

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: SSE
Representative: Jeff Chandler
Date of Representation: 8 November 2013

Do you support or oppose implementation?

As proposer of the modification, SSE supports implementation. Ideally, this modification would have been an alternative to 452. However, due to the time available this was not possible and this new modification raised. It is identical to modification 452 except for the calculation of the PARCA security amount: Section Y, Section 5, paragraph 46 (a) sub paras (i) and (ii). Although SSE supports modification 452, our preference is for implementation of modification 465.

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

Implementation of this modification will allow Users to have exclusive rights to reservation, and subsequent registration, of Firm NTS Capacity through commitment to a PARCA contract and security amount. Without this, investment in capacity could not be aligned with the Planning Act 2008 which would prevent efficient investment.

However, modification 465 implements this in a superior way to 452 because it applies consistent annual security amounts to entry (0.0098 p/kWh/day) and exit (0.0079 p/kWh/day) which ensures equal treatment. Whereas, 452 uses the prevailing charges to calculate the PARCA Security Amount which can result in significant differences. In the event of project default, 452 runs the risk due to low locational charges of 0.0001 p/kWh/day (e.g. annual security of £18 k) that any shortfall in security will be socialised to other Users. Also, 452 runs the risk due to high locational charges of up to 0.0278 p/kWh/day (e.g. annual security of £5.5m) that high locational security amounts act as a barrier to entry and deter investment.

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

None identified.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

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As stated within the modification we believe that this modification will better facilitate Relevant Objectives:

c. Efficient discharge of the licensee's obligations because it would provide a transparent and consistent process for all customers wishing to obtain incremental NTS capacity.

d. Securing of effective competition between relevant shippers; the certainty introduced by the proposed processes would reduce uncertainty for those wishing to acquire additional capacity rights. Thus, reducing the barriers to entry to the GB gas market and facilitating increased competition.

Modification 465 furthers competition by treating Users equally by setting the same amount of security up to the point of booking capacity. Modification 452 does not achieve this because locational security will result in projects being favoured or not through where they happen to be situated.

Impacts and Costs:

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

None identified.

Implementation:

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

Implementation as soon as possible to give confidence in bidding in the Electricity Market Reform Capacity Mechanism due to run in 2014.

Legal Text:

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

NG NTS have indentified some corrections that are required to the legal text which are considered to be minor in nature and better reflect the 0465 development discussions with 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 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

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

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

In the electricity market a similar reservation principle to the PARCA has already been implemented by Ofgem in March 2012 through the CUSC Section 15 (CMP192 User Commitment Arrangements). This commits developers to fund Advanced Works until a user commitment signal is given, similar to the proposed reservation of capacity in phase 2 of the PARCA. The nature of the electricity reservation fee is non-locational and is a fixed amount for all market participants based on £1/kW in year1, £2/kW in year 2 and £3/kW in year 3. It will be helpful for investment in the gas and electricity markets to take account of interactions between them and have similar principles where possible.