x Security Amount
 Year2 = 50% x Security Amount
 Year3 = 75% x Security Amount
 Year4 = 100% x Security Amount

$$\text{Year5} = 100\% \times \text{Security Amount}$$

i. Termination of a PARCA

Throughout the lifecycle of a PARCA, a PARCA applicant would be able to terminate their PARCA at any time. Depending on when this was to occur, National Grid may be required to undertake different actions to recover the costs of work incurred.

Should a PARCA applicant terminate their PARCA during PARCA Phase 1, when we are assessing how the NTS capacity requirement can be provided, we would stop work immediately and would undertake a cost reconciliation with the PARCA applicant. The PARCA applicant would not be issued with any of the usual outputs of PARCA Phase 1, even if these had already been completed.

Should a PARCA applicant terminate their PARCA during PARCA Phase 2, we would determine whether any Unsold Baseline NTS Capacity previously reserved for the PARCA applicant can be used to provide the capacity requirements for other ongoing PARCAs in order to minimise the release of Funded Incremental NTS Capacity. If the reserved NTS Capacity cannot be used for other PARCAs, it would be returned to the market and made available to other NTS Users in the next appropriate release mechanism.

The PARCA applicant would previously have provided an appropriate level of security, linked to the level of capacity reserved, in order to demonstrate a financial commitment to that capacity and following the termination of a PARCA during PARCA Phase 2, we would invoice the PARCA applicant for all, or a proportion of, the security provided.

National Grid would calculate a Termination Amount based upon the number of days since initiation of PARCA Phase 2. The Termination Amount would be equal to the minimum of:

$$\frac{\text{Security Amount}}{1461^*} \times \text{No. of days since initiation of Phase 2}$$

*1461 = 4 years in days

or the security amount initially provided by the PARCA applicant.

We would invoice the PARCA applicant for the Termination Amount. If this is not paid, or if the PARCA applicant instructs National Grid to utilise the security, we would draw down on the security provided.

As previously described, it is appropriate that this money be passed back to other NTS Users via reduced NTS Capacity charges. The Termination Amount, received from the PARCA applicant, would therefore be treated as Collected Allowed Revenue (and would not increase our Allowed Revenue), under the terms of our Gas Transporters Licence and would be included in the calculation of Transportation Charges from the next available financial year.

Upon receipt of a notice of termination from a PARCA applicant, we would immediately stop any ongoing works to develop investment projects to provide the reserved NTS Capacity and would calculate the total cost of work incurred and spend committed at the time of termination.

In order that we can recover the costs incurred in developing any investment projects, an adjustment would be made to our allowed revenue, under the terms of our Gas Transporters Licence. This would be included in the calculation of Transportation Charges from the next available financial year and recovered from other NTS Users.

This arrangement mirrors that for the Electricity TEC Regime as defined in National Grid Electricity Transmission's Electricity Transmission Licence.

j. Impact upon and Interactions with the existing Capacity Auction / Application Processes

The introduction of the PARCA process would not impact upon the timing of the existing Annual March Quarterly System Entry Capacity (QSEC) Auction and the Annual NTS Exit Capacity Application Process.

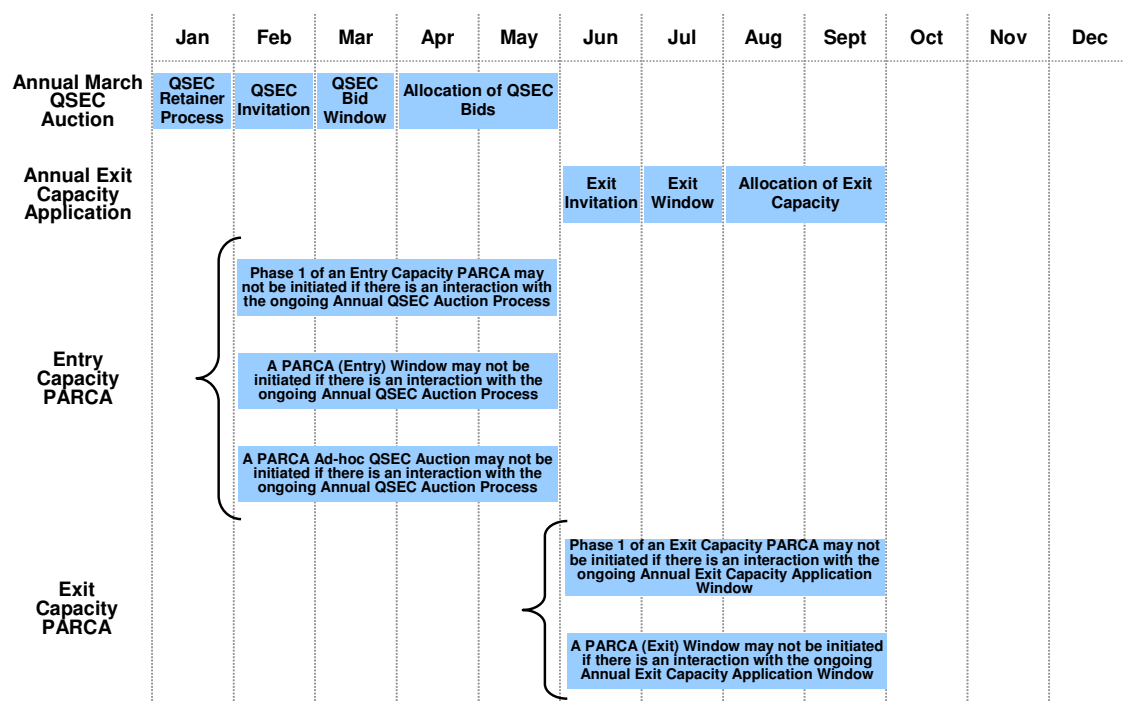
Unsold Baseline NTS Capacity and Non-obligated Incremental NTS Capacity can be released to NTS Users through the processes described above however, should a NTS User trigger a requirement for Funded Incremental NTS Capacity via these mechanisms, such capacity will be only released if it can be fully provided via the substitution of Unsold Baseline NTS Capacity

Should a NTS User trigger a requirement for Funded Incremental NTS Capacity which could not be fully provided by capacity substitution², or met via the release of Non-obligated Incremental NTS Capacity, the bid / application would be rejected and the NTS User would have the option to apply for a PARCA.

We consider that the continued availability of the existing Annual March Quarterly System Entry Capacity (QSEC) Auction and the Annual NTS Exit Capacity Application Processes provides NTS Users with a consistent and familiar approach for buying Unsold Baseline NTS Capacity, and maintains appropriate levels of competition between industry parties. We also consider that the PARCA proposals outlined in this document would provide a transparent and consistent approach for Unsold Baseline NTS Capacity and Funded Incremental NTS Capacity thereby providing National Grid with a reliable indication of the demand for NTS Capacity enabling improved investment decision making.

As previously described, Unsold Baseline NTS Capacity would not be made available for reservation via a PARCA and for sale through the existing UNC capacity release processes at the same time. Therefore we would not initiate the PARCA Phase 1 Works of an Entry and/or Exit Capacity PARCA whilst any Unsold Baseline NTS Entry and/or Exit Capacity, that we determine may otherwise be reserved through that PARCA, is being made available through the aforementioned UNC capacity release processes.

Where we determine it is not possible to initiate the PARCA Phase 1 Works in accordance with the above, we would inform the PARCA applicant accordingly. In any case, the initiation of the PARCA Phase 1 would occur no later than the date upon which the relevant existing UNC Capacity release processes conclude, or where we determine it is able to do so, an earlier date.



² Which if allocated would be reclassified as Baseline NTS Capacity

k. Interaction with proposed European Codes

When developing the PARCA proposal with our customers, the impact of the EU incremental capacity proposals were discussed and considered at the monthly UNC Transmission Workgroup meetings and the European Network of Transmission System Operators for Gas (ENTSOG) incremental task force meetings.

