

Table of clarification changes to ECR (Phase 1).

Feedback	Issue to fix	Existing	Proposed New
<p>The complexity and lack of clarity around the rules of the Entry Capacity Release Methodology. in particular, with respect to the calculation of the Net Present Value test</p>	<p>Clarifications on process - see below.</p>	<p>Various clarifications see below</p>	<p>Various clarifications see below</p>
<p>It's not clear in ECR where inflation applies from and to (ECR 134)</p>	<p>Clarify that Inflation applies from the initial project cost (end of phase 1) to the NPV test and allocation date (end of Phase 2)</p>	<p>134 - The final estimated project cost will be provided to the applicant prior to the allocation of capacity, and shall be calculated by annually applying inflation, to the initial estimated project cost, each year that has passed from the moment that capacity was reserved. (Inflation will be taken from Ofgem's Price Control Financial Model, which is updated annually, hence not referenced here)</p>	<p>134 - The final estimated project cost will be provided to the applicant prior to the allocation of capacity, and shall be calculated by annually applying inflation, to the initial estimated project cost, each year that has passed from the moment that capacity was reserved. This applies from the capacity reservation at the end of PARCA Phase 1 through to the Allocation date at the end of PARCA phase 2. (Inflation will be taken from Ofgem's Price Control Financial Model, which is updated annually, hence not referenced here)</p>

<p>It's not clear in ECR where discounting apply from and to (ECR 142)</p>	<p>Clarify that discounting applies from the end of phase 2 (NPV test and allocation) and to the date which the capacity is allocated for.</p>	<p>142 - The “quarter in question” will normally be the first quarter following the lead time referred to in paragraph 120 where the aggregate volume of valid bids received and/or capacity quantity/profile requested first exceeds or equals the Unsold NTS Entry Capacity (minus that reserved pursuant to any PARCAs) plus the quantity of Incremental Obligated Entry Capacity that is being considered. However, in respect of the QSEC auction, at any given ASEP more than one quantity of Incremental Obligated Entry Capacity may be considered in which case the quantity duration test in paragraph 140 may be applied from more than one quarter. The test will be applied to each incremental quantity / quarter independently, i.e. to the extent that quantities / quarters overlap, some bids may be considered in more than one test. In all cases, all values will be discounted by the social time preference rate that is published in accordance with “The Green Book: Central Government Guidance on Appraisal and Evaluation” as amended from time to time.</p>	<p>add at the end... The discount will apply from the Capacity Registration date (allocation of capacity) at the end of Phase 2 PARCA through to the date the capacity is effective from.</p>
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<p>Does discounting apply to the premium and revenue (ECR 142)</p>	<p>Clarify that we apply the discounting to both the value of capacity and the premium</p>	<p>142 - see above</p>	<p>add at the end... The discount will apply to both the value of the capacity and the premium.</p>
<p>It is not clear if step pricing is included in the revenue (ECR 141 – TPD B 1.17.7)</p>	<p>Clarify in ECR that step pricing is not included or used for any part of PARCA.</p>	<p>141 National Gas Transmission will, for the quarter in question plus the subsequent thirty one quarters (or less where this would be beyond the period for which capacity has been offered) determine the net present value (NPV) of the revenue from the sum of: (a) the requested amount of Incremental Obligated Entry Capacity multiplied by the combined Reserve Price plus premium price (if any); (b) the requested amount of Unsold NTS Entry Capacity multiplied by the premium price (if any).</p>	<p>add to the end or footnote... No step pricing is included for or used for any part of PARCA.</p>

