

## Representation

### Draft Modification Report

#### **0465: Introduction of the Planning and Advanced Reservation of Capacity Agreement (PARCA), Weighted Average PARCA Security**

**Consultation close out date:** 11 November 2013

**Respond to:** enquiries@gasgovernance.co.uk

**Organisation:** National Grid NTS

**Representative:** Mike Wassell

**Date of Representation:** 08 November 2013

#### **Do you support or oppose implementation?**

National Grid NTS supports the implementation of Modification 0465.

We note that the Modification 0465 and 0452 are identical other than the calculation of the PARCA Security Amount. As such, National Grid NTS consider that Modification 0465 and 0452 should be considered as alternatives to each other.

When considering a choice between Modification 0465 and 0452 our preference is for the implementation of Modification 0452.

#### **Please summarise (in one paragraph) the key reason(s) for your support/opposition.**

National Grid NTS consider that, if implemented, Modification 0465 will introduce numerous benefits to the current NTS Capacity regime including, but not limited to:

- Our customers (UNC parties and/or project developers) have told us that they will be better able to signal and secure their own long term capacity requirements early in their own project lifecycle through the exclusive reservation of Enduring NTS Exit (Flat) Capacity and/or Quarterly System Entry Capacity ahead of the purchase of that commercial capacity.
- An ad-hoc QSEC auction will be triggered by an Entry PARCA prior to the reservation of Entry Capacity, allowing further opportunity for Shippers to bid and compete for unsold Entry Capacity that may otherwise be reserved through a PARCA.
- Our customers will have a choice on whether to exercise their “right to buy” the reserved capacity. For example, that choice could depend on the degree of certainty that their project will progress to completion (e.g. final investment decision made). This is underpinned by a financial liability (PARCA Termination Amount) that accrues on a daily basis should the customer decide not to exercise their “right to buy”.

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- Our customers will have greater certainty and transparency as to when and how long term NTS capacity will be delivered.
- Encourages and further facilitates earlier engagement between ourselves and our customers and alignment of project timescales including, if necessary, alignment of planning activities.
- Facilitates the alignment of our customers' NTS connection and commercial Firm NTS Capacity requirements.
- Provides a wider customer base (UNC parties and project developers alike) with an opportunity to exclusively reserve Firm NTS Capacity for later purchase.

### Are there any new or additional issues that you believe should be recorded in the Modification Report?

We understand the rationale put forward in the proposal for the PARCA Security Amount being based upon a uniformly applied weighted average capacity charge. However, in a regime where actual NTS capacity charges are derived and applied on a locational nodal basis we consider this part of the proposal has the potential to drive different behaviour, depending upon where capacity is required. For example, under modification 0465, the PARCA Security Amount could be in excess of the value of capacity being reserved and hence may mean the PARCA option is less viable to customers wishing to connect in an area of the network where capacity charges are comparatively low.

Given the above we consider it is more appropriate to base the PARCA Security Amount upon location specific NTS capacity charges (as proposed in Modification 0452) so as to be more consistent with the value of the capacity being reserved.

### Relevant Objectives:

*How would implementation of this modification impact the relevant objectives?*

National Grid NTS agrees with the draft modification report that this modification better facilitates Relevant Objectives c and d and that it also better facilitates the Relevant Connection Charging Methodology Objectives c and d.

Whilst National Grid NTS broadly agree with the following statement from the modification report;

*“The weighted average cost methodology proposed to calculate the PARCA Security value facilitates competition by introducing a consistent cost which treats all users equally. In addition, this proposal reduces the risk of socialisation of costs not recovered due to low amounts of locational security and reduces the potential for higher locational security amounts deterring investment”*

We consider that this should be balanced against the fact that the weighted average cost methodology could mean that the PARCA Security Amount required is higher or lower than the value of capacity reserved from the market. This potentially reduces competition between shippers by introducing a barrier to entry for some customers and could also increase the risk

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of socialisation of costs not recovered due to low amounts of weighted average security when compared to the value of the reserved capacity itself.

National Grid NTS therefore believe that, on balance, it can not be concluded that using the weighted average cost methodology directly better facilitates competition between shippers.

### Impacts and Costs:

*What analysis, development and ongoing costs would you face if this modification were implemented?*

We will develop internal processes as a result of this modification, however the additional cost associated to the development of these processes is not anticipated to be material.

