

Enduring NTS Offtake Arrangements – Strawman Model

EOWG, 5th April 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
- ◆ Strawman model provided with EOWG6 minutes
 - ◆ it does not represent National Grid NTS’s view, at this stage, of the most appropriate enduring arrangements

Strawman - Key Assumptions

- ◆ **Common products and registration processes** to avoid scope for any undue discrimination

- ◆ **“Flexibility utilisation” product** to generate signals for investment and to fairly apportion costs

Strawman - Overview (1)

- ◆ **Product Definition**

- ◆ Nodal: “flat”-and-“flex”

- ◆ **Registration**

- ◆ **Unconstrained Period** (Model U1)

- ◆ obligated release if sustained booking by a User
- ◆ adds to User’s prevailing level

- ◆ **Constrained Period**

- ◆ “pay-as-bid” allocation mechanism (like gas entry)

- ◆ **Notice Period**

- ◆ reduction of prevailing holding

Strawman - Overview (2)

◆ Pricing

- ◆ Constrained period releases
 - ◆ “pay-as-bid”, subject to reserve price no less than current prevailing charge
- ◆ Unconstrained period releases
 - ◆ determined by prevailing price, applicable at time of use

Strawman - Overview (3)

- ◆ **Interruptible service**

- ◆ Day ahead Use-it-or-loose-It (UIOLI)
- ◆ Plus incentivised discretionary release

- ◆ **Trading**

- ◆ At nodes

- ◆ **System management**

- ◆ Tools feed into overrun price derivation

Product Definition (1)

- ◆ **Nodal**
 - ◆ “flat” and “flex” separate products
- ◆ **Overruns for both products**
 - ◆ 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

Product Definition (2)

Types of capacity

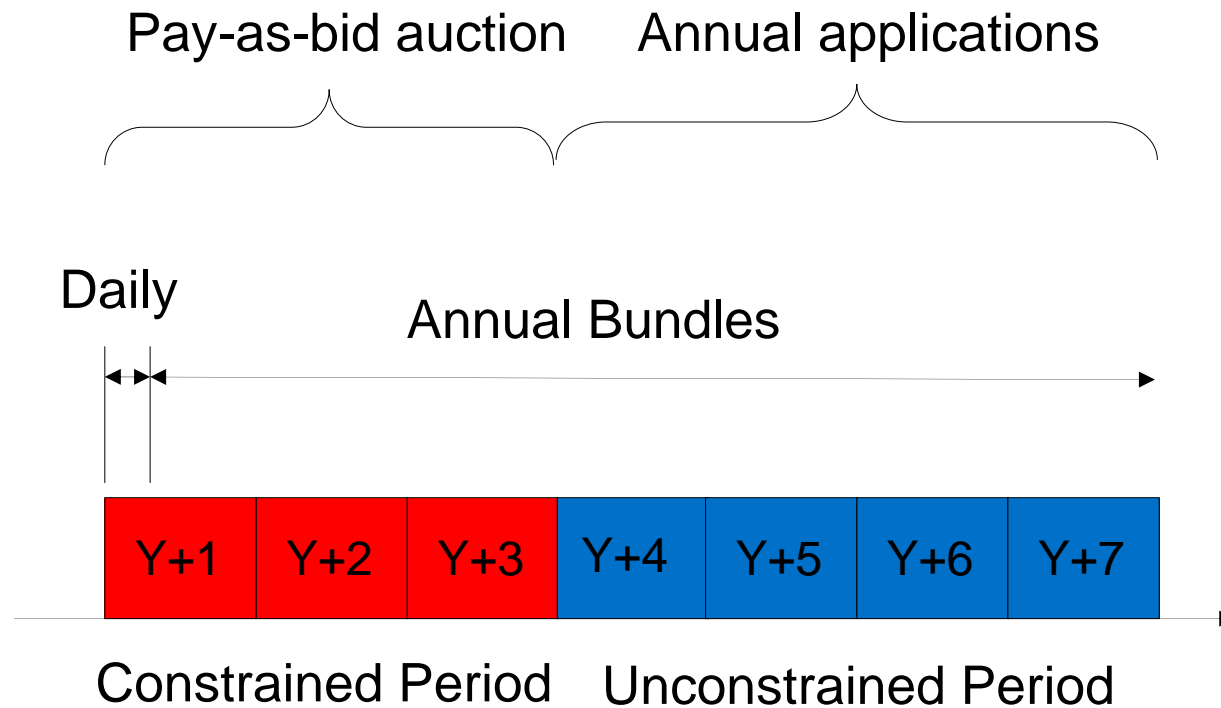
Bundles

- Firm (flat and flex) →
 - ✓ Annual (long and medium term release)
 - ✓ Daily (day ahead and on the day)
- Interruptible (flat) →
 - ✓ Daily (day ahead)

Interruptible Capacity

- ◆ **Flat** capacity only
- ◆ **Release at day ahead stage**
 - ◆ Base **UIOLI** on
 - ...“aggregate flat capacity holdings – previous 30 day average utilisation”
 - ◆ **Plus incentivised discretionary release** (subject to a National Grid 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+[4] to Y+[7]
- ◆ Request **allocated** if individual bookings sustained for **[4] years**
 - ◆ Applies irrespective of baseline
 - ◆ Commitment is to pay for [4] years capacity at general transportation charge levels as they apply at time of use
- ◆ Users pay prevailing flat/flex LRMC price at **time of use**

