

CAP165: Transmission Access – Finite Long-term Entry Rights

CUSC Panel
25th April 2008

Overview

	CUSC	Charging Methodology	Other
Short-term	CAP161: SO release of short-term rights		
	CAP163: Entry capacity sharing		
Long term	CAP162: Entry overrun	Ex post cost reflective charge	
	CAP164: Connect and manage		
	CAP165: Finite long-term entry rights	Fixed price tariffs	
Supporting changes	CAP166: Entry capacity auctions	Auction resultant changes	Capacity release methodology
	Zonal access rights	Zoning criteria	Zonal definition methodology
	Local only applications	Local asset charging	
		/kWh residual charge	nationalgrid

“Evolutionary Change” Straw Man

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	CAP165: Finite long-term entry rights	Fixed price tariffs	
Supporting changes	CAP166: Entry capacity auctions	Auction resultant changes	Capacity release methodology
	Zonal access rights	Zoning criteria	Zonal definition methodology
	Local only applications	Local asset charging	
		/kWh residual charge	nationalgrid

Defect

- ◆ Current access arrangements do not provide certainty for TOs
 - ◆ Only 5 days' notice required for TEC decreases
 - ◆ May lead to inefficient investment signals
 - ◆ Prevents reallocation of existing capacity to new entrants
- ◆ No requirement for financial security from existing generators
- ◆ In contrast, new generators required to fully secure costs of incremental capacity required
- ◆ This provides full user commitment, but:
 - ◆ Final Sums arrangements not defined in commercial frameworks
 - ◆ Level and volatility perceived as a barrier to entry
 - ◆ Inequitable treatment compared to existing generators

Proposed Solution

- ◆ Introduction of temporally defined finite long-term entry access rights, and associated user commitment
- ◆ Existing generators would nominate the (whole financial) years for which long-term entry access rights required
- ◆ Would be underpinned by user commitment, in form of liability to pay charges and requirement for appropriate financial security
- ◆ Rights would be extended by application
- ◆ Incremental capacity would be triggered by booking a defined number of years' worth of access and providing associated user commitment (approximately 50% of the cost)
- ◆ Separate arrangements to be put in place for local infrastructure
- ◆ Account to be taken of changes to residual charge (incl security)
- ◆ Access rights to be defined on a zonal basis

Applicable Objectives and Recommendation

Objectives

- ◆ CAP165 better facilitates CUSC Applicable Objective (a) as improved investment signals would better allow development of an efficient, co-ordinated and economical transmission system
- ◆ CAP165 better facilitates CUSC Applicable Objective (b) as:
 - ◆ Equivalent user commitment required from new and existing users
 - ◆ Existing capacity could be reallocated to new entrants
 - ◆ Enhanced transparency and certainty of commitments required

Recommendation

- ◆ National Grid recommends that CAP165 should be assessed by a joint CAP165-166 Working Group, for a period of 3 months
- ◆ National Grid further recommends that certain elements of CAP165 that are common across CAP161-166 be assessed by a sub-group, for a period of 3 months

nationalgrid

CAP166: Transmission Access – Long-term Entry Capacity Auctions

CUSC Panel
25th April 2008

Overview

	CUSC	Charging Methodology	Other
Short-term	<p>CAP161: SO release of short-term rights</p> <p>CAP163: Entry capacity sharing</p> <p>CAP162: Entry overrun</p> <p>CAP164: Connect and manage</p>	<p>Ex post cost reflective charge</p>	
Long term	<p>CAP165: Finite long-term entry rights</p> <p>CAP166: Entry capacity auctions</p>	<p>Fixed price tariffs</p> <p>Auction resultant changes</p>	<p>Capacity release methodology</p>
Supporting changes	<p>Zonal access rights</p> <p>Local only applications</p>	<p>Zoning criteria</p> <p>Local asset charging</p> <p>/kWh residual charge</p>	<p>Zonal definition methodology</p> <p>nationalgrid</p>

“Capacity Auctions” Straw Man

	CUSC	Charging Methodology	Other
Short-term	CAP161: SO release of short-term rights CAP163: Entry capacity sharing		
	CAP162: Entry overrun CAP164: Connect and manage	Ex post cost reflective charge	
Long term	CAP165: Finite long-term entry rights CAP166: Entry capacity auctions	Fixed price tariffs Auction resultant changes	Capacity release methodology
	Zonal access rights Local only applications	Zoning criteria Local asset charging /kWh residual charge	Zonal definition methodology nationalgrid
Supporting changes			

Defect

- ◆ Existing generators currently have a rolling option for entry rights
- ◆ In the constrained period, new entrants have no ability to gain long-term entry rights, even if they value them more highly
 - ◆ Creates a barrier to entry
 - ◆ May compromise ability to develop an optimally economical transmission system
 - ◆ Should secondary trading be at value, when rights holder has not paid value?
- ◆ Current access arrangements do not provide certainty for TOs
 - ◆ Only 5 days' notice required for TEC decreases
 - ◆ May lead to inefficient investment signals
 - ◆ Prevents reallocation of existing capacity to future new entrants
- ◆ No requirement for financial security from existing generators
 - ◆ Insufficient user commitment when compared to new entrants

Proposed Solution

- ◆ All long-term entry access rights to the transmission system to be allocated by auction
- ◆ Entry rights would be zonal, and released in annual blocks
- ◆ Annual auctions, with capacity allocated pay as bid
- ◆ Bids underpinned by user commitment, in form of liability to pay charges and requirement for appropriate financial security
- ◆ Capacity allocated to limit of available (“baseline”) capacity
- ◆ Incremental capacity released outside of a specified period, where unfulfilled bids in excess of zonal reserve price sufficient to pass a regulatory test
 - ◆ Would be defined in a separate methodology
- ◆ Separate arrangements to be put in place for local infrastructure
- ◆ Appropriate financial security required for residual charge

Applicable Objectives and Recommendation

Objectives

- ◆ CAP166 better facilitates CUSC Applicable Objective (a) as the release of capacity at value, and the improved investment signals from long-term bookings, would better allow development of an efficient, co-ordinated and economical transmission system
- ◆ CAP166 better facilitates CUSC Applicable Objective (b) as:
 - ◆ Access rights for existing capacity would be allocated to those that valued them most
 - ◆ Reserved capacity could be reallocated after firm bookings expire
 - ◆ Enhanced transparency and certainty of commitments required

Recommendation

- ◆ National Grid recommends that CAP166 should be assessed by a joint CAP165-166 Working Group, for a period of 3 months
- ◆ National Grid further recommends that certain elements of CAP166 that are common across CAP161-166 be assessed by a sub-group, for a period of 3 months