

NTS Exit Reform – A Potential Strawman Model

EOWG, 8th March 2006

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Development of Potential Strawman Models

- ◆ EOWG considered it would be beneficial if a strawman model was developed
 - ◆ act a “starting point”
 - ◆ allow assessment relative to current arrangements and alternatives
- ◆ This presentation puts forward a potential model to facilitate debate and understanding
 - ◆ it does not represent National Grid NTS’s view, at this stage, of the most appropriate enduring arrangements

Strawman - Key Assumptions

- ◆ Scope for undue discriminatory minimised
 - ◆ common products and registration processes
 - ◆ no “evergreen” rights
- ◆ Regime features a “flexibility utilisation” product
- ◆ User commitment principle promoted by sustained annual bookings in unconstrained period
- ◆ Duration of constrained period recognises consent process

Strawman - Overview (1)

- ◆ Product definition
 - ◆ Nodal “flat” and “flex”
- ◆ Registration
 - ◆ Constrained period
 - ◆ “pay-as-bid” allocation mechanism (like gas entry)
 - ◆ Unconstrained period
 - ◆ obligated release if sustained booking by users
 - ◆ plus incentivised discretionary release
- ◆ Pricing
 - ◆ Constrained period releases
 - ◆ “pay-as-bid”
 - ◆ Unconstrained period releases
 - ◆ determined by LRMC price at time of use

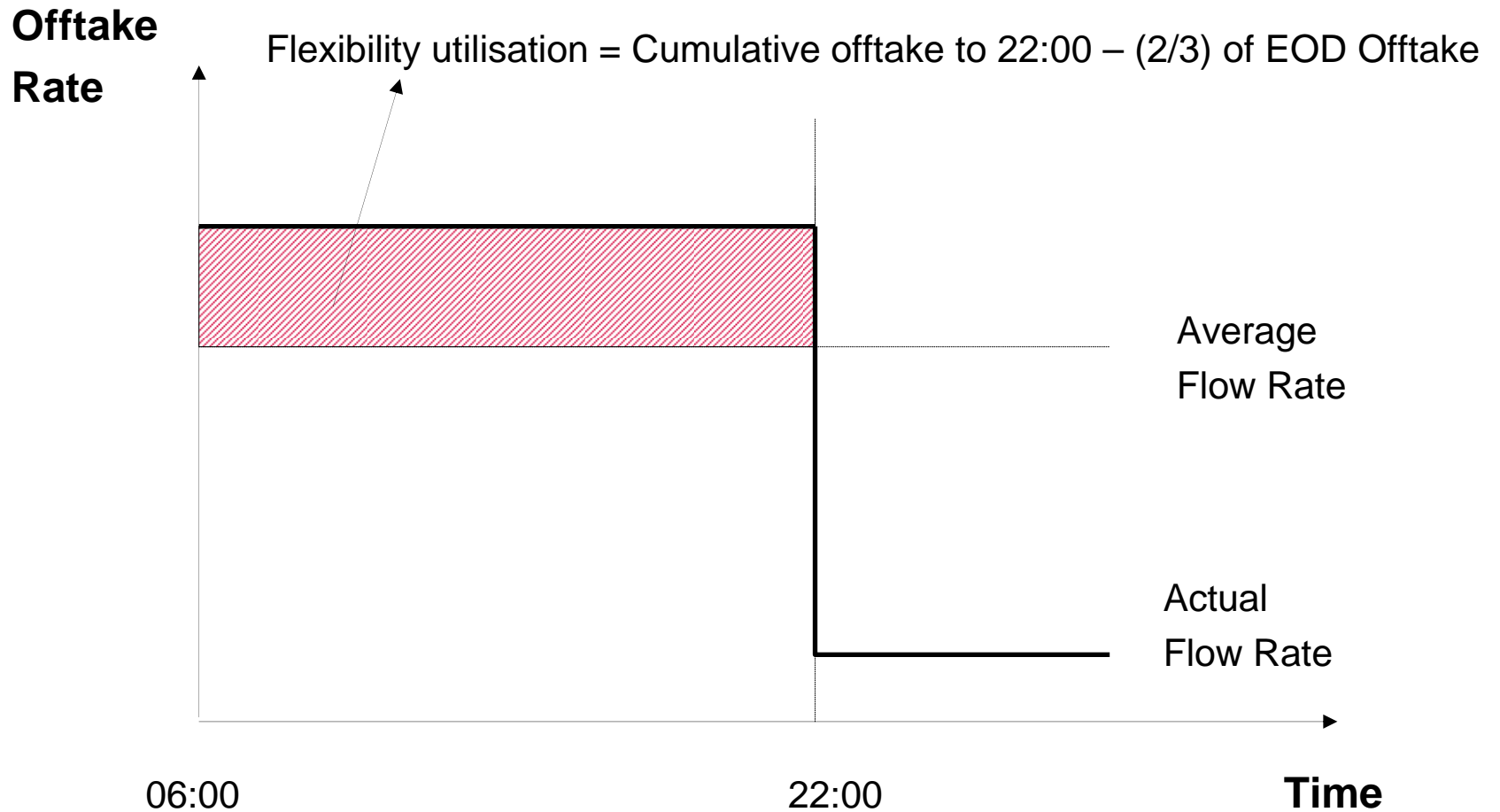
Strawman - Overview (2)

