Capacity Access Review

Transmission Workgroup

5th March 2020

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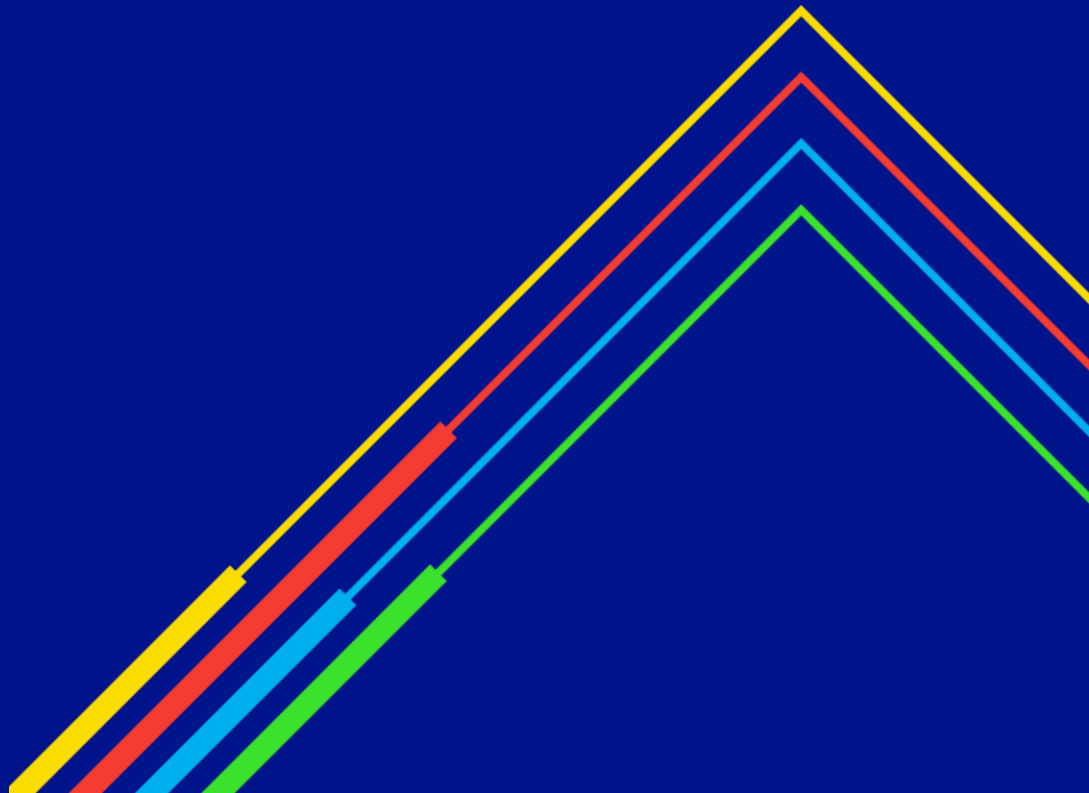
Zonal Capacity arrangements



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What are we trying to achieve?

Broadly:

- Flexible, adaptable and efficient use of existing capacity
- Greater access to and use of unsold capacity

More specifically:

- Move capacity to where it is needed
- Amend capacity bookings as requirements adapt
  - Without User requirement “restrictions”
- Provide accurate capacity requirement signals

Option 1: Full Zonal

Zones could be set as per ExCR methodology statement

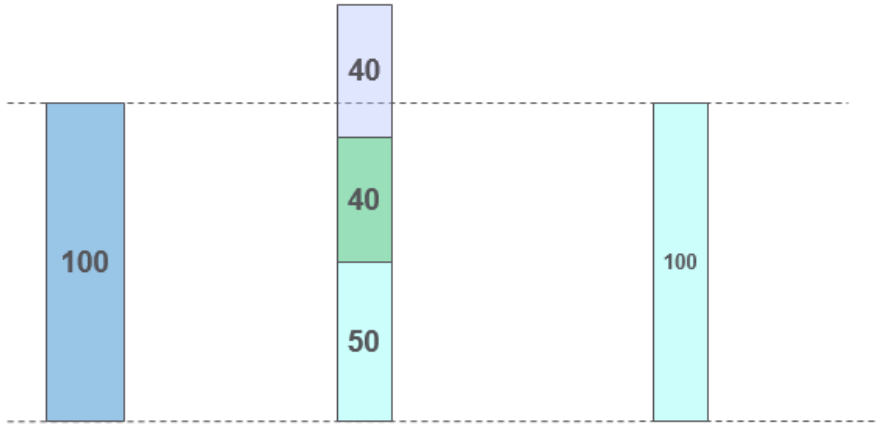
This option would include:

