

Capacity Access Review

Webinar

20th January 2020

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Capacity Access Review Webinar

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



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Agenda

01	Introduction	04
02	Capacity Access Review: Strategy	07
03	Short-term Issues	12
04	Consultation	14
05	Overrun Charges	16
06	Next Steps	19

01

Introduction

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Background

- Current capacity regime is built on the basis of an expanding gas transmission network.
 - Historically, incremental capacity signals from long-term auctions would trigger investment on the NTS. Today, we are not seeing the capacity signals requiring expansion of the network we were 10 years ago
 - The Capacity Access Review aims to review the principles of the capacity access arrangements, on a holistic basis, to ensure they are aligned to future needs of our customers and allow optimal development of the NTS
- In October, National Grid NTS raised UNC 0705R to progress the review through the Joint Office UNC governance process
- For the last 3 months, Transmission Workgroup focused on defining the scope of the review, developing long-term strategy for the future Capacity Access Regime and developing a list of specific short term issues
- Scope of the review will continue to evolve:
 - Will include: Entry and Exit Capacity regimes, follow on from RII02 discussions, particularly around baselines. Be compliant with EU Law but no assumption that EU legislation applicable at Interconnection Points must be mirrored at domestic points.
 - Will not include: 50/50 revenue split between Entry and Exit, “wider” access topics such as NExA’s, NEA’s and Gas Quality

02

Capacity Access Review Strategy

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Approach

- Develop the long term strategy to help guide the direction of the Review and ensure that short-term problems are resolved consistently to the long-term goals. The long-term strategy will be developed in three layers;
 1. Ambition Statement – This is a high-level overview of the features the future regime should aspire to meet.
 2. Functions – highlight “**what**” is needed from a future regime and will set the criteria that any new/amended regime must fulfil.
 3. Principles - These will look at “**how**” we will deliver the ambition statement and functions identified in the above two layers.
- Short-term issues addressed concurrently to the long-term strategy. Striking a balance between addressing short-term issues on an individual basis with reviewing topics within capacity on a more holistic basis.

Ambition statement

*“The future capacity access regime will be **compliant** with any relevant obligations. It will be **flexible** to changing market conditions, regimes, requirements and physical network developments. It will be **simple** and will **enable** new entrants to access the market **easily and efficiently**. It will not unfairly discriminate. It will provide **cost effective** products which drive **consumer value**. It will be **dynamic** and **adaptable** to accommodate new technologies and sources of gas to the NTS as progression is made to meet decarbonisation targets.”*

Functions of capacity access regime

- Signal a need for capacity requirements
- Manage network access where there is a short-term constraint
- Provide Users with commercial certainty on network access
- Collect Transporter allowed revenue
- Enable new entrants, including new sources of gas and technologies, to easily and efficiently access the NTS

Principles

- Ambition and functions outline **what** is needed from a future capacity regime and the principles will work to define **how** this is delivered
- The principles will be developed through linking closely with the GMAP process
 - Identifying signals which to indicate which pathway the GB market is heading towards and the timescales. This will inform what we need to deliver as a market as a whole
- Developed concurrently to the resolution of the short-term issues
- Developments which may impact a future Capacity Access Regime
 - RIIO2 – Network Capability and Baselines review
 - Charging Review

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03

Short-term
Issues

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Short-term Issues

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

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Consultation

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CAR Strategy Consultation

Key Points

- Feedback on the amended long-term ambition statement and the required functions of any new regime
- To understand whether there are any other short term issues that have not already been identified
- To reach a wider audience than Transmission Workgroup and provide more stakeholders with an opportunity to share their views
- Responses will be used to help shape future discussion

Timescales

- The consultation was published 17th January and will close on Thursday 20th February
- Overview of responses will be shared at Transmission WG in March
- If you have not received a consultation invite and would like to be involved please contact ashley.adams@nationalgrid.com

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Overrun
Charges

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Overruns – Principles

Introduction: The industry has recently expressed concern that with the upcoming implementation of the new Charging Regime the overrun charges will rise, as these are calculated using the highest accepted daily auction bid price multiplied by 8 (and these reserve prices are set to increase). There is also a concern regarding a lack of manifest error provisions which may result in overrun charges, though conversely, the removal of zero price products may result in shippers making bookings more closely aligned with actual requirements.

Principles

- ‘Ticket to ride’ principle remains the fundamental aspect of the capacity regime
- The ticket to ride principle is underpinned by Overrun charges, which provides shippers with commercial incentives to purchase the capacity they require to flow gas. The lower the overrun, the weaker the incentive to purchase Capacity
- 100% of Entry Overrun charges are initially smeared back to Shippers on a monthly basis via capacity neutrality
- Entry overruns are one of the NTS Constraint Management Incentive revenue components (56% of which is returned to shippers)
- Charges apply on Exit when flows exceed aggregate capacity holdings
- 100% of any revenues generated from NTS Exit overruns is being passed back to Users through reduced SO commodity charges

Options

Option 1: Reduce the multiplier

Option 2: No change. Charging components to remain as is, primarily creating an incentive for shippers to purchase capacity consistent with their flow requirement. Putting in place appropriate control system in place to monitor capacity booked and gas flows are User's responsibility.

Option 3: No change, with Manifest Error provision. The manifest error could undermine and weaken the existing obligations, incentives and penalties that exist to support prudent industry operation and behaviour.

Option 4: Make overrun rules at NTS Entry and Exit points consistent. Current NTS Exit rules apply overrun charges when flow exceeds aggregate capacity holdings while at NTS Entry points each shipper is charged for the quantity of gas overrun was incurred for.

Workgroup conclusion: Option 1, reduction of the multiplier to 2, is the preferred option. National Grid is to present its preferred option at the next Transmission Workgroup. The aim is to agree and implement by 1st October 2020.

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Next Steps

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Future engagement

- CAR will continually be discussed at Transmission Workgroup
- Develop a regular webinar where updates can be provided and feedback received
 - Please vote on your screen if you would like to be included in the distribution list for future webinars.
- Bilateral discussions
- Launched the Capacity Access Review Strategy Consultation last week, encourage you to respond

Next Steps

- Capacity Access Review: Strategy Consultation
 - Ongoing development through GMaP
- Capacity Overrun Charges
- February plan to launch discussion on “Signalling and Allocation of Capacity”
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