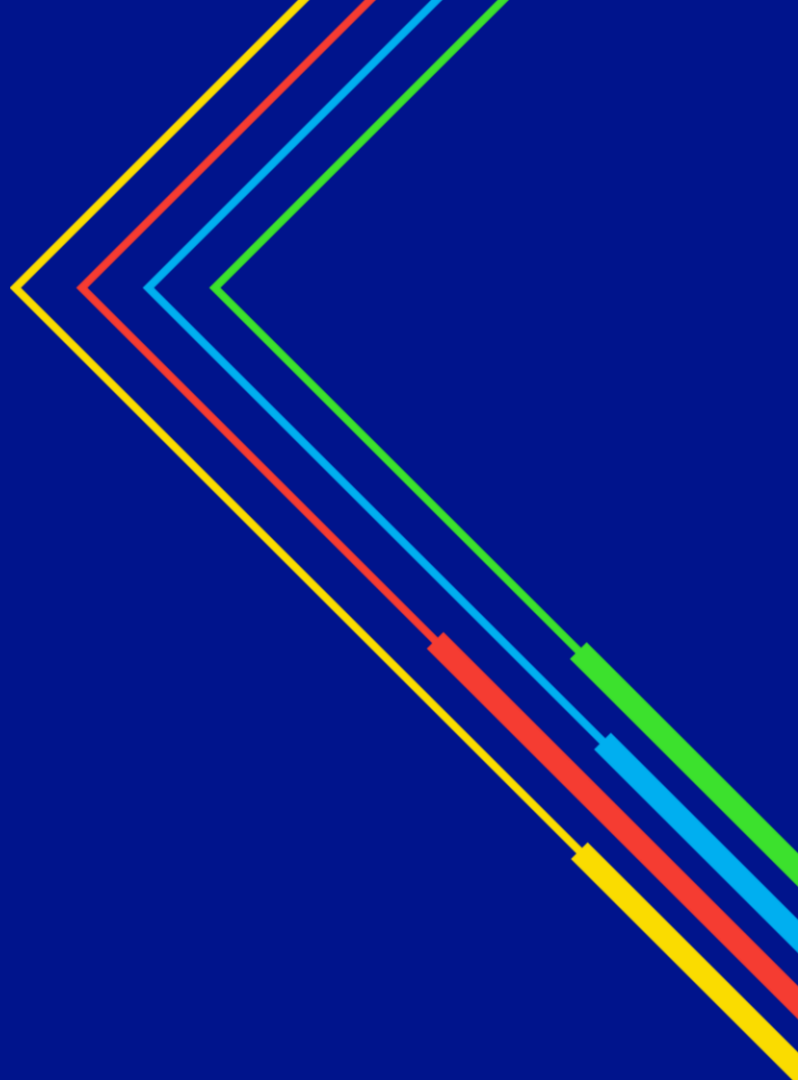


Capacity Access Review

Transmission Workgroup

6th August 2020

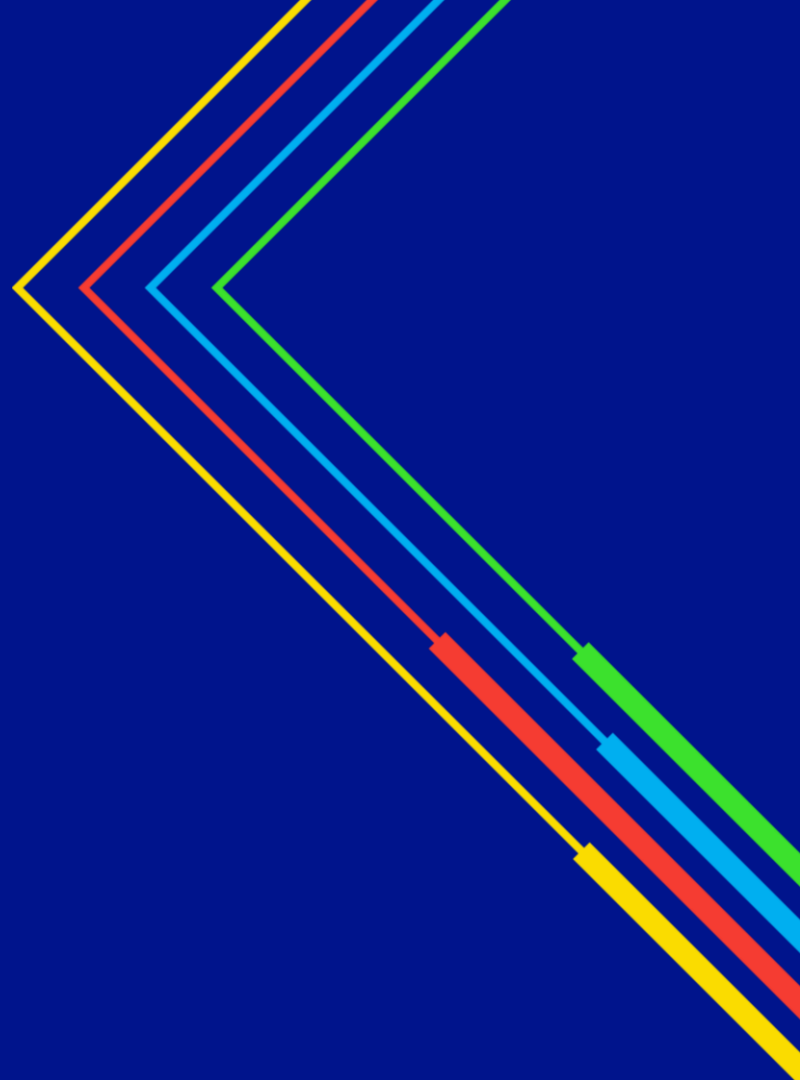
nationalgrid



01

Entry User Commitment

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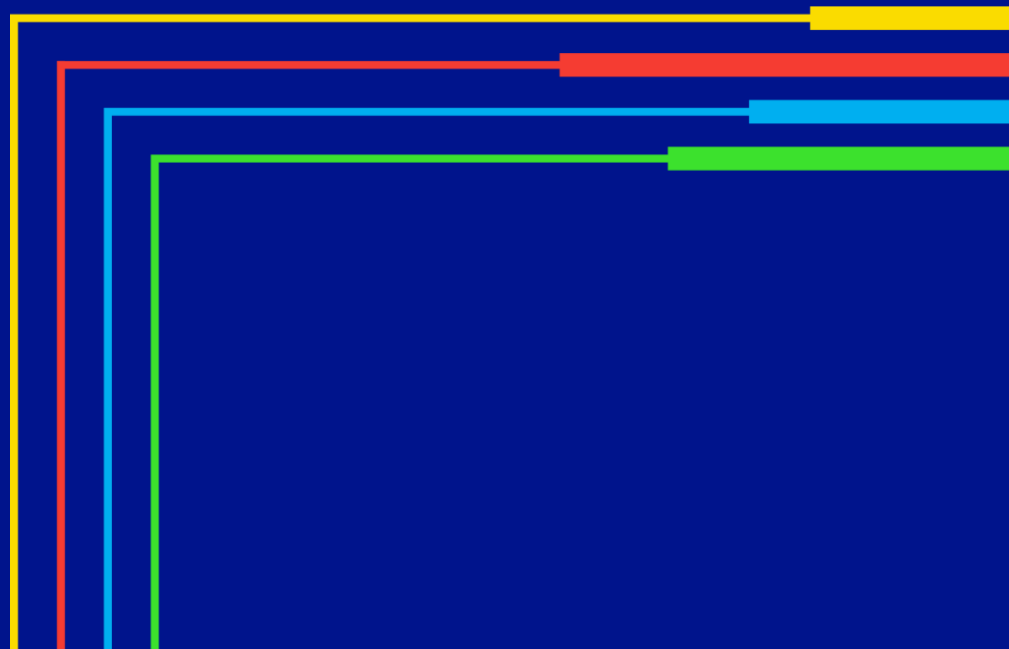
Entry User Commitment

- Entry Capacity Release methodology change to amend the baseline User Commitment for capacity requests which signal substitution and obligated funded incremental capacity from 16 quarters to 4 quarters is being progressed.
 - Proposed revised text is with National Grid's legal team to review
 - Initial discussions held with Ofgem regarding a potential derogation from the requirement for a independent examination of the revised ECR methodology statement
 - Letter requesting derogation currently being drafted by National Grid

