

DN Interruption Reform

EOWG

17th May 2006

Content

1. Background
 - a) Why DN Interruption Reform
 - b) Past Developments
 - c) Current interruption arrangements
2. Strawman
3. Issues

Why DN Interruption Reform ?

- ♦ *Standard Special Condition D8. Reform of Distribution Network interruption arrangements*
 - ♦ *Reasonable endeavours obligation to bring forward revised interruption arrangements for implementation by 1 April 2006 [discharged]*
 - ♦ If not compliant with above paragraph then reasonable endeavours to ensure that such arrangements are implemented as soon as reasonably practicable thereafter [April 2007]
 - ♦ All DNOs have the Licence Condition
- ♦ Interaction with NTS Exit Capacity Reform
 - ♦ Trade-off DN interruption with alternative capacity products e.g. investment in DN network, buying NTS capacity

LDZ Interruption - Regime Reform

Previous Consultations

- ♦ 1998 – 99 Discussion Paper NCD1 published; Interruption Seminars; Interruption Questionnaire
- ♦ Consultation Paper PC39 – Transco Review of Interruptible Services (May 1999)
- ♦ Ofgem Decision on PC39 (July 1999) – veto of proposals
- ♦ Ofgem Review of Interruptible Services (2000)
- ♦ Discussion Paper PD15 (Nov 2001) – variable and/or flexible service
- ♦ Ofgem SO proposals (2001/2) – 15 day regime
- ♦ Transco GT Licence – Universal Firm NTS Exit (Jul 02)
- ♦ Workstream Development (Sep 02)
- ♦ Ofgem review (May/June 03)

LDZ Interruption - Regime Reform

Previous Consultations Part II

- ♦ Ofgem consultation on future exit regime for DN Sales (July 2003)
- ♦ Ofgem Next Steps (December 2003)
- ♦ Ofgem Workstream Process (Jan 2004 to date)
- ♦ Ofgem Interruptions RIA (June 2004)
- ♦ Ofgem Interruptions RIA Conclusions (Aug 2004)
- ♦ Ofgem Final RIA (Nov 2004)
- ♦ Transco announce DN sales (May 2004)
- ♦ Licence Consultation (Nov 2004)

Current Interruption Arrangements

- ♦ Interruption status is choice of shipper
- ♦ Available for daily metered loads over 200,000 therms/annum
- ♦ No choice for transporters
- ♦ Some restrictions on ability for shipper/customer to switch
- ♦ Around 1400 DN sites
- ♦ Standard contract of 45 days in a year
 - ♦ However in past most loads typically interrupted less than 45 days per year
 - ♦ Standard discount – incentive payment for >15 days

Current Interruption Arrangements

- ◆ Some loads designated Network Sensitive Loads(NSL) or TNI
 - ◆ Less than [150] NSLs nationally
 - ◆ Some sites (TNI) can be interrupted > 45 days
- ◆ NSLs (and TNIs) are areas on DN Networks with constraints
 - ◆ More likely to be interrupted, particularly in an average year
- ◆ Loads may be interrupted for supplier reasons
 - ◆ Gas supply restrictions or gas price drivers
 - ◆ Much more common than transporter interruption

Interruptible Arrangements Options

	Interruptible Rights take effect		Prices		Option/ Exercise		Interruptible Allowances		Length of Contract		Method of Sale	
	Year	3 years ahead	Market	Based on capacity charges	Option Only	Option/ Exercise	45 days	Variable e.g. 15, 30, 45 days	One year	Multi-year	Apply	Tender
Present	✓			✓	✓		✓		✓		✓	

Interruptible Arrangements Options

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	Year	3 years ahead	Market	Based on capacity charges	Option Only	Option/ Exercise	45 days	Variable 15, 30, 45 days	One year	Multi-year e.g. (1-5 yrs)	Apply	Tender
Present	✓			✓	✓		✓		✓		✓	
Strawman		✓		✓		✓		✓		✓		✓

