

# Enduring Offtake Arrangements -Firm Capacity Booking

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EOWG, 8<sup>th</sup> February 2006

# Contents

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- ◆ Summary of options
- ◆ Medium term release – constrained period
- ◆ Long term release – unconstrained period
- ◆ Way forward

# Options

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- ◆ There are 3 broad options for “long/medium term” firm capacity booking process
    - ◆ Option 1. Implement consistent arrangements
    - ◆ Option 2. Extend permitted registration timescales (plus “pay-as-bid” allocation process for constrained period)
    - ◆ Option 3. Implement long term auctions
- “TANIF type model”
- ◆ Parts of each option could be “interchanged”

# Assumptions

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- ◆ Firm capacity available as annual (and daily) bundles
- ◆ Common booking arrangements across all NTS Exit Points
- ◆ Capacity available up to a “baseline” level – requests for capacity above baseline trigger investment

# Nomenclature

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- ◆ “x” years – period of constrained release i.e. investment lead time for release of incremental capacity at an exit point
- ◆ “y” years - period for which capacity must be booked to justify release below baseline
- ◆ “z” years – period for which capacity must be booked to justify release above baseline i.e. incremental capacity release

# Summary

	Option 1	Option 2	Option 3
<b>Application</b>	<ul style="list-style-type: none"> <li>□ Year ahead with “reservations” for longer periods</li> </ul>	<ul style="list-style-type: none"> <li>□ Up to “n” years ahead</li> </ul>	<ul style="list-style-type: none"> <li>□ Up to “n” years ahead</li> </ul>
<b>Allocation</b>	<ul style="list-style-type: none"> <li>□ Existing rights maintained by default</li> </ul> <p><u>Constrained</u></p> <ul style="list-style-type: none"> <li>□ commitment to pay “y” years charges</li> <li>□ increases allocated subject to volume pro-ration of competing requests</li> </ul> <p><u>Unconstrained</u></p> <p>Allocated year ahead if previously “reserved”</p> <ul style="list-style-type: none"> <li>-commitment to pay “y” years, if within baseline</li> <li>-commitment to pay “z” years, if beyond baseline</li> </ul>	<ul style="list-style-type: none"> <li>□ Existing rights maintained by proactive confirmation</li> </ul> <p><u>Constrained</u></p> <ul style="list-style-type: none"> <li>□ pay as bid allocation process</li> </ul> <p><u>Unconstrained</u></p> <ul style="list-style-type: none"> <li>□ Allocated if “y” years of bookings if within baseline</li> <li>“z” years of bookings if beyond baseline</li> </ul>	<ul style="list-style-type: none"> <li>□ Existing rights maintained by proactive confirmation</li> </ul> <p><u>Constrained</u></p> <ul style="list-style-type: none"> <li>□ pay as bid allocation process</li> </ul> <p><u>Unconstrained</u></p> <ul style="list-style-type: none"> <li>□ Allocated (through clearing auction) if within baseline</li> <li>“z” years of bookings if beyond baseline</li> </ul>
<b>Charging</b>	<ul style="list-style-type: none"> <li>□ Pay prevailing use of system charges</li> </ul>	<p><u>Constrained</u> – pay bid price</p> <p><u>Unconstrained</u> – lock in or prevailing charges</p>	<p><u>Constrained</u> – pay bid price</p> <p><u>Unconstrained</u> – pay greater of “clearing price” and reserve price</p>

# “Medium term” Capacity Release – Constrained Period

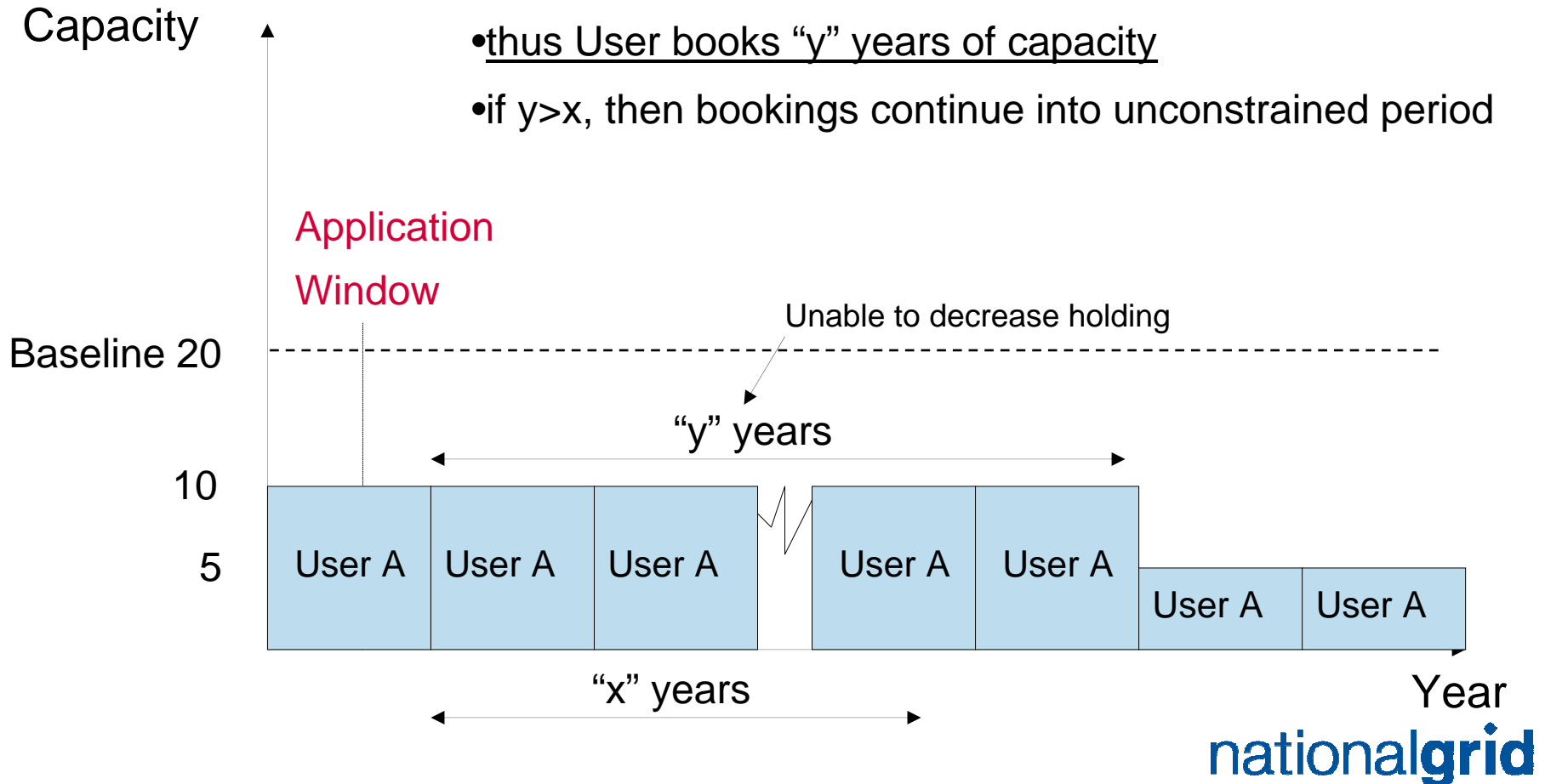
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# Option 1. One User – wants to reduce capacity