02

Exit User Commitment

nationalgrid



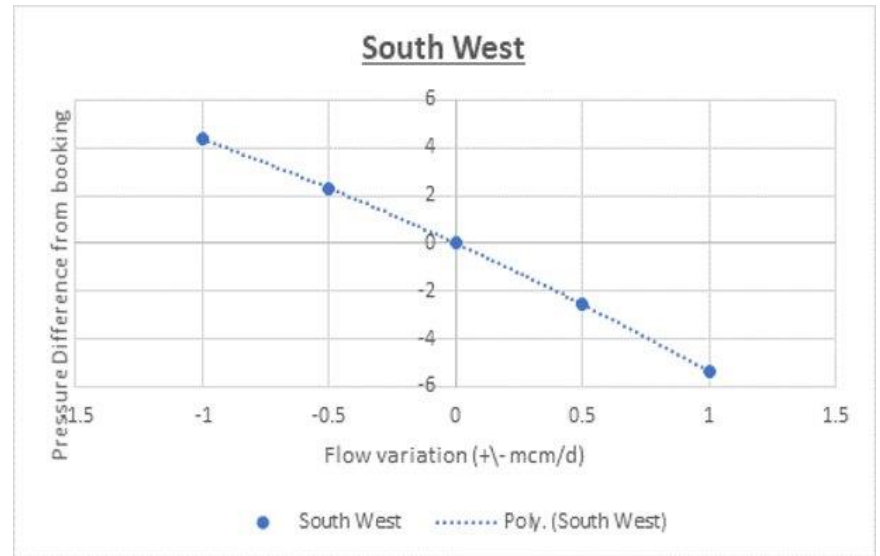
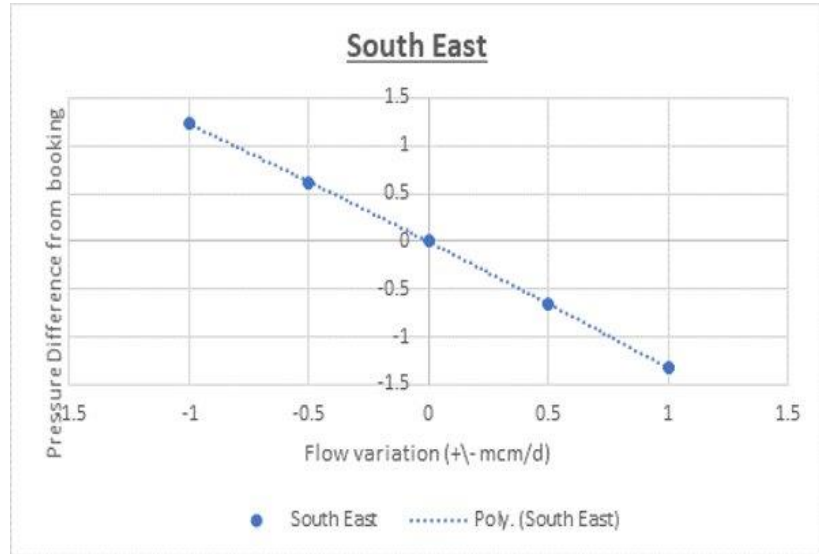
User Commitment Reduction

This option is considering whether User Commitment for capacity within baseline could be reduced, either to 1 year or to zero

- NG concluded analysis of Section H comparison to capacity bookings and comparison of year on year Section H forecast. *(New Action 0702: Exit User Commitment: National Grid (JR) to discuss the User Commitment Reduction analysis with DNs and provide an update on progress next month)* The findings demonstrate as follows:
 - Enduring capacity booking closely shadow Section H demand forecast submissions
 - In vast majority of the network the year on year demand forecast changes don't differ significantly, however, at some offtake s the demand increase is significant 15-30% (or up to 2mcm)
- NG is working closely with DNs to:
 - Better evidence potential consumer and transporter benefits as outcome of the changed proposed
 - Investigate how the risk associated with frequent/significant booking changes can be mitigated
- Reduction of Exit User Commitment period would require Methodology change only *(New Action 0703: Exit User Commitment: National Grid (JR) to confirm whether a change to the Exit User Commitment requirements for capacity within baseline would require a UNC or Methodology change)*
- *Action 601: Ofgem (ML) to provide an update from NTSCMF which will be circulated to Workgroup*

User Commitment Reduction

NG continue having concerns related to frequent changes to Enduring bookings and the impact this could have on our ability to manage the network effectively. Flow changes at NTS extremities might have a significant impact on our ability to meet our OCS obligations.



For the SE, a 1mcm flow increase reduces pressures by > 1 bar. For the SW, the same change makes a ~ 5bar difference

User Commitment - 90% Example Cap Option

	Y	Y+1	Y+2	Y+3	Y+4 UC amount	Y+5 UC amount	Y+6 UC amount
Amount of Gas purchased via Enduring Application kWh/day	Capacity booked				1,000,000	1,000,000	1,000,000
Maximum adjustment							
<i>Adjustment requested -10%</i>		-100,000			900,000	900,000	900,000
<i>Adjustment requested +10%</i>		+100,000			1,100,000	1,100,000	1,100,000
Gradual reduction – up to 10%							
<i>Adjustment requested</i>		-25,000	-25,000	-40,000	910,000	910,000	910,000
Gradual increase – up to 10%							
<i>Adjustment requested</i>		+10,000	+20,000	+30,000	1,060,000	1,060,000	1,060,000
Reduction (10% exceeded – cannot be requested)							
<i>Adjustment requested</i>		-25,000	-100,000 (only further - 75,000 permitted)		900,000	900,000	900,000
Increase (10% exceeded)							
<i>Adjustment requested- New User Commitment incurred</i>				+150,000	1,150,000	1,150,000	1,150,000

User Commitment – Enhanced Obligations (Impact)

Ofgem's RIIO2 Draft Determinations propose to remove the Exit capacity incentive mechanism.

