



CAP168: Under-use and reallocation of TEC

CUSC Panel Vote 15th May

nationalgrid

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CAP168 Process

Proposed and given Urgent status at February CUSC Panel



National Grid published pre consultation 10th March – 17th March



Working Group had three meetings during March



Working Group Report presented to the 3rd April CUSC Panel



National Grid published consultation on 17th April – 1st May



Draft Amendment Report published 8th May

Defect

Significantly more demand for access than available unallocated capacity

Presently little incentive for existing transmission access right holders to release TEC

Limited ability to trade

Short notice period for plant closure

Proposal

Introduction of additional under-use charge

- ◆ Based on pre-set multiple of TNUoS
- ◆ Levied on difference between generators maximum output over 3 separate days in the year

Use-it-or-lose-it mechanism

- ◆ If under-use charges incurred for a period (e.g. 2 years), User required to return access rights to SO
 - Unless holder is able to evidence requirement to use in future or offered to sell in past

Introduction of daily, weekly and multiple year block access products

Rights could be handed back to SO to facilitate market in rights

- ◆ Interaction with CAP161 noted

Generic User commitment provisions for pre and post-commissioning generators

- ◆ Similarities with CAP165 noted

Developed CAP168 Original

Feasibility Test

- ◆ Removal of TEC which has not been used in the long-term if feasibility test failed
- ◆ Feasibility test based on maximum annual output
- ◆ Feasibility test failed if User could not demonstrate their TEC has been used (or assigned to another User) in the previous 2 years or 3 in the previous 5 years

Firm Weekly TEC Notification

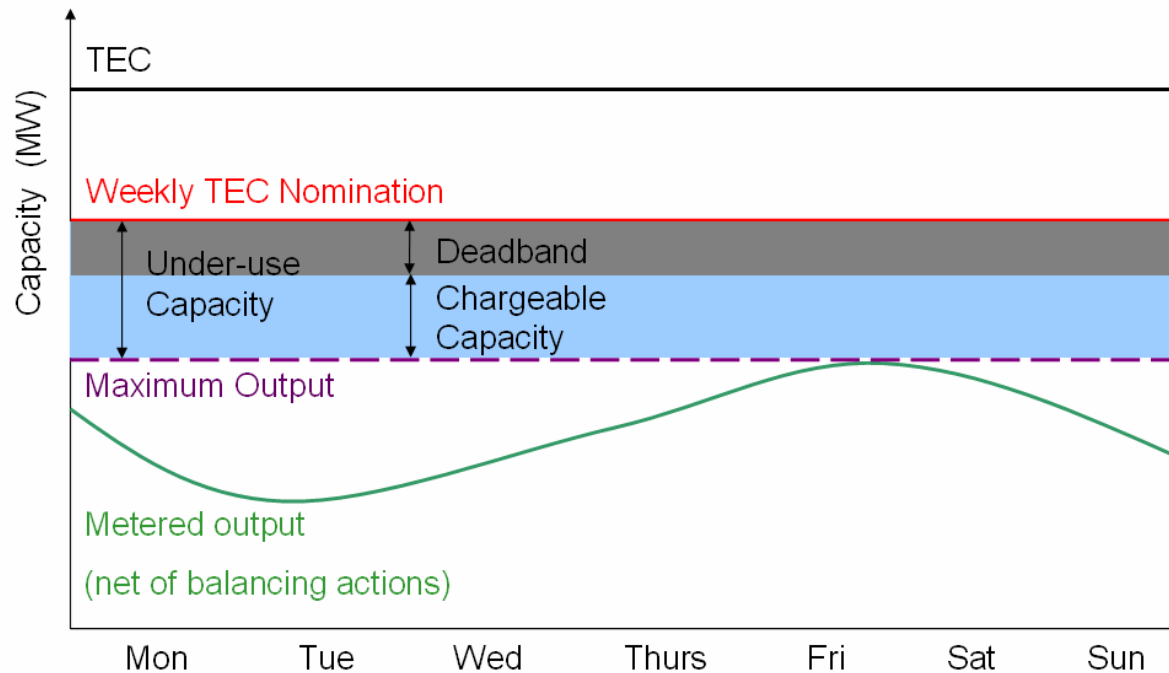
- ◆ TEC holders are required to provide a firm weekly TEC Notification five weeks ahead (in-line with CAP161 “SO release of short-term access” timescales)
- ◆ Notification of maximum output in any one settlement period during the week

TEC Trading Arrangements

- ◆ CAPs 161, 162 and 163 would need to be approved alongside this amendment

Developed CAP168 Original – Under and Over-use

Under and Over-use



- ◆ Charges would be in addition to TNUoS
- ◆ Working Group put forward charge of 10p/kW/week
- ◆ Deadband – the greater of 5MW or 10% of TEC

