



CAP166

Transmission Access Review

Long-term entry capacity auctions

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Original Amendment Proposal 1

Defect

- ◆ New Users have to wait for access even if they value it more highly than incumbents

Principles

- ◆ All long-term access rights allocated by auction
 - All existing rights withdrawn and reallocated by this process
- ◆ All long-term access identified by zone and auctioned annually in annual (financial year) blocks
- ◆ Pay as bid
- ◆ Reserve price based on TNUoS Charging Methodology
- ◆ Successful bookings underpinned with liability to pay
 - Financial security also required
- ◆ Incremental capacity released when regulatory test is met
 - Separate Incremental Capacity Release Methodology required
- ◆ Auction for “wider” transmission access rights only
 - Separate arrangements for “local” transmission access rights

Original Amendment Proposal 2

Process

- ◆ Allocation of local transmission access rights
 - Local Capacity Nomination (LCN) for existing Users set at level of TEC
 - For new applicants, “earliest” and “backstop” LCN dates established
 - “Final” LCN date dependent on result of wider auction
 - Local access constraints reflected in auction

- ◆ Allocation of wider transmission access rights
 - GBSO publishes:
 - Zonal baselines – based on SQSS (including any derogations against SQSS)
 - Previously sold
 - LCNs
 - Reserve Prices – based on TNUoS Charging Methodology
 - ICRM
 - First round
 - Users bid capacity and price for each future (whole financial) year in which they want long-term transmission access rights
 - GBSO publishes allocations and incremental capacity released
 - Further rounds until allocation changes between two successive rounds are acceptably low

Original Amendment Proposal 3

Securities

- ◆ Pre-commissioning
 - Local only
- ◆ Post-commissioning
 - Local, wider & residual

Incremental Capacity Release

- ◆ Incremental capacity released if NPV of additional revenue > 50% transmission reinforcement cost

Revenue Recovery

- ◆ Difference between auction revenue and 27% Transmission Companies' maximum allowed revenue recovered from all generation Users

Working Group Discussions (Price auction)

Nature and definition of rights

- ◆ As now, but
 - Rights allocated by auction (rather than first come first served)
 - Rights will apply for a defined period
 - Split of local and wider rights
 - Generic commitment
- ◆ WG agreed that nodal definition of right more appropriate than zonal

Auction objectives

- ◆ Proposed high level objectives
 - Allow parties to signal volume and price
 - Treat baseline and incremental capacity on a consistent basis
 - Parties booking long-term rights should at least pay cost-reflective charge
- ◆ Means by which network analysis is incorporated is critical

Working Group Discussions (Price auction)

Auction design

- ◆ Network analysis
 - Zonal
 - Nodal loadflow
 - Boundary constraint

- ◆ Baseline & incremental capacity
 - Separate auctions
 - Same auction

- ◆ Definition of baseline capacity
 - Current long-term access rights
 - SQSS compliance
 - Physical boundary capability

- ◆ Incremental capacity
 - Constraints
 - Risk sharing
 - Multiple years
 - Complexity

Working Group Discussions (Price auction)

Auction design

- ◆ Pricing
 - Pay as bid
 - Cleared (or marginal) price
- ◆ Reserve price
 - Signals based on new
 - Signals based on new and existing
- ◆ Static or dynamic
 - One round
 - Multiple rounds
 - Maximum number of rounds
 - Stability criteria

Buy-back arrangements

- ◆ LCN
 - As now
- ◆ Access rights secured via auction
 - Due to LCN – refund
 - Constraint on wider system – compensation in BM

Working Group Discussions (Price auction)

Balancing Services

- ◆ The WG agreed that generators tendering for Balancing Services contracts would be responsible for purchasing necessary transmission access rights, short-term or long-term

Testing of the auction model

- ◆ The WG agreed the importance of testing, and were concerned about the lack of testing possible in the timescales
- ◆ Simple version of boundary constraint model tested

TO/SO interaction

- ◆ Decisions about provision of capacity made by TOs need to be considered

Governance including Auction Methodology Statement

- ◆ WG proposed that methodology statements should form part of the CUSC

Revenue Recovery

- ◆ Impact of residual revenue recovery on
 - Decisions to use short-term or long-term access
 - Decisions to take part in the auction for long-term access in a future year