- ◆ Interruptible service
 - ◆ Day ahead UIOLI
 - ◆ Plus incentivised discretionary release
- ◆ Trading
 - ◆ At nodes [and between nodes]
- ◆ Substitution between nodes
 - ◆ Ability to obtain spare capacity at other nodes within constrained period
- ◆ System management
 - ◆ Tools feeding into overrun price derivation

Product Definition (1)

- ◆ Nodal “flat” and “flex” separate products
- ◆ Overruns for both
 - ◆ Daily test
 - ◆ Triggered if aggregate overrun
 - ◆ Dynamic overrun price to provide “ticket to ride” incentive
- ◆ Flex entitlement based on “peak flex booking” plus expanding element
 - ◆ Base on “factor” x (flat holding – end of day offtake)
 - ◆ Factor to be determined

Flexibility Utilisation



Flat and Flexibility Products

Flexibility
Utilisation

$$\text{Flex Holding} = \text{Peak flex holding} + \alpha(\text{Flat Holding} - \text{EOD Offtake})$$

Flex Capacity
Holding

Flex overrun

Flat and Flex
overrun

Peak Flex
Capacity
Holding

No overrun

Flat overrun

Flat Capacity
Holding

EOD Offtake

Product Definition (2)

Types of capacity

- Firm (flat and flex)



- Interruptible (flat)