- Single baselines and auction(s) per zone
- Zonal price and flows against capacity measure (and resulting in) a zonal overrun
- No need for transfer or substitution within a zone
- No User commitment within a zone, User Commitment applies on zonal capacity – free to use anywhere within zone.

Considerations:
Provides greater access to unsold capacity and greater opportunity for trading
More likely to be suitable for existing Exit points rather than Entry due to the number of points (but could be considered for new entry points)
No requirement for a transfer / substitution process within a zone; the pooled unsold capacity can be allocated anywhere
Some potential Exit zones where a 1:1 exchange rate isn't applicable (analysis for UNC Mod 0671). Leads to either smaller zones or non-standard exchange rates
NGG would not have complete information on where capacity is required – the network would be designed and operated on an aggregate basis

Option 2: ‘Competing Auctions’ model

- Bid in individual auctions
- Results from individual auctions are pooled into 1 combined bid stack for allocation



Unsold Capacity from 3 ASEPs is summed up into a single pool

Bid Stack 1

∑Demand > Available

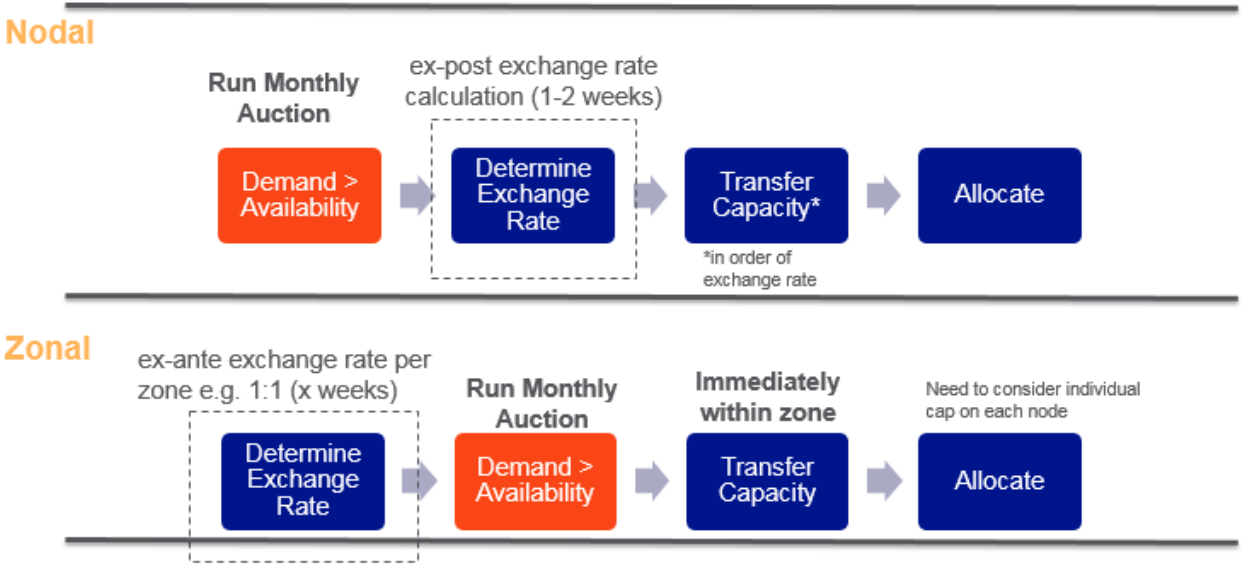
30 lowest price bids ‘lose; and/or pro-rate lowest accepted bids

Bid Stack 2

Unsold capacity allocated to highest bid price

Considerations:
Implicitly the exchange rate would need to be 1:1
No requirement for a transfer / substitution process within a zone; the pooled unsold capacity can be allocated anywhere
Risk that all the capacity gets allocated to a single point within the zone – would need to consider individual cap

