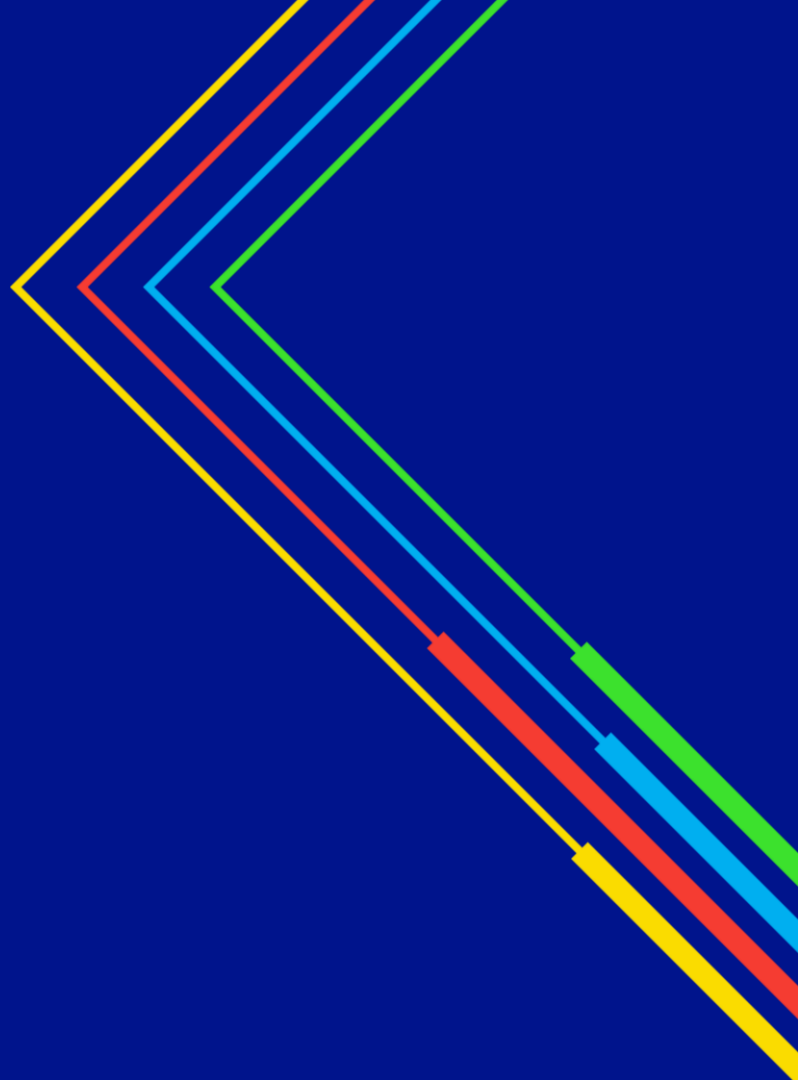


# Capacity Access Review

**Webinar**

11<sup>th</sup> March 2020

national**grid**



# Capacity Access Review Webinar

- Expect this webinar to last approximately 30min
- We will pause for questions at the end of each section
- Please can you put yourself on mute