- If User A wishes to reduce capacity holding (of 10 units down to 5 units), must be notified during an Application Window and reduction becomes effective after “y” years

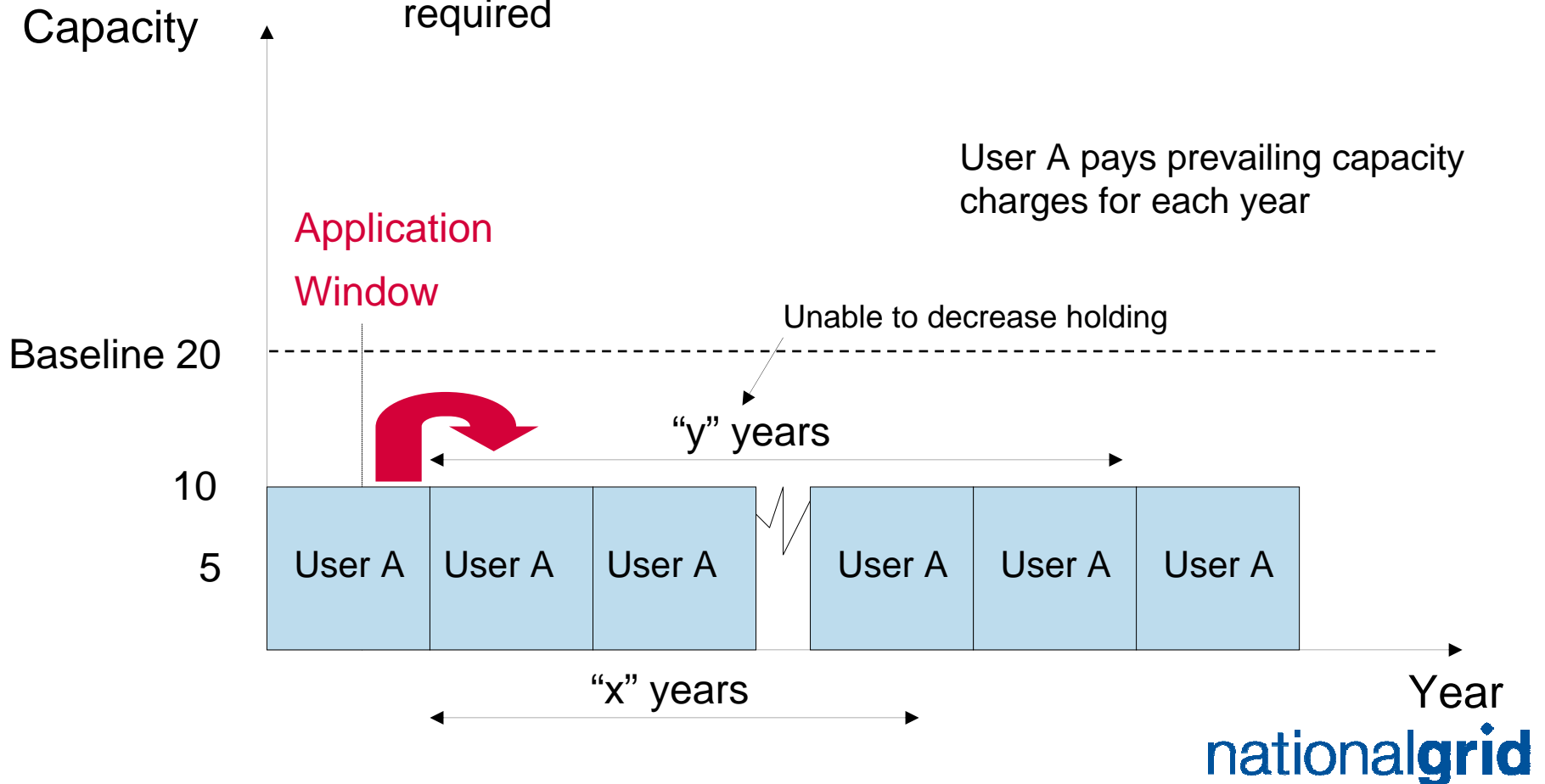
- thus User books “y” years of capacity

- if  $y > x$ , then bookings continue into unconstrained period



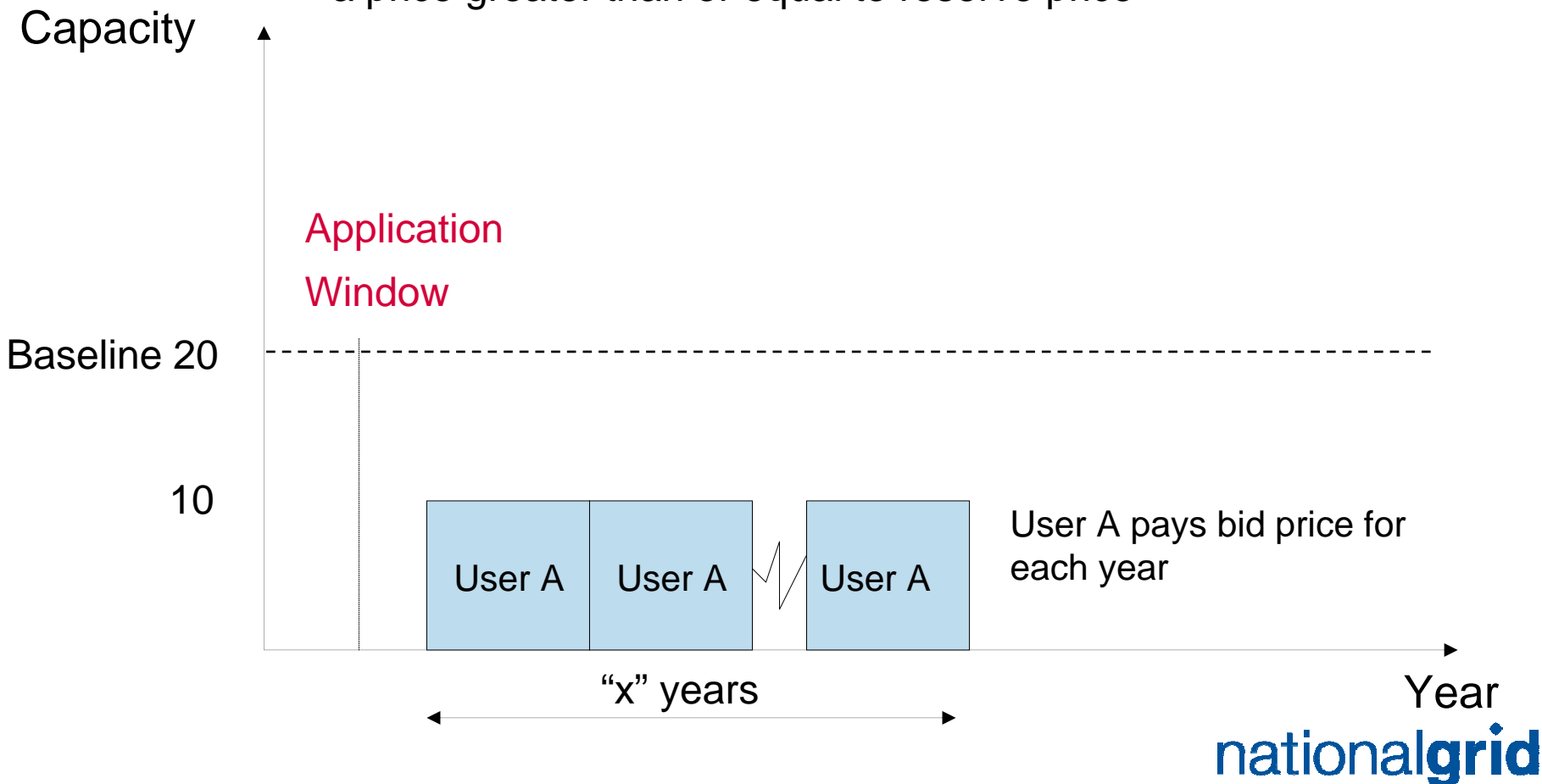
# Option 1. One User - wants to continue with same level of capacity