Enhanced Obligations framework will apply to GDNs and NGGT with the aim of:

- Ensuring there is no loss of efficiency in the booking of NGGT capacity
- Ensuring all aspects of the booking process are managed in a way that is to the benefit of the gas system as a whole

In order to ensure that the whole gas system works as efficiently as possible for all stakeholders:

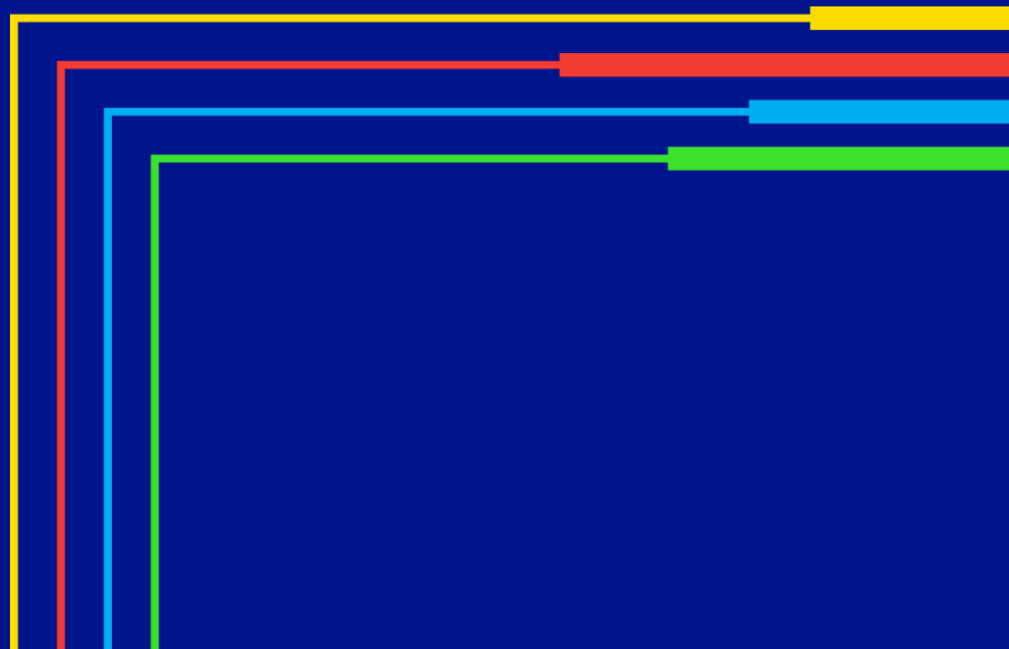
- The GDNS and NGGT should be transparent in their approach to booking, in terms of both the methodologies used, and the data that informs them
- The GDNs and NGGT should work collaboratively to determine the arrangements that will deliver the most efficient outcome from a whole gas system point of view

Proposed list of enhanced obligations follows.

03

Substitution

national**grid**



Substitution process

Request process	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Enduring EAFLEC Y+4-Y+6						EAFLEC invitation	Exit July Window (decrease 1-15th from 1st Oct Y+1, increase 1-31st Y+4-6)		NTS Analysis		Ofgem's approval and Industry notification	Allocation 1st Oct Y+4
Annual AFLEC Y+1-Y+3 (doesn't trigger substitution)						AFLEC invitation	Exit Window (1st - 31st)	Allocation				
Ad-hoc Enduring Application (M+7-Y+6)	NTS Analysis (3months) → Offer acceptance (30 days) → Ofgem's approval and Industry notification → Allocation									Application received (1st Oct - 30th Jun)	NTS Analysis (3months)	
PARCA (Exit)	NTS Analysis (4-6 months) → Ofgem's approval / Industry notification → Allocation									Application received	PARCA Window Opens (20 days)	
	Phase 1 may not be initiated if there is an interaction with the ongoing Annual Exit Capacity Application Window											
PARCA (Entry)						PARCA Window Opens/ Industry notification	Ad-hoc QSEC Window (10 day notice, auction lasts up to 10 days)	Ad-hoc QSEC Window closes after 10 days	NTS Analysis (6 months)**	Ofgem's approval and Industry notification	Allocation	
	Phase 1 cannot be initiated if there is an interaction with the ongoing QSEC Auction process											
Annual QSEC Auction		QSEC Invitaton	QSEC Window	NTS Analysis (max 2 months)	Ofgem's approval and Industry notification					Allocation 1st Oct Y+1		

Substitution process - Actions

New Action 0707: Substitution: National Grid (JR) to look at reducing analysis timescales required post enduring application process if that process were to be limited to capacity within baseline and impact this may have on the PARCA process being unavailable.