Our customers told us that whilst the development of the EU codes should continue to be monitored closely, the implementation of a proposal to improve the existing NTS Capacity application and allocation mechanisms should not be delayed in order to ensure consistency with Europe. Throughout the development of the PARCA solution we have been mindful to not develop a solution that is inflexible to future regime changes.

The key factors that we consider support the above position are as follows:

- We believe the PARCA proposals to be consistent with the ENSTOG favoured approach for potential EU incremental arrangements i.e. that the EU incremental capacity proposals should be flexible with regard to existing arrangements in individual member states and should focus on a combination of auctions for simpler incremental requirements and open season type arrangements for more complex projects e.g. where investment may be required. Both the Entry Capacity (QSEC) Auction and Exit Capacity Application Process will be retained as a means of long term booking capacity for all NTS Users and the PARCA process allows for an open season arrangement.
- The PARCA arrangements would apply to all NTS Exit / Entry points whereas the EU Capacity arrangements are initially only likely to apply at EU defined interconnector points (IPs) only. We understand that the proposed EU Capacity arrangements could ultimately extend beyond IPs, but there is no certainty of this at present.
- The EU incremental capacity arrangements are currently under development and are therefore subject to change. Attempting to align the PARCA proposal to EU incremental arrangements which are not yet fully established, and therefore subject to change, would be difficult and we consider that this would not be in the best interests of our customers at this time.

l. Incentives proposals

Throughout the development of the PARCA proposals outlined in this document, we have considered introducing new financial and reputational incentives. This would encourage us to provide the levels of capacity requested by our customers in the shortest timescales and in the most economic efficient way, whilst meeting our stakeholders' requirements.

Our customers and stakeholders told us that they would agree to new incentive arrangements should they provide a benefit for PARCA applicants and/or other NTS Users as well as rewarding National Grid for outperforming the Planning Act timescales described in this document.

However, given the limited amount of industry and National Grid experience of the actual timescales required under the Planning Act, we believe that a new financial incentive is not appropriate at this time. However, we consider that this should be subject to regular review and that the introduction of such an arrangement may be beneficial when we have more experience of major gas infrastructure projects being progressed through the Planning Act.

As an alternative, we propose to publish information to the industry following the completion of each appropriate stage of a PARCA (end of PARCA Phase 1, end of PARCA Phase 2 Schedule A etc). We would publish information such as the timescales taken to complete that PARCA Phase / Schedule against the anticipated Planning Act timescales outlined in this document. This would provide timely, relevant information to our customers and stakeholders on the progression of current PARCAs and would allow them to assess our performance in delivering investment projects. The publication of this information would not be a requirement under the terms of our Gas Transporters Licence.

As previously described, we propose to reduce the lead time for the delivery of Funded Incremental NTS Entry and Exit Capacity to 24 months from the October following the allocation of that capacity.

This 24 month lead time covers two construction seasons and would apply to PARCA Phase 3 of a PARCA i.e. following the receipt of planning approval (if required by National Grid NTS and/or the customer) and subsequent allocation of reserved capacity.

Should we be able to provide the required NTS Capacity ahead of the default lead time, we would use the existing Accelerated Release Capacity Incentive, to release the required capacity in the period prior to the default lead time, should the PARCA applicant value this.

Should we require longer than two construction seasons to provide the level of NTS Capacity requested this can be agreed with the customer, should this align with customer's own timescales and requirements. If not, we may be required to undertake constraint management actions.

m. Publication of information

In addition to the information published as per the reputational incentive described above, we also propose to publish a range of information to a PARCA applicant, under the terms of their PARCA, and to the Industry enabling an open and transparent process. A full description of the information to be published throughout the lifecycle of a PARCA can be found in Appendix 6.

Chapter 4 – Implementing the PARCA Proposal

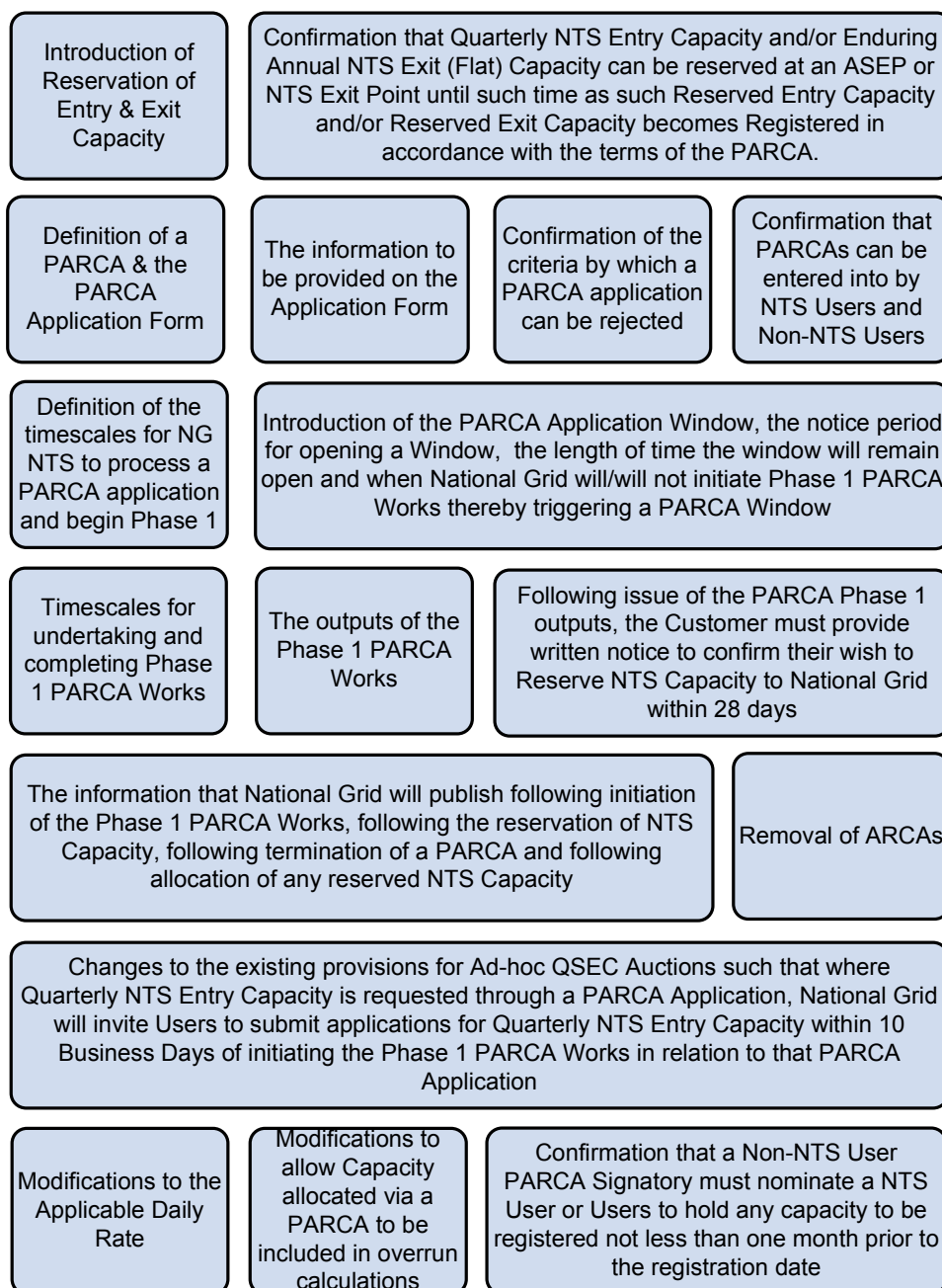
The following section presents the proposed changes to a number of industry & National Grid documents in order to implement the PARCA proposals.

