NTS Exit Flexibility Capability Product definition

- NTS Enduring Regime Proposals

EOWG

28th June 2006

Nks/060628_EOWG_Flex_approach

nationalgrid

… this presentation describes some of the background to the two papers that were circulated to the EOWG circulation list prior to the 28th June 2006 EOWG

… the two papers are:

NTS Exit Flexibility Capacity Definition

(file: 060628_NTS_Flexibiity_zonal_attribution_v1p0)

Current Flex Position & Complementary/Alternative Ways Forward

(file: 060628_EOWG_Physical_Financial_Flex_v1p0)

nationalgrid

Recent realisations

Extensive Network Analysis

- “flex capability” assessment”

→ Little scope for “expanding flex product” concepts

Discussions with DNs

→ Requirements for “flex capacity” may be larger than can be guaranteed by NTS

…. currently proposed product definition may generate risks of unwarranted signals and inefficient investment

….therefore may be appropriate to contemplate reconsideration of some of the underlying principles

nationalgrid

Principles following reconsideration

- System expansion to meet flexibility capacity signals
  - Low probability of NTS “flex” investments for next price control period?
  - May be better to contemplate potential rationing mechanism?
  - If circumstances change then separate discussions with Ofgem/users to establish best way forward
- Separate “flat” and “flex” products
  - No change to flat processes
  - Longer term “flex” release circa 22 mcm
- Flex product amendment to better reflect diversity
  - Opportunity for some zonal principles
    - National availability attributed to zones
    - Nodal bookings of flex capacity
      - Working assumption – no restrictions on flex cap holdings within zones

nationalgrid

Zonal definition

- Considerations
  - Existing linepack management zones
  - Uncertainty over changing gas flow patterns
  - Identification of potential material constraint points

17 “Flexibility Zones”

Nodal mappings (for existing offtakes) are provided in Appendix 1 of the *NTS Exit Flexibility Capacity Definition* paper

(file: 060628_NTS_Flexibiity_zonal_attribution_v1p0)

nationalgrid

National capability attribution to zones

Key principle:

Sum of zonal availabilities equals National availability

Apportionment methodology to be determined

Potential approaches

- Zonal utilisation - highest observed concurrent utilisation
- Zonal utilisation – highest observed zonal utilisations
- MDQ/SOQ based apportionment
- Flexibility booking based apportionment
- Hybrids of the above two eg
  - Allocation reflecting current DN bookings plus extra allocated according to MDQ/SOQ

nationalgrid

Longer term application processes

- To release the National availability
  - “Pay as bid” release
  - Zonal attribution processes
    - Nodal applications/allocations
    - Working assumption: no restrictions on sub-zonal holdings
    - Need to establish basis for access/substitutability close to gas flow

Key issues:

Will DNs be able to secure capability to avoid unwarranted investment?

Who will hold flex capacity after initial releases?

How will shorter term access to flex capacity be managed?

nationalgrid

NTS Exit Flexibility Capacity Definition

EOWG views sought about:

- Merits of pursuing zonal concepts to mitigate risks of unintended consequences
- Adopting a 17 zone framework
- Preferred basis for attributing capability to zones

nationalgrid

Complementary Ways Forward

User demand for flex holdings may exceed national availability

Two potential mitigations:

- Shorter term applications for “flexibility”

  capacity booking or OPN based application process

- Physically/financially firm concept

nationalgrid

Addressing excess flexibility demands

Attribute	"Physically firm"	"Financially firm"
Firmness	Very high probability availability – sufficient to provide close to 100% certainty	Potentially lower level of certainty • DNs to factor potential uncertainty into their planning processes; • NTS to provide information to inform DN determination of requirements • Current levels of utilisation would imply very low levels of risk
Commercial buy-back	• no requirement to offer back	• users determine buy-back offer prices • non-discriminatory arrangements to use buy-back; • Risk/reward to NTS via incentives/liabilities regime • requirement to offer back when essential • "buy-back" prices capped; • liability arrangement where "market" doesn't deliver buy-back but NTS must manage flows;
Pricing	Constrained release could be conducted on an auction basis, incremental bookings priced at LRMC (high pricies)	Auction release, reserve price may be linked to "buy-back" cap price
Investment requirements	Bookings needing to be supported by underlying infrastructure	NTS discretion as to whether "sales" need to be physically underpinned

nationalgrid

Complementary approach questions?

- Short term flex capacity acquisition
  - acceptability to different user classes?
- Physically/financially firm concept
  - Is financially firm of potential use to users?
  - What information might be necessary to support user assessment of product?

nationalgrid