Option 3: Zoning Nodes



- Nodal baseline and individual auctions
- Exchange rates set prior to auction meaning capacity could be transferred quicker
- Could be applicable in daily auctions

Considerations	
Less accurate exchange rate	Extensive system implications
Very resource intensive to determine suitable exchange rates	

Option 4: Zonal at point in time

Long-term capacity sold on nodal basis

Unsold capacity sold on zonal basis

	Y-6 to Y-4	Y-3 to Y-1	D-1	D
Firm	Enduring (EAFLEC)	Annual (AFLEC)	Daily (DADNEX)	Daily (WDDNEX)
Off-peak			Daily (DONEX)	

- Long-term capacity sold on a nodal basis
- Unsold short-term capacity then sold on a zonal basis either through option 1 or 2 or 3

Considerations:
Same considerations as previous depending which zonal option move to
Potentially provides more ability to plan the network as long-term capacity sold on nodal basis

Option 5: Zonal product

Zonal product auctioned at a premium

1. Pre-defined amount of capacity to be sold as a zonal product
2. Sell capacity at a point but with flexibility to use anywhere in the zone

- Provide the right to move nodal product within the zone
- This option would be more focussed on how sold capacity with the right to use it within the zone whereas other options about to efficiently make unsold capacity available for the market to utilise

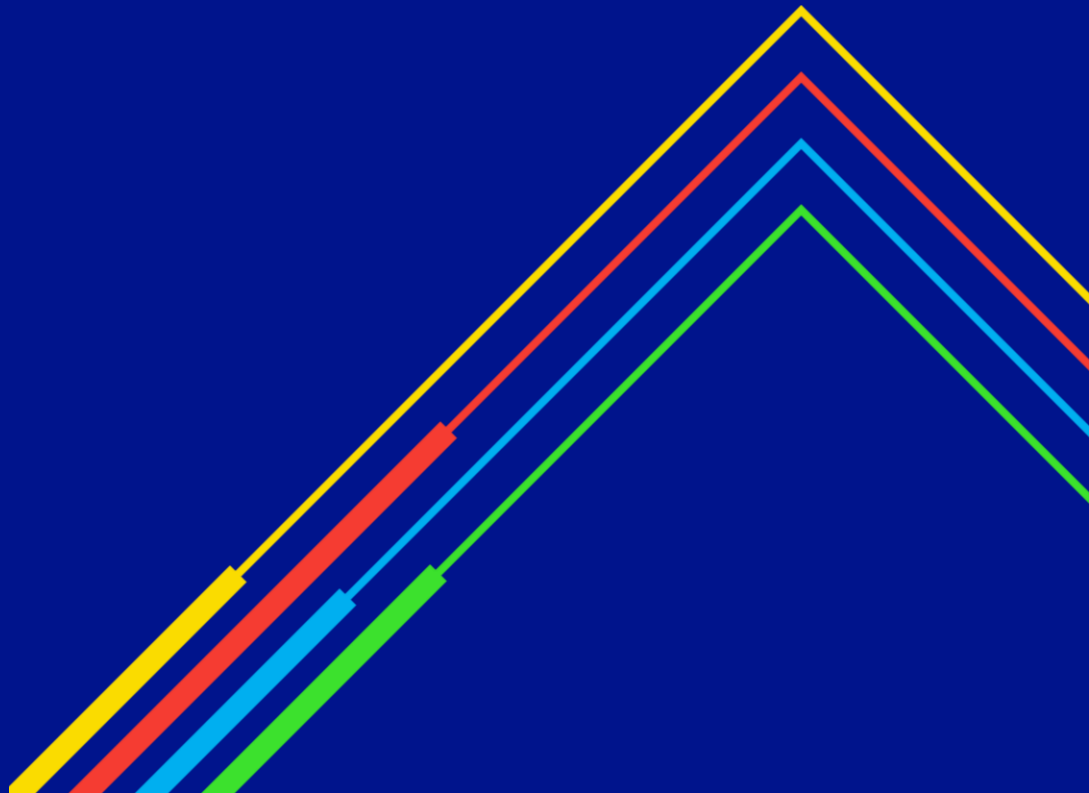
Considerations:
Selling capacity at specific point so remains the same as today
Provide greater flexibility to move capacity between points
Turn nodal User Commitment to zonal User Commitment