The changes shown in the boxes below are intended to provide a high level overview and not a detailed explanation.

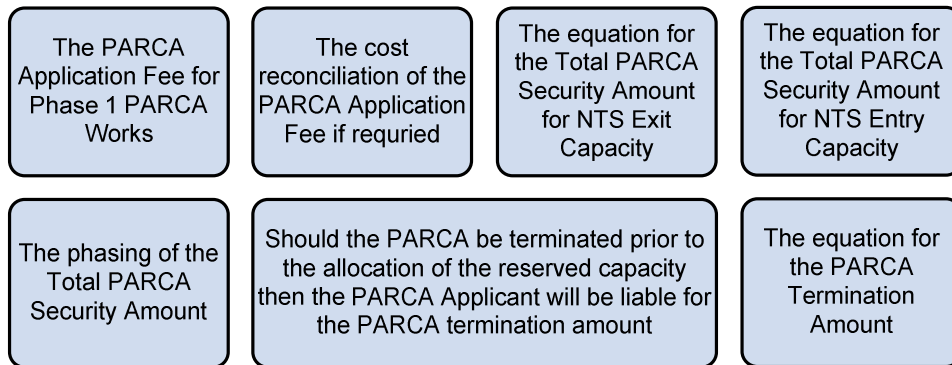
Should further detail be required on any of the documentation listed below, we have provided links to previously published information which you may find useful.

a. Uniform Network Code

National Grid has proposed the following changes to TPD Section B - System Use & Capacity



National Grid has proposed the following changes to TPD Section Y - Charging Methodologies

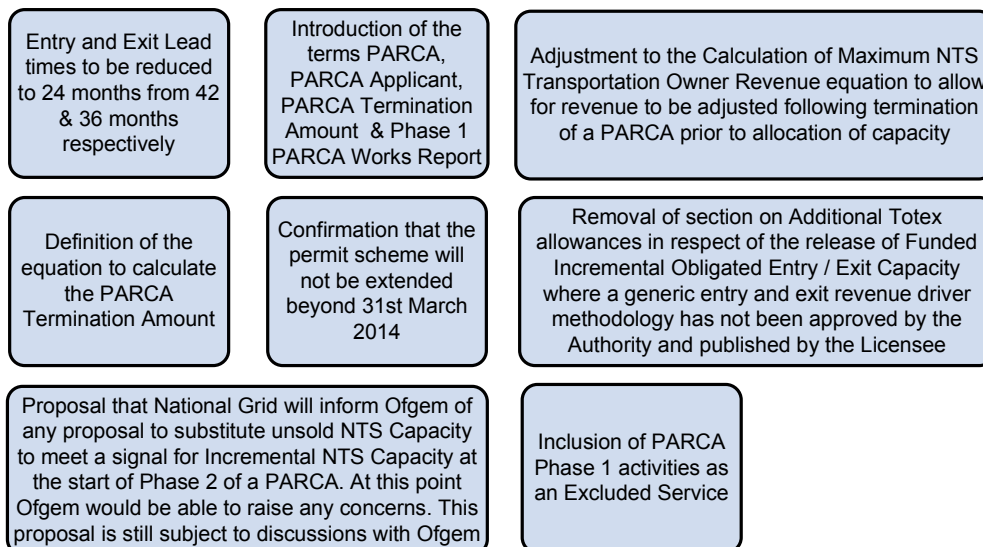


Further information on the proposed changes to the Uniform Network Code can be found via the link below:

<http://www.gasgovernance.co.uk/sites/default/files/Legal%20Text%200456%20v2.0.pdf>

b. National Grid Transmission's Gas Transporters Licence

National Grid Transmission has proposed the following changes to our Gas Transporters Licence.



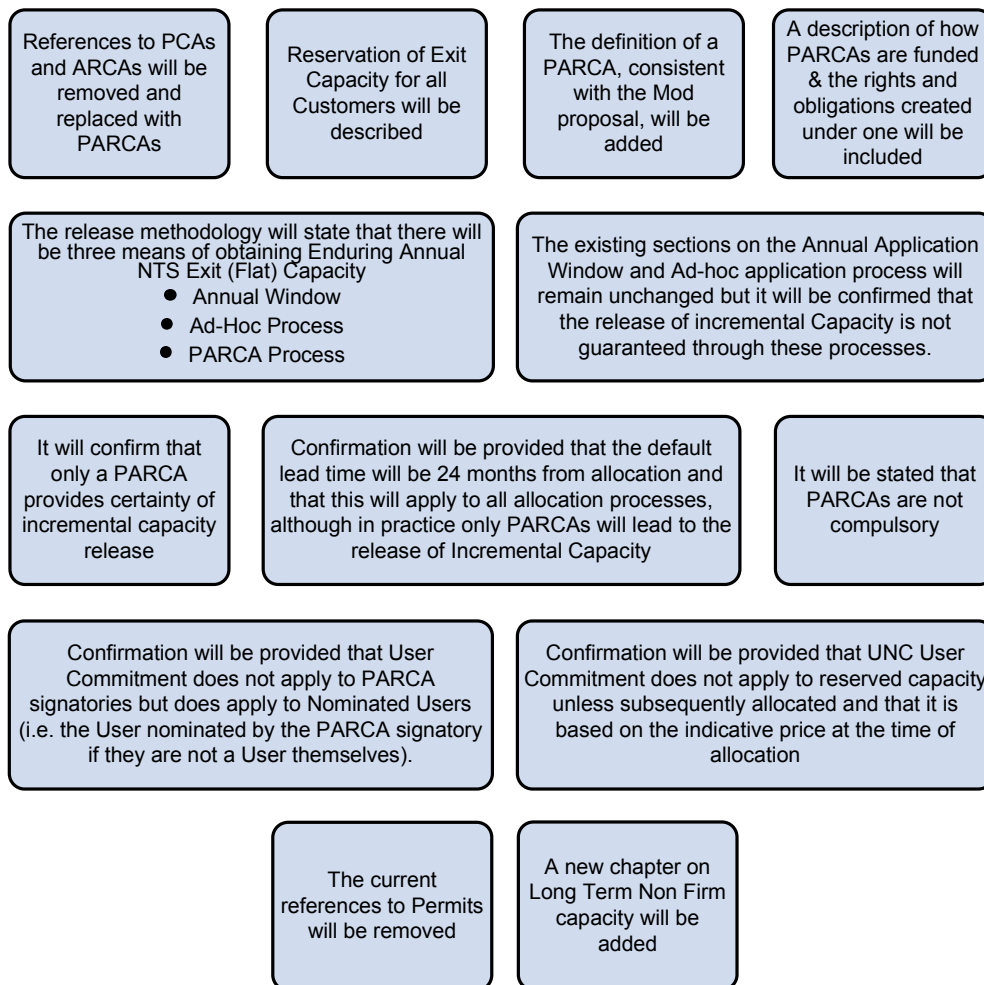
Further information on the proposed changes to National Grid Transmission's Gas Transporters Licence can be found via the link below.

The documents provided on the webpage below were made available to the industry as part of an informal consultation process to aid understanding of the proposed changes and to allow the industry to provide feedback to National Grid.

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/Industry+Material/CapConnProcesses/ConsultationLicence+CapacityStatements/>

c. Exit Capacity Release methodology statement (ExCR)

National Grid has proposed the following changes to the Exit Capacity Release methodology statement.