- OCS/OPS process is linked to the Enduring application process.
- Enduring submissions are analysed between Aug - Sep. DNs with part of their applications rejected can resubmit any or all of their Flat, Flex and Pressure requests.
- The adjustment window is currently being opened until September. The substitution analysis start on 1st October.

New Action 0706: Substitution: National Grid (JR) to consider transparency of projects and the use of Confidentiality statements and disclosure agreements

- In order to reveal the geographical location of a PARCA applicant we would need to make a change to the Information Publishing section of the UNC and amend the wording in PARCA contract. Once changes are in place National Grid would not disclose the geographical location of the project only if it was specifically instructed not to do so.

New Action 0704: Ofgem (ML) to review the concerns raised about the availability of excess capacity and previously provided view that there is plenty of capacity available through the PARCA process.

Substitution – proposed change

All Entry and Exit capacity signals to be met through substitution are channelled through the PARCA process.

Pros	Cons
Notice of the PARCA applicant geographical location is provided	The notice doesn't specify the donor site which will be affected by the Substitution
There is another opportunity to purchase capacity in the PARCA application window	Capacity might be purchased for an offtake where it is not actually needed due to complexity of determining where the actual donor site may be
Substitution process becomes more transparent	PARCA fee creates a barrier to entry for new/smaller market participants (<i>who would pay for it?</i>)

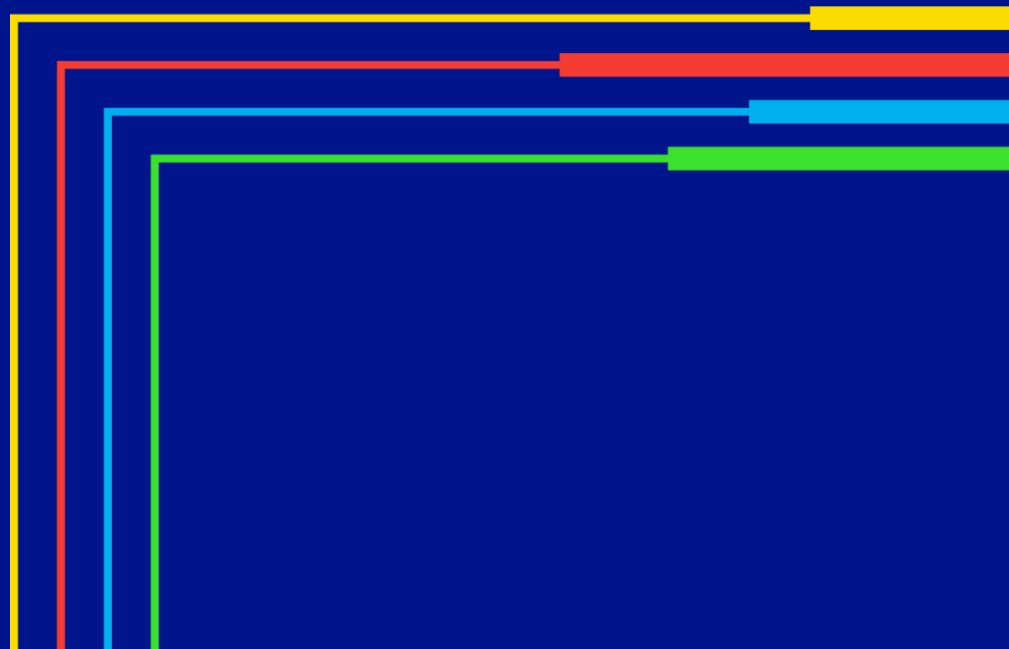
To what extent does this fix help the industry in the interim period until the long term solution is found?

First Refusal option is unlikely to be supported by NG due to potential repeated cycle of analysis and extended capacity request fulfilment timeframes it potentially creates.

04

Secondary Capacity Assignments

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Background

- Discussion within NTSCMF resulted in a written request from Gazprom to NG to look at the topic – raised whilst discussing 0728 development.
- National Grid proposed keeping a discussion topic for this under NTSCMF
- Working group formed from parties who expressed interest in NTSCMF to discuss the subject, facilitated by National Grid to establish those interested parties 'requirements'.
- Scoping document produced based on industry requirements from the sessions held
- Ambitions from interested Shippers focus on how assignments could be changed (with focus on Entry). Given capacity emphasis, transfer of topic to Transmission work group as part of Capacity Access Review from August 2020
- Play back of discussions to Transmission Workgroup where future updates can be given

Scope outline – requirements of interested parties only

Whilst National Grid is facilitating these discussions, these requirements represent the views of those Shippers involved and not National Grid at this time.