**Jennifer Randall**  
*Commercial Codes Change Manager*



**Anna Stankiewicz**  
*Code Change Lead*

# Agenda

---

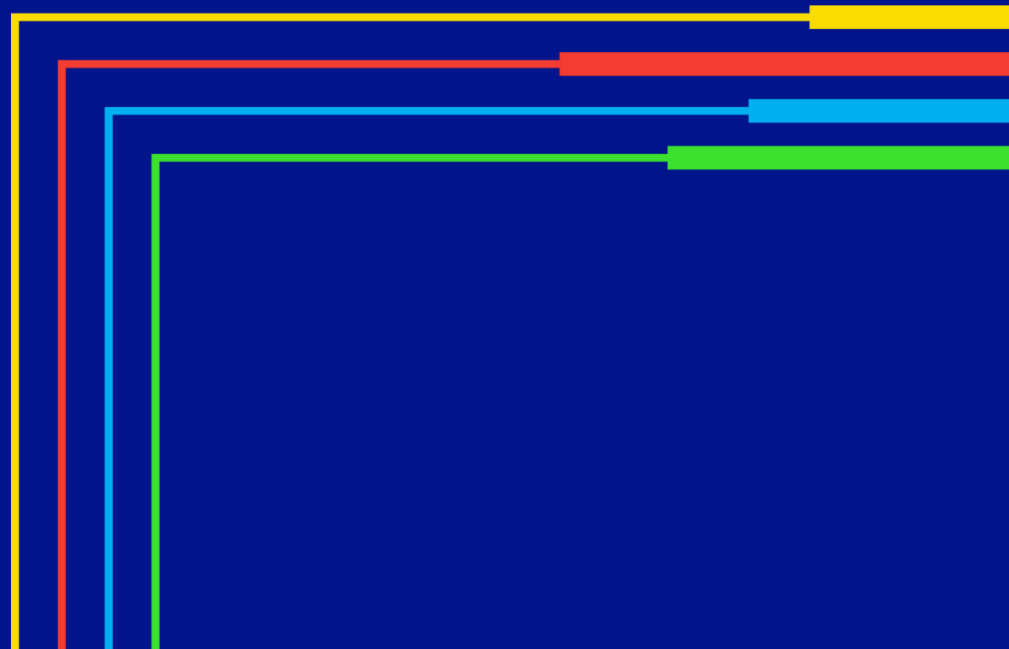
<b>01</b>	Introduction	04
<b>02</b>	Long-term Strategy Consultation: Response Playback	06
<b>03</b>	UNC Modification 0716: Revision of Overrun Charge Multiplier	17
<b>04</b>	Signalling and Allocation of Capacity	20
<b>05</b>	Next Steps	24

---

# 01

## Introduction

national**grid**



# Introduction

In the last webinar we have spoken about reasons behind the launch of the Capacity Access Review and specifically:

- Development of the scope, long-term strategy, functions and principles of the future regime as well specific short term issues
- CAR Strategy Consultation which closed on 20th February
- Overruns and potential solutions

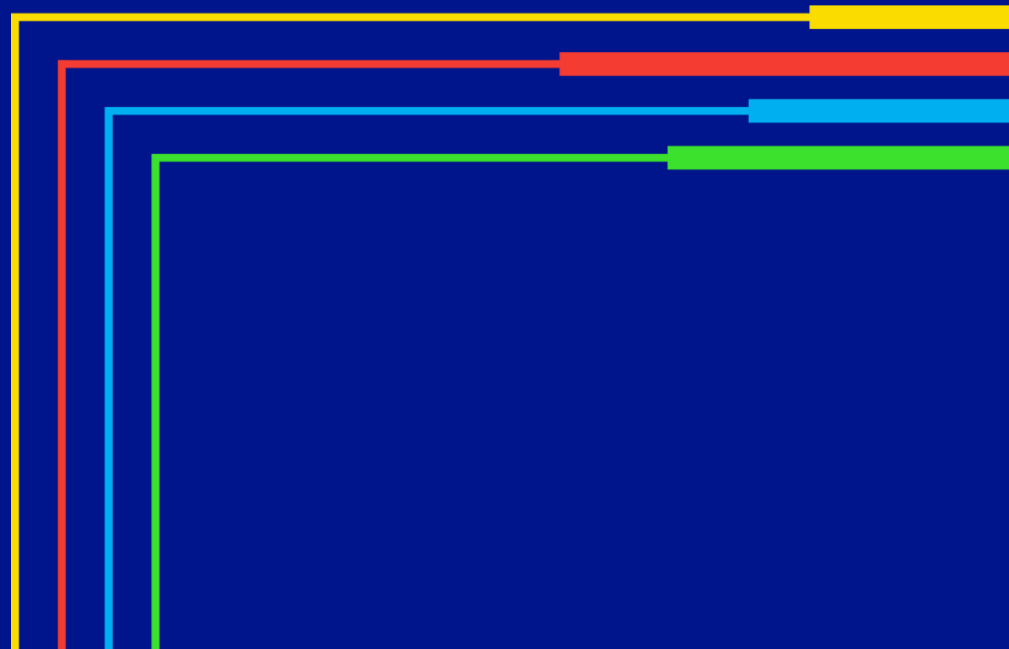
Today we are going to focus on:

- Results of the consultation
- Overruns – proposed UNC Modification 0716
- Signalling and Allocation of Capacity – progress on the new workstream

# 02

## Long-term Strategy Consultation: Response Playback

nationalgrid



# 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 difficulty 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 to 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 summary of the key issues to be discussed.

