

EOWG 12 - 12th July 2006

NTS Enduring Exit Reform

NTS' development of the "AEP workgroup" Alternative proposition

Background

Julie Cox, on behalf of a wide range of industry stakeholders who have met under the auspices of the AEP, presented an alternative NTS exit enduring regime proposal to EOWG. Essentially the proposal seeks to use existing OPN based processes for gaining access to "flexibility". Rationing would only be required in the event of risks of imminent within day constraints.

The proposal is based on preserving today's regime and delivering minimal change for DCs; the idea is that they might elect to do nothing in respect of IT systems development until constraints start to become evident and rationing is invoked.

Many users might be very dependent on close to gas flow applications; it is by no means certain that the envisaged 22 or so mcm of national physically firm flexibility will be sufficient (even on a zonal basis) to satisfy all forward looking booking requirements. Additionally if "within day constraints" are experienced then users would need systems/processes to manage processes to allow them to "compete" for capacity.

Ofgem have indicated some support to consider the merits of the AEP workgroup approach and to consider whether it has merit.

This note is designed to inform EOWG of National Grid NTS' high level assessment of the proposal.

Partially developed model

The following provides a National Grid NTS' interpretation of the proposal.

NTS' longer term "physically firm" flexibility capacity proposal is assumed, essentially

- pay as bid auction
- national release limited to 22 mcm as described in another EOWG paper.

If further longer term flexibility capacity is required then that should be signalled by users and discussed with Ofgem so that appropriate commitments/payment terms could be developed.

[National Grid NTS has proposed a "financially firm release" of flexibility release as follows:

- Max Quantities to be released pre-determined
- Buy-back service definition pre-determined
- Max unit price for system management tool pre-determined
- Mandatory buy-back offer requirement
- Pay as bid auctions to allocate available capacity
- Optimisation process to select preferred offers
- Essentially all payment flows to/from users but with some incentive element for transporters to do the right thing

however at this stage many EOWG participants have indicated that this is not an appropriate way forward. The AEP workgroup proposal is an alternative to this approach.]

Based on the AEP preferred approach, which is not to introduce explicit day ahead or within day flex capacity application and allocation processes but rather to build upon current OPN based application processes then the following model could be contemplated:

Users would hold "physically firm flexibility" obtained in the longer term auctions.

At "day ahead" users would submit OPNs – if NTS confident all requests can be accommodated then accept "requests" – all users should be capable of flowing in line with OPNs.

If anticipated flows cannot be accommodated then NTS indicates the geographical area that cannot accommodate all OPNs and so rejects all OPNs in that area. It might be necessary to give some

indication of the restrictions necessary so indicative capability may need to be advised to users. Users then request revised OPNs but, where implied flexibility utilisation is above capacity holdings, then some payment for the incremental requirements would be envisaged. A rationing process would be invoked effectively generating “firm flex holdings” which would limit any subsequent OPNs.

The above would also need to address the issue of whether we would need to “reserve” capability for those who might not be fully utilising their Physically Firm Flexibility holdings.

Once we are in such a difficult day we will need to establish how OPN changes would be managed and, where possible, accommodated.

If everything is apparently acceptable at day ahead but later applications for extra flex were envisaged to take us beyond system capability then we might trigger the restrictions and rationing processes.

Design issues for further consideration

- Assessment of capability against OPN submission

The OPNs will imply an estimate of expected flexibility utilisation. However OPNs are not submitted at an individual user level and so the OPNs will not enable an assessment of how much “flexibility utilisation” is envisaged within “flexibility holdings” and how much might be considered to be “incremental request”.

It may therefore be essential to “hold back” the release of flexibility capacity to accommodate the potential scope for long term flexibility capacity holders to nominate up into their holdings.

This may limit the release of flexibility unless “incremental flexibility capacity” holding can be recalled. This “recall” was the key feature of the financially firm flexibility capacity concept designed to facilitate commercial release of capability that might exceed physical availability.

- Process for rationing

Should we get into a rationing process then there is a requirement to develop a process for the release of capacity to users.

This process would need to establish individual user requirements which would need to be derived having due regard to a sub-allocation of the OPN. This would suggest that individual users at each node would need a within day attribution of the expected aggregate OPN profile and would need to reflect the value of the desired profile in the allocation process.

More development would need to be done to establish how the rationing process would be applied; it would seem that it would be very close to a short term forward release of flow flexibility on a “pay as bid” basis.

- Within-day constraints

It is possible that events will unfold so that although OPNs implying incremental flexibility requirements have been accepted at day ahead that within day further requests might not be capable of acceptance.

This generates two possible outcomes; either this, and any other application is rejected (which effectively grants first-come, first served access to capability) or a rationing approach is invoked that effectively nullifies incremental capacity conferred via earlier accepted OPNs.

These issues warrant exploration at EOWG to establish whether a viable OPN based short-term flexibility access process can be established.

NKS/ 11th July 2006