Shippers requirements (from those in discussions)	Details
Assignments on Entry and Exit	Entry considered the priority over Exit.
Liabilities	<ul style="list-style-type: none">• Industry preference is that the recipient of the assignment pays no more to NG than the original holder. New party becomes liable for capacity on assignment, old party's liabilities cease• i.e. Where the original price is not floating, for example; Existing Contracts, the original price is protected.
Frequency and denominations	Capacity can be assignable in any denomination, multiple times
Dormant shippers and capacity assignments from their holdings	Assign capacity from legacy arrangements even if it's been subject to a transfer and management of intercompany arrangements
Storage third party auctions	Assignment of storage entry capacity from sites with mandated capacity auctions
TAR NC Compliance	TAR NC and UNC compliance consideration needs to be part of the process (e.g. use of Existing Contracts)

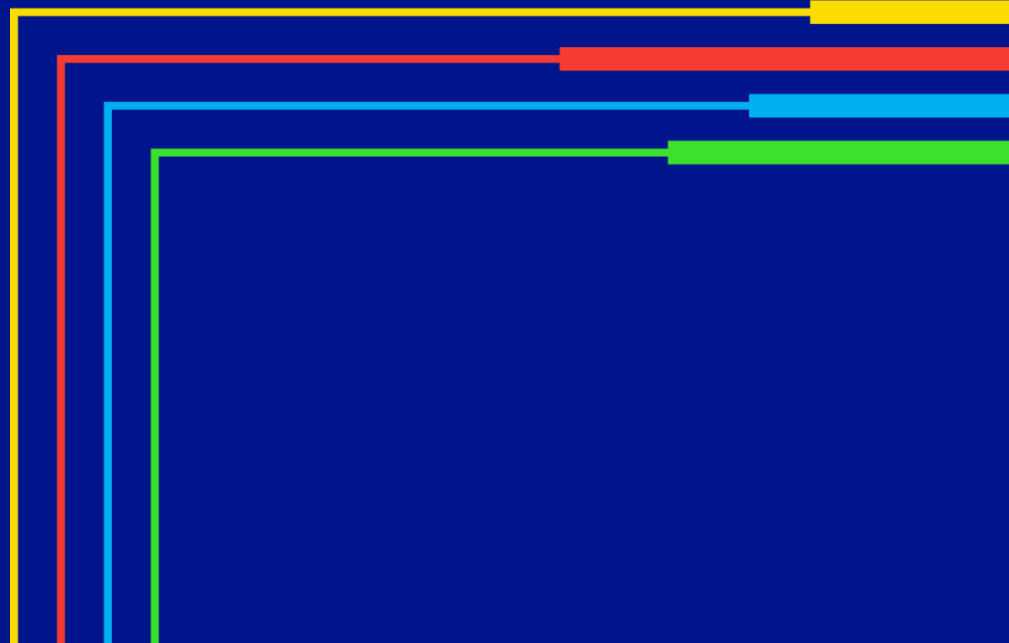
Next Steps

- Comments requested from work group on, updates to or approval of, outline of scope.
- NG to continue to facilitate discussions with interested parties' including
 - Reflecting on the Shippers requirements
 - Potential systems impacts and scale
 - Timelines
- In any development or assessment as this topic progresses, care will need to be taken to address the potential interaction with other modifications pending, for example:
 - 0728 and alternatives;
 - Modifications which may touch on aspects under consideration such as assignments or other capacity related matters

05

**Within day off-
peak / interruptible
product**

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Current Products

	Exit	Entry
Firm	<p>DADNEX – Day ahead daily NTS exit capacity</p> <p>Submit request for unsold obligated firm exit capacity from D-7 6am until D-1 2pm and will be allocated at D-1 3pm</p> <p>WDDNEX - Within-day daily NTS exit capacity</p> <p>Submit requests from D-1 2pm until midnight on the Gas Day. Allocations take place on the gas day at 8am, 2pm, 6pm, 10pm and 1am (at any other time in the gas day with an hours notice)</p>	<p>DADSEC – Day ahead daily system entry capacity</p> <p>Allocated at the day ahead stage at 2pm, 5pm and 1am. Shippers bid up to 7 days before, can be modified or withdrawn and new bids added up to allocation times. 33% discount to MSEC reserve price applied. Further non-obligated can be made available at NG's discretion</p> <p>WDDSEC – Within day daily system entry capacity</p> <p>Available capacity increases by $1/x$ (x is number of hours left in the day). Bids allocated hourly. Zero reserve price for within day allocations, last allocation at 2am. Bids can be evergreen or reducing</p>
Off-peak / Interruptible	<p>DONEX – Daily off-peak NTS exit capacity</p> <p>Submit requests from D-7 6am until D-1 2pm. Allocated at D-1 3pm. Zero reserve price. Allocate bids that exceed available unsold at discretion. Quantity released:</p> <ul style="list-style-type: none"> - UIOLI: unused firm capacity over proceeding 30 days - Unutilised MNEPOR: where demand forecast is less than 80% of the annual peak 1-in-20 demand forecast, NG releases capacity up to MNEPOR* - any discretionary amount NG decide to release 	<p>DISEC – Daily interruptible system entry capacity</p> <p>Available on a daily basis for each ASEP. Allocated at a day ahead stage by 2pm, with shippers able to enter bids 7 days in advance. Bids modified or withdrawn up to 1pm. Zero reserve price.</p>