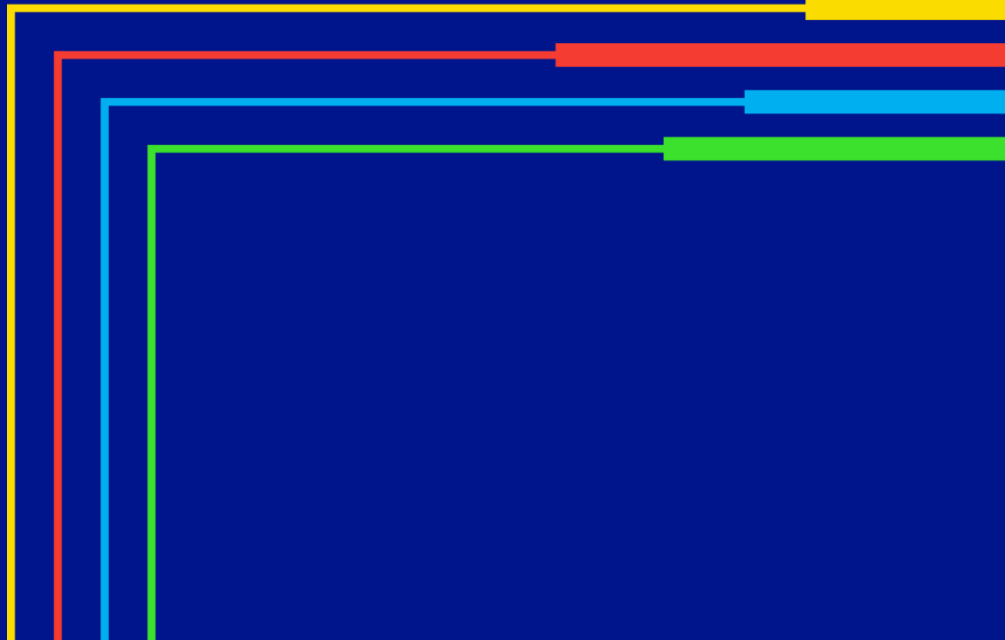
## Short-term Issues

A	Overruns	Are Over-run charges appropriate?	<ul style="list-style-type: none"> <li>Is the incentive appropriate particularly with the introduction of the Charging Review.</li> <li>Anomaly that zero over-run charge maybe possible</li> <li>Longer-term: review basis of overrun charges in light of change of behaviours following Charging Review</li> </ul>	Governance	System Capabilities
B	Signalling & Allocation of Capacity	Are the PARCA processes (including User Commitment) appropriate?	<ul style="list-style-type: none"> <li>Can the timescales for the substitution process be reduced?</li> <li>Can rules be made clearer, simpler? More clarity on process methodology.</li> </ul>	UNC / Methodology	Enhancements to system capabilities required
		Are the substitution processes (including User Commitment) appropriate?	<ul style="list-style-type: none"> <li>Affected Users able to respond to potential Substitution considered during the Annual Application Window</li> <li>Exchanges of NTS exit capacity between NTS exit points within same exit zone where capacity does not go above baseline</li> <li>Should User Commitment be applied to every enduring capacity release?</li> </ul>		
		Could a zonal capacity regime be introduced?	<ul style="list-style-type: none"> <li>Could a zonal capacity regime be an alternative?</li> </ul>		
C	Capacity Products & Auctions	Are new products required or redundant products?	<ul style="list-style-type: none"> <li>Development of a "mothballed" capacity product following baseline review at Theddlethorpe</li> <li>Within day, shorter term capacity product development                             <ul style="list-style-type: none"> <li>Incentive for advance, long-term capacity bookings?</li> </ul> </li> <li>Disaggregating NTS Exit capacity purchases for embedded "large" offtakes from DN capacity bookings.</li> <li>Temperature / seasonal based product</li> <li>Flexibility product</li> </ul>	Are the rules contained in the right place?	Greater automation of the Gemini system
D	Trading	Are additional mechanisms required to aid trading of capacity	<ul style="list-style-type: none"> <li>Development of a "tradeable" capacity product</li> <li>Liability of Traded Capacity</li> </ul>		