<p>Clarify fixed and variable elements (no reference)</p>	<p>Clarify that premium costs are fixed.</p>	<p>131. In a QSEC auction Shipper Users will be invited to indicate, for each of a set of prices, the quantity of Quarterly NTS Entry Capacity they wish to acquire (if any) at each ASEP, in each available period. These prices will be published in National Gas Transmission's Statement of the Gas Transmission Transportation Charges. In a PARCA, Shipper Users will submit the quantity of Quarterly NTS Entry Capacity they wish to acquire as per paragraph 54. Any premium to be applied in addition to the reserve price will be determined on a project specific basis.</p>	<p>add to footnote 131... Note that Premium is fixed cost.</p>
<p>Clarify fixed and variable elements (no reference)</p>	<p>Capacity reserve prices are variable.</p>	<p>132. The P0 price is the reserve price at which National Gas Transmission would release Obligated Entry Capacity, in response to valid bids (or pursuant to a PARCA). All bids will be accepted so long as the available quantity is not exhausted. This minimum available quantity will be calculated in accordance with paragraph 69 and Special Condition 9.13 of the Licence, and will be published in the invitation referred to in paragraph 131.</p>	<p>add to footnote 27... Note that reserve prices are variable.</p>

<p>Clarify that below baseline does not get included in NPV (ECR 141)</p>	<p>Clarify that below baseline is not included in NPV but the premium applied is</p>	<p>141 National Gas Transmission will, for the quarter in question plus the subsequent thirty one quarters (or less where this would be beyond the period for which capacity has been offered) determine the net present value (NPV) of the revenue from the sum of: (a) the requested amount of Incremental Obligated Entry Capacity multiplied by the combined Reserve Price plus premium price (if any); (b) the requested amount of Unsold NTS Entry Capacity multiplied by the premium price (if any).</p>	<p>add to end... Therefore the unsold baseline revenue is not included in the NPV it is only the premium price applied to the Unsold that is included.</p>
<p>In a normal QSEC 10% of the capacity has to be withheld it is not clear that this does not apply for the NPV</p>	<p>Clarification on NPV - decided that the 10% not allocated or withhold 10% of the new baseline for NPV or initial allocation.</p>	<p>67. In order to ensure some capacity is available for later auctions a proportion, 10%, of the Non-incremental Obligated Entry Capacity is with-held from both the QSEC auction and the Ad-hoc QSEC auction. For the avoidance of doubt this will also be applied when calculating the Available NTS Entry Capacity proposed for reservation for a PARCA Application Footnote 27 - Due to the 10% withheld, the unsold quantity may be greater than the quantity made available in the QSEC auction.</p>	<p>add to footnote 27... Note that 10% of new baseline is not withheld for the NPV test or from the PARCA allocation.</p>