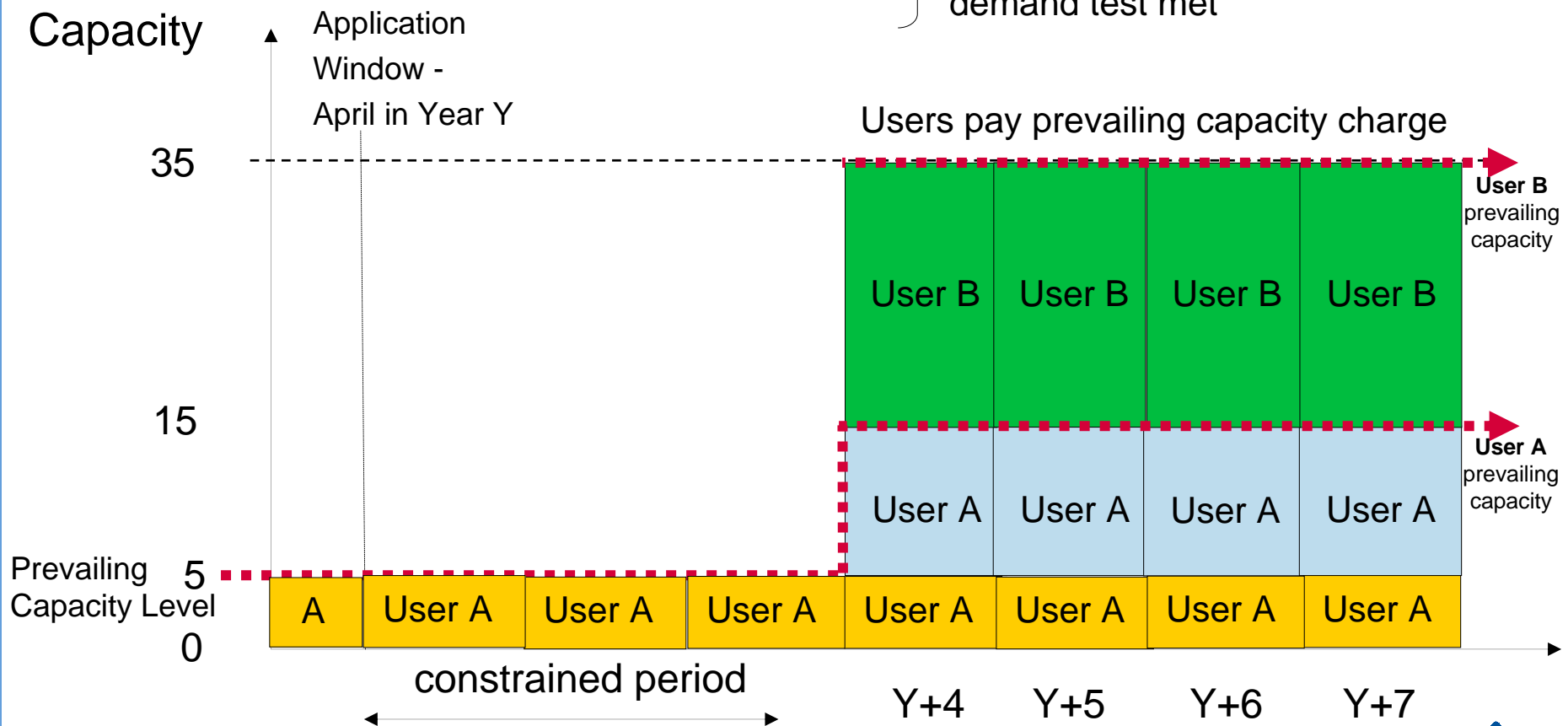
Non-UNC Users

- ◆ Parties able to “reserve” capacity
 - ◆ Commitment to pay [4] years capacity charges if nominated Users do not book

Unconstrained release - Example

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

Both requests allocated as sustained demand test met



Constrained Period – Medium term release

- ◆ **User able to request in year Y**
 - ◆ Annual capacity rights for period Y+1 to Y+3
 - ◆ Via “**pay-as-bid**” auction in [August]
- ◆ **Allocation based on greater of:**
 - ◆ Baseline – subject to licence obligations
 - ◆ “Capability” – subject to risk assessment (discretionary release)
- ◆ **Pay-as-bid subject to reserve price**
 - ◆ Access should be no cheaper than longer term access
 - ◆ Set to prevailing price

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)
- ◆ **Firm allocation based on:**
 - ◆ “Capability” – subject to risk assessment
- ◆ **Pay-as-bid subject to reserve price**
 - ◆ Access should be no cheaper than longer term access
 - ◆ Set to prevailing price

Way Forward

- ◆ Obtain EOWG feedback
 - ◆ *Comments to paul.a.roberts@uk.ngrid.com*
- ◆ Refine strawman model - areas for further development include:
 - ◆ Initialisation of the enduring regime
 - ◆ Parameters
 - ◆ Notice Period
 - ◆ Commitment Period
 - ◆ Investment Lead Times
- ◆ Undertake assessment
 - ◆ against current regime and alternatives