

CUSC Amendment Proposal Form	CAP:166
<p>Title of Amendment Proposal:</p> <p>Transmission Access – Long-term Entry Capacity Auctions</p>	
<p>Description of the Proposed Amendment <i>(mandatory by proposer):</i></p> <p>It is proposed that all long-term entry access rights to the GB transmission system would be allocated by auction. Available access rights would be identified on a zonal basis, and released in annual (financial year) blocks. Auctions would be held annually, and capacity allocated on a pay as bid basis to the limit of the available (“baseline”) zonal capability. Successful bookings would be underpinned by user commitment in the form of a liability to pay the accepted bids and a consequential requirement for financial security to be put in place. This will be developed during the assessment of the proposed amendment, in accordance with the Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover.</p> <p>Outside of a specified period, incremental capacity would be released by the System Operator where any unfulfilled bids in excess of the zonal reserve price were of a level sufficient to pass a regulatory test, which would be defined under a separate Incremental Entry Capacity Release (IECR) methodology.</p> <p>The above arrangements would provide access to the wider transmission system. Separate arrangements would be put in place for infrastructure comprising generators’ local connections to the wider system, such that potential new generators could first apply for a local connection, and then have their offer held open until the next auction for wider system capacity had concluded. It is envisaged that generators’ bids for long-term entry access rights would be constrained to the sum of their prevailing contracted or offered local capacity limits in each zone. Separate arrangements for charging and security would apply for local infrastructure, and for the residual element of the entry Transmission Network Use of System (TNUoS) capacity charge, which it is proposed would be levied on a commoditised basis.</p>	
<p>Description of Issue or Defect that Proposed Amendment seeks to Address <i>(mandatory by proposer):</i></p> <p>The current entry access arrangements give existing generators a rolling option to renew their rights to access the transmission system on an annual basis. The allocation of these rights is through incumbency, so that, in the constrained period (before incremental capacity can be provided), new users have no ability to gain from the System Operator long-term access rights even if they would value them more highly than incumbents. The fact that the true value of transmission access rights cannot be discovered from the market compromises transmission licensees’ ability to develop an optimally economical system of electricity transmission, as well as creating a barrier to entry. Entry could be facilitated by improving liquidity in the trading of access rights (and separate amendments are being proposed to do so), but in order for users that are able to trade capacity to do so at value they first should have had to pay value for those rights.</p> <p>The proposed amendment also seeks to address the issue that the current arrangements, whereby generators have a rolling option, do not provide any certainty to National Grid and Transmission Owners. This uncertainty can lead to inefficient investment signals, in that the planning of incremental capacity currently can take little, if any, account of the potential future release of existing capacity currently held by incumbents. Additionally, existing generators are not required to put in place any financial security, even for the one year’s worth of charges they currently incur a liability for.</p> <p>National Grid believes that both of the above issues would be addressed through the introduction of auctions for long-term entry capacity rights. The allocation of such rights through auctions would ensure that rights were released at value, thereby facilitating the economical development of the transmission system, and reducing barriers to entry by allowing the release of capacity to those that value it most highly. The long-term booking of capacity, with associated user commitment, would also provide more efficient investment signals, thereby reducing the risk of stranding, and would facilitate the release of existing capacity to new entrants.</p>	

Impact on the CUSC (*this should be given where possible*):

The impact on the CUSC would include, but may not be limited to, changes to Sections 2 (Connection), 3 (Use of System), 6 (General Provisions) and 9 (Interconnectors). There would also be consequential changes required to Sections 11 (Interpretation and Definitions), and potentially to the CUSC Schedules and Exhibits.

Impact on Core Industry Documentation (*this should be given where possible*):

No impact on Core Industry Documentation has been identified, but it is suggested that this would be reviewed during the assessment of the proposed amendment.

Impact on Computer Systems and Processes used by CUSC Parties (*this should be given where possible*):

New processes, and potentially computer systems, would be required to participate in the auction process.

CUSC Parties' models of the financial viability of new and existing power stations and interconnectors would need to take into account the revised arrangements.

Details of any Related Modifications to Other Industry Codes (*where known*):

Related modifications to the Use of System Charging Methodology would be proposed to set zonal reserve prices for the capacity auctions. It is envisaged that these would be based on the wider locational element of the current entry (generation) TNUoS charge.

Additional modifications to the Use of System Charging Methodology would be proposed to cost reflectively charge local infrastructure (and to therefore separate this from the auctions process for recovering wider locational costs); to remove the residual element of the entry (generation) TNUoS capacity charge (and instead recover this through a commodity charge based on £/kWh); and to revise the zoning criteria, which would now apply to the zonal auction reserve prices. It is proposed that such zones would be set by reference to a zonal definition methodology which would be described in a separate statement.

Further, a mechanism would need to be implemented in the Use of System Charging Methodology to resolve any under- or over-recoveries of auction revenues. It is anticipated that this would be through the commoditised residual charge, although further mechanisms may be required to accommodate potential extreme scenarios.

Changes to National Grid's Transmission Licence would be required to give effect to the IECR, the zonal definition methodology, and to define zonal baseline capacities. Additionally, alterations to the Transmission Owner revenue restriction, potentially in the form of additional incentive schemes, might be implemented. Changes to the licences of the other Transmission Licensees may also be required to define zonal baseline capacities and introduce additional incentive schemes.

Amendments to the System Operator – Transmission Owner Code (STC) might be required to ensure that the release of incremental capacity in Scotland was in line with the IECR. Additional STC changes may be required to “back-off” any other changes to National Grid's User facing obligations.

Changes to the GB Security and Quality of Supply Standards (SQSS) are likely to be required, due to the definition of access rights on a fungible zonal basis, and to accommodate the release of incremental capacity under the IECR.

Justification for Proposed Amendment with Reference to Applicable CUSC Objectives** (*mandatory by proposer*):

The proposed amendment would better facilitate the achievement of Applicable CUSC Objective (a), the efficient discharge by the licensee of the obligations imposed upon it under the Act and by the licence, in that the release of capacity at value, together with the improved investment signals that would result from temporally defined bookings of long-term capacity, would better allow National Grid as the licensee to discharge its obligation under the Act to develop and maintain an efficient, co-ordinated and economical system of electricity transmission.

The proposed amendment would also better facilitate the achievement of Applicable CUSC Objective (b), facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity, as:

- Existing and new generators would be able to bid for existing transmission access rights on an equal basis, and such rights would be allocated to those that valued them most highly
- Existing capacity could be reallocated with certainty to new entrants as a result of the firm bookings of capacity made through the auctions process by existing generators; and
- The enhanced transparency in the commercial frameworks of required user commitments and increased certainty would address the perceived barriers to entry, thereby providing more confidence in the firmness of capacity applications, and increasing competition.

Details of Proposer: Organisation's Name:	National Grid Electricity Transmission plc
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Andrew Truswell National Grid 01926 656369 andrew.truswell@uk.ngrid.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Duncan Burt National Grid 01926 656703 duncan.burt@uk.ngrid.com
Attachments (Yes/No): No If Yes, Title and No. of pages of each Attachment:	

Notes:

1. Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the Amendments Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.
2. The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform the Proposer.

The completed form should be returned to:

Beverley Viney

Panel Secretary
Commercial Frameworks
National Grid
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Or via e-mail to: Beverley.Viney@uk.ngrid.com

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer that is a CUSC Party shall be deemed to have granted this Licence).

3. Applicable CUSC Objectives** - These are defined within the National Grid Electricity Transmission plc Licence under Section C7F, paragraph 15. Reference should be made to this section when considering a proposed amendment.