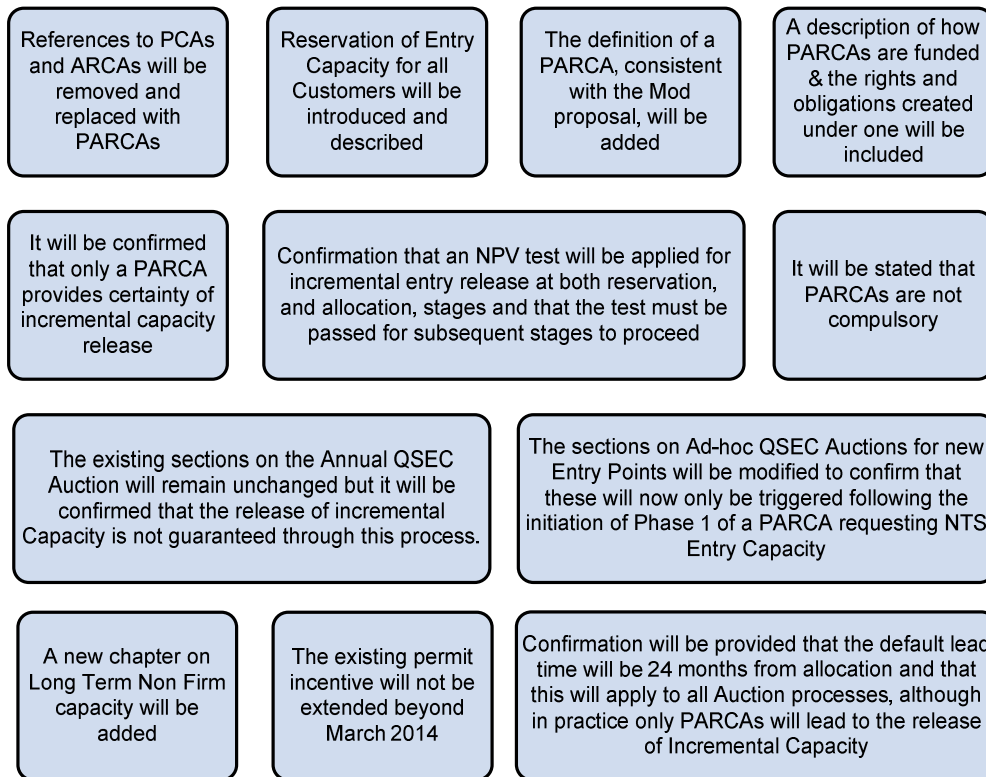
Further information on the proposed changes to the Exit Capacity Release methodology statement can be found via the link below.

The documents provided on the webpage below were made available to the industry as part of an informal consultation process to aid understanding of the proposed changes and to allow the industry to provide feedback to National Grid.

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/Industry+Material/CapConnProcesses/ConsultationLicence+CapacityStatements/>

d. Entry Capacity Release methodology statement (ECR)

National Grid has proposed the following changes to the Entry Capacity Release methodology statement.



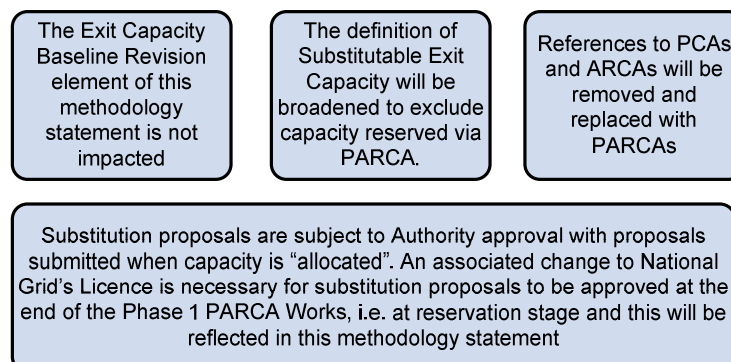
Further information on the proposed changes to the Entry Capacity Release methodology statement can be found via the link below.

The documents provided on the webpage below were made available to the industry as part of an informal consultation process to aid understanding of the proposed changes and to allow the industry to provide feedback to National Grid.

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/Industry+Material/CapConnProcesses/ConsultationLicence+CapacityStatements/>

e. Exit Capacity Substitution and Exit Baseline Revision methodology statement (ExCS)

National Grid has proposed the following changes to the Exit Capacity Substitution and Exit Baseline Revision methodology statement



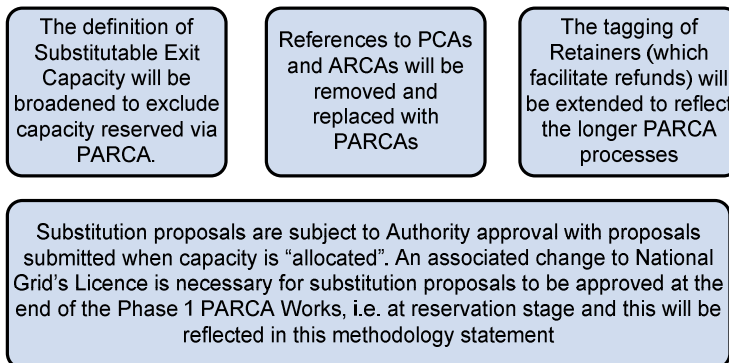
Further information on the proposed changes to the Exit Capacity Substitution and Exit Baseline Revision methodology statement can be found via the link below.

The documents provided on the webpage below were made available to the industry as part of an informal consultation process to aid understanding of the proposed changes and to allow the industry to provide feedback to National Grid.

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/Industry+Material/CapConnProcesses/ConsultationLicence+CapacityStatements/>

f. Entry Capacity Substitution methodology statement (ECS)

National Grid has proposed the following changes to the Entry Capacity Substitution methodology statement



Further information on the proposed changes to the Entry Capacity Substitution methodology can be found via the link below.

The documents provided on the webpage below were made available to the industry as part of an informal consultation process to aid understanding of the proposed changes and to allow the industry to provide feedback to National Grid.

<http://www.nationalgrid.com/uk/Gas/Connections/CapacityandConnections/Industry+Material/CapConnProcesses/ConsultationLicence+CapacityStatements/>

g. Entry Capacity Transfer and Entry Capacity Trade methodology statement (T&T)

No changes are required to this methodology statement as it relates to the release of additional capacity in the short term. It is not linked to investment processes and timelines.

h. Generic Revenue Driver Methodology Statement

Following the decision not to implement the two stage revenue driver proposal as part of the PARCA arrangements, no changes are required to the Generic Revenue Driver Methodology Statement

A link to the latest consultation on our Generic Revenue Driver Methodology Statement can be found below

<http://www.nationalgrid.com/NR/ronlyres/8FC81386-49F9-4CCB-A74C-EFF5F19AA88B/61447/GenericRevenueDriverMethodologyStatementDRAFTv02.pdf>

i. Systems / Processes

No system changes are required to implement the PARCA proposals

Appendix 1 – How our customers and Stakeholders have shaped the PARCA Proposals

Throughout the development of the PARCA proposals described in this document we have consulted upon each of the features with our customers and stakeholders and have collaborated with them to shape the overall solution. The table below provides a summary of examples where they have helped shaped the PARCA proposals.

