

Allocation of Capacity

An alternative option

EOWG 8th March 2006

User commitment

- The models so far - focus on user commitment for existing and new capacity
- Appropriateness of commitment for new capacity very different to existing capacity
- Unforeseen consequences vs risk of stranded asset
- Inappropriate balance of risk
- Complexity and timescales

What are we trying to achieve?

- A reminder of what we are trying to achieve
 - Signals for new NTS investment
 - information from DNs and DCs
 - DNs to make appropriate trade off
 - Allocation of capacity in constrained period
 - Protect the interests of consumers

Allocation mechanism- principles and assumptions (1)

- Unconstrained allocation - investment signals
- Constrained period - efficient allocation of scarce capacity
- Simple
- Two products - flat and flex
- Nodal products for allocation to assist investment signal

Principles and Assumptions (2)

- Operational complexities
 - Arrangements need to take account of NTS use of offtake capacity requirements

Allocation

- Existing capacity rights maintained
 - ie if do nothing, User retains prevailing capacity holdings.
- Nevertheless - annual application window

Annual Application Window (1)

- To increase capacity holdings for unconstrained period.
 - All requests up to baseline allocated (ie all requests not triggering physical investment).
 - Consistent with current arrangement, ARCA where physical investment required.
 - All requests backed by ARCA allocated.
 - Incentive to book to provide greater certainty to user and investment signal NTS

Annual Application Window (2)

- To decrease capacity holdings for unconstrained period.
 - Release capacity for allocation to others.

Annual Application Window (3)

- To increase capacity holdings for constrained period
 - capacity only allocated if available
 - capacity allocated on a pro-rata basis if necessary.
- To decrease capacity holdings for constrained period
 - releases capacity for allocation to others

OPN Process

- Opportunity to increase capacity holdings at day ahead/within day if capacity available and subject to pro-rating

For consideration

- Extent to which model applies equally to DNs and DCs?
 - Due/Undue discrimination
- Appropriate incentives