Option 6: Current enhanced

Can current processes / mechanisms be enhanced to solve problems without zonal

- Flow swaps more frequently used
- Review of User commitment levels / arrangements
  - Including whether a Non-User Commitment product could be available on a case-by-case basis
- Retainer provision available on Exit
- 10% baseline reservation in Exit Capacity auctions for near-term auctions which wouldn't be subject to User Commitment

Entry Capacity Release



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Entry Capacity Release methodology

In their UNC 0667 Decision Letter, Ofgem noted that the Capacity Access Review includes reviewing the rules around User Commitment.

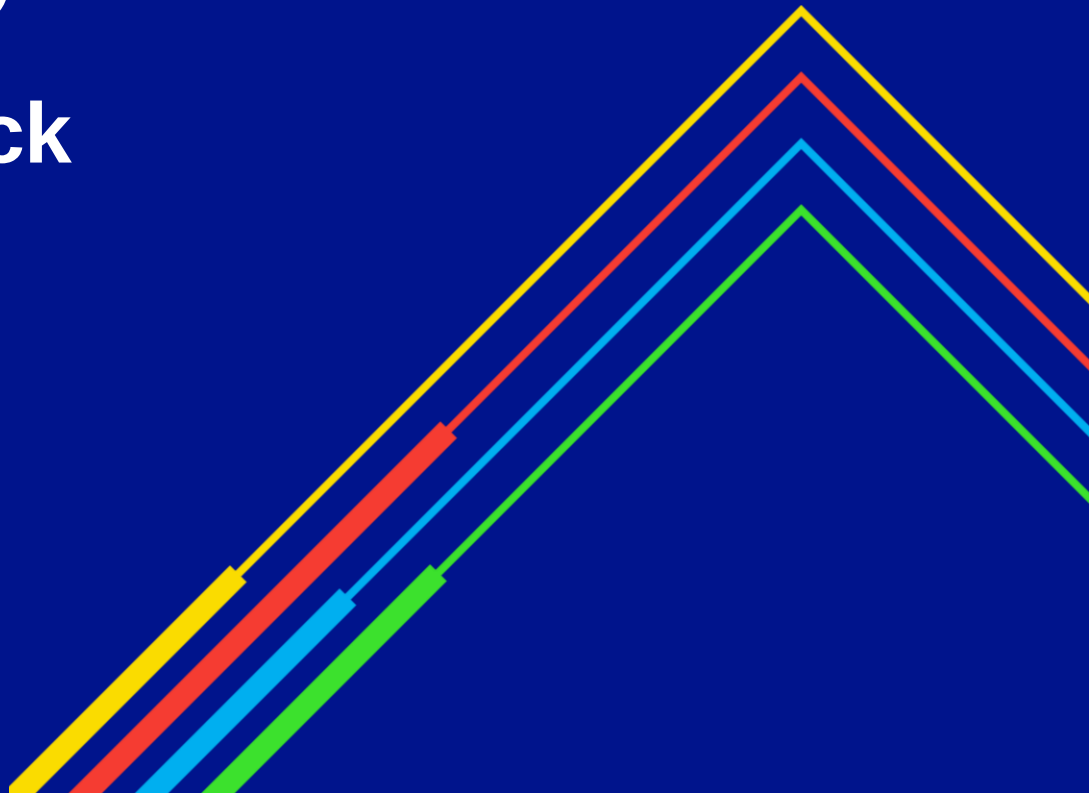
As a principle, NG believes User Commitment should be:

Obligated incremental > Substitution > Existing Capacity

Current User Commitment levels:

Requirement	Capacity Commitment			Financial Commitment
Existing Capacity	16 quarters x application amount			
Substitution	16 quarters x application amount	+	4 quarters / year incremental amount	
Obligated incremental	16 quarters x application amount	+	4 quarters / year incremental amount	Min 50% project cost

Long-term Strategy Consultation: Response Play Back



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Long-Term Strategy Consultation Responses

National Grid recently consulted the GB gas industry about a number of aspects relating to the Long-Term Strategy of the Capacity Access. We would like to thank those parties who took the time to respond.

Today we will give a summary of responses received and set out proposed next steps

In total 14 Responses were received.