<p>It is not clear how a customer could book the capacity after the NPV outside of the allocation period</p>	<p>Clarification - If the customer wanted to buy capacity after the allocation has taken place, they could purchase non-obligated capacity in the short-term auctions. For this, capacity would need to be released as non-ob for the customer to purchase it.</p>	<p>147. Before the end of phase 2, National Gas Transmission will submit a proposal to the Authority for the release of that quantity of Firm NTS Entry Capacity as either:</p> <ul style="list-style-type: none"> • Funded Incremental Obligated Entry Capacity which will be released and allocated to Shipper Users: and/or • Non-incremental Obligated Entry Capacity with a corresponding decrease in the quantity of Non-incremental Obligated Entry Capacity at one of more donor ASEPs. The additional Non-incremental Obligated Entry Capacity at the recipient ASEP will be released and allocated to Shipper Users. <p>and 155. For the avoidance of doubt, at any given time, the prevailing Obligated Entry Capacity level incorporates Non-incremental Obligated Entry Capacity which comprises of Licence Baseline Entry Capacity as set out in Special Condition 9.13 of the Licence which may be adjusted as a result of capacity substitution to and from the ASEP as a result of National Gas Transmission's Entry Capacity Substitution methodology and Funded Incremental Obligated Entry Capacity that has previously been released pursuant to Part B of this Statement during the RIIO-T1 regulatory period (i.e. in QSEC auctions held in or after April 2013).</p>	<p>Add footnote linked to 147: For Funded Incremental Obligated Entry Capacity release, any capacity required to be purchased outside of the allocation period would need to be made available as Non-Obligated capacity at National Gas sole discretion.</p>
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<p>It is not clear when the new allocation become baseline clarity needed for link to authority direction to baseline increase available for wider market</p>	<p>Clarification - When capacity has been allocated as a consequence of a PARCA, the baseline capacity volumes at the recipient / donor locations are updated accordingly in Gemini. The Capacity Team undertake an annual audit to check baseline volumes vs Gemini volumes. If there are any discrepancies, we inform Ofgem and request that they update the Licence (providing evidence / justification).</p>	<p>147. Before the end of phase 2, National Gas Transmission will submit a proposal to the Authority for the release of that quantity of Firm NTS Entry Capacity as either:</p> <ul style="list-style-type: none"> • Funded Incremental Obligated Entry Capacity which will be released and allocated to Shipper Users: and/or • Non-incremental Obligated Entry Capacity with a corresponding decrease in the quantity of Non-incremental Obligated Entry Capacity at one of more donor ASEPs. The additional Non-incremental Obligated Entry Capacity at the recipient ASEP will be released and allocated to Shipper Users. <p>and 155. For the avoidance of doubt, at any given time, the prevailing Obligated Entry Capacity level incorporates Non-incremental Obligated Entry Capacity which comprises of Licence Baseline Entry Capacity as set out in Special Condition 9.13 of the Licence which may be adjusted as a result of capacity substitution to and from the ASEP as a result of National Gas Transmission's Entry Capacity Substitution methodology and Funded Incremental Obligated Entry Capacity that has previously been released pursuant to Part B of this Statement during the RIIO-T1 regulatory period (i.e. in QSEC auctions held in or after April 2013).</p>	<p>Add footnote linked to 147: For Funded Incremental Obligated Entry Capacity release, the Licence Baseline Entry Capacity increases from the allocation start date on an enduring basis.</p>
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<p>Not clear on how can agree and extended leadtime</p>	<p>From last review/WGUP - Clarification on the mechanism used to agree a extended lead time based on experience of western gas project.</p>	<p>121. Notwithstanding paragraph 120, National Gas Transmission shall use reasonable endeavours to meet an earlier delivery date where requested. For the avoidance of doubt, requests can be for 1st of months October, January, April or July.</p>	<p>121. Notwithstanding paragraph 120, National Grid shall use reasonable endeavours to meet an earlier delivery date where requested. For the avoidance of doubt, requests can be for 1st of months October, January, April or July. Additionally, the date agreed for delivery or, in the absence of such date, the default lead-time may be extended subject to agreement between National Gas and the PARCA signatory.</p>
<p>Query on why Y+3 when PARCA is min default of 24 months in contract. Contradictory</p>	<p>From last review/WGUP - fix the problem with Y+3 in para 168. confusing sentence in the ECR related to early release that talks about October Y+3 lead time. Current assumption is that this is an oversight and should not apply to the PARCA (but may apply to QSEC Auction triggered capacity).</p>	<p>168. National Gas Transmission may release Non-obligated Entry Capacity under the accelerated release incentive as shown in diagram 4 below. Such release will be subject to satisfaction of the following two criteria:</p> <ul style="list-style-type: none"> • PARCA capacity/price profiles satisfying the NPV test. For the avoidance of doubt, the test shall be applied from the default October Y+3 lead time; and • Satisfactory assessment by National Gas Transmission of the associated risks and rewards. 	<p>168. National Grid may release Non-obligated Entry Capacity under the accelerated release incentive as shown in diagram 4 below. Such release will be subject to satisfaction of the following two criteria:</p> <p>PARCA capacity/price profiles satisfying the NPV test. For the avoidance of doubt, the test shall be applied from the default lead time, unless otherwise agreed as per para 121; and</p> <ul style="list-style-type: none"> • Satisfactory assessment by National Grid of the associated risks and rewards.