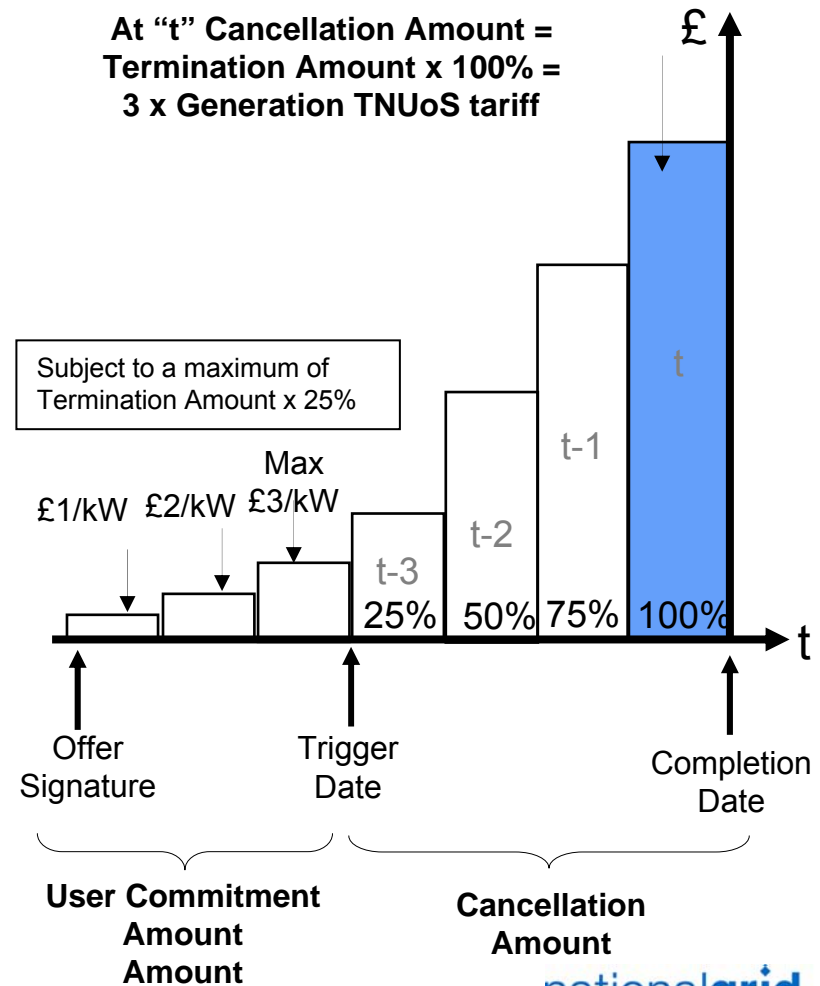
Developed CAP168 Original – User Commitment

Pre-commissioning User Commitment

- ◆ Based on CAP165 profile
- ◆ Termination Amount 3 x TNUoS
- ◆ Liabilities and securities same

Post Commissioning User Commitment

- ◆ Two years notice period
- ◆ Would be liable for Two years' worth of TNUoS in addition to the existing year
- ◆ No Security



CAP168 WGAA1

Proposed by ConocoPhillips

Same as CAP168 Original in all respects except that the dead-band for the under-use and over-use charges would be set at 5MW (not 5MW or 10% of TEC)

Having a dead band of 10% of TEC for both the under-use and over-use charge would:

- ◆ Lead to a total dead band of 20% of TEC surrounding the weekly nomination
- ◆ Disadvantage smaller Users
- ◆ Dilute the incentive to give up TEC envisaged by CAP168

Industry Views

Reponses to the Company Consultation - Eleven responses received

- ◆ One supportive of WGAA1
 - Removes TEC from parties which cannot or will not use it
 - Incentivises Users to release TEC in medium term
 - Stimulates secondary trading

- ◆ Ten unsupportive
 - Penalises less predictable generators
 - Incentivises Users to avoid penalties through inefficient operation
 - Will impact on the short tem liquidity of the energy market
 - There may be a legitimate reason why a User holds TEC they have not used
 - Users are already incentivised to book the correct level of TEC through TNUoS charges
 - Under/Over-use charge does not have a cost reflective basis

- ◆ Several respondents were concerned about the short time the Working Group had to develop and assess the amendment

Industry Views

Results of the Working Group vote:

Proposal	Better	Not Better	Abstained
Original	0	13	1
WGAA1	1	11	2

National Grid's View

- ◆ National Grid recommends that the Original Proposal and WGAA1 are rejected
 - Additional charges will adjust incentives leading to inefficient decisions being made by network operators and generators
 - Whilst more accurate information on usage would have value to the system operator, it may not be efficient for generators to make firm operating decisions 5 weeks ahead
 - Introduces an inefficient burden on small parties

Proposed Implementation Date

- ◆ 1st April 2010 if decision received by 1st December 2009
- ◆ 1st April 2009 if decision received by 1st December 2010