2 of the respondents wished to remain anonymous, 1 respondent did not comment on whether they wished to remain confidential or not.

Responses were received from a range of Shippers, Trade Associations, Power Station Operators, Large Consumers, Storage Operators and Distribution Networks.

Ambition Statement

- The average agreement score was 7.1/10
- No strong objections but could be condensed
- Important to ensure there is no suggestion of different arrangements for new and existing entrants, although one respondent felt that sometimes we need different rules for different customers
- Some respondents wished for clarification of what was meant by “dynamic” and “flexible”
- Correlation of functions to specific attributes highlighted in the ambition statement.

Response

We will adjust the ambition statement;

- Concise
- Clear up any ambiguities
- Make the statement more accurately reflect the 5 functions

Functions: A. Signal a need for capacity requirements

- The average agreement score was 8.0/10
- Investments in the NTS should be underpinned by some form of financial commitment
- Currently significant issues with user commitment, divergent views on the PARCA process and Substitution arrangements.
- Links with the new charging regime and how the minded to on 678A would have impacts on the function.

Response

- Signal a need for capacity requirements will remain as a function.
- All the issues raised with the current regime will be considered as part of the Signaling and Allocation of Capacity workstream which has recently started.

Functions: B. Manage network access where there is a short-term constraint

- The average agreement score was 8.9/10
- A necessary function of any efficient capacity regime but infrequent occurrence of constraints results in difficultly in assessing the effectiveness of current arrangements.
- More transparency was needed about the constraint management tools used and the cost associated with their use.
- One respondent said they would welcome a review of the commercial arrangements for dealing with short term constraints specifically to reflect the cost associated with the LNG supply chain.
- One respondent felt that those who have committed in advance for capacity should take priority over short term bookings.

Response

- Some of these issues may not be best resolved through the Capacity Access Review
- Other issues mentioned by respondents will expand and add detail to the short-term issues and will be considered as part of the relevant workstream.

Functions: C. Provide users with commercial certainty on network access

- The average agreement score was 8.7/10
- Most respondents agreed that gas customers require commercial certainty on network access.
- Several respondents highlighted the uncertainty around capacity costs as a result of the ongoing charging review.
- One respondent said they would welcome more flexibility within the capacity regime to better manage this uncertainty.

Response:

- We appreciate that there may be a financial uncertainty created by developments in the charging regime however, we feel that discussion around this topic may better fit within the scope of the charging review.
- Additional points raised such as more flexible products will be added to the short-term issues for discussion as part of the relevant workstream.

Functions: D. Collect transporter allowed revenue

- The average agreement score was 6.4/10
- Most respondents appreciated that the transporter needs to collect allowed revenues.
- One respondent would not expect revenue recovery to be a primary objective of a capacity regime.
- Some respondents identified the link with anticipated changes to the charging regime and highlighted that it is not the sole responsibility of the capacity regime to ensure charges are collected.
- One respondent mentioned that access to capacity products and their relative pricing should be carefully balanced to facilitate desirable booking behaviours

Response:

- It is a function of the charging regime to determine how allowed revenue is collected. Ofgem's minded to decision on mod 678A suggests that a high proportion of charges will be collected through capacity charges. With this mind we feel that collect transporter allowed revenue should remain as a function.

Functions: E. Enable new entrants, including new sources of gas and technologies, to easily and efficiently access the NTS

- The average agreement score was 7.5/10
- Most respondents agreed that new entrants should be able to easily access the NTS
- Most respondents felt that this function should apply to all parties not just new entrants

Response

- We propose to change the wording of this function in order to ensure that there is no suggestion that new and existing market participants should be treated differently.
- The proposed function will be:

Enable existing users and new entrants, including new sources of gas and technologies, to easily and efficiently access the NTS.

Functions: Additional Comments

- The resolution of some identified short-term issues may contribute to the longer-term regime.
- None of the functions address the facilitation of how capacity products should be acquired or how processes surrounding capacity can be upgraded on characteristics such as platform/IT quality, usability and automation.
- Incorporating FCC into UNC would help improve stability of charges.
- The regime should facilitate the most efficient use of total system capacity, not just efficient network access to markets.
- Timescales for review and how it fits with GMaP.
- Highlight potential interactions with "Ofgem Review of System Operation" in response to challenges of the net zero target.