- If User A wishes to continue with same level of capacity holding (of 10 units), then no request is required



# Option 2/3. One User - wants to continue with same level of capacity

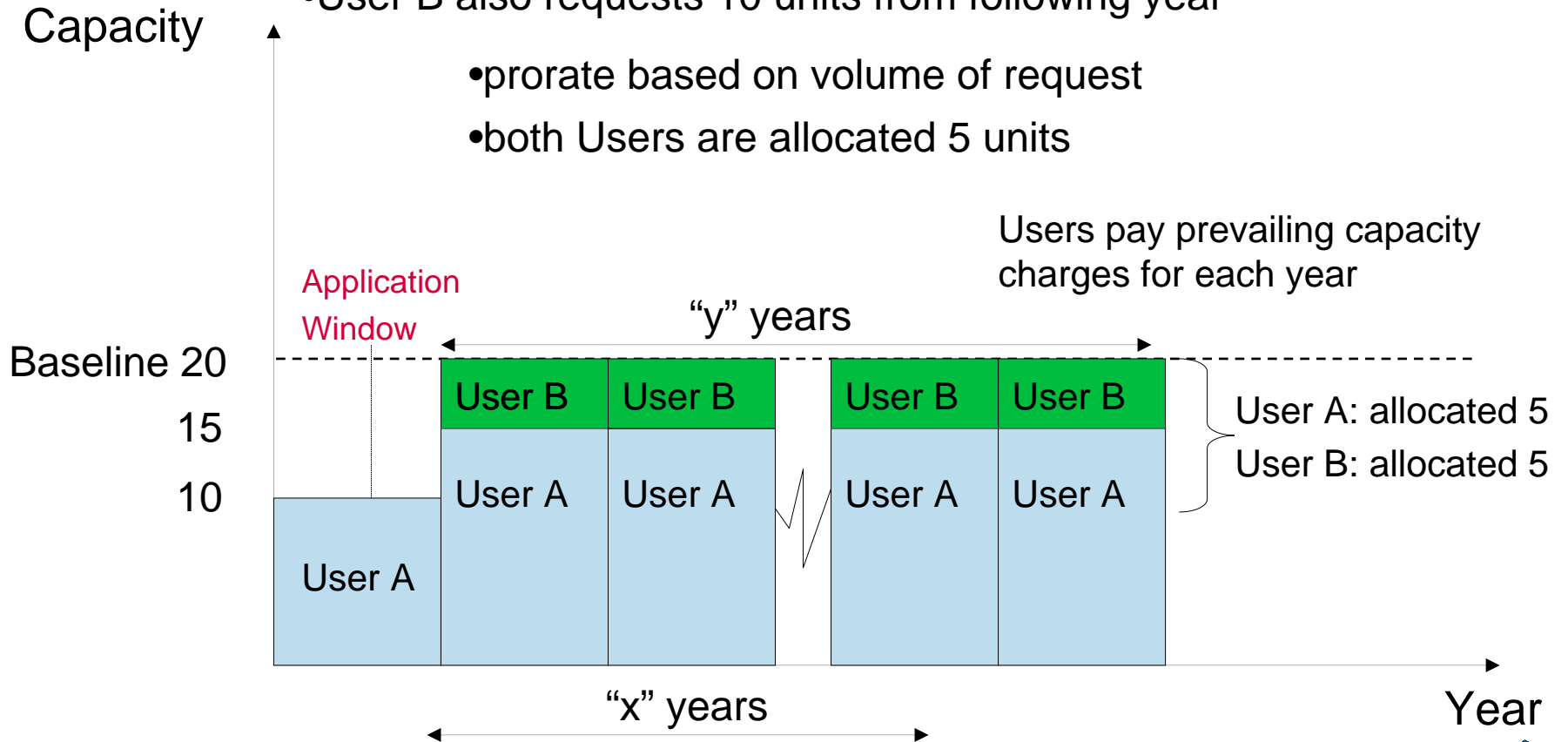
- If User A wishes to continue with same level of capacity holding (of 10 units), then must bid 10 units for each year at a price greater than or equal to reserve price