# 03

## UNC Modification 0716: Revision of Overrun Charge Multiplier



## Overruns – UNC Modification 0716

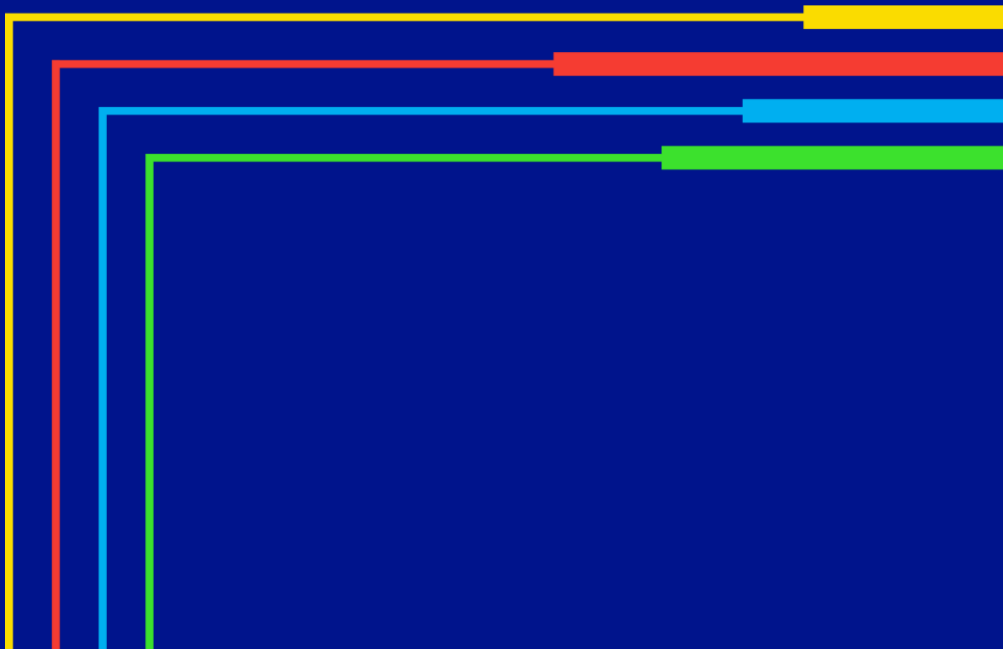
- Ofgem's minded to position is to implement UNC Modification 0678A. An outcome of the Charging Review is that a higher proportion of revenue will be recovered through capacity charges.
- An unintended consequence of this could result in a significant increase in the average Overrun Charge for both Entry and Exit. This is due to the methodology for calculation of Overrun Charges being set at a multiple (x 8) of the bid or application prices already accepted for parties / users acquiring capacity.
- Feedback from the industry in the 0705R WG suggests that the Overrun charges will become too penal and therefore a change to the multiplier used to align with the implementation of the 0678A is favourable.

## Overruns – UNC Modification 0716

- Reduce the Multiplier at Entry to x4 and at Exit to x6. Analysis to date shows that these multipliers would maintain the status quo in terms of the incentive on Users to book required capacity.
- Analysis assumption is that historic revenue from Overruns is used as a measure of shipper's performance of booking capacity.
- Initially analysis has taken into account the actual revenue from Overruns (with TO Entry and Exit Commodity added to reflect potential impact of 0678A) and compared it with charges updated with reserve Prices in Postage Stamp methodology. Following the industry feedback National Grid decided to amend the modification and use direct comparison of actual revenue to the revenue in Postage Stamp methodology only. On that basis National Grid will amend the Modification and propose a reduction of the multiplier to x3 on Entry and x6 on Exit
- Mod 0716 is to be reviewed by the Workgroup for another 2 months and submitted back to June panel.
- In depth analysis of historic Overruns can be found on the Joint Office website:  
<https://www.gasgovernance.co.uk/index.php/0716/050320>

# 04

## Signalling and Allocation of Capacity



# Current issues – Exit Capacity Release

## User Commitment

The User will remain the registered User for any additional and existing enduring capacity for 4 years from the date the increased capacity allocation becomes effective

- Difficulties to accurately forecast demand 4 years ahead
- User Commitment means that Users cannot release exit capacity when no longer needed
- Overbooking capacity that subsequently is not required, for risk of substitution and 1 in 20 obligations
- Over-booking capacity would mean capacity bookings are not reflective of flows and does not enable efficient access to the NTS

## Substitution

The substitution process for identifying the Donor NTS Exit Point as defined in the ExCS methodology is complicated and has many variables meaning it is difficult to understand where a donor point is likely to be located

# Zonal Capacity Arrangements

National Grid has put forward potential Zonal Options for consideration in the March Transmission Workgroup.