Short-term Issues

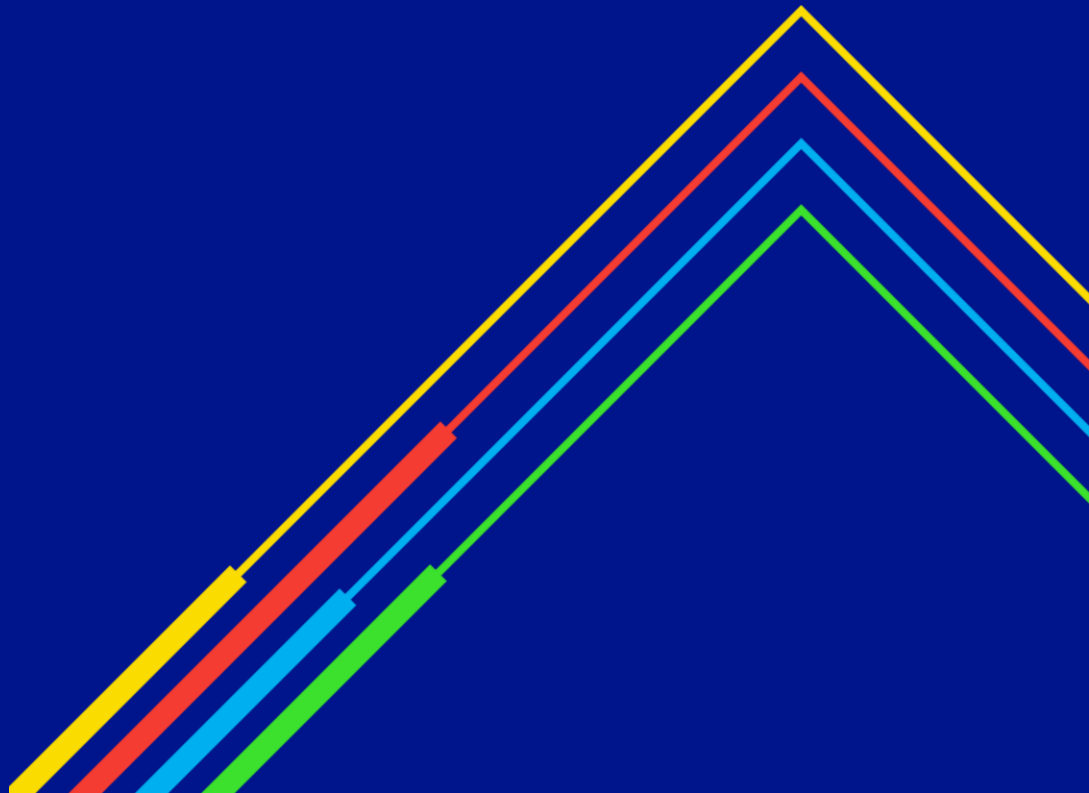
We would like thank respondents for the detailed feedback received on short-term issues that they have been experiencing. These include but are not limited to:

- Different capacity choices available to large DN connects and NTS connects leave large DN connects at a competitive disadvantage.
- Review into residence of obligations when trading capacity.
- PARCA process partial termination.
- Issues with Gemini, increased automation.

Response

- We will add two new areas to the short-term issues table: Trading and System Capabilities.
- We will use the information provided in consultation responses to add detail to the current table of short-term issues and produce a summaries of the key issues to be discussed.

Appendix 1



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Zonal Analysis for UNC Mod 0671

As part of UNC Modification 0671, National Grid undertook initial analysis which showed that 1:1 exchange rate within zones is not always possible

Point 1	Point 2	Exit Zone	Exchange Rate
AYLE	CHOK	SW3	1.85:1
CHOK	AYLE	SW3	0.56:1
BRAA	MAPP	SO2	>3:1
MAPP	BRAA	SO2	0.1:1
EGRY	ILCH	SW2	2.58:1
ILCH	EGRY	SW2	0.4:1
SEAB	ILCH	SW2	1.4:1
ILCH	SEAB	SW2	0.8:1

Leads to either smaller zones which do have a 1:1 exchange rate; or

A non-standard exchange rate within zones; or

A threshold

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