



Bacton Entry Capacity

Retaining flexibility through modification to overrun regime

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Splitting Bacton Capacity

- Ofgem is proposing that capacity at Bacton should be allocated to the UKCS ASEP or the IP ASEP
- Capacity allocated at this points should not be fungible
- This presentation does not consider the basis upon which capacity should be split, but the treatment of capacity after the split has occurred
- Further work will need to be carried out on how existing capacity holdings could be split, although Ofgem suggests potential for shipper ex-ante allocation of existing rights
- Assuming that capacity is allocated in some way to a sub-ASEP what measures can be introduced so as not to undermine the “flexible” use of the booked capacity?

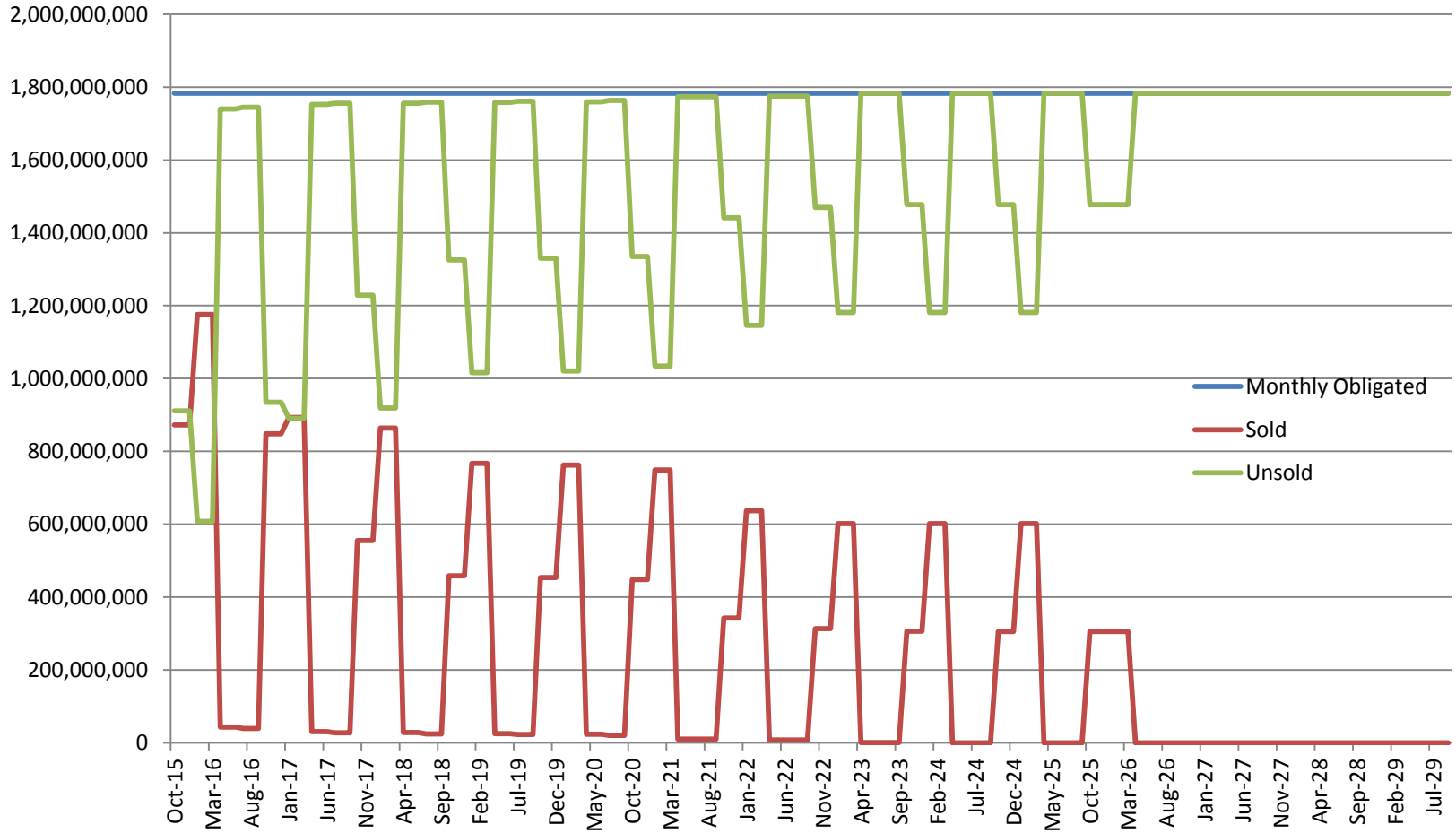
Bacton capacity position

- Monthly Release obligation = 1783.4 GWh/day
- Ofgem proposed baseline split (GWh/day):
 - IUK = 807.6
 - BBL = 494.4
 - UKCS = 481.4

Sales

- Oct 2015 sold = 872.5 GWh/day
- Unsold = 911 GWh/day

Bacton capacity sales



Amending the overrun rules

- There will be a combination of bundled and unbundled capacity with potentially differing charging mechanisms applying to the sub-ASEPs
- What is an overrun?