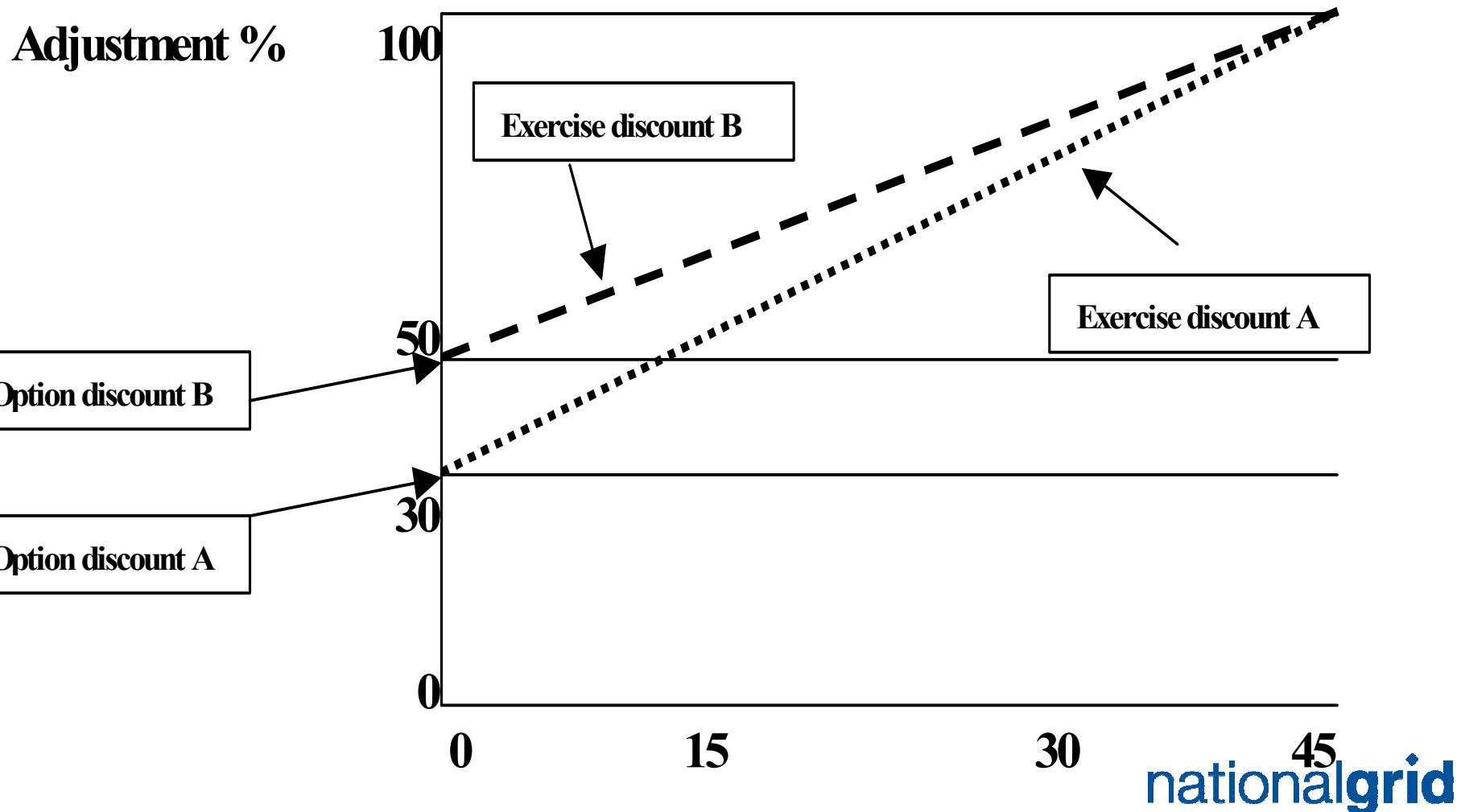
Key Principles of Strawman (1)

- ◆ Firm exit capacity booking arrangements to apply
- ◆ Firm to interruptible switching only to occur in the [annual] application process
- ◆ May need tenders with shorter leadtimes if better information obtained e.g. updated demand forecasts
- ◆ Interruption prices based on option exercise scheme
 - ◆ Option fee is upfront cost
 - ◆ Exercise fee payable on each occurrence of interruption
 - ◆ Pricing methodology to be published in the Transportation Statement
 - ◆ Shipper choice differentiates likelihood of being chosen