Feature	Original Proposal	What our Stakeholders told us	Final Proposal
Initial proposal	We proposed the original Split Auction / Application option.	Our customers expressed concerns as to the complexity of the proposal. They believed that having to potentially participate in 2 auction / application processes should they need both Unsold Baseline NTS Capacity & Funded Incremental Capacity to meet their requirements was overly complex and burdensome for customers.	Following this feedback we proposed the PARCA option as described in this document.
PARCA Overview / Application Process	We proposed a sequential process where a PARCA applicant submits an application, National Grid issue a PARCA with an invoice for the PARCA Phase 1 Amount, once paid and contracts have been signed, we would initiate the PARCA Phase 1 works.	Our customers told that the PARCA application process should not be complex, should not take a long time to complete and should resemble the timescales for the connections process introduced following UNC Modification 373.	Following discussions with stakeholders we agreed to simplify the PARCA application process as described in Appendix 2.
Capacity Reservation – Fine Tuning	Our original proposal did not include a means by which a PARCA applicant could fine tune their reserved NTS Capacity requirement.	Our customers told us that whilst developing their project their NTS Capacity requirements may change. This may be because the scope of their project changes or because the equipment to be used in their facility differs from that initially envisaged.	We agreed to introduce a mechanism by which a PARCA applicant could fine tune their level of reserved NTS Capacity as long as this did not affect our need case for investment.
PARCA Application Window	We originally proposed that the PARCA Application Window be open for 40 business days.	Our customers expressed concerns that the length of the PARCA Application Window would unduly delay the issue of PARCA Phase 1 outputs should National Grid be able to provide the PARCA applicant's capacity requirement via Unsold Baseline NTS Capacity or substitution.	We agreed to modify the PARCA Application Window so that it would close if no other customers approach National Grid to sign a PARCA within the first 20 business days.
Ad-hoc QSEC Auction	Our original proposal included an Ad-hoc QSEC Auction however this was subsequently removed following discussion with customers as it was not deemed to be necessary.	In discussions with Ofgem, they expressed concerns that without the Ad-hoc QSEC Auction process, the PARCA proposals appropriate levels of competition for NTS Capacity between industry parties.	Following further discussions with customers, we agreed to reintroduce the Ad-hoc QSEC Auction into PARCA Phase 1.

Demonstration Information	We initially proposed the PARCA Demonstration Information to be the same as for the existing ARCA arrangements	Our customers told us that we should work together to develop more appropriate Demonstration Information for the PARCA proposals which allowed for the varied scenarios that customer projects and statutory planning obligations might present to National Grid.	Through collaboration with our customers we developed the Demonstration Information requirements described in Appendix 3
Revenue Drivers	We originally proposed a 2 stage Revenue Driver mechanism that would allow our Allowed Revenue to adjust in line with anticipated levels of expenditure allowing us to better fund our activities.	Following the development of proposals to align such a mechanism with PARCAs, which included the discussion and agreement of these arrangements with industry stakeholders, Ofgem subsequently stated their preference not to introduce a 2 Stage Revenue Driver mechanism as they considered it inappropriate to make significant changes to the funding arrangements, as described in our Gas Transporters Licence, at such an early stage of the RIIO-T1 price control period.	Following further discussions with Ofgem and our stakeholders, we agreed to remove the 2 stage Revenue Driver mechanism and we will continue with the existing revenue driver arrangement
PARCA Phase 2 Security	Our original proposal recommended that the PARCA applicant provide a Security Amount equal to 4 years of NTS Exit Capacity Charges or the total value of NTS Entry Capacity requested within a 32 quarter period.	Our stakeholders, including Ofgem, were concerned that our proposed level of security seemed excessive, and may discourage potential connectees. Some customers also expressed concerns that as security would be linked to NTS Capacity Charges, geographical differences could lead to significantly different levels of security for projects with similarly capacity requirements. They suggested that a level of security linked to an average NTS Capacity Charge would be more appropriate. However, other customers suggested that this may lead to over-securitisation of NTS Capacity in some instances.	We agreed to reduce the level of security and proposed that it equal 1 year of indicative NTS Capacity Charges. Whilst we understand the wishes of some of our customers to link security to an average NTS Capacity Charge, we consider that a level of security based upon actual NTS Capacity Charges is a more appropriate proposal, as it is consistent with the existing UNC security requirements for the release of NTS Capacity.
Termination of a PARCA	We proposed that following termination of a PARCA, we would invoice the PARCA applicant for the Total Security Amount.	When we discussed this point with our customers, they told us that National Grid should invoice the PARCA applicant for a proportion of the Total Security Amount depending on when the PARCA applicant terminated their PARCA.	We agreed to calculate a Termination Amount based upon the number of days since initiation of PARCA Phase 2. We would then invoice the PARCA applicant for this quantity, rather than the Total Security Amount.
Interaction with proposed European Codes	We proposed that the PARCA solution should be flexible, to allow compatibility with any future industry developments, such as the proposed European Codes.	Our customers told us that whilst the development of the EU codes should continue to be monitored closely, the implementation of a proposal to improve the existing NTS Capacity application and allocation mechanisms should not be delayed in order to ensure consistency with Europe.	Throughout the development of the PARCA solution we have been mindful to not develop a solution that is inflexible to future regime changes.
Incentives proposals	Initially, we proposed the introduction of a new financial incentive for PARCA Phase 3 only, which would allow us to vary the default 24 month capacity lead time.	Our customers believed that our proposal was too complex and that there were too many uncertainties as to how this would work in practice given the limited amount of experience of the actual timescales required under the Planning Act.	As an alternative, we proposed the introduction of a reputational incentive for PARCA Phases 1 and 2 only.

Appendix 2 – Detail on PARCA Alternatives

The following are alternatives to the PARCA proposal that were considered and discussed with our stakeholders

- **Do Nothing (and extend the existing Lead Time Incentive)**

Pros	Cons
It is a familiar and established regime	There is an increasing likelihood that physical reinforcement (where required) will not be in place to coincide with the release of Funded Incremental Capacity, potentially resulting in considerable constraint management costs
No industry development time would be needed	This would not reduce the existing uncertainty for both customers and National Grid
It is level playing field for all customers	The existing regime is not flexible to differing customer requirements
No System (Gemini) development costs would be required	If incentive schemes & lead times do not change then constraint management costs are likely to be affected

- **Connect and Manage**

National Grid's obligated lead times would remain as they currently and would allow a connecting party to flow gas as soon as their physical connection is ready. National Grid would then manage any resulting constraints via new or existing constraint management tools.

Pros	Cons
There would be the potential for more efficient build decisions based on real world experience	There may be an impact National Grid's 1 in 20 demand planning security standard
This would provide equitable treatment of customers	There may be an increased risk of sufficient system capability not being available on the day & Users not being able to flow
The existing release mechanisms and regime principles would largely be retained	This may lead to higher constraint management costs to NTS and the industry which would potentially require greater incentive "pot" and greater costs to industry
	National Grid may be required to buyback more capacity should the network become more constrained
	The potential increased level of constraints may result in GB becoming unattractive to investment
	Some development of Systems (Gemini) may be needed

	The availability of contractual agreements with our customers to mitigate the increased risk of constraints is uncertain
--	--

- **Anticipatory Investment**

National Grid would undertake zonal reinforcement based on commercial intelligence rather than specific customer signals.

Pros	Cons
This would potentially reduce constraint risk	There is the risk that National Grid gets it wrong and builds the wrong infrastructure in the wrong place. There is a risk of stranded network capability or not enough to meet demand for Capacity
This option is robust to extended lead times	This would not resolve transitional issues (e.g. customer projects that are already in flight)
This would provide equal rights to capacity through auction / application mechanisms	Investment may not be wholly underpinned by User commitment
	It may be difficult to prove a need case for investment and obtain planning permission under the Planning Act without specific User Commitment
	This may result in socialised rather than targeted costs
	There may be potentially high Systems (Gemini) development costs

- **Extending lead times**

National Grid's obligated lead times would be extended to 72 months (from 38 months and 42 months for exit and entry capacity respectively).

Pros	Cons
It is a familiar and established regime	Customers would be required to "commit" at a much earlier stage of their project development
This would provide certainty of lead time and Funded Incremental Capacity availability	The default lead-time would be excessive if planning activities are not required & capacity can be provided via existing system capability or substitution
This would deliver a consistent message and is equitable to all customers	There may be the risk of inefficient build / sterilised system capability as the need case for investment may change significantly over the 6 to 8 years as Supply/demand patterns and sold capacity levels change.
Minimal change to the commercial regime is likely to be needed	
This would potentially reduce constraint risk	

Of the options presented, the one which customers deemed to be the most appropriate and therefore most suitable for further development was the contractual alignment of timescales.