“is the amount by which the sum of the User’s UDQIs on that Day in respect of each System Entry Point comprised in the Aggregate System Entry Point exceeds the sum of the User’s Fully Adjusted Available NTS Entry Capacity”this could be extended to incorporate bundled capacity at the IPs

Overrun solution by shipper holding

- Assume shipper holds total Bacton capacity of 200 GWh/d and is active on all three pipelines.
- Assume that by some means the capacity holding is split as follows:
 - IUK = 100
 - BBL = 60
 - UKCS = 40
- Assume on a day total flows allocated to shipper are as follows:
 - IUK = 50
 - BBL = 50
 - UKCS = 50
- As Total flows < Aggregate Cap. Holdings then no overruns apply

Overrun solution by aggregate bookings

- NTS Exit approach
- Overruns are only applied where aggregate flows > aggregate cap holdings
- Problem is if there is an overrun who should pay it?
- Solution: where an overrun quantity is derived then it should be targeted at overrunning shippers
- Example below: as long as Σ flows < 900 GWh then no overruns
- Flows are detailed in () in table: Σ flows = 1070 GWh

| Shipper | IUK Cap Holding | BBL Cap Holding | UKCS Cap Holding | Overrun |
|---------|-----------------|-----------------|------------------|---------|
| A | 200 (150) | 200 (200) | 100 (100) | - 50 |
| B | 200 (200) | 0 (0) | 100 (200) | 100 |
| C | 0 (120) | 0 (0) | 100 (100) | 120 |
| | 400 (470) | 200 (200) | 300 (400) | 170 |

- Overrun based on Exit Formula:
- $AO \times IO / \Sigma IO$
 Where AO = Total overrun volume = 170
 IO = Individual overrun volume = 100 (shipper B) and 120 (shipper C)
 $\Sigma IO = 220$
- Shipper B share of overrun = 77.3 GWh
- Shipper C share of overrun = 92.7 GWh

What charges should apply?

- Will there be different charges for different products?
 - Bundling of products at the IPs
 - Reserve prices for bundled products will be set by reference to the individual reserve prices for the capacity products e.g. Bundled RP = NTS Entry RP + IUK Exit RP
 - Revenues from sale of bundled capacity will be split between the TSO's in accordance with an agreed methodology (default = 50:50 split)
- Is it important in relation to overruns?
 - Not particularly as a capacity price can be derived from the bundled capacity sale:
 - a) Could use the NTS Entry derived price,; or
 - b) The total bundled price
- Could still use current UNC methodology for setting overrun price based on prices experienced at the Bacton ASEP

“The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

 - (a) $(8 * A)$, where 'A' is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following an invitation under paragraphs 2.2,2.3 and 2.4; and*
 - (b) $(1.1 * B)$, where 'B' is the relevant average accepted offer price;*
 - (c) $(1.1 * C)$, where 'C' is the relevant average accepted forward price;*
 - (d) $(1.1 * D)$, where 'D' is the relevant average accepted exercise price; and*
 - (e) $(1.1 * E)$, where 'E' is the highest unit price accepted by National Grid NTS*

where (a), (b), (c), (d) and (e) are calculated by reference to information available to National Grid NTS at 02:00 hours on the relevant Day.”

 - Where price could be set by reference to bundled or derived NTS Entry price at IPs.

Issues

- The aggregate booking approach may lead to even greater “under-booking” particularly in relation to UKCS entry capacity
 - Underbooking at the IPs is less likely given bundled nature of products although dependent upon the interconnectors’ rules for access (codes) e.g. no firm “bundled” capacity, no exit from interconnector
- Is there potential for shippers to book “cheaper” UKCS entry capacity and effectively transfer it across to IPs by use of overruns?
 - Theoretically yes, but as above depends on rules of access for interconnectors
- Is there an argument that because of changing nature of the entry capacity product bought by Users that they should be able to exit the commitments?
 - For discussion