

PARCA – Reservation Fee

Transmission Workgroup, 4th April 2013

Background

- Through the proposed PARCA (Planning and Advanced Reservation of Capacity Agreement) it will be possible to reserve capacity through a bilateral Agreement
- Any PARCA Application will require the payment of an Application Fee for Phase 1 PARCA works and the PARCA Applicant will then have an option whether or not to proceed
 - The PARCA will include how the capacity will be made available (e.g. through infrastructure reinforcement, commercial solutions or using existing capability)

PARCA – Reservation Fee Principles

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- Should the Applicant choose to progress to Phase 2 of the PARCA then:
 - For any request for capacity via a PARCA in order to meet the capacity that requires National Grid to incur costs then the PARCA Applicant will be required to secure the anticipated investment costs up to the allocation of capacity
 - Where no investment costs are anticipated, such as using existing capability to meet the request, then there should be some form of financial commitment for the capacity reserved
 - The proposal is to consider a Reservation Fee to address the scenario where no investment is required versus booking capacity through existing auctions but with changes for surrender and date revisions

PARCA - Charging Principles

- The introduction of a Reservation Fee would aim to utilise similar principles that are anticipated to be applied to the funding and charging of a PARCA:
 - There should be some element of financial commitment associated with reserving capacity through the PARCA
 - These should not become a barrier to entry
 - If the PARCA is terminated prior to capacity being delivered the PARCA Applicant will be liable for the Reservation Fee
- The Reservation Fee could be covered by providing security

Reservation Fee – Some Options for Application

- a) Have a targeted Reservation Fee that applies only where the solution requires no National Grid investment or commercial solution (using existing capability or substitution); or
- b) Have a universal Reservation Fee and apply to all PARCAs and have exemptions applicable if putting up security linked to a revenue driver (investment or commercial solution); or
- c) Have a universal Reservation Fee and apply to all PARCAs.

Options (a) and (b) are the same but would need to be codified differently and may be preferable to option (c)

Reservation Fee – Some Options for Application

- Are there any other options we should be considering in taking a Reservation Fee forward?
- Is a targeted fee more favourable than a universal fee?

Reservation Fee – Options for Calculation (1/3)

- Using an indicative capacity charge, calculated at the time of reservation for a specific duration (e.g. 12months or 24months of Capacity Charges)
- Using the Transportation model for calculating equivalent incremental investment (for the requested level of capacity) and allocating a proportion of the value to be the Reservation Fee

Reservation Fee – Options for Calculation (2/3)

	Reservation Fee as a % of the anticipated capital cost		
	Based on Capacity Charges		Percentage of Incremental investment **
Type	12m capacity charges	24m capacity charges	Using incremental based revenue driver calculation
Entry	~10%	~20%	17%
Exit*	~20-30%	~40%-60%	17%

*Exit charges will have an adjustment for allowed revenues generating a higher proportion of the anticipated cost than on Entry

**Will have the same percentage for Entry and Exit, based upon the percentage that covers the investment funding for the period up to the allocation of capacity, here using 17% as an example

Reservation Fee – Options for Calculation (3/3)

- Some general examples comparing capacity charges and generic percentage of incremental investment

			Reservation Fee based on 12m Capacity Charges		Reservation Fee based on Generic percentage of incremental investment	
Type	Incremental Capacity (GWh/d)	Estimated Project Value (£m)	Reservation Fee based on Annual (12m) Capacity Charge (£m)	Annual Charge as % of investment	Percentage used	Reservation Fee based on fixed percentage
Entry	~70	33m	3.38	10%	17%	5.61
Exit	~16	3.7m	0.94	25%	17%	0.63

Reservation Fee - Pros and Cons for each option

Capacity Charge based Fee based on indicative charge for a defined duration (e.g. 12m or 24m)		Fixed percentage of investment costs modelling the requested capacity as incremental		Just booking capacity	
Pros	Cons	Pros	Cons	Pros	Cons
<ul style="list-style-type: none"> ■ Simple ■ Has a consistent method of calculation using the Transportation Model 	<ul style="list-style-type: none"> ■ Based on indicatives, with actual charges potentially different ■ Duration may need to be shorter for Exit to ensure fairness between Entry and Exit 	<ul style="list-style-type: none"> ■ Same proportion of investment to Entry and Exit ■ Consistency with approach for funding incremental 	<ul style="list-style-type: none"> ■ Would mean modelling as incremental when using existing capability to meet capacity ■ More complex 	<ul style="list-style-type: none"> ■ Could be simple if booking capacity in similar fashion as to now; ■ Based on a system Users already know and using existing systems (albeit with potential changes required) 	<ul style="list-style-type: none"> ■ Rules would need to be developed for surrender and date revisions, if required ■ Non UNC parties would need a shipper on board earlier in the process ■ Potential system changes may add time to implementation

Are there any other views on these?

Summary

- Principles of Reservation Fee vs. Auctions

- If a reservation fee is preferred, how to be applied
 - Targeted or universal

- How to calculate the reservation fee
 - Duration of Capacity charges
 - Fixed percentage of incremental project cost