Scoping and Benefits

Scoping:

- Users would like an extension of the day ahead off-peak / interruptible product to within-day timescales, mirroring the within day allocation timescales

Benefits identified by Users:

- Currently have the ability to book day ahead off-peak / interruptible for free, and firm within day capacity for free. Introduction of the Charging Review removes this, there will be a 10% discount applied to the day ahead off-peak / interruptible products and the standard reserve price will apply to the within day firm products. Users want more opportunity to take advantage of the 10% discount applied to off-peak / interruptible products within day.
- Users want to increase the options available to book off-peak / interruptible so they can optimise their capacity bookings as much as possible. They want more opportunity to purchase the discretionary amount available under DONEX
- Users believe it would drive network efficiency by different types of capacity being available at different times creating a dynamic and equitable market which will drive competition and ultimately benefit end consumers.

History

- There were a few reasons why there is currently no within day off-peak / interruptible product;
 - To not undermine the within day firm product
 - Interruptible product was developed as an anti-hoarding tool, through the introduction of Use It or Lose It in DONEX auctions. Developed to provide access to unused capability of the network
 - By mid-afternoon day ahead we know how much off-peak / interruptible capacity has been sold. Therefore, if it is looking like there may be a problem within day we can scale-back and be in a better position at the start of the gas day
- Number of scale-backs:
 - Entry interruptible capacity was scaled back 20 times and off-peak exit capacity scaled back once since January 2017 (this is the number of days scale-backs occurred, meaning multiple scale-backs occurred on some days)
 - Entry scale-backs are due to specific circumstances at particular sites
- The DONEX auction includes a discretionary element;
 - Bids that we receive, tend to be within the UILOLI and MNEPOR quantities
 - Only release discretionary element at Moffatt, haven't released anywhere else

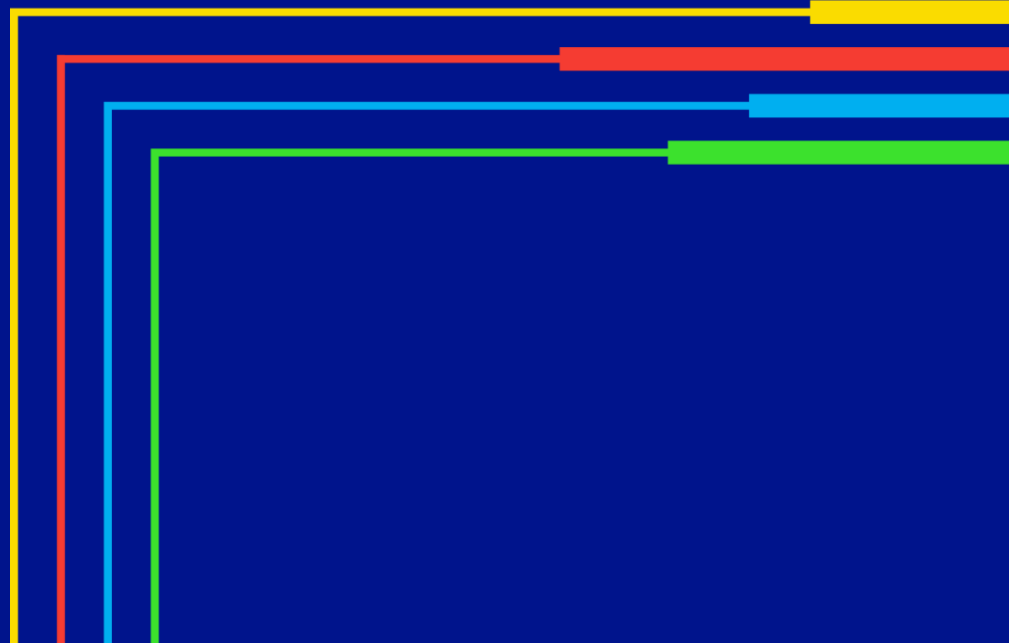
Future within day off-peak / interruptible product