Key Principles of Strawman (2)



- ♦ DNs publish interruption requirements (volume) on a locational (zonal) basis
 - ♦ Interruption allowances (number of days of interruption)
 - ♦ Discounts per zone
- ♦ All DM sites (firm and interruptible) can apply for interruptible capacity
 - ♦ Shippers are able to apply for “n” days of interruption
 - ♦ [n could be 5, 15, 30, 45 for instance]
 - ♦ Shipper indicate % option discount and number of days
 - ♦ If no application then assume want to go firm (in 3 years time) + transitional interruptible terms apply in interim
- ♦ Some interruptible volume offered by DNs for multiple year [5] terms
 - ♦ Shippers can apply on a “rolling” basis ?
- ♦ Transporter can reject an application for interruptible capacity if not required
 - ♦ Site goes firm
 - ♦ Transitional arrangements required

Option and Exercise Regime



Application Acceptance

– Broad Principles

Application sequence	Option Price		Exercise Price		Exercise sequence
Accept last 	P_5	50	E_1	10	Exercise first
	P_4	40	E_2	20	
	P_3	30	E_3	30	
	P_2	20	E_4	40	
Accept first	P_1	10	E_5	50	Exercise last

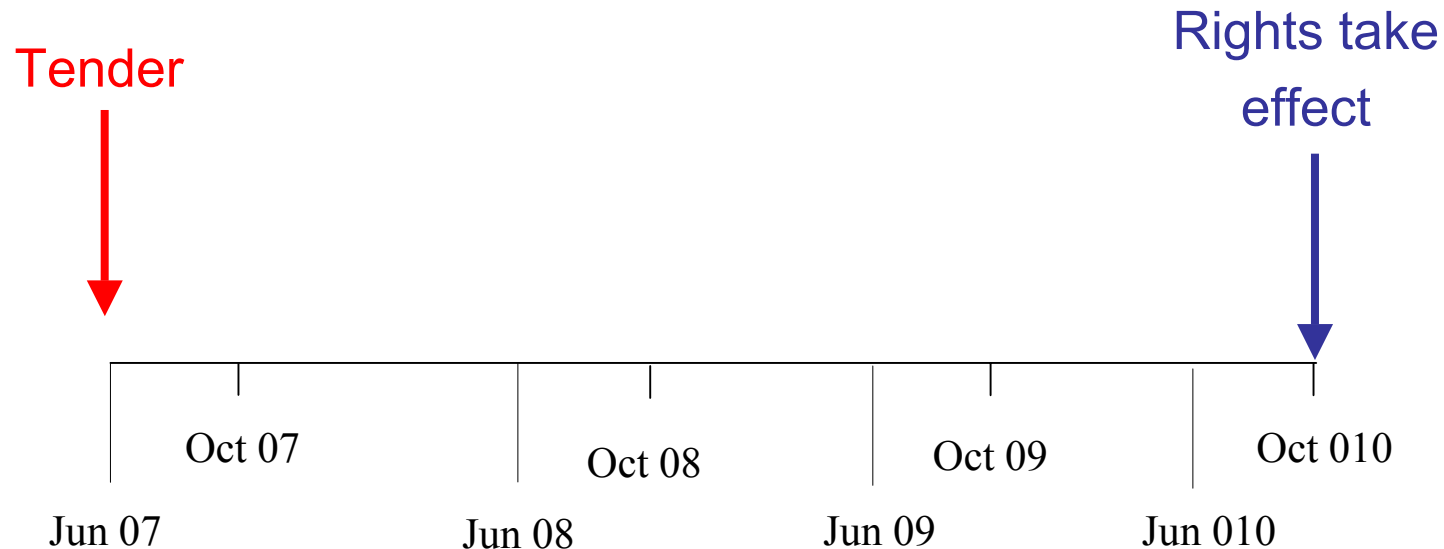
Discounts by Location (Zone)