Under this option, National Grid would enter into a contractual agreement with a customer to allow National Grid to undertake planning activities prior to the submission of a formal bid / application for capacity. The customer would provide phased User Commitment under the terms of the contract to fund these works and would provide information throughout to demonstrate that their own project was progressing.

Funded Incremental Capacity would only be released to a customer if they had entered into an appropriate contractual arrangement.

As all planning activities (up to receipt of planning permission) would be undertaken prior to the customer submitting a formal signal for capacity, the lead times, as defined in our licence, would be reduced, e.g. to 24 months, to cover construction activities only.

Pros	Cons
This would minimise constraint risk and the risk of sterilised capacity	This is likely to require a complex UNC modification
It would deliver a consistent message to the industry	Some development of Systems (Gemini) may be needed
National Grid's proposed investment could be better aligned to customers needs and individual requirements	The customer's requirements may change from point of initial User Commitment as their own project develops
The User Commitment could be phased to fund planning activities at critical points	
This would prevent unanticipated Capacity signals	

Appendix 3 – PARCA Phases

PARCA Phase 0 / PARCA Application

In order to enter into a PARCA, a customer must submit a Competent PARCA Application, which includes

- A PARCA application form which has been correctly and fully completed
- Technical information, if required (see below for further information)
- The PARCA Phase 1 Amount which has been paid in full and is available to National Grid in cleared funds

The information required in a PARCA application form is as follows

PARCA Application Form
Customer Contact details
Customer Connection details
The first Gas flow dates required for commissioning and commercial purposes
The proposed location for the customers site
The Capacity required and profiles (if applicable)
For information purposes only, the indicative Ramp Rate and notice period requirements.
Where the PARCA Applicant is a DNO User, the associated NTS Exit (Flexibility) Capacity and Assured Offtake Pressure requirements.
An upper and lower fine tuning capacity range may also be requested

Note: the customer will be required to demonstrate the need for a fine tuning capacity range will through the provision of technical data.

Once a customer has submitted a PARCA Application, we will provide written notice of receipt within 2 business days.

Within 5 business days of the PARCA Application being deemed competent, we will inform the customer. If the application is not competent we will explain the reasons as to why the application has been rejected. This will not prevent the customer resubmitting a further PARCA Application.

Where we deem a PARCA Application as being competent, we will initiate PARCA Phase 1.

It is important to note that the PARCA contract itself will not require signature from either National Grid NTS or the customer until and unless the customer wishes to progress to PARCA Phase 2 and reserve NTS Capacity. The terms of the PARCA Application itself and UNC will bind the PARCA Applicant and National Grid to the works required under PARCA Phase 1.

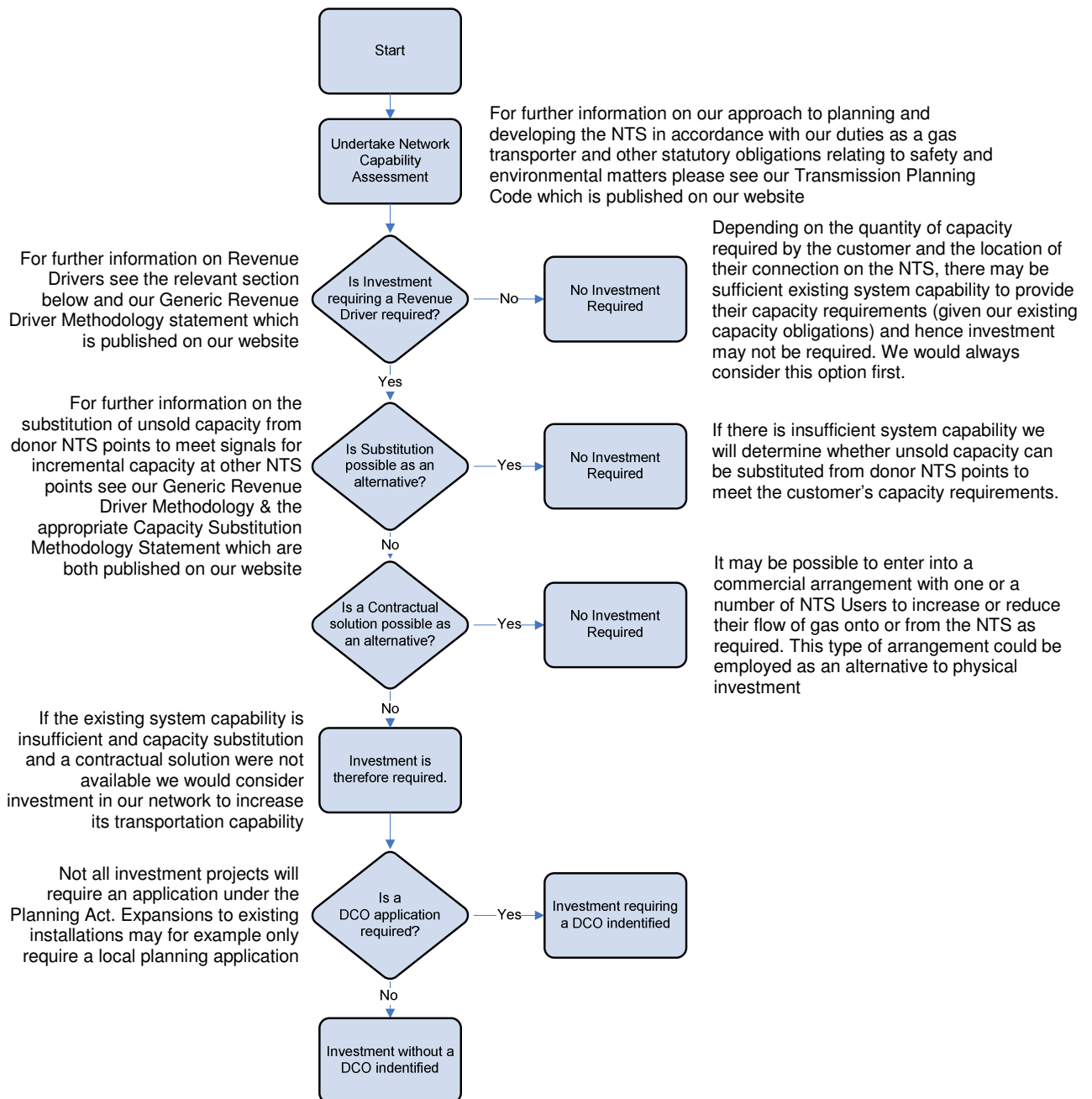
PARCA Phase 1

As described in Chapter 3 of this document, upon initiation of PARCA Phase 1 we will