Working Group Discussions (Capacity/duration auction)

Discovering the appropriate level of transmission investment

- ◆ User makes derivatives from raw products
 - Users book long-term access in auction in response to price signals
- ◆ SO makes derivatives from raw products based on additional information provided by bidder
 - Practical difficulties associated with monitoring overrun and sharing/tradability
 - Concern about incentives for conventional generators

Auction bidding process

- ◆ Descending only
 - Concern about “game of chicken”
- ◆ Ascending/descending
 - Concern about number of rounds

Working Group Discussions (Capacity/duration auction)

Buy-back

- ◆ User bids with buy-back cap to prevent short-term access price being factored into BM bid price
- ◆ Concern about BM distortion and restriction of competition
- ◆ Balancing Services tender round proposed as an alternative approach

Pro rata of long-term access rights

- ◆ Appropriate methodology agreed

Validation tests

- ◆ Concern that pro rata of long-term rights may lead to 'overbooking'
- ◆ Validation that generation construction matches long-term access right booking during the "pro-rata period" proposed as a solution

Pricing

- ◆ Further work to be completed under charging governance

Working Group Alternative Amendments (Price based)

WGAA1

- ◆ Boundary constraint
- ◆ Baseline and incremental capacity treated together
 - Baseline – SQSS, with overallocation to accommodate Scottish generators that are commissioned or due to commission in first year of auction only
 - Incremental – Delivery constraints modelled; NPV test based on 50% of UCA
- ◆ Cleared price
 - No reserve price
- ◆ Dynamic

WGAA2

- ◆ As above, with
 - Boundary reserve price functions derived from ICRP transport and tariff model
 - Reserve price function includes short-term costs caused by overallocation in Scotland
 - Incremental transmission supply function based on 8 years at or above reserve price

Working Group Alternative Amendments (Capacity/duration)

WGAA3

- ◆ Nodal or boundary constraint
 - Bids for capacity pro rated to available capacity
 - Combination of long-run and short-run price
- ◆ Baseline and incremental capacity treated together
- ◆ Administered pricing
- ◆ Dynamic

Views and representations

Working Group

- ◆ A majority of the Working Group did not support the original amendment proposal, WGAA1, WGAA2 or WGAA3
- ◆ There was no majority support for the original or any of the WGAA's as best

Working Group Consultation

- ◆ 24 responses were received
- ◆ A majority of the responses were not supportive, concerns expressed about time for development

Consultation

- ◆ 18 responses were received
- ◆ A majority of the responses were not supportive, concerns expressed about time for development

National Grid's recommendation

National Grid supports the implementation of WGAA2 and WGAA3 only

- ◆ Broadly, price and capacity based auctions give opportunity for those that value access rights the most to obtain them
 - Current baseline can frustrate new Users that value access rights higher than current holders
- ◆ Clearly defined access rights backed with liability to pay improve transmission investment signals

National Grid does not support the implementation of the Original or WGAA1

- ◆ Original based on separate auctions for zonal capacity and does not cope well with significant anticipated zonal interactions
- ◆ WGAA1 is boundary based, but combination of overallocation of physical system capability and lack of reserve price is inefficient

In National Grid's view, both WGAA2 and WGAA3 require further development

- ◆ SO Long Term Release Methodology
- ◆ Auction model and IS
- ◆ Charging amendments

Future work on securities may also be required

CAP166 Implementation Date

Amendment Report: Paragraph 7.2

- ◆ The Working Group proposes that CAP166 should be implemented on a 1st April at least eighteen months after an Authority decision.
- ◆ The 1st April date is driven by the annual charges for entry capacity, which apply from the 1st April each year
- ◆ Prior to the first such 1st April there needs to be a transitional process to establish LCN for each Power Station
- ◆ This results in the latest such date Authority decision in advance of the 1st December, 16 months prior to the 1st April “Go-Live” date

Implementation Date in Amendment Report open-ended

CAP166 Implementation Date