Option #	Name	Description
1	Full zonal	Single baselines and auction(s) per zone, zonal price and flows, no need for transfer/substitution within a zone, no User commitment within a zone
2	“Competing Auctions” model	Bid in individual auctions and results from individual auctions are pooled into 1 combined bid stack for allocation
3	“Zoning nodes”	Nodal baseline and individual auctions, exchange rates set prior to auction
4	Zonal at a point in time	Enduring and annual auction on nodal basis. Daily auctions would sell unsold capacity on a zonal basis
5	Zonal product	Zonal ‘premium’ capacity product = sell capacity at a point but with flexibility to use anywhere in the zone
6	Current enhanced	Can current processes / mechanisms be enhanced / amended to solve problems

# Current Issues - Entry Capacity Release

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

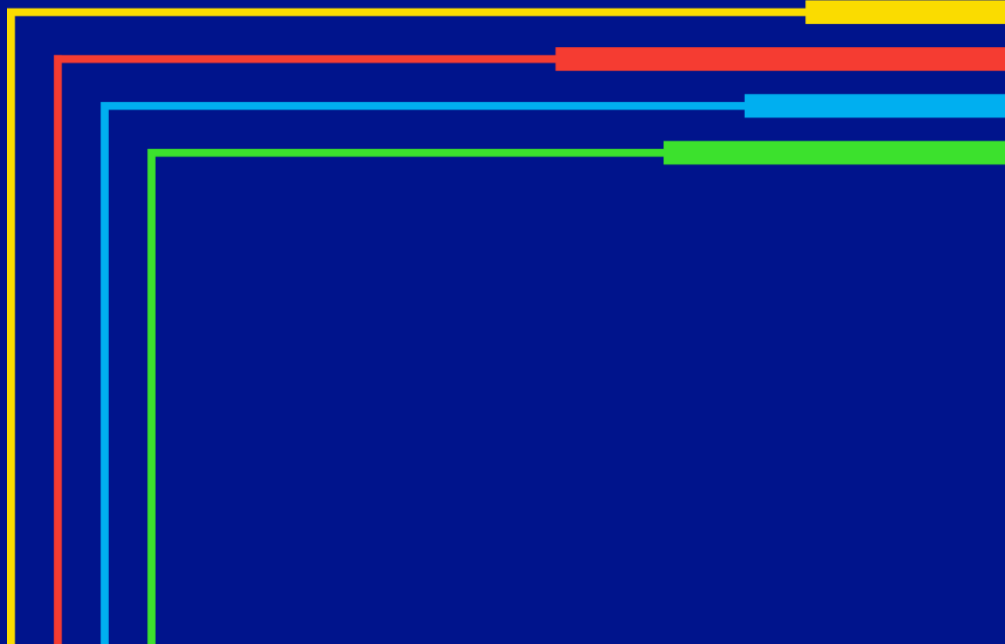
Current User Commitment levels:

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

# 05

## Next Steps

national**grid**





# Future engagement

- CAR will continually be discussed at Transmission Workgroup
- Regular webinars (every 6-8 weeks) where updates can be provided and feedback received
- Bilateral discussions at Industry Forums

## Next Steps

- Capacity Access Review: Long-term Strategy
  - Ongoing development through GMaP
- UNC Modification 0716: Revision of Overrun Charge Multiplier
- Development of User Commitment and Substitution options for both Entry and Exit
- Key contact details:
  - [Jennifer.Randall@nationalgrid.com](mailto:Jennifer.Randall@nationalgrid.com)
  - [Anna.Stankiewicz@nationalgrid.com](mailto:Anna.Stankiewicz@nationalgrid.com)

national**grid**