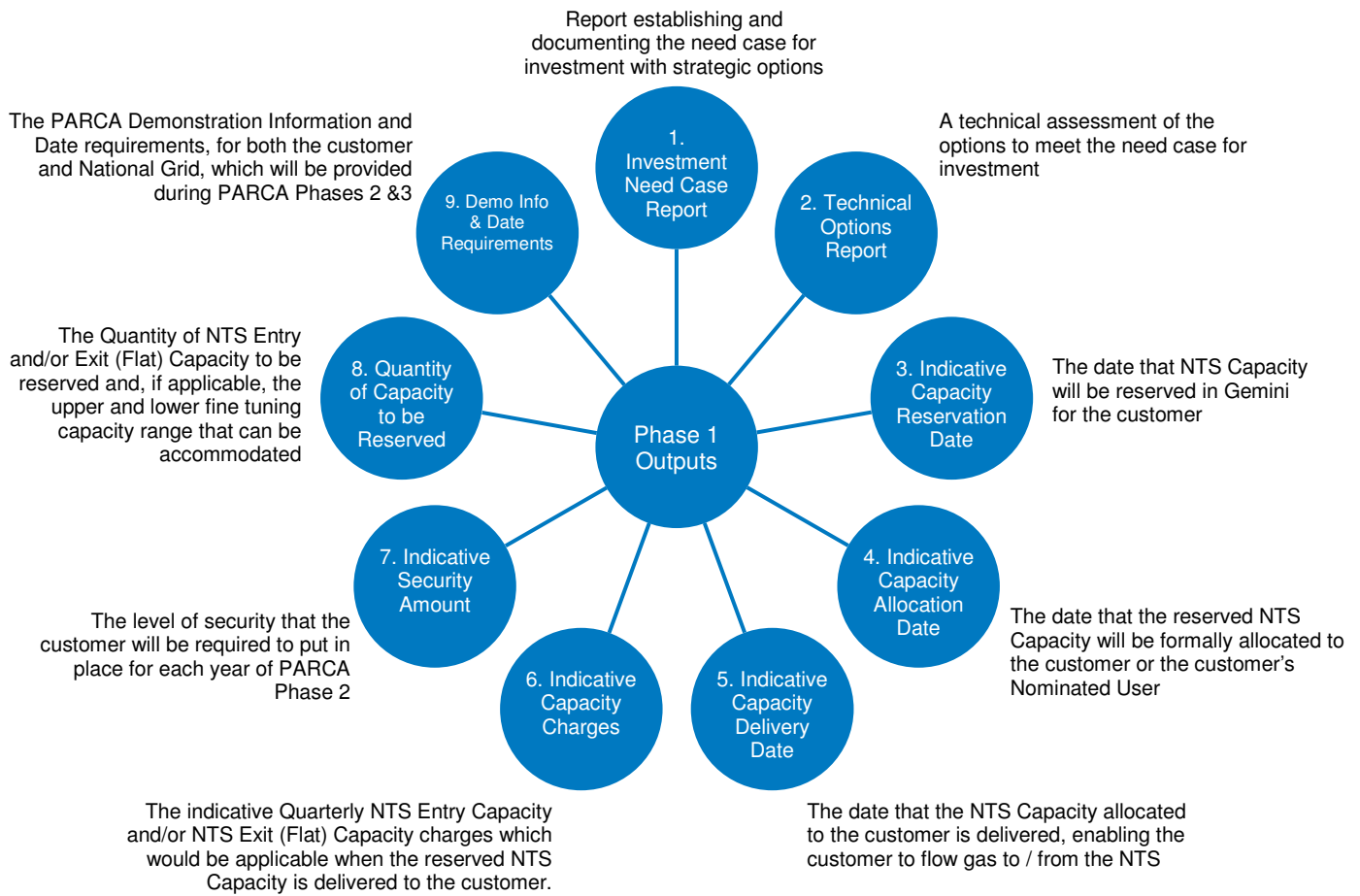
- Open a PARCA Application Window to allow multiple PARCAs to be considered together (unless a PARCA Application Window is already open)
- Run an ad-hoc QSEC Auction process (if applicable and if the annual QSEC Auction process is not underway) to allow NTS Users to buy Unsold Baseline NTS Entry Capacity before it is potentially reserved via a PARCA.

We will also undertake an assessment of our existing network capability in order to determine how the customer’s capacity requirements can be provided.

We will follow the process summarised below:



Following the completion of the existing network capability assessment, we will issue the following PARCA Phase 1 outputs to the customer:



PARCA Phase 2

The activities that we will undertake during PARCA Phase 2 will depend on how we intend to deliver the reserved NTS Capacity to PARCA applicant their Nominated NTS User(s).

The following table provides an example of the activities that may be required to progress investment requiring a Development Consent Order.

Schedule	Timescales (months)	Works / Outputs / Deliverables
A	6	<ul style="list-style-type: none"> • Capacity Reservation • Engage external resources (Environmental Consultants, Engineering consultants, Communications) to assist with Investment Options Appraisal and Strategic Options Report (SOR) • Engage with external stakeholders: <ul style="list-style-type: none"> ○ Seek comments on strategic options being considered, including reasons for options discounted at technical and benefit filter stage of PARCA Phase 1 • Prepare Draft SOR <ul style="list-style-type: none"> ○ Undertake Level 1 Options Appraisal using environmental consultants ○ Undertake Internal challenge & review, including legal counsel ○ Consult on Draft SOR ○ Engage and consult with key stakeholders (workshops & presentations) ○ Review & incorporate stakeholder comments • Compile Final Revision of SOR - Including Recommendations
B	15	<ul style="list-style-type: none"> • Develop Statement of Community Consultation (SOCC) • Undertake Route Corridor Investigation Study (RCIS) • Undertake Level 2 Options Appraisal • Undertake public Consultation on Route Corridors and the Level 2 Options Appraisal outputs • Review Public Consultation • Identify Preferred Route Corridor: <ul style="list-style-type: none"> ○ Prepare final Route Corridor Study and Level 2 Options Appraisal & Route Corridor Feedback Report
C	24	<ul style="list-style-type: none"> • Identification of route alignments, involving thematic groups, community forums & workshops • Undertake Level 3 Options Appraisal and Environmental Impact Assessment (EIA) • Undertake Pipeline Detailed Design to support: <ul style="list-style-type: none"> ○ Level 3 Options Appraisal ○ EIA on preferred pipeline alignment and Above Ground Installation (AGI) locations if required • Compile Environmental Statement & Documents for Submission to National Infrastructure Directorate (NID) within the Planning Inspectorate

		<ul style="list-style-type: none"> • Calculate Post-Capacity Allocation Revenue Driver
D	6	<ul style="list-style-type: none"> • Undertake formal consultation on project, in accordance with agreed Statement of Community Consultation • Review feedback from consultation and adjust / finalise project • Finalise: <ul style="list-style-type: none"> ○ land rights offers ○ DCO documentation, including legal counsel review
E	15	<ul style="list-style-type: none"> • Submit Application to NID • NID validates the application, registers it and publishes relevant documentation • Consideration of application by Commissioners (via written representations or by public hearing) • NID produce report and make recommendation to the Secretary of State for Energy and Climate Change • Decision from the Secretary of State

PARCA Phase 3

During PARCA Phase 3, upon confirmation from the PARCA applicant, we will allocated any reserved NTS Capacity to them, or their Nominated NTS User(s)

We will then undertake any necessary construction activities to delivery the allocated NTS Capacity to the PARCA applicant, or their Nominated NTS User(s)

Appendix 4 – Demonstration Information Requirements

Demonstration Information Requirements	Applicable PARCA Phase
Technical data demonstrating the requirement for a Fine Tuning Capacity range	PARCA Phase 0, (Upon Application)
Signed Full Connection Offer (FCO) /Construction Agreement for a new (or modified) NTS connection site. (If relevant)	PARCA Phase 2, Schedule E / F
Full financial backing for the customer's Project	PARCA Phase 2, Schedule F
Contracts for detailed design placed for the facilities (and connecting pipeline where required) in relation to the NTS connection site.	PARCA Phase 2, Schedule E
Contracts for construction placed for the customer's Project facilities downstream of the NTS connection site, including connecting pipeline, where required.	PARCA Phase 2, Schedule F
Construction commenced at the customer's Project site.	PARCA Phase 2, Schedule F
Construction of the connecting pipeline commenced, where required.	PARCA Phase 2, Schedule F
Full planning permission has been granted for the; <ul style="list-style-type: none"> ○ Customer's Project site and; ○ National Grid's NTS connection facilities (NTS connection site) where this is remote from the customer's Project site and; ○ any connecting pipeline between the NTS connection site and the customer's Project site. ○ where applicable; including Local, National 	PARCA Phase 2, Schedule F
<ul style="list-style-type: none"> ○ Identify the User (UNC party) to which the formal capacity allocation will be made 	PARCA Phase 2, Schedule F

Appendix 5 – Security Calculation

The PARCA Security Amount to be provided by the PARCA Applicant will be calculated as follows:

Exit Capacity

Total PARCA Security Amount (£) = (PARCAExind / 100) x Qex x 365

Where:

PARCAExind = the indicative NTS Exit Capacity price (p/kWh/Day), pursuant to the PARCA, for the maximum Capacity requested at the NTS Exit Point as detailed in the PARCA Phase 1 Works Report

Qex = the maximum amount of NTS Exit Capacity to be Reserved by the PARCA Applicant (kWh/Day) as specified in the PARCA Phase 1 Works Report

Entry Capacity

Total PARCA Security Amount (£) = (PARCAEnind / 100) x Qen x 365

Where:

PARCAEnind = the indicative NTS Entry Capacity P0 reserve price (p/kWh/Day), pursuant to the PARCA, for the maximum amount of NTS Entry Capacity requested in any one quarter at the PARCA NTS Entry Point.

