

Capacity Pricing Mechanism Methodology Statement

Purpose of this document

This document provides a description of the mechanism by which The Company will offer Long Term access (LTA) for sale via the Long Term allocation process (“The Capacity Pricing Mechanism”).

It also describes the methodology that The Company will use to determine whether to release LTA to Users primarily in the unconstrained period i.e. beyond investment lead times and details the circumstances when The Company will accept applications for incremental LTA from Users, including the level of financial commitment required from Users to underpin such an application.

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General Information

Background

1. The working assumption is that this document will be incorporated into the CUSC and governed by the processes of the CUSC.
2. Definitions used within this document will be as per the CUSC.

The Company's Obligations

3. This section to be completed once the obligations are fully understood and funding arrangements are established such that if The Company takes on increased obligations to release capacity there is appropriate extra funding.

Chapter 1 - Principles

Purpose of the Methodology Statement

4. The purpose of this document is to provide a description of the mechanism by which The Company will offer Long Term access (LTA) for sale via the Long Term Allocation Process (“The Capacity Pricing Mechanism”).
5. It also describes the methodology that The Company will use to determine how to provide LTA to Users and details how The Company will determine to release incremental boundary capacity which will impact on Users’ charges.

Summary of the methodology underlying the Capacity Pricing Mechanism

6. The following provides a brief overview of the tasks which will take place as part of the allocation process:
 - Establish the physical circuit and boundary limits which will define the system capability at each of the [demand levels] considered (*this could be just winter peak or may be more points?*), based on credible contingencies detailed in the SQSS;
 - Establish demand applicable to each of the boundaries;
 - Establish the maximum baseline and incremental capacity that is available at each [demand level] for each boundary for each year;
 - Provide Users with a mapping of each Node to the boundaries and physical circuit and boundary limits which will affect the resultant prices from the Capacity Pricing Mechanism Model;
 - It should be noted that the baseline capacity at the England-Scotland boundary will be set to physical capability, i.e. it will **not** include any assumptions to account for the the BETTA transition arrangements;
 - Publish the market information covering baseline capacity at each of the [demand levels] at the boundaries and the incremental capacity for each year;
 - Invite bids for capacity at each of the Nodes for each of the years;
 - Run the Capacity Pricing Mechanism to allow Users’ bids to be satisfied in full;
 - Calculate the prices associated with satisfying Users’ bids in accordance with the Charging Methodology;
 - Publish the results of each Capacity Pricing Mechanism round promptly to the market and allow for revision (between rounds) of volume, duration, [load duration/load factor] and/or submitted buy-back collar prices;
 - Revision of Capacity Pricing Mechanism bid information is allowed until no further movement takes place;

Chapter 2 – Capacity Pricing Mechanism

Introduction and the product being offered for sale

7. This document considers the allocation of LTA at a particular Node in any Financial Year and the resultant prices to be charged.
8. A User shall apply for LTA at a Node as part of the Capacity Pricing Mechanism, but the rationale surrounding the release of LTA will be made by reference to the availability of Boundary Capability at the various Boundaries on the System in accordance with the methodology outlined within Chapter [3] of this document.
9. By submitting a bid as part of the Capacity Pricing Mechanism for LTA at a Node for a particular Financial Year, a User agrees to pay by way of [LTA Charges] the resultant price(s) for the LTA allocated in accordance with this Chapter for the relevant Financial Year and shall be bound by the other bid parameters provided such as the [load duration/load factor] and/or buy-back collar. If a User decides to generate above the level of LTA requested, then the User will be subject to the prevailing ex-post overrun charge (in £/MWh) determined in accordance with the [Charging Methodology].
10. In respect of a Boundary and in relation to each day of a particular Financial Year:
 - (a) Baseline Boundary Capability is the amount of Boundary Capability which The Company is required to make available to Users pursuant to [either the Licence or the CUSC];
 - (b) Incremental Boundary Capability is the amount of Boundary Capability (if any) in excess of the Unsold Boundary Capability for which The Company has received User commitment for in accordance with Chapter [3] of this document; and
 - (c) Unsold Boundary Capability is the amount of Boundary Capability that The Company still has an obligation to make available as at the time of issuing the LTA invitation.