Bundles

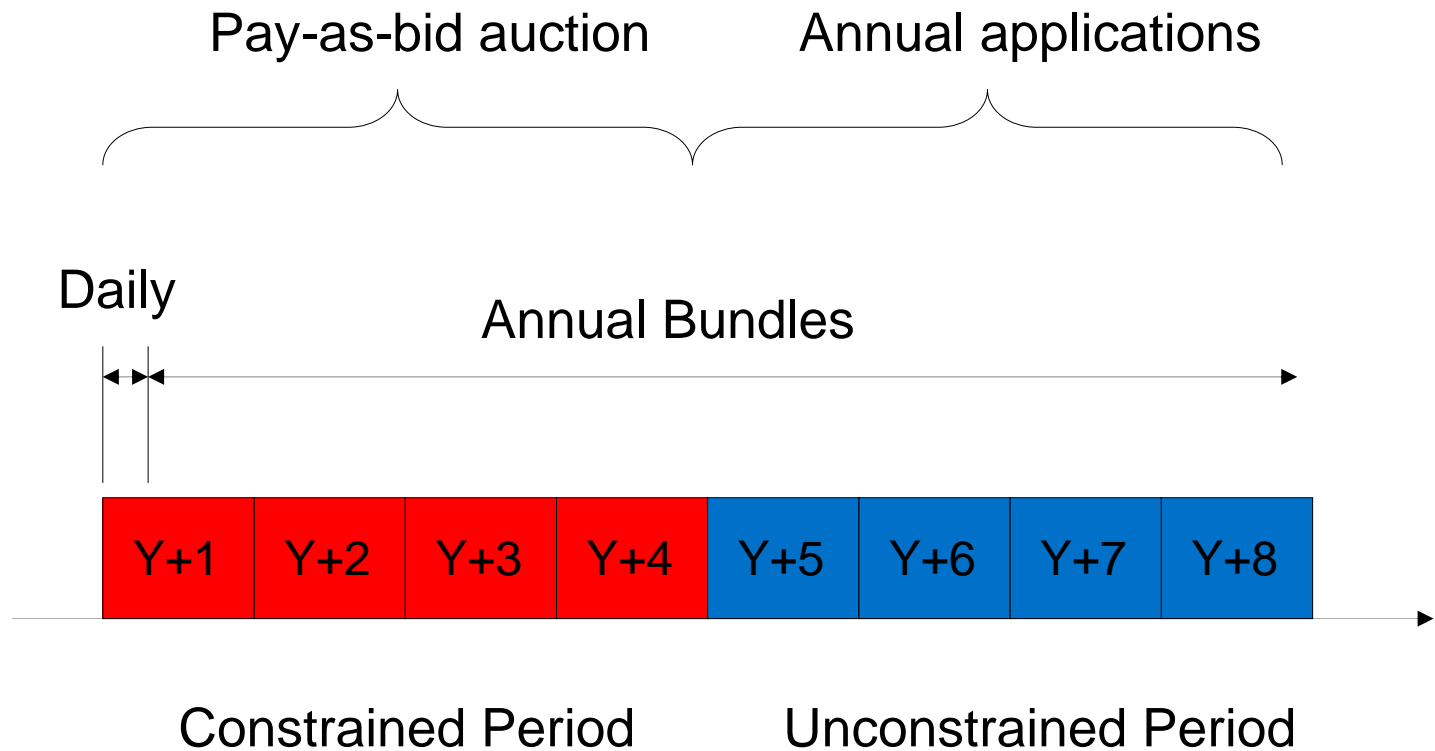
- ✓ Annual (long and medium term release)
- ✓ Daily (day ahead and on the day)

- ✓ Daily (day ahead)

Interruptible Capacity

- ◆ Flat capacity only
- ◆ Release UIOLI at day ahead stage
 - ◆ Base on
 - ...“aggregate flat capacity holdings – previous 30 day average utilisation”
- ◆ Plus incentivised discretionary release (subject to risk assessment)

Capacity Release



Unconstrained Release (>investment lead time)

UNC Users

- ◆ User able to request in April in year Y
 - ◆ annual capacity rights for period Y+5 to Y+8
- ◆ Request allocated if individual bookings sustained for 4 years
 - ◆ Applies irrespective of baseline
- ◆ Incentivised discretionary release of additional requests
- ◆ Users pay prevailing flat/flex LRMC price at time of use