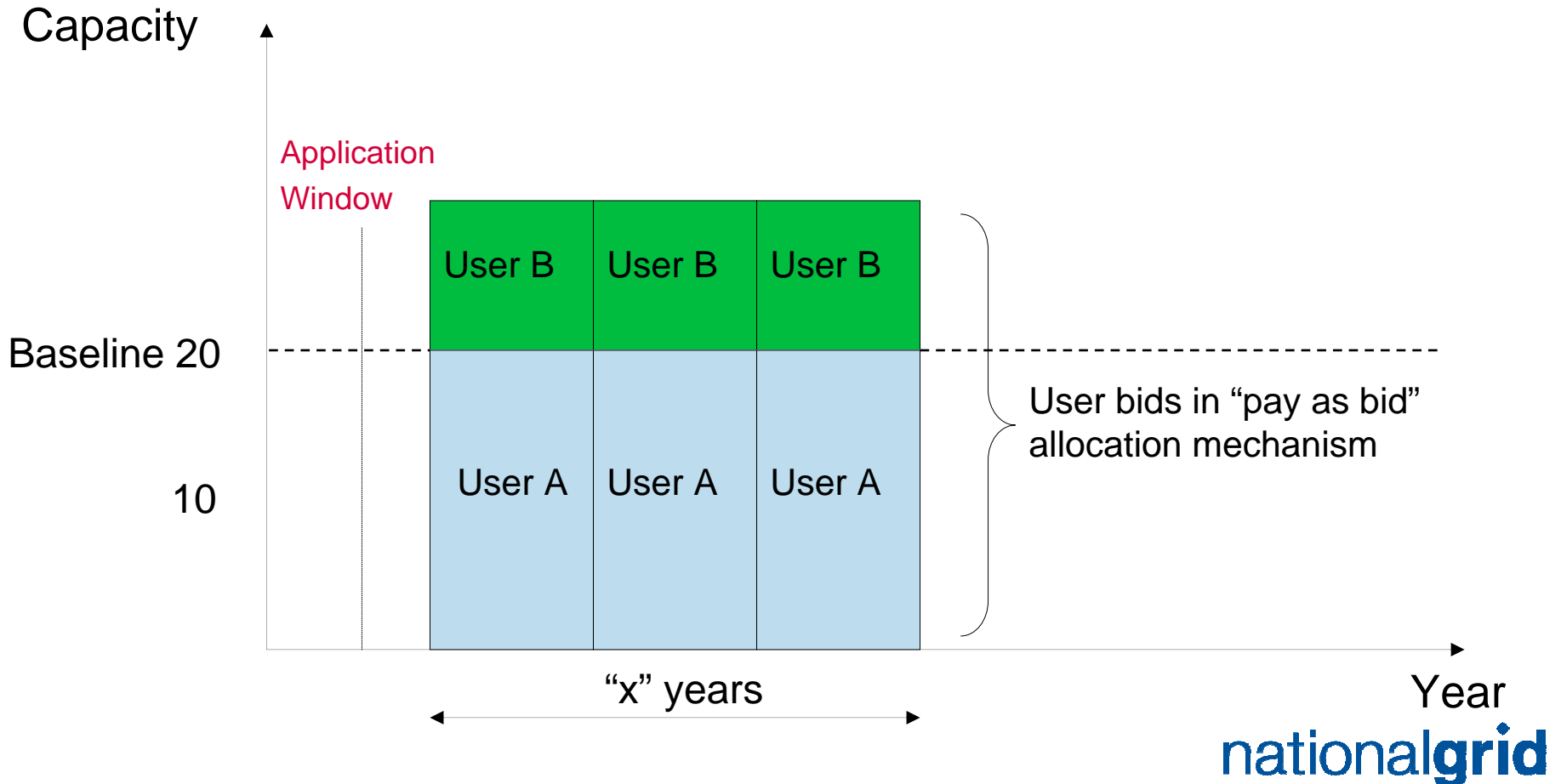
# Option 1. Two Users - both want unsold capacity

- User A submits request during Application Window to increase capacity holding (of 10 units up to 20 units) from following year
- User B also requests 10 units from following year
  - prorate based on volume of request
  - both Users are allocated 5 units



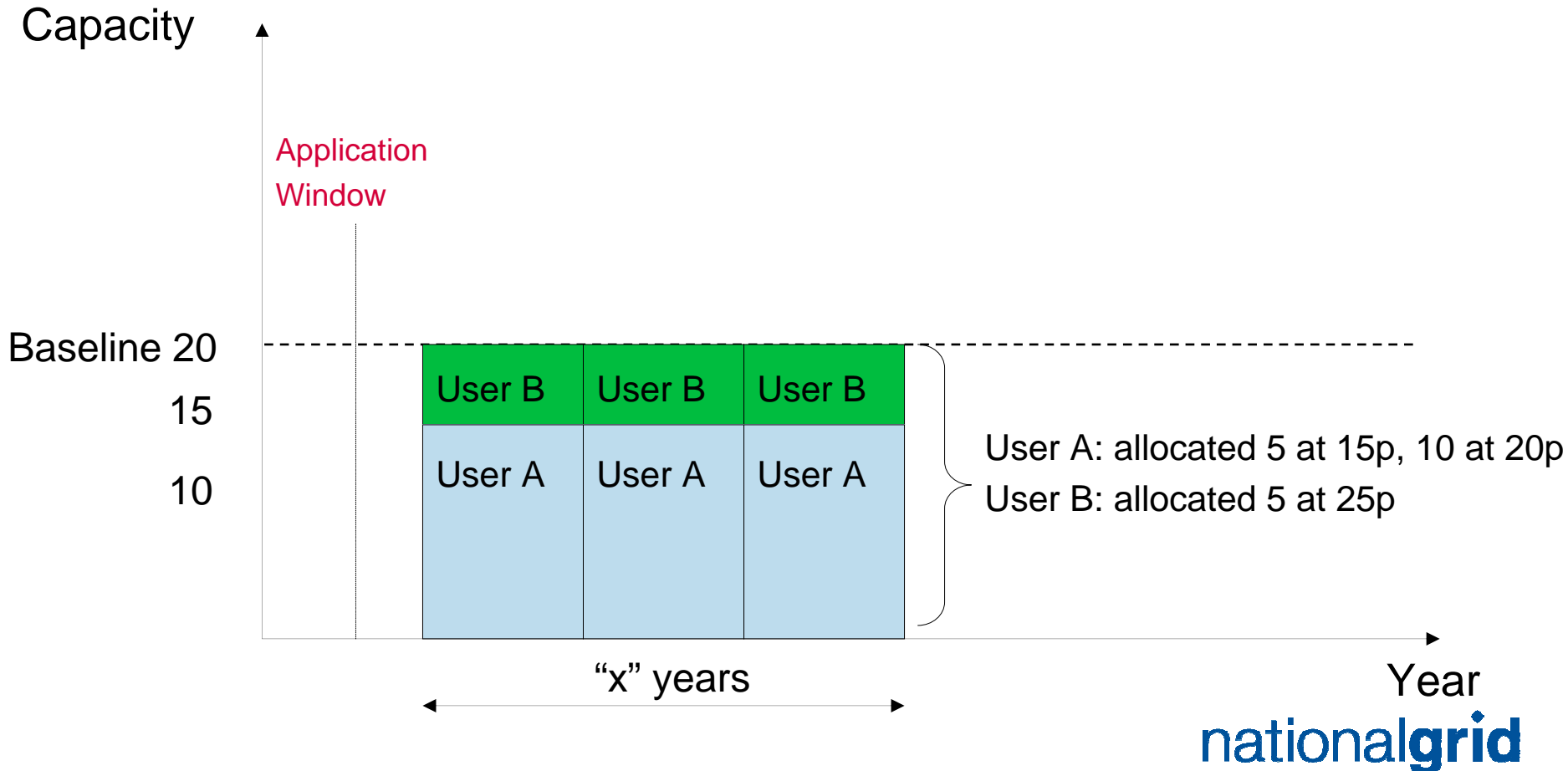
# Option 2/3. Two Users - both want unsold capacity

- User A requests 20 units for each year: bids 5 at 10p, 5 at 15p, 10 at 20p
- User B requests 10 units for each year: bids 5 at 10p, 5 at 25p



