

# Capacity Access Review: User Commitment / Substitution

Transmission Workgroup

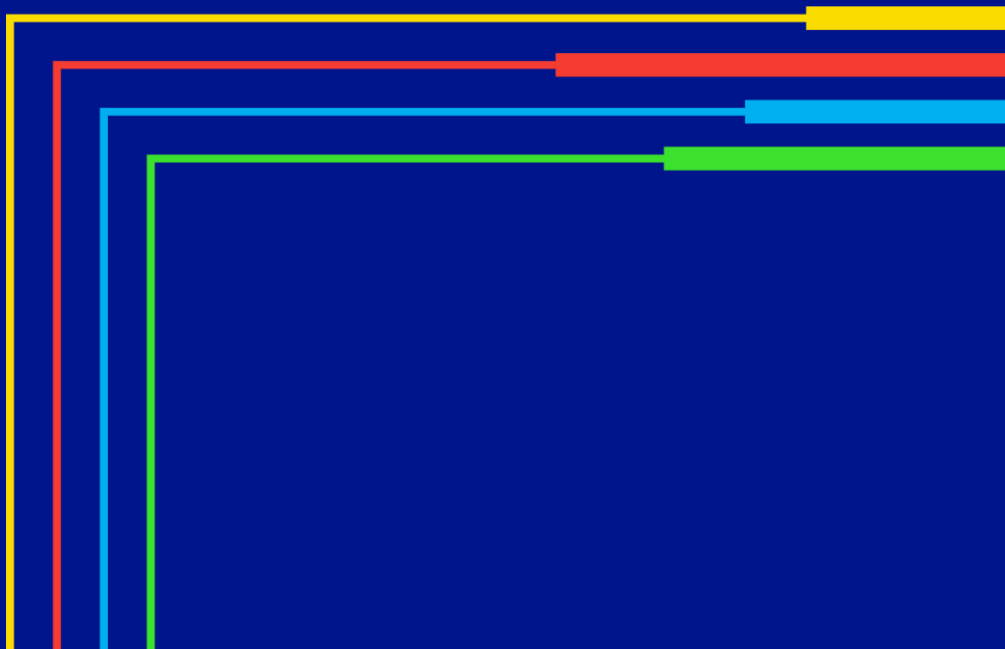
4<sup>th</sup> June 2020



# 01

## Entry User Commitment

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# Entry User Commitment

## Current:

Requirement	Capacity Commitment	Financial Commitment
<b>Existing Capacity</b> (PARCA)	16 quarters x application amount	
<b>Substitution</b> (PARCA & QSEC)	16 quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	
<b>Obligated funded incremental</b> (PARCA)	16 quarters x application amount <i>Of which 4 quarters in 4 years is the incremental amount</i>	Min 50% notional project cost

## Proposal:

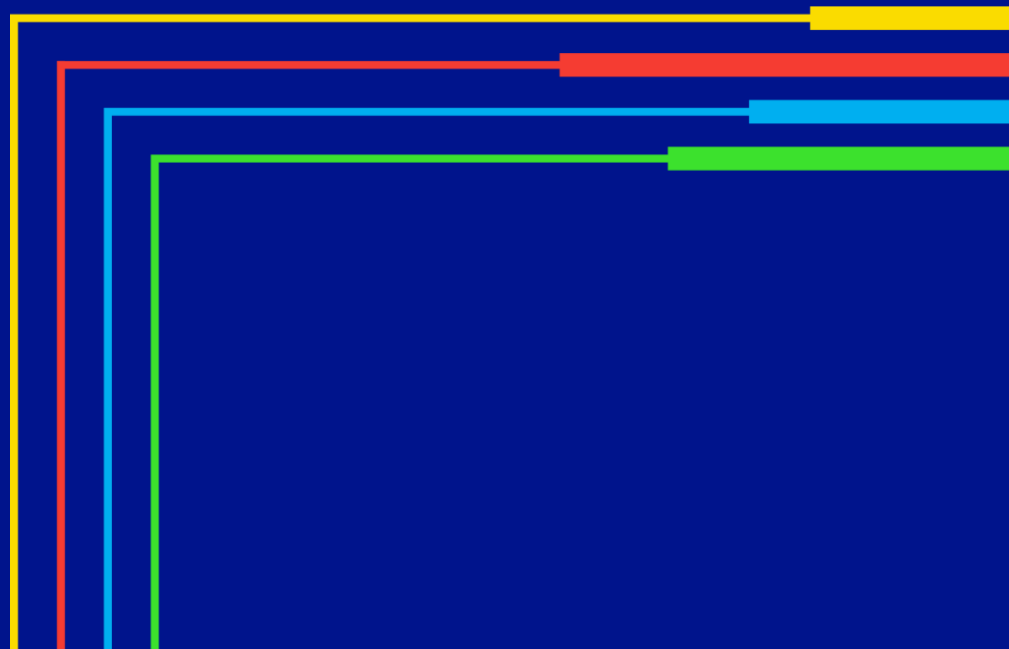
Requirement	Capacity Commitment	Financial Commitment
<b>Existing Capacity</b> (PARCA)	Option A: 16 quarters of “a quantity” of capacity Option B: 4 quarters of application amount	
<b>Substitution</b> (PARCA & QSEC)	4 quarters x application amount <i>All 4 quarters in 4 years is the incremental amount</i>	
<b>Obligated funded incremental</b> (PARCA)	4 quarters x application amount <i>All 4 quarters in 4 years is the incremental amount</i>	Min 50% notional project cost

**Ambition:** Raise UNC Modification in July to make above amendments

# 02

## Exit User Commitment

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# Exit User Commitment: Approach

Recap: At April's Workgroup we presented options around Exit User Commitment, May's Workgroup we further worked up the option around removal of the enduring product.