- Introducing a product as Users have requested, given the level of historical scale back, would effectively mean there would be a “firm” product at a discounted price. This is likely to create an under-recovery of revenue which would be smeared back to wider industry, either via the Revenue Recovery Charge or by an increase to the Reserve Prices dependant on decision and implementation dates.
- A differentiation needs to be made between the firm product(s) and a new within day off-peak / interruptible product. This could be around;
 - Off-peak / Interruptible capacity only sold when firm capacity sold out
 - Limited volume of off-peak / interruptible capacity released per day
 - Roll forward the MNEPOR amount
 - Longer allocation lead times (recognising the 4 hour scale-back time)

06

Timeline

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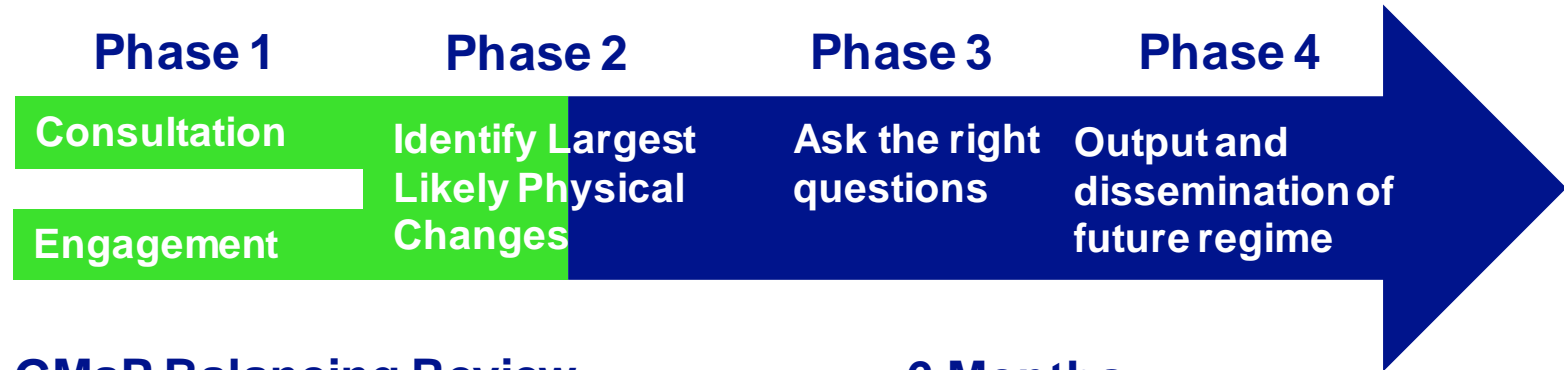


Timeline

	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	Jun '21	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22
Governance			◆ Panel						◆ Panel						◆ Panel				◆ Panel		
Entry User Commitment					◆ Implementation of ECR change																
Exit User Commitment "Quick fix"						◆ Decision					◆ Implementation										
Substitution						◆ Decision					◆ Implementation										
Overruns			◆ Implementation												◆ Review						
WD off-peak / interruptible product	<i>Ongoing Development</i>																				
Secondary capacity assignments	<i>Ongoing Development</i>																				
Exit regime overhaul									→ <i>Commence review in Q2 2021</i>												
Long-term regime							◆ Publication of report	→ <i>Development of projects</i>													

Long Term Capacity Access Review - Update

Long Term Capacity Access Review



GMaP Balancing Review

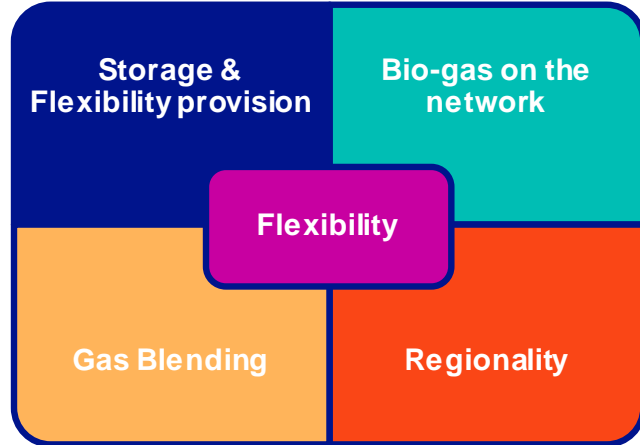
~ 6 Months

Form and collaborate with External Work Group



Long Term Capacity Access Review - Update

Largest Likely Physical Developments



Project Aims

Explore full breadth of implications and needs of a future regime

Output a Straw Man of a Future Capacity Regime

Provide insight to the path from today's world to the future regime

Build a solid foundation from which to work with industry to develop

Highlighted specific issues for further collaborative analysis with industry

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