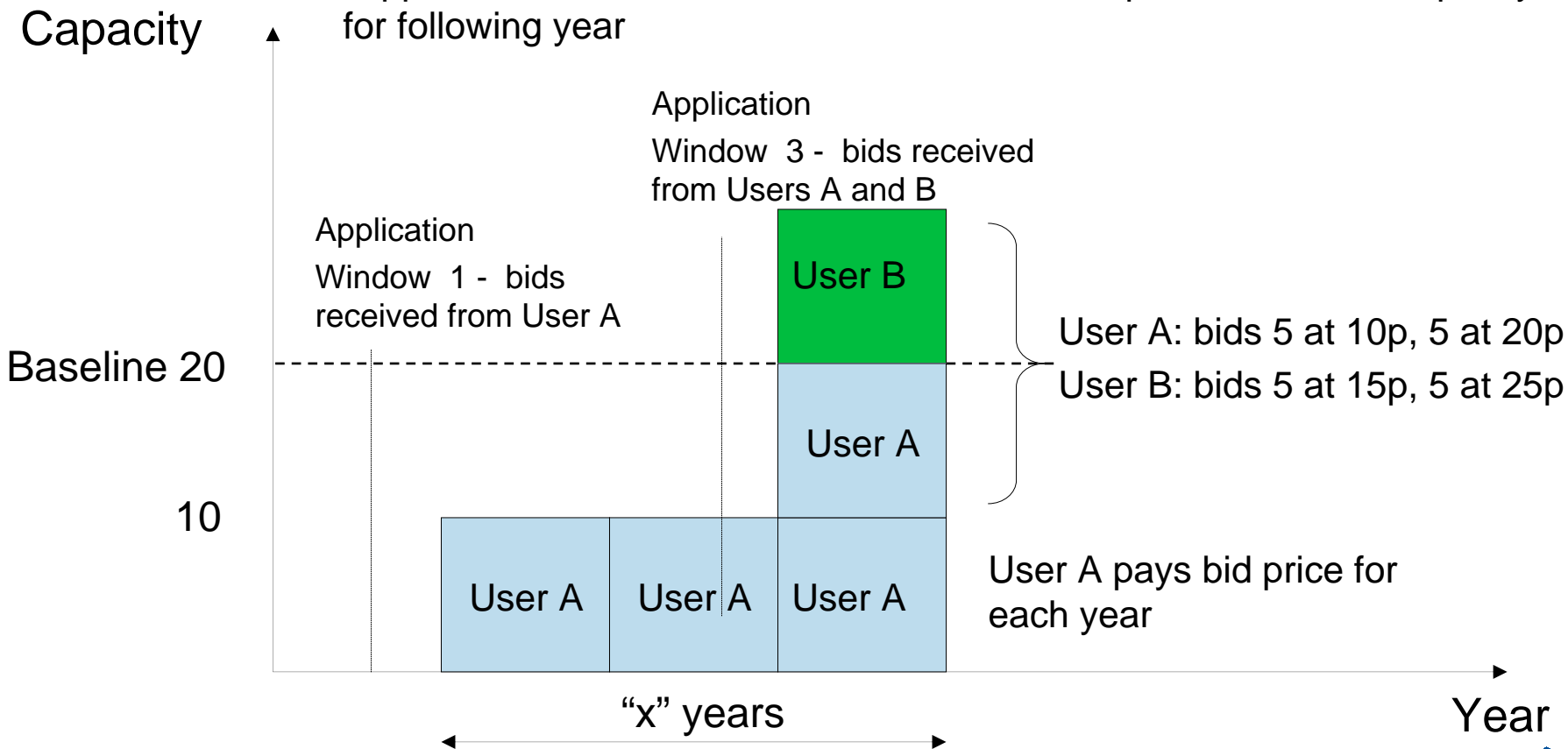
# Option 2/3. Two Users - both want unsold capacity

- User A requests 20 units for each year: bids 5 at 10p, **5 at 15p, 10 at 20p**
- User B requests 10 units for each year: bids 5 at 10p, **5 at 25p**



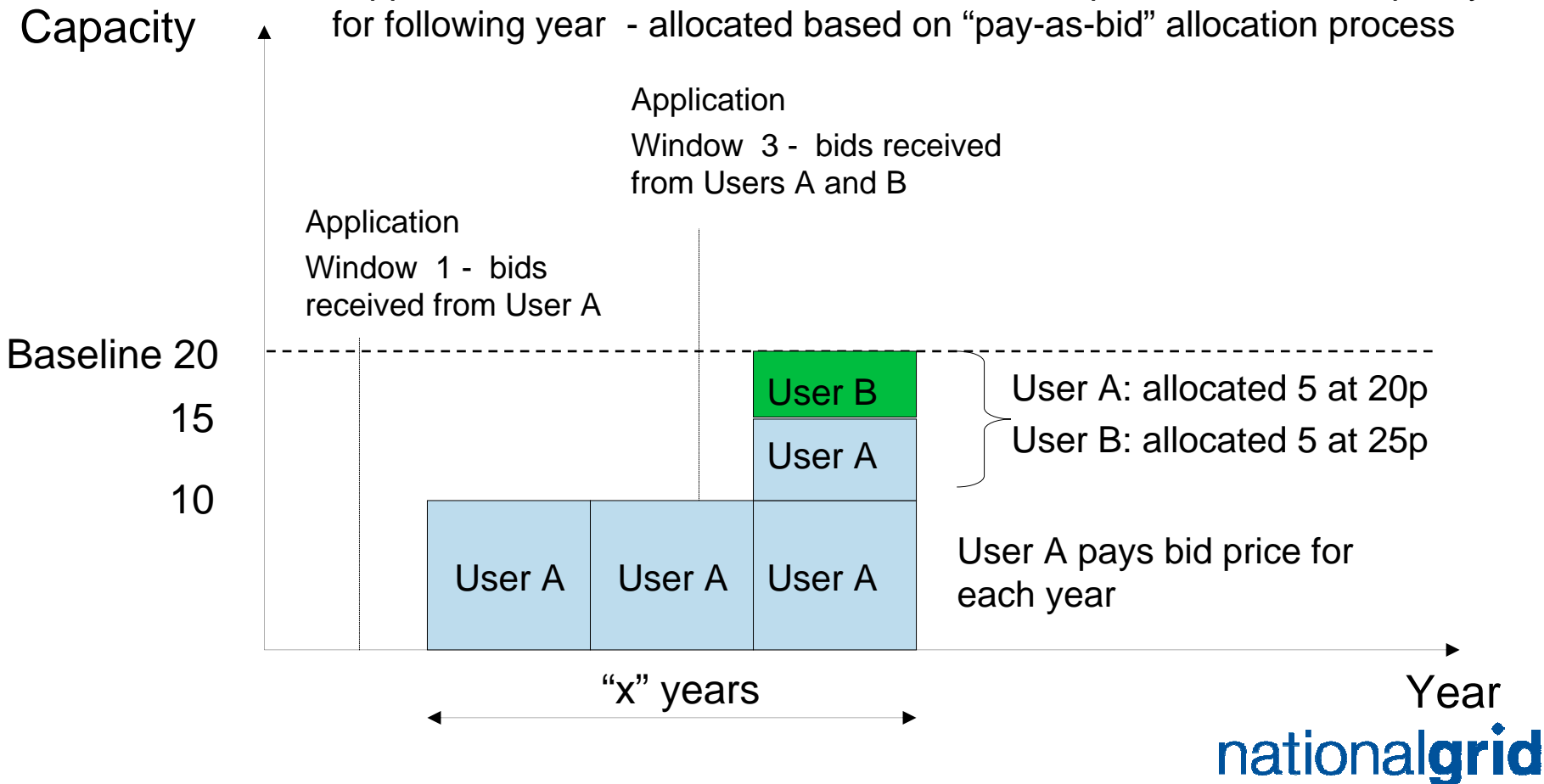
# Option 2/3. Two Users - both want unsold capacity