Non-UNC Users

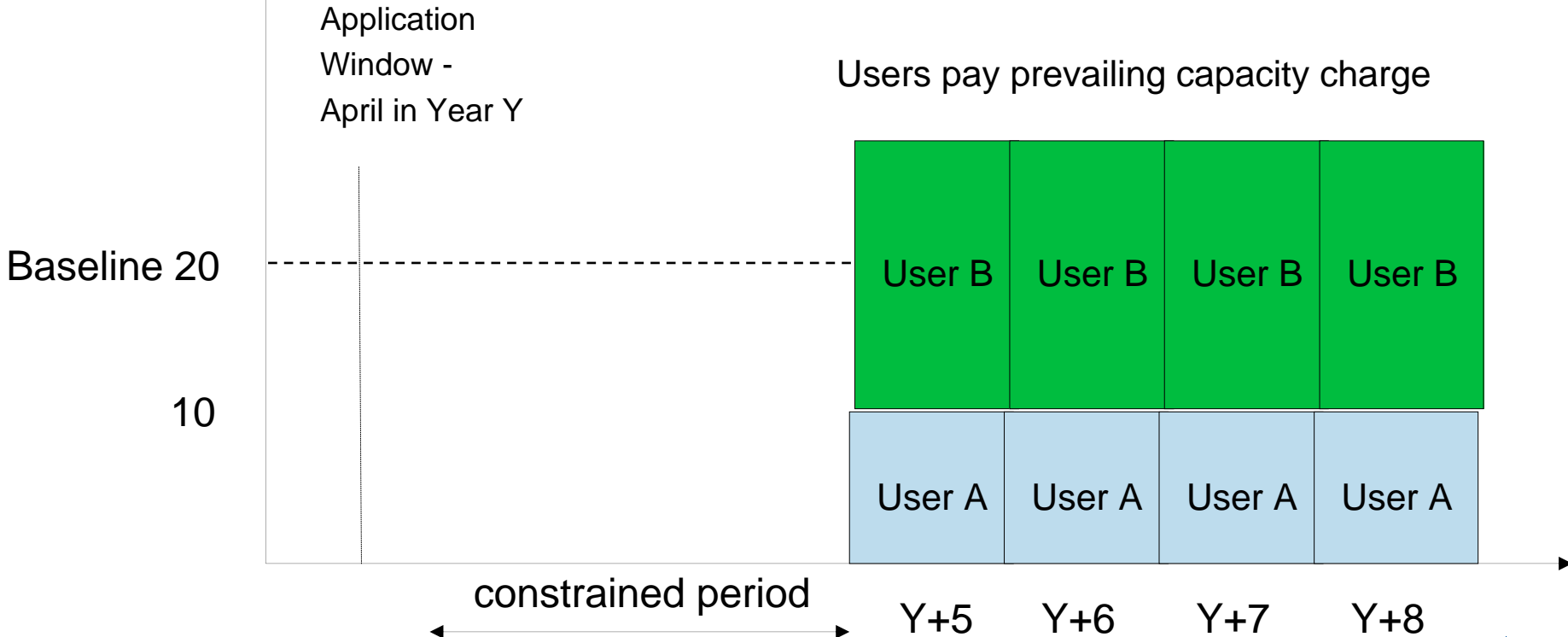
- ◆ Parties able to “reserve” capacity
 - ◆ Commitment to pay 4 years capacity charges if nominated users don't book

Unconstrained release - Example

- User A requests 10 units for 4 years
- User B requests 20 units for 4 years

Both requests allocated triggering 10 units of incremental capacity release

Capacity



Constrained Period – Medium term release

- ◆ User able to request in year Y
 - ◆ annual capacity rights for period Y+1 to Y+4
 - ◆ via “pay-as-bid” auction in August
- ◆ Allocation based on greater of:
 - ◆ Baseline – subject to licence obligations
 - ◆ “Capability” – subject to risk assessment
- ◆ Pay as bid subject to reserve price
 - ◆ access should be no cheaper than longer term access
 - ◆ set to prevailing LRMC

