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0671 Capacity Exchange

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NTS exit capacity

- Above baseline subject to Substitution Methodology
- Below baseline NTS have a licence requirement to make it available.
- Below baseline not sold - Users could purchase up to baseline and NTS would have to make it available
- Below baseline sold – the subject of this modification proposal

- In our view it is important to distinguish between below and above baseline capacity
- Blurring of what is and is not a licence obligation is not helpful

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Summary of proposal

- Introduced a Capacity Exchange process for sold Enduring Annual Exit (Flat) Capacity below baseline to be exchanged between Exit Points within an Exit Zone
- Put in place a process to preserve the value of the User Commitment for the exchanged capacity to keep NTS allowed revenue whole
  - Excluded Y+1 from the process to avoid affecting NTS collected revenue in Y+1
- Does not allow Enduring Annual Exit (Flat) Capacity to go negative at any NTS Exit point
- Does not allow Enduring Annual Exit (Flat) Capacity to go above baseline at any NTS Exit point

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Baseline capacity

- NG view:
  - Network capability not equal to baseline due to demand and supply and NG has constraint management incentive to build to an efficient level
- WWU view:
  - If Entry flows are needed in certain areas then this should be incentivised through transportation charging methodology
  - If system is not capable of delivering baseline exit capacity which are licence obligations then NG should publish what sub-baseline capacity is available.
  - Users should not be penalised by commercial decisions taken by National Grid not to invest in its network
  - Users could currently book Exit Capacity up to baseline and NTS would have to accept it. On above arguments NG would then be charging for capacity they could not deliver and on which DNs would be relying to deliver gas on a 1 in 20 day to “Mrs Jones”

Principles of substitution

- NG view:
  - Substitution methodology uses concept of exchange rates not 1:1 substitution
- WWU view:
  - Substitution methodology applies to above baseline capacity not below baseline capacity
  - NTS has licence obligations in respect of baseline exit capacity
  - The WWU modification was amended to restrict exchanges to the same Exit Zone to meet initial National Grid concerns
  - We do not consider that National Grid arguments are relevant to below baseline sold capacity

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Bookings provide signals

- NG view:
  - Enduring capacity bookings provide long terms signals to enable planning of the system
- WWU view:
  - The problem occurs when these bookings reflect previous requirements not current requirements
  - Users are currently tied to capacity they may no longer need and have to book the capacity at other offtakes leading to more capacity being booked than required
  - If NTS relies on these bookings then it may lead to inefficient NTS operation and refusal of flex requests
  - If NTS does not rely on these signals (and uses its own forecasts) then the bookings are not important signals for operation of system
  - We question whether NTS has different forecasts for pricing, system operation, system investment

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User Commitment both above & below baseline

- Work on 0671 and 0667 raises questions about UC:
  - It is not clear what benefit is provided in cases where capacity is provided with no need for incremental investment in the NTS
  - Is it compatible with NG's Gas Act section 9 obligations in respect of developing an Economic and Efficient system for the transportation of gas. For connections does it lead to charges that are in excess of the cost of providing the incremental capacity.
  - Is it compatible with TAR compliant transportation charging methodology
    - In which charges are all capacity charges
    - In which charges are designed to recover costs rather than provide locational signals
  - It results in inefficient capacity signals, Users not able to change bookings leading to incorrect locational capacity signals requirements and also probably refusal to provide flexible capacity when in fact it is available

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Bookings provide revenue certainty

- NG view:
  - Enduring capacity bookings provide revenue certainty
- WWU view:
  - This is provided for in the proposal by excluding Y+1 and rules on how value of User Commitment is transferred

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RIIO transmission sector specific consultation

- We are pleased that Ofgem consultation recognises some of these issues, specifically paragraphs 5.54 to 5.58 namely substitution and the effect of the network capability review on the level of capacity available

- Paragraph 5.59 lists the approach that Ofgem suggests:
  - Economic Test for Capacity that can be met by substitution
  - Could lead time for substitution be reduced
  - Appropriateness of User Commitment
  - Degree of Ofgem involvement in process
  - Whether current nodal arrangements for substitution are appropriate

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Implementation of 0671

- ROM from Xoserve:
  - Cost: Estimate £650k- £950k
  - Paid for by DNs and Shippers under DSC Service Area 7**:** NTS Capacity, LDZ Capacity, Commodity, Reconciliation, Ad-hoc adjustment and balancing invoices.
  - Delivery: 42 weeks
- Release
  - Not in Gemini plan so no planned date but view at DSC change committee on 13th March 2019 was that 2020 would be challenging

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Options for way forward

- Continue with 0671 noting the cost and the risk that this change may not be implemented for Gas Year 2020
- Wait to see what National Grid proposes in their GT2 business plan and respond accordingly
- Reminder WWU first raised these issues in our response to the National Grid methodology statements in May 2017

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