

Overview of thinking on allocation mechanisms

Seminar on enduring gas offtake reform
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Overview of Current Arrangements

-Up to Oct 2010

- ◆ Capacity “registration” – Application and allocation processes under UNC specific to type of offtake
 - ◆ DM Supply Points
 - ◆ “evergreen” rights with automatic monthly renewal based on prevailing SOQ
 - ◆ CSEPs
 - ◆ booked by shipper on a 12-monthly rolling basis
 - ◆ Downstream Capacity Holder (DCH) Voucher scheme at Interconnectors
 - ◆ NTS/LDZ offtakes
 - ◆ booked by DNO for each year up to Oct 2010 during June/July each year

Overview of current arrangements

-Up to Oct 2010

◆ User Commitment

◆ Constrained Period

- ◆ Notice to reduce current bookings ~ 1 year i.e. user required to pay ~1 years charges

◆ Unconstrained Period

- ◆ Financial commitment required to underpin investments specific to a connection for incremental capacity release

◆ Charging

◆ DM Supply Points/CSEPs

- ◆ shippers pay prevailing exit capacity charges

◆ NTS/LDZ offtakes

- ◆ incentives on DNO Users to efficiently book capacity
- ◆ do not pay (directly) for capacity

Issues?

- ◆ Information to inform efficient and economic NTS investment
 - ◆ Limited mechanisms and incentives for users to inform of “longer” term requirements - planning process therefore requires assumptions which could, in the extreme, lead to asset stranding
 - ◆ Level of user commitment required to underpin investments for incremental capacity release
- ◆ Non-discriminatory release of capacity within constrained period
 - ◆ Disparity in UNC capacity registration processes implies “first come first served” allocation between classes of customer
 - ◆ In future may see increased competition through users desire for increased
 - ◆ “flexibility” at off-peak demands than available
 - ◆ access to capacity close to or on the gas day

Assumptions Underpinning Reform

- ◆ Common arrangements across all NTS Exit Points
 - ◆ capacity products
 - ◆ capacity application and allocation processes
 - ◆ charging arrangements (i.e. move to “DN pays” model)
- ◆ Firm capacity available as annual (and daily) bundles
- ◆ Annual Application Window for users to request capacity
- ◆ Capacity available up to a “baseline” level – requests for capacity above baseline trigger investment

Key Parameters

- ◆ “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

“User
Commitment”

Options – Unconstrained Release

- ◆ Option U1. “Reservation agreement approach”
 - ◆ Prevailing holdings maintained each year by default (i.e. evergreen rights)
 - ◆ commitment to book and pay “y” years of capacity
 - ◆ User able to request at Application Window
 - ◆ increase to prevailing holding for use from following Gas Year
 - ◆ decrease to prevailing holding for use from Gas Year + “y”
 - ◆ Any party able to “reserve” increase in capacity for the unconstrained period
 - ◆ subject to financial commitment to ensure use of system charges paid for relevant number of years
 - ◆ User able to book reserved capacity at Application Window ahead of gas year from which capacity required
 - ◆ User pays prevailing exit capacity charge

Options – Unconstrained Release

- ◆ Option U2. “Extended registration period”
 - ◆ User able to request and be allocated capacity up to “n” years ahead, but no “evergreen rights”
 - ◆ Prevailing holding maintained by proactive confirmation
 - ◆ Allocation for unconstrained period subject to financial commitment to pay system charges for relevant number of years
 - ◆ Option A – Commitment applies to individual Users
 - ◆ Option B – Commitment applies to aggregate User applications with *volume* pro-ration where aggregate application for any year above sustained level
 - ◆ User pays:
 - ◆ Option a - prevailing exit capacity charge
 - ◆ Option b - “lock-in” price (e.g. prevailing capacity charge at time of application) plus commodity charge to ensure TO revenue recovery

Options – Unconstrained Release

- ◆ Option U3. “Clearing allocation mechanism”
 - ◆ Same as option 2, but apply clearing allocation mechanism, similar to that in place at entry
 - ◆ Commitment applies to aggregate User applications with *price* pro-ration where aggregate application for any year above sustained level
 - ◆ User pays “clearing price” plus commodity charge to ensure TO revenue recovery

Summary – Unconstrained Release

	Option U1	Option U2	Option U3
Registration	<ul style="list-style-type: none"> ❑ Existing holdings maintained by default with commitment to pay “y” years charges ❑ Any party can request capacity via “reservation agreement” outside of UNC - user registers under UNC reserved capacity ahead of Gas Year 	<ul style="list-style-type: none"> ❑ Existing holdings maintained by proactive application ❑ User can request capacity for up to “n” years ahead under UNC 	
Commitment	Commitment to pay if not registered by users, in aggregate, “y” years if within baseline, “z” years if beyond baseline	<p>A: Each User must book “y” years if within baseline, “z” years if beyond baseline</p> <p>B: Users in aggregate must book “y” years if within baseline, “z” years if beyond baseline, with <i>volume</i> rationing</p>	Same as Option U2, but with <i>price</i> rationing through clearing allocation process
Charging	Prevailing charges	<p>a: Prevailing charges or</p> <p>b: Lock-in plus TO commodity</p>	Clearing price plus TO Commodity

Options – Constrained Release

- ◆ Two options for treatment of competing requests for unsold capacity within constrained period:
- ◆ Option C1. “Volume rationing”
 - ◆ Requests for unsold capacity rationed based on volume of request
- ◆ Option C2. “Price rationing”
 - ◆ Requests for unsold capacity rationed based on price of request through “pay-as-bid” allocation process

Way Forward

- ◆ EOWG exploring
 - ◆ whether merit in further development of any of these options
 - ◆ whether there are any alternative approaches that should be considered
- ◆ Aspiration is to develop further details of preferred options to aid further understanding and assessment