- Application Window 1 - User A requests 10 units for each year - allocated
- Application Window 3 -Users A and B each request the unsold capacity for following year



# Option 2/3. Two Users - both want unsold capacity

- Application Window 1 - User A requests 10 units for each year - allocated
- Application Window 3 -Users A and B each request the unsold capacity for following year - allocated based on “pay-as-bid” allocation process

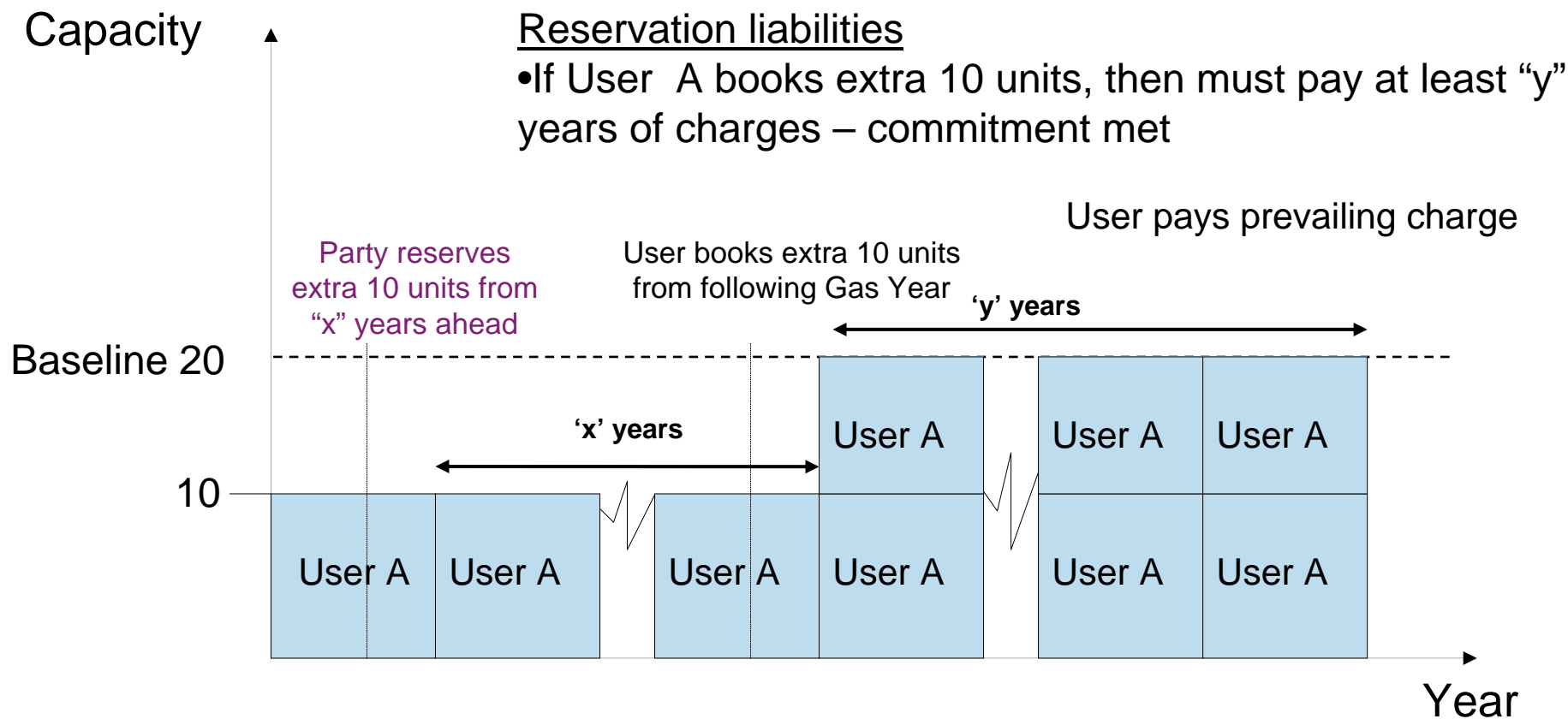


# “Long term” bookings – Unconstrained Period

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# Option 1. One User – wants the unsold capacity

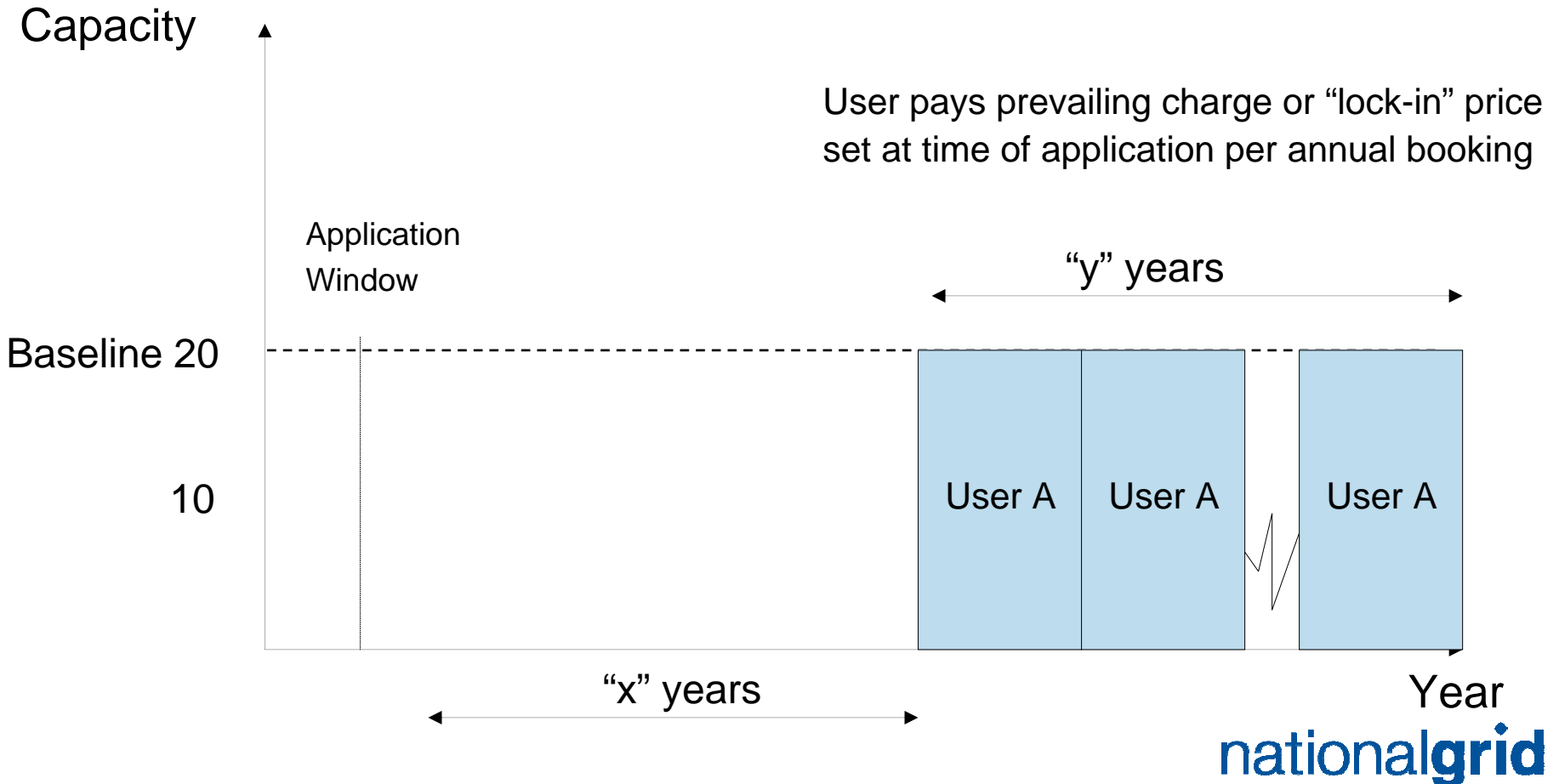
- Party (e.g. developer) reserves 10 extra units for “x” years ahead through reservation agreement – commits to ensure “y” years of charges paid
- User A then able to book extra 10 units ahead of gas year



