



# Operations Forum – Buy Back Options

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# Agenda

1. Buy Back Options – Background Info
2. Benefits of Options
3. Buy Back Options – Worked example
4. Acceptance of Options – Influencing Factors
5. Historical Buy Back Options - participation levels
6. Options... the Winter so far
7. Options going forwards
8. Contact info

# Buy Back Options - Background

- ◆ Buy back options form part of a suite of Entry Capacity management tools available to National Grid to mitigate against any potential entry capacity constraint risk
- ◆ National Grid invite Users to offer buy back options through a Tender Invitation Notice issued via the Joint Office and published on the Joint Office website at: <http://www.gasgovernance.com/Publications/NTSAuc/>
- ◆ Options provide National Grid with the option of buying back Users firm capacity rights
- ◆ **Key criteria defined by National Grid:**
  - ◆ Max Number of days – The maximum number of days Users may offer firm capacity for within the given period
  - ◆ Option exercise period(s) – The period(s) that National Grid would like Users to consider offering entry capacity buy back options for
  - ◆ Premium price (p/kWh/d) – unit price paid to Users on acceptance of the buy back option tender (subject to T&C's). To encourage liquidity and participation National Grid may elect for Users to set the premium price.
  - ◆ ASEP(s) – The Aggregated System Entry Points National Grid are considering to manage the risk

## Buy Back Options – Background cntd.

### ◆ Key criteria defined by the User:

- ◆ Number of days – The number of days, within the defined period, that the User wishes to offer capacity to National Grid (up to and including the maximum number of days defined by National Grid)
- ◆ Quantity – the amount of Entry Firm capacity the User is willing to offer
- ◆ ASEP(s) – the location the User wishes to offer capacity
- ◆ Premium price (p/kWh/d) – unit price payable by National Grid upon the acceptance of the option tender
- ◆ Exercise price – the price National Grid pay (p/kWh/d) upon exercising the option

# Benefits of Buy Back Options

## National Grid:

- ◆ Flexible tool to mitigate against forecast risk across a defined period prior to any actual risk manifesting.
- ◆ An efficient means of mitigating risk, compared with operational “on the day” entry capacity buy backs.
- ◆ Provides operational clarity and certainty ahead of the Gas Day
- ◆ Helps National Grid understand the value Users place on entry capacity

## User:

- ◆ Premium price allows Users a guaranteed revenue if the tender offer is accepted
- ◆ Exercise price provides Users further revenues should National Grid elect to exercise the buy back option
- ◆ Lead time - No on the day resourcing issues to consider compared to within day constraint management actions.
- ◆ User defined number of days and limited time frame (defined within T&C's) that Users need to commit to:
  - ◆ If National Grid do not exercise any accepted options by the defined timeframes, within day, then Users entry capacity rights are preserved
  - ◆ If National Grid have exercised the option for the maximum days offered, the User is no longer committed to the option offer.

# Buy Back Options – an example

National Grid Issue an option tender invitation notice with the following criteria:

ASEP A    Max no. of days 3    Period November 2020    Premium price – set by Users

4 offers received:

Shipper	Quantity - kWh/day	Premium price p/kWh/day	Excercise Price - p/kWh/day	Number of days	Premium revenue*	Exercise revenue per day**
A	5,000,000	0.2	0.3	3	£30,000	£15,000
A	25,000,000	0.1	0.2	2	£50,000	£50,000
B	100,000,000	0.3	0.1	1	£300,000	£100,000
C	150,000,000	0	0.5	3	£0	£750,000

\*This is the revenue the User would receive should National Grid accept the offer

\*\*This is the revenue each User would receive should National Grid exercise the accepted offer in full on for one day.

Where:

**Premium revenue = no. of days \* (Quantity \* premium price)/100**

**Exercise revenue (per day) = Quantity \* exercise price/100**

# Acceptance of Options

## Factors that may influence National Grids decision to accept a tender offer:

- ◆ ASEP offered
- ◆ Total Cost of option versus forecast cost of on the day buybacks.
  - Both the premium and exercise price considered
- ◆ Risk probability of a constraint manifesting versus price and number of days offered
- ◆ Unsold levels of firm capacity at ASEP

# Historical Options Tenders

Period	ASEP(s)	Number of Shippers	number of bids	Contract type
Jan-07 to Mar-07	BA, EA	1	7	Options
Feb-07 to Mar-07	BA, EA	3	16	Options
Nov-07 to Mar-08	All ASEPs	6	22	Options
Jan-08 to Mar-08	BA, EA, HS, SF, TE, TH	9	77	forward buy backs
Jan-08 to Mar-08	BA, EA, HS, SF, TE, TH	0	0	Options
Feb-08 to Mar-08	BA, EA, HS, SF, TE, TH	0	0	Options
Dec-08 to Feb-08	BA, EA, GR, HM, HS, HT, TE, TH	0	0	Options
Dec-08 to Feb-08	All ASEPs	0	0	Options

- ◆ This table shows the participation levels in Option/forward tenders since Winter 07/08
- ◆ Noticeable decline in interest seen recently

# Option Tender Invitations this Winter

- ◆ National Grid forecast buyback risks this Winter and have thus far issued two option tender invitation notices to help manage those risks:
  - Issued Oct '08 at east coast ASEPs for the period Nov 08 to Feb 09
  - Issued Nov '08 – All ASEPs for the period Dec 08 to Feb 09
- ◆ The response has been disappointing - no offers received
- ◆ National Grid continues to believe that options are a valuable constraint management tool
- ◆ We would seek to issue a further option tender invitation notice to manage the constraint risks for the remaining period of this winter (Jan 09 – Mar 09)
- ◆ We encourage shippers to participate in this tender round
- ◆ Depending upon the response received, we may seek to review the effectiveness of options going forwards

## Contact Info

**Please contact the capacity team directly for any auction or tender questions you wish to ask:**

**E mail: [capacityauctions@uk.ngrid.com](mailto:capacityauctions@uk.ngrid.com)**

**Phone: Capacity Team 01926 655342**