### Implementation:

*What lead-time would you wish to see prior to this modification being implemented, and why?*

An implementation date of April 1<sup>st</sup> 2014 is preferable. We understand that this would allow our customers that are intending to bid in the March 14 QSEC to do so without the uncertainty of a pending regime change. Additionally an April 2014 implementation date would, ideally, allow the potential changes to our methodology statements and GT licence (as detailed in the draft modification report) to be delivered within similar timeframes to the UNC changes that this modification would introduce if implemented.

### Legal Text:

*Are you satisfied that the legal text will deliver the intent of the modification?*

We have identified some corrections that are required to the legal text which we consider to be minor in nature and better reflect the 0465 development discussions with our Stakeholders. These are detailed below for reference and the proposed changes are shown in red:

B1.14.3 (b) subject to paragraph 1.13, not a User (the "**Reservation Party**")

B1.14.6 A notice under paragraph 1.14.5 shall specify:

- (c) the date, consistent with the terms of the PARCA, from which the Nominated User(s) is/are to be Registered as holding Reserved System Capacity; **and**
- (d) **the aggregate amount of the System Capacity to be Registered in the name of the Nominated User(s) shall equal 100% of the Reserved System Capacity.**

**Where the Reservation Party wishes to nominate, pursuant to paragraph 1.14.5, more than one (1) Nominated User to be Registered as holding an amount of Reserved Capacity, then (in addition to the requirements set out above) the notices given by the Reservation Party under paragraph 1.14.5 in relation to each Nominated User shall be given at the same time.**

**~~Where the Reservation Party wishes to nominate, pursuant to paragraph 1.14.5, more than one (1) Nominated User to~~**

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~~be Registered as holding an amount of Reserved Capacity, then (in addition to the requirements set out above):~~

~~(d) the notices given by the Reservation Party under paragraph 1.14.5 in relation to each Nominated User shall be given at the same time; and~~

~~(e) the aggregate amount of the System Capacity to be Registered in the name of the Nominated Users shall equal 100% of the Reserved System Capacity~~

B1.17.3 (d) the allocation date, which is the date on which the Reserved Quarterly NTS Entry Capacity and/or Enduring Annual NTS Exit (Flat) Capacity will be Registered by National Grid NTS to the ~~Reservation~~ User or, as the case may be, the Nominated User(s)

B2.2.18 (b) By not later than the Day falling twenty eight (28) Days before the ~~first~~ initial annual invitation date, National Grid NTS will notify Users of the applicable reserve prices and the step prices that will apply in respect of the ~~New~~ Aggregate System Entry Points for the purposes of the ~~first~~ annual invitation.

New paragraph needed and minor amendment needed to reflect business rule 12.10 from the solution in the draft modification report:

B2.2.18 (g) Following the submission of applications in relation to Aggregate System Entry Points paragraph 2.6 (~~other than paragraph 2.6.7~~) shall apply and National Grid NTS shall allocate NTS Entry Capacity and Users will be registered as holding Quarterly NTS Entry Capacity at the Aggregate System Entry Point in the amounts so allocated.

~~B2.2.18 (h) National Grid NTS will, by not later than the Day falling ten (10) Business Days after the last annual invitation date, inform each User of those of its quarterly capacity bids which have been accepted and the amount of Quarterly NTS Entry Capacity which it is registered as holding for each calendar quarter pursuant to each such accepted quarterly capacity bid.~~

Paragraph 46 of section Y:

#### **46 Phase 2 – Reservation of Capacity under the PARCA**

- (a) The amount required to be covered by the PARCA Applicant will be the PARCA security amount ("**Total PARCA Security Amount**"). The ~~Total~~ PARCA Security Amount will be calculated and phased as follows:
- (c) In the event of a PARCA termination, a PARCA Termination Amount will be invoiced to the PARCA Applicant and will take into account the effective day of the PARCA termination e.g. if PARCA phase 2 began on January 1st 2015 and PARCA terminates 31st January, the no. of days = 31
  - (i) ~~PARCA~~ Termination Amount = min of ((~~Total~~ PARCA Security Amount / 1461\*) x no. of days) or ~~Total~~ PARCA Security Amount

**Is there anything further you wish to be taken into account?**

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*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.*

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