NB. Could also be utilised to reserve capacity within constrained period

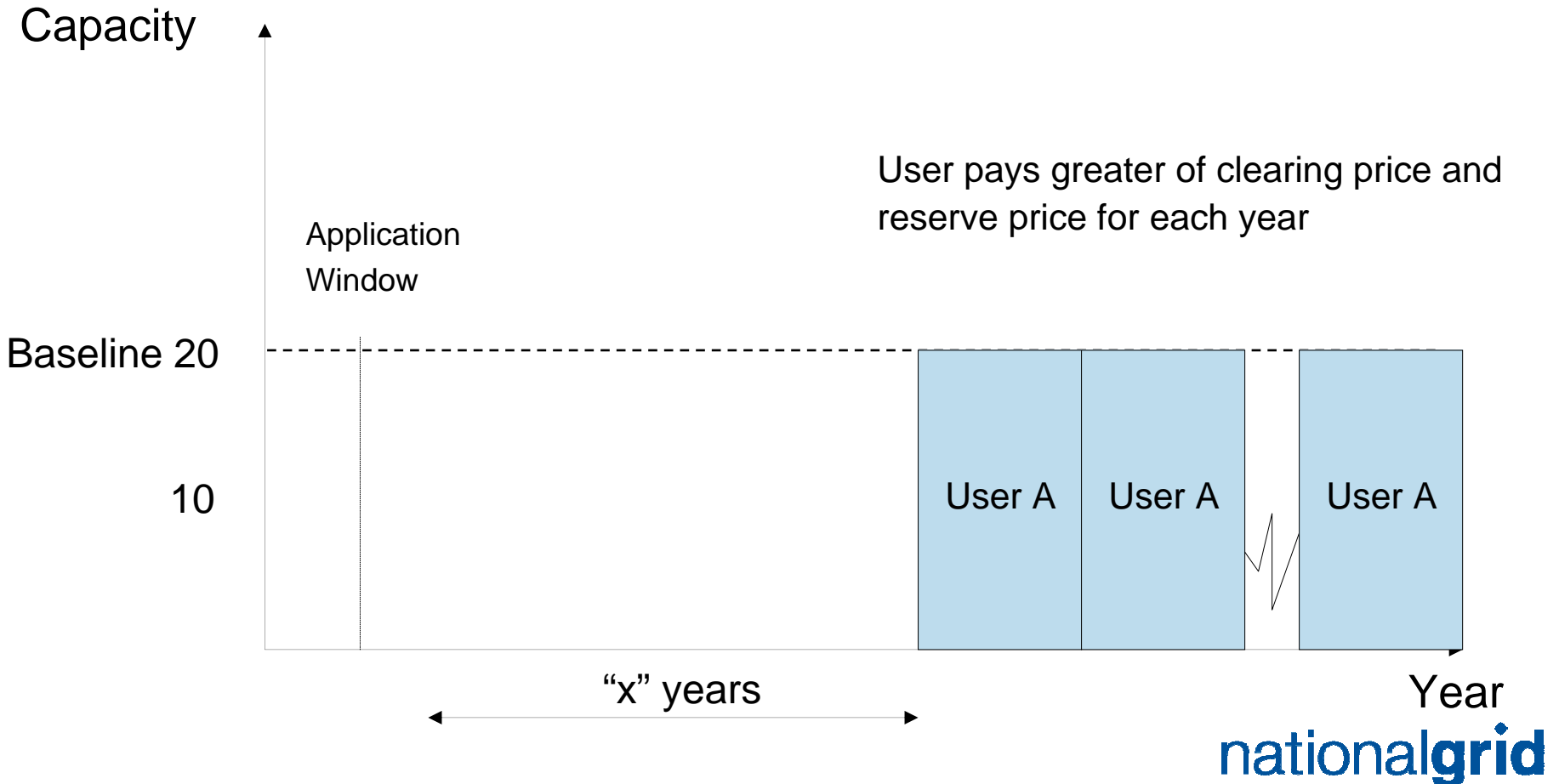
# Option 2. One User – wants the unsold capacity

- User A needs to book 20 units for at least “y” years.