Annual Capacity Pricing Mechanism Invitation Process

11. Users may not apply for LTA in any Financial Year unless they have a valid LCN offer applying for that particular Financial Year (or part thereof) in place by one Business Day prior to [15 July] immediately before the LTA invitation period.
12. Users will signal their intention to participate in the Annual Capacity Pricing Mechanism by completing an “Intention of Capacity Pricing Mechanism participation” form by [1 March] immediately before the LTA invitation period. *[This is to allow The Company to determine any reinforcements which may be needed and will be confirmed once they know if they have a valid LCN offer]*

13. By [15 July] immediately before the LTA invitation period, Users will confirm their intention to participate in the Annual Capacity Pricing Mechanism by completing a “Confirmation of Capacity Pricing Mechanism participation” form *[This firms up on the intention made above]*
14. Between 1 September and 30 October during each Financial Year, The Company will invite, and Users may make, applications for LTA in respect of each Node (the LTA invitation dates).
15. The Company will invite applications for LTA for each of the Financial Years for Financial Year + 1 to Financial Year + [20] in accordance with the LTA invitation.
16. By no later than 2 months before the first LTA invitation date in any Financial Year, The Company will issue the initial LTA invitation to Users.
17. The Company’s initial LTA invitation will specify:
 - (a) The dates on which applications pursuant to the LTA invitation may be made, which will be a period of [nn] Business Days (the LTA invitation period); *[the assumption is that this will be every other Business Day]*
 - (b) For each Boundary and in respect of each of Financial Year +1 to Financial Year + [20], the Available Boundary Capability; *[this will consist of the baseline capacity and show how the incremental capacity can ramp up over time as and when extra capacity can be offered for sale]*
 - (c) The manner in which each of the Nodes relate to the various Boundaries on the System; and
 - (d) The details of the LCN Register and the Wider Access Register.
18. By no later than 15 August immediately before the first LTA invitation date in any Financial Year, The Company will issue Users with the final LTA invitation.
19. The Company’s final LTA invitation will specify:
 - (a) The dates on which applications pursuant to the LTA invitation may be made, which will be a period of [nn] [consecutive] Business Days (the LTA invitation period); *[the assumption is that this will be every other Business Day]*
 - (b) For each Boundary and in respect of each of Financial Year +1 to Financial Year + [20], the Available Annual Boundary Capability; *[this will consist of the baseline capacity and show how the incremental capacity can ramp up over time as and when extra capacity can be offered for sale]*
 - (c) The manner in which each of the Nodes relate to the various Boundaries on the System; and
 - (d) The LCN Register and the Wider Access Register.

[the rationale behind an initial invitation and a final invitation is to take account of any referred offers for LCN]

20. The Available Boundary Capability for a Boundary is, in respect of a Financial Year during Financial Year +1 to Financial Year + [20] (inclusive), not less than the sum of:
 - (a) Unsold Boundary Capability (if any); and
 - (b) Incremental Boundary Capability (if any)
21. A User may not apply for or be registered as holding LTA at a Node in an amount less than [1 MW] (the minimum eligible amount).

Annual Capacity Pricing Mechanism Application Process

22. Users may apply for LTA for each of Financial Year + 1 to Financial Year + [20] (inclusive) in respect of a Node on each day of the LTA invitation period.
23. Each application for LTA in respect of Financial Year +1 to Financial Year + [20] (inclusive) will specify:
 - (a) The identity of the User;
 - (b) The Node at which capacity is required;
 - (c) The Financial Year(s) being applied for; and
 - (d) The amount [(not less than the minimum eligible amount)] of LTA applied for (in MW) during the Financial Year(s);
 - (e) The [load duration] to apply during the Financial Year(s); *[It is anticipated that this will be in the form of a number of hours against each of 20 'buckets' each representing 5% intervals (i.e. $0 \leq x \leq 5\%$, $5\% < x \leq 10\%$ up to $95\% < x \leq 100\%$).* and
 - (f) The Buy-back collar matrix to apply during the Financial Year(s). *[It is anticipated that this will be in the form of a buy-back collar for each of two time periods during each of two seasons (BST and GMT) throughout each year]*
24. A bid for LTA may be submitted, withdrawn or amended between 08:00 hours until 17:00 hours on each day of the LTA invitation period unless the allocation process has reached Stability (in which case the allocation has closed).
25. The Company will reject a bid for LTA submitted on a LTA invitation date if it does not comply with the requirements of this Chapter. *[this includes having a valid LCN]*
26. There will be a validation process included as part of the User posting bids to both allow them to confirm that they wish to proceed with the bids and to ensure that they know that a particular bid has been received.
27. *[There will need to be a link back to any limitations under the CUSC around bids being placed which exceed any Credit limits? Suggest The Company will write out 40 days in advance for FSLs?]*