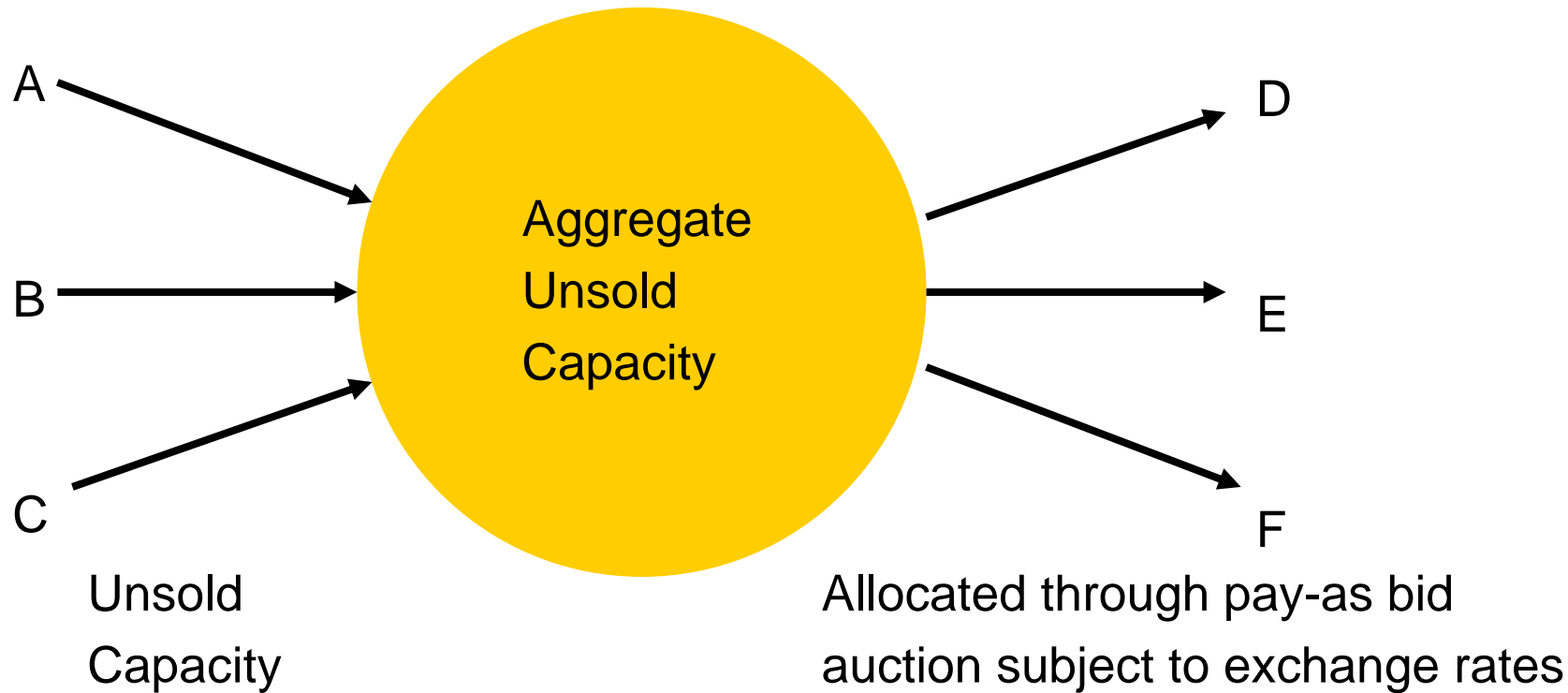
Constrained Period – Short term release

- ◆ User able to request via “pay-as-bid” auctions
 - ◆ daily firm flat and flex capacity rights (ahead of and on the day)
 - ◆ daily interruptible flat capacity rights (day ahead)
- ◆ Allocation based on greater of:
 - ◆ Baseline – subject to licence obligations
 - ◆ “Capability” – subject to risk assessment
- ◆ Pay as bid subject to reserve price
 - ◆ access should be no cheaper than longer term access
 - ◆ set to prevailing LRMC

Substitution between nodes

- ◆ Ability to release “spare” capacity from one node to another without redefining baselines
 - ◆ from year ahead
- ◆ “Exchange rates” to be determined
 - ◆ represent amount that can be transferred based on physical network capability
- ◆ Undertaken through
 - ◆ Facilitated transfer of “unsold capacity”
 - ◆ Facilitated trading of “sold capacity”

Transfer of unsold capacity - Principles



Way Forward

- ◆ Provide strawman paper to EOWG
- ◆ Undertake assessment
 - ◆ against current regime and alternatives
- ◆ Refine strawman model to seek to develop most appropriate enduring arrangements