# Option 3. One User – wants the unsold capacity

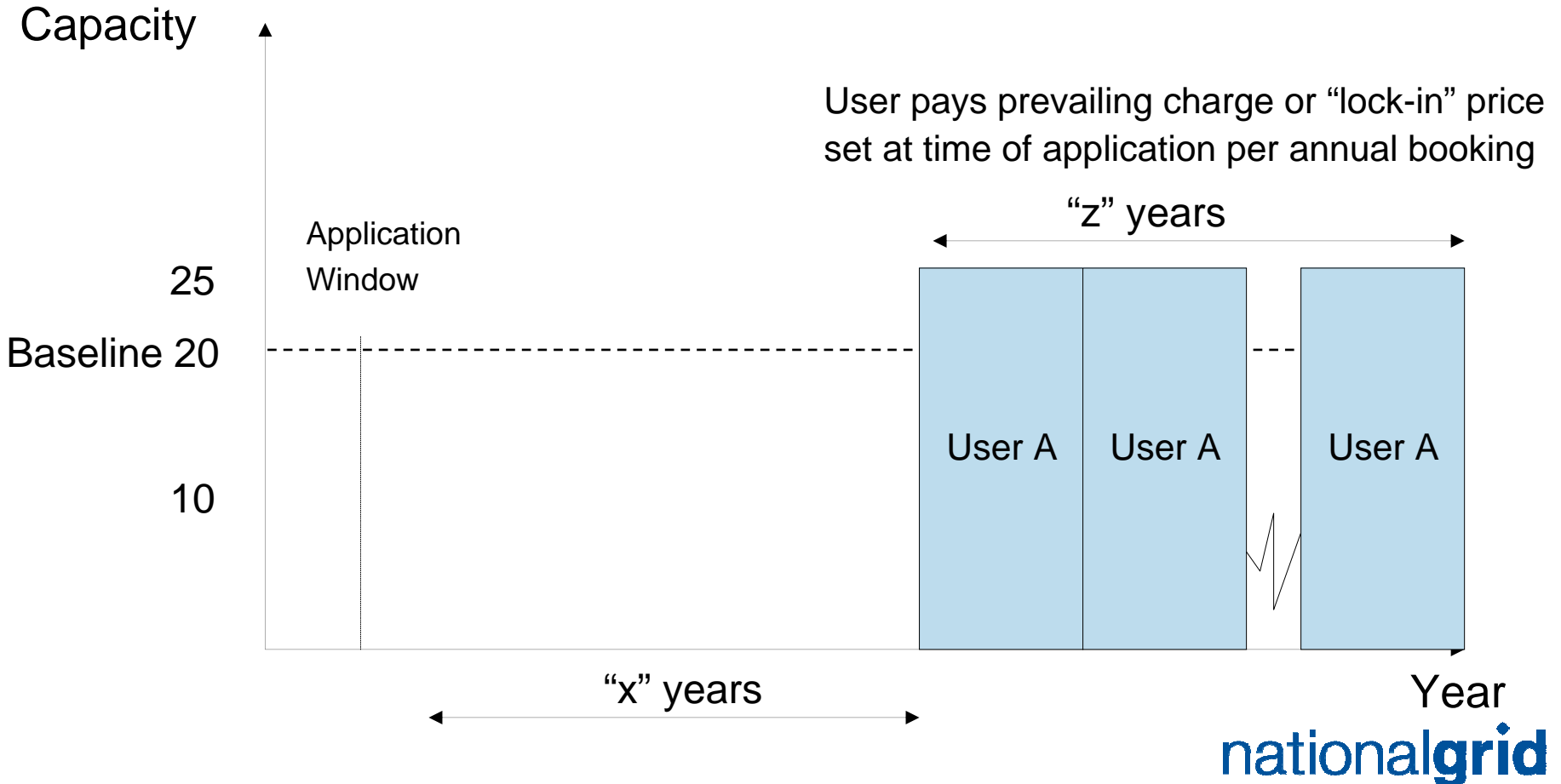
- User A needs to book 20 units for required years





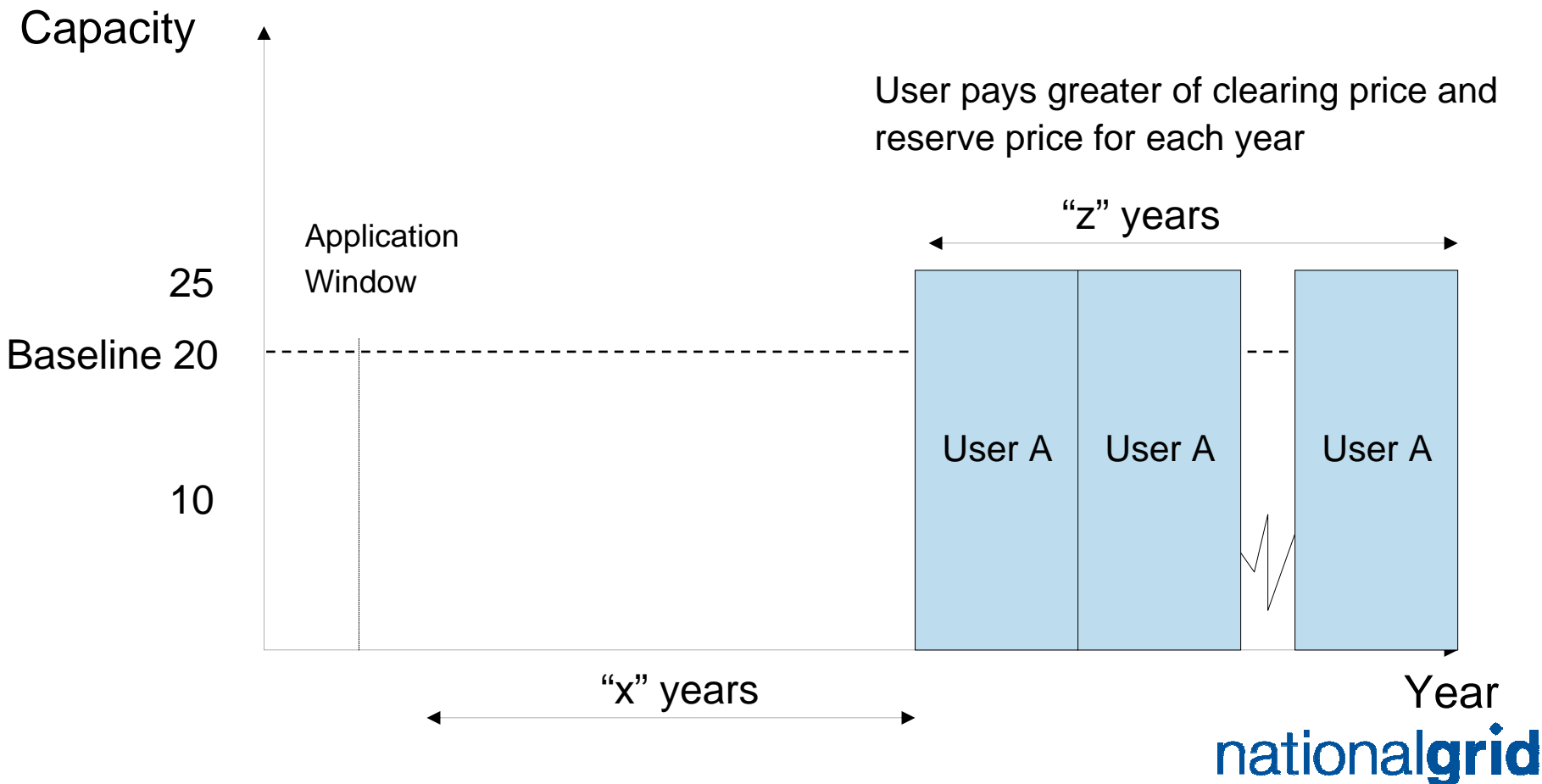
# Option 2. One User – wants the unsold capacity and incremental release

- User A needs to book 25 units for at least “z” years.



# Option 3. One User – wants the unsold capacity and incremental release

- User A needs to book 25 units for at least “z” years.



# Way Forward

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- ◆ Does the EOWG see merit in further development of any of these options?
  - ◆ Option 1. Implement consistent arrangements
  - ◆ Option 2. Extend permitted registration timescales
  - ◆ Option 3. Implement long term auctions
- ◆ If so, what needs to happen between now and next EOWG?
- ◆ Alternatively, are there other approaches that should be considered?