Moving forwards, two-phase approach:

1. Short-term: Amendments to the existing regime to solve the immediate problems
2. Long-term: Fundamental review of exit capacity regime (including Zonal, mirroring Entry regime). At this stage it may be appropriate to run a consultation.

*Action 0404: National Grid to look further into option D and provide more clarity*

- Will be done as part of consultation

*Action 0501: National Grid to develop consultation regarding the User Commitment options*

- For the reasons outlined, National Grid will not be issuing a consultation at this stage

# Exit User Commitment: Problem

Problem: Difficult to forecast capacity requirements 4 years ahead. Buy enduring capacity and be subject to 4 year User Commitment, meaning capacity commitment cannot be reduced for 4 years if forecasts reduce.

Quantification: *How demand forecasts have changed over time?*

Parties Impacted: DN's

Options to resolve: User Commitment



Problem: Don't buy enduring capacity, run the risk of capacity at the exit point the User is active at, being substituted away

Quantification: *Capacity put at risk of substitution (booked in annual and/or daily auctions?)*

Parties Impacted: DNs

Direct Connects

Storage

Options to resolve: Substitution process

Party	Position
Direct Connects	More active in the daily capacity auctions. Their main risk is losing baseline through substitution – shortening UC timescales for substitution may create more exposure. Currently book off-peak capacity, post Charging Review when this isn't as attractive, there could be an increased risk of losing baseline.
Storage	For exit, more active in the daily capacity auctions therefore User Commitment for enduring capacity not a particular issue. Risk is around substitution and capacity getting substituted away. Want substitution to work effectively capacity has been signalled which substitution has been identified as solution.

# Exit User Commitment: Options

	#	Description	Pros	Cons
User Commitment	1	No User Commitment for bookings within baseline capacity	<ul style="list-style-type: none"> <li>- Allows capacity booking to be amended in line with requirements</li> <li>- Better visibility of required capacity meaning more efficient substitution / investment decisions could be made</li> </ul>	<ul style="list-style-type: none"> <li>- Bookings could jump around resulting in inefficient substitution analysis being taken</li> <li>- Could end up investing when capacity available</li> </ul>
	2	1 year User Commitment for bookings within baseline capacity	<ul style="list-style-type: none"> <li>- Allows capacity bookings to be more amended in line with requirements</li> <li>- Better visibility of required capacity meaning more efficient substitution / investment decisions could be made</li> </ul>	<ul style="list-style-type: none"> <li>- Bookings could jump around resulting in inefficient substitution analysis being taken (less than option 1)</li> <li>- Could end up investing when capacity available (less than option 1)</li> </ul>
	3	Withhold 10% of baseline capacity or sold capacity for short-term auctions	<ul style="list-style-type: none"> <li>- Would allow User's to adjust their capacity requirements on a more flexible basis</li> </ul>	<ul style="list-style-type: none"> <li>- Could end up investing when unsold capacity</li> </ul>
Substitution	4	Proving a notice of geographical location of application which has triggered substitution (and an opportunity to buy capacity) following substitution signalled through Enduring application process (and QSEC)	<ul style="list-style-type: none"> <li>- Would make the process more akin to when triggered through PARCA</li> <li>- Another opportunity to buy capacity given the changed landscape that they are now making decision on</li> </ul>	<ul style="list-style-type: none"> <li>- There is currently no process available for Users to book the capacity following receipt of the notice</li> <li>- Examples of where capacity has been used for substitution, triggered through a PARCA, when required by party active at an exit point</li> </ul>
	5	First refusal – once substitution donor point is identified, existing capacity holding party at that point gets first refusal of the capacity	<ul style="list-style-type: none"> <li>- Would ensure capacity isn't "required" before being substituted away</li> </ul>	<ul style="list-style-type: none"> <li>- Perpetual circle of substitution analysis</li> <li>- Chargeable party?</li> </ul>
	6	Retainer (an amended entry provision)	<ul style="list-style-type: none"> <li>- Allow User's to indicate need for capacity without having to fully commit</li> </ul>	<ul style="list-style-type: none"> <li>- Loosely based on existing entry product</li> <li>- Balance between costs and impact</li> </ul>
	7	All capacity signals to be met via substitution to be signalled through PARCA	<ul style="list-style-type: none"> <li>- Notification provided and PARCA window triggered</li> </ul>	<ul style="list-style-type: none"> <li>- Examples of where capacity has been used for substitution, triggered through a PARCA, when required by party active at an exit point</li> </ul>

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