



CAP172

“Capacity Pricing Mechanism”

CUSC Panel, 3rd April 2009

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Introduction

Following the CUSC Panel decision to reject CAP171 as a valid Amendment Proposal considering it to have “substantially the same effect” as CAP166, CAP172 represents the CAP171 proposals with further justification of their differences when compared to other Pending Amendment Proposals

The detailed workings of the Amendment Proposal can be found in the slides on CAP171 presented on Monday. That content is not repeated in this presentation

CAP172 Overview

- ◆ **CAP172 proposes a Capacity Duration auction for the allocation of access rights**
- ◆ **Access Right defined by reference to a Load Duration Curve**
- ◆ **Compensation required for loss of rights and Load Duration Curve inherently linked to price at which Access Rights are offered**
- ◆ **New set of financial Securities and Liabilities**

Key Features

- ◆ **Users requiring firm priced access rights must submit:**
 - ◆ Capacity and identity of Years Access is required
 - ◆ Load Duration Curve for each year
 - ◆ Buyback Price for each year
- ◆ **Load Duration and Buyback Price are contractually binding for life of access right**
 - ◆ Output in excess of Load duration classed as Overrun
 - ◆ Buyback price forms hedge around submitted BM Bid price

Key Differences compared with Pending Amendment Proposals

◆ Definition of the Access Right

- ◆ Load duration curve offers bespoke access right at a fixed ex-ante price – an access right defined by both Capacity and Time
 - Other products only offer access right defined by Time
- ◆ Access Right means that risk moves from being one of relying on assumptions regarding other Users to one of being able to predict output
- ◆ Access Right has fixed price for entire predicted range of output – therefore more “bankable”

Key Differences compared with Pending Amendment Proposals

◆ Efficiency of Access Right Allocation

- ◆ Allows users to define a load duration curve based access right
 - Allows Users to indicate where they will not be using access rights up to their full capacity
- ◆ Even where Users cannot predict when they will be part loaded and when not, can still tender 100% Capacity for total year less predicted outage hours
- ◆ Overall more efficient allocation of rights when compared to CAP166 WGAA3

Key Differences compared with Pending Amendment Proposals

◆ Impact of Buyback Price

- ◆ Access Right priced reflective of the Users desired levels of compensation for curtailment of access
- ◆ Contractual link to grant of access right and price of curtailment
- ◆ No other Pending Amendment has these characteristics

◆ Securities

- ◆ CAP172 proposes fundamentally different securities to CAP166 et al.

Key Differences compared with Pending Amendment Proposals

◆ Overrun

- ◆ One proposed method is to calculate Overrun volume and price by reference to a re-run of the pricing algorithm
 - Again no other amendment proposes this

◆ Summary

- ◆ For the above reasons the Proposer of CAP172 believes there is clear justification that CAP172 has a different effect than any Pending Amendment Proposal