Qen = the maximum amount of NTS Entry Capacity to be Reserved by the PARCA Applicant (kWh/Day) in any one quarter as specified in the PARCA Phase 1 Works Report

Annual Phasing

The PARCA Security Amount will be phased on an annual basis as an annual requirement in accordance with the following:

Security requirement for PARCA Year Y = Total PARCA Security Amount x 0.25

Security requirement for PARCA Year Y+1 = Total PARCA Security Amount x 0.50

Security requirement for PARCA Year Y+2 = Total PARCA Security Amount x 0.75

Security requirement for PARCA Year \geq Y+3 = Total PARCA Security Amount x 1.0

Appendix 6 – Publication of PARCA Information

Information Published to the PARCA applicant

Information Published to the PARCA applicant	Applicable PARCA Phase
<ul style="list-style-type: none"> ○ Investment Need Case Report ○ Technical Options Report ○ Indicative Capacity Reservation Date ○ Indicative Capacity Allocation Date ○ Indicative Capacity Delivery Date ○ Indicative Capacity Charges ○ Indicative Security Amount ○ Quantity of Capacity to be Reserved ○ Demo Information & Date Requirements 	PARCA Phase 1
<ul style="list-style-type: none"> ○ Strategic Options Report & recommendations ○ Summary of external consultation findings ○ Confirmation Pre-Capacity RD triggered (Ofgem) ○ National Grid Project Plan Update 	PARCA Phase 2 Schedule A
<ul style="list-style-type: none"> ○ Outline routing and siting recommendations ○ Final Route Corridor/Siting Study recommendation ○ Summary of external consultation findings ○ National Grid Project Plan Update 	PARCA Phase 2 Schedule B
<ul style="list-style-type: none"> ○ Detailed routing and siting recommendations ○ Environmental Impact Assessment (EIA) outcome ○ Summary of external consultation outcome ○ National Grid Project Plan Update 	PARCA Phase 2 Schedule C
<ul style="list-style-type: none"> ○ Formal consultation (SOCC) outcome ○ DCO consultation document – overview ○ National Grid Project Plan Update 	PARCA Phase 2 Schedule D
<ul style="list-style-type: none"> ○ Progress update on National Infrastructure Dept (NID) engagement; submission, hearings. ○ DCO application document ○ National Grid Project Plan Update 	PARCA Phase 2 Schedule E
<ul style="list-style-type: none"> ○ Progress update on National Infrastructure Dept (NID) engagement; submission, hearings ○ Post DCO Consent and User capacity allocation: <ul style="list-style-type: none"> ○ Provide the customer with confirmation as to the commencement / anticipated completion dates of the NTS reinforcement project ○ Confirmation Post-Capacity RD triggered (Ofgem) 	PARCA Phase 2 Schedule F

<ul style="list-style-type: none"> ○ National Grid Project Plan Update 	
<ul style="list-style-type: none"> ○ Progress update on Local Authority engagement; submission, hearings. ○ Post Consent and User capacity allocation: <ul style="list-style-type: none"> ○ Provide the customer with confirmation as to the commencement / anticipated completion dates of the NTS reinforcement project ○ Confirmation Post-Capacity RD has been triggered (with Ofgem) ○ National Grid Project Plan Update 	PARCA Phase 2 Works Schedule G
<ul style="list-style-type: none"> ○ Confirmation to customer that project is complete ○ Opportunity for customer/National Grid to explore throughout PARCA milestones: <ul style="list-style-type: none"> ○ Lessons learned ○ Process excellence/improvements 	Other

Information Published to other NTS Users

Information Published to other NTS Users	Applicable PARCA Phase
<ul style="list-style-type: none"> ○ Within 10 days of initiation of the PARCA Phase 1, National Grid will publish: <ul style="list-style-type: none"> ○ The geographical area of the PARCA NTS Exit Point and/or NTS Entry Point ○ An indicative range of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity based upon the maximum quantity of capacity requested. ○ The indicative Capacity Reservation Date ○ The requested Capacity Registration date ○ An invitation for NTS Users to participate in an Ad-hoc QSEC Auction with at least 28 days notice, if applicable ○ Notification of the opening of a PARCA Application Window which will remain open for a maximum of 40 business days 	PARCA Phase 1
<ul style="list-style-type: none"> ○ Within 10 days of the Reservation of NTS Exit Capacity and/or Entry Capacity, National Grid will publish: <ul style="list-style-type: none"> ○ Where substitution is proposed, the quantity (if any) of Unsold Enduring Annual NTS Exit(Flat) Capacity and/or Quarterly NTS Entry Capacity that has been reserved from each donor NTS Exit Point(s) and/or NTS Entry Point(s) and the relevant periods. ○ The geographical area of the PARCA NTS Exit Point and/or NTS Entry Point or the NTS Exit and/or NTS Entry Point if known. ○ The quantity (if any) of Unsold Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity reserved at the PARCA defined NTS Exit and/or NTS Entry Point and the relevant periods. ○ The total quantity (if any) of Enduring Annual NTS Exit (Flat) Capacity and/or Quarterly NTS Entry Capacity reserved at the PARCA defined NTS Exit and/or NTS Entry Point. 	PARCA Phase 2
<ul style="list-style-type: none"> ○ National Grid will publish, as soon as reasonably practical and 	PARCA Phase

<p>respecting commercial confidentiality, details of the progress made against each PARCA Phase. This will include in each case the submission of application for a Development Consent Order (DCO) (if required), receipt of a DCO (if required), and calculation of any required revenue drivers.</p>	<p>2</p>
<ul style="list-style-type: none"> ○ Not more than 24 hours after the time at which National Grid notifies the Nominated User or Reservation User of their allocation of Entry Capacity, National Grid will notify all Users in respect of each calendar quarter: <ul style="list-style-type: none"> ○ the price (in pence/kWh) accepted for Entry Capacity by a User (and the amount of Entry Capacity applied for); ○ the volume of Entry Capacity allocated; ○ the incremental volume Entry Capacity allocated ○ the amount of Unsold Entry Capacity (if any) following the allocation; 	<p>PARCA Phase 3</p>
<ul style="list-style-type: none"> ○ Not more than 24 hours after the time at which National Grid notifies the NTS User or nominated NTS User of their allocation of NTS Exit Capacity, National Grid will notify all Users of the following information (Table B-1 of Annex B-1 of TPD Section B will be updated as necessary to reflect the following): <ul style="list-style-type: none"> ○ The Volume of Exit Capacity allocated ○ The Incremental Exit Capacity allocated 	<p>PARCA Phase 3</p>
<ul style="list-style-type: none"> ○ Within 10 business days of the Termination of a PARCA, National Grid will publish the quantity and location of any Exit Capacity and/or Entry Capacity that is no longer reserved and is being made available to the market. 	<p>PARCA Phase 1,2,3</p>