Stability of Annual Capacity Pricing Mechanism Application Process

28. The Capacity Pricing Mechanism will close early if Stability is reached.
29. Stability is reached if at the end of any LTA invitation date (when compared to the corresponding prevailing quantities in respect of bids submitted by Users by 17:00 hours on the two immediately preceding LTA invitation dates):
- the Prices offered to each User in each Year do not both differ by more than a threshold of max (£1/kW, +/-[2.5]%) when compared to those in the previous round;
 - the amount of LTA requested by each User do not differ by +/- [5]% in three successive rounds
- [i.e. Stability can't be reached until three successive rounds of the Capacity Pricing Mechanism have stayed within the prescribed tolerances]*
30. In the event that the Capacity Pricing Mechanism has closed following Stability being reached:
- (a) The Company will not later than 20:00 on that day of the LTA invitation period notify Users that the LTA invitation period has ended; and
 - (b) Users shall not be allowed to submit and The Company will not accept any further LTA bids in respect of the LTA invitation.

Annual Capacity Pricing Mechanism Process

31. In any Financial Year, the amount of LTA allocated to a User will be the amount applied for in MW. *[Note that all Users get what they bid for – the process is all about setting the price that each User would pay for the amount of capacity they have been allocated]*
32. The price paid by each User in relation to the amount of LTA which it is registered as holding in a particular Financial Year shall be the applicable price (in £/MW) which has been determined with reference to the Actual Available Boundary Capability *[i.e. to take account of any investment which has been triggered by the bids]* for that particular Financial Year and the simulated constraint costs which have been produced from the Capacity Pricing Mechanism Model.
33. The process described in Paragraphs [31] to [32] will be repeated for each of Financial Year + 1 to Financial Year + [20] (inclusive).
34. The Actual Available Boundary Capability for each Boundary which is available to be allocated is, in respect of a Financial Year during Financial Year +1 to Financial Year + [20] (inclusive), not less than the sum of:
- (a) Unsold Boundary Capability (as is determined prior to the LTA invitation);

- (b) Any Incremental Boundary Capability (which will not exceed the Available Annual Boundary Capability in that Financial Year as published in the LTA invitation) which The Company is required to make available pursuant to the Incremental Release Methodology as described within [Chapter 3] of this document; and
- (c) [Any additional Boundary Capability which The Company in its sole discretion determines to make available to Users.]

Annual Capacity Pricing Mechanism Information Process

35. By 20:00 on each day in the LTA invitation period, The Company will calculate and notify Users of:
- (a) The price (in £/MW) which relates to the bid each User provided for each Financial Year during Financial Year + 1 to Financial Year + [20] of the prevailing bids and the relevant Node which would be allocated were the application process to close after that particular day in the LTA invitation period; *[Note that working assumption is for all information, i.e. volume, load duration and buy-back price? will be available to all Users]*
 - (b) The Actual Available Boundary Capability for each Boundary which is available to be allocated in respect of a Financial Year during Financial Year +1 to Financial Year + [20] were the application process to close after that particular day in the LTA invitation period [and an indication of the amount of Incremental Boundary Capability which would be released]; and
 - (c) An indication of the level of changes between the previous two rounds of the application process such that it would enable users to gauge the likelihood of stability being reached.
36. Once the application process has closed, The Company will, not later than [some time – depends on funding debate re provision of incremental – it is two months in the Gas regime] following the last LTA invitation date, inform each User of those bids which have been accepted and the amount of LTA which it is registered as holding for each Financial Year in respect of a Node. *[the timing of being able to confirm allocation amounts to Users depends on any limitations/restrictions in the licence]*
37. Within one Business Day after any notification under Paragraph [36] above, The Company will notify all Users of:
- (a) The bid amount (MW) and the associated price (in £/MW)] [plus the associated load duration/load factor and applicable buy-back collars] for each Financial Year during Financial Year + 1 to Financial Year + [20] of the bids and the relevant Node which were allocated; and
 - (b) The Actual Available Boundary Capability for each Boundary which was available to be allocated in respect of a Financial Year during Financial Year +1 to Financial Year + [20] [and an indication of the amount of Incremental Boundary Capability which would be released].
38. Following the Capacity Pricing Mechanism, but before the following 1 April, the successful bids will be recorded in the Users' bilateral agreements and published in the Wider Access Register.

39. [Updated Boundary Capabilities following the Capacity Pricing Mechanism would need to be recorded somewhere and published.]

Chapter 3 – Incremental release methodology

Decision making applied

40. The decision whether or not to release Incremental Boundary Capability in any Financial Year will be based on indications of Users' demand for LTA as revealed by the application process described in Chapter 2 above in conjunction with the applicable GBSQSS.