For Illustration

Location	5 days	10 days	15 days	25 days	30 days	45 days	Comment
A	5%	10%	15%	20%	25%	30%	
B	25%	35%	40%	50%	60%	75%	
C	50%	70%	80%	100%	120%	150%	
D	100%	140%	160%	200%	240%	300%	

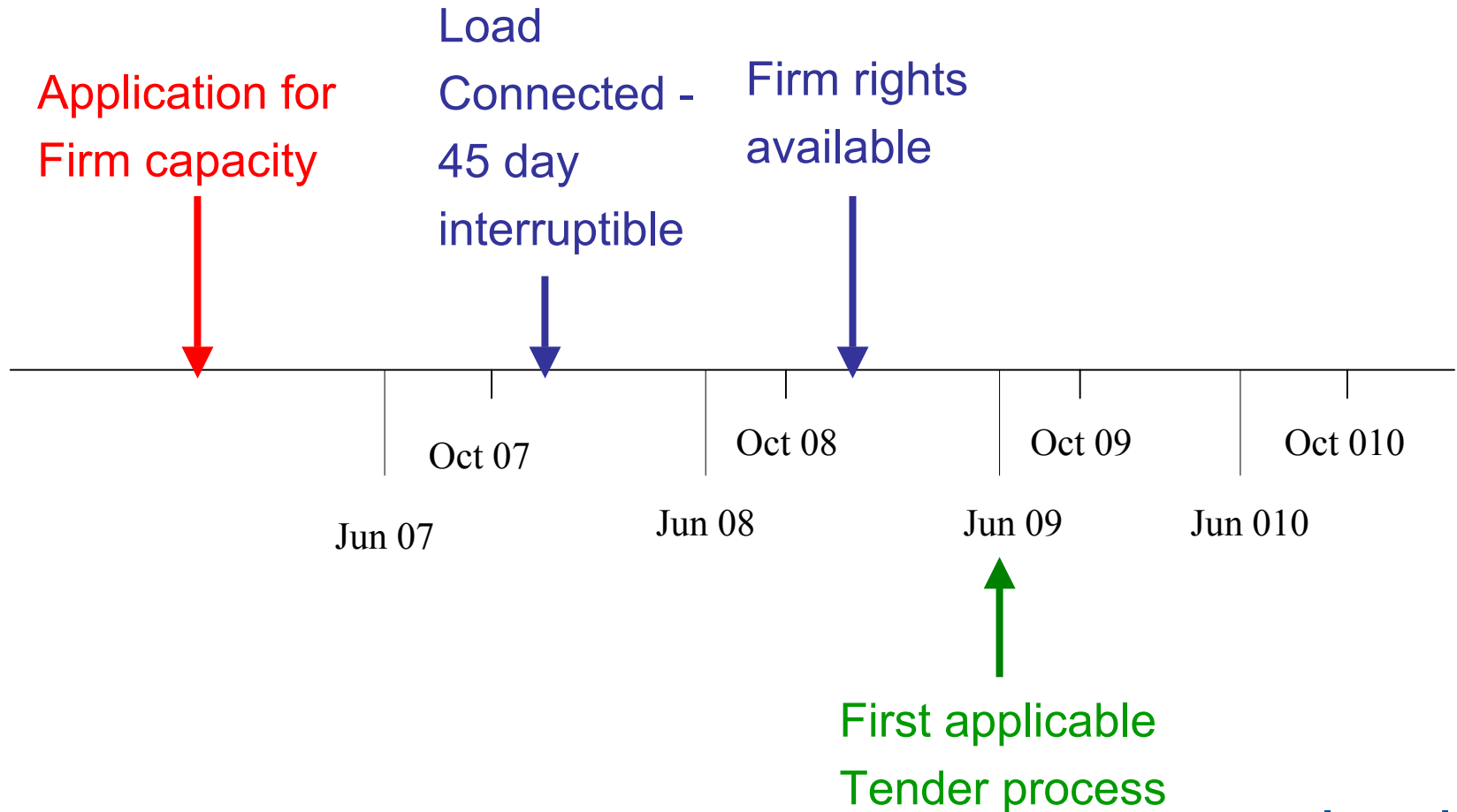
Interruptible rights take effect 3 years out

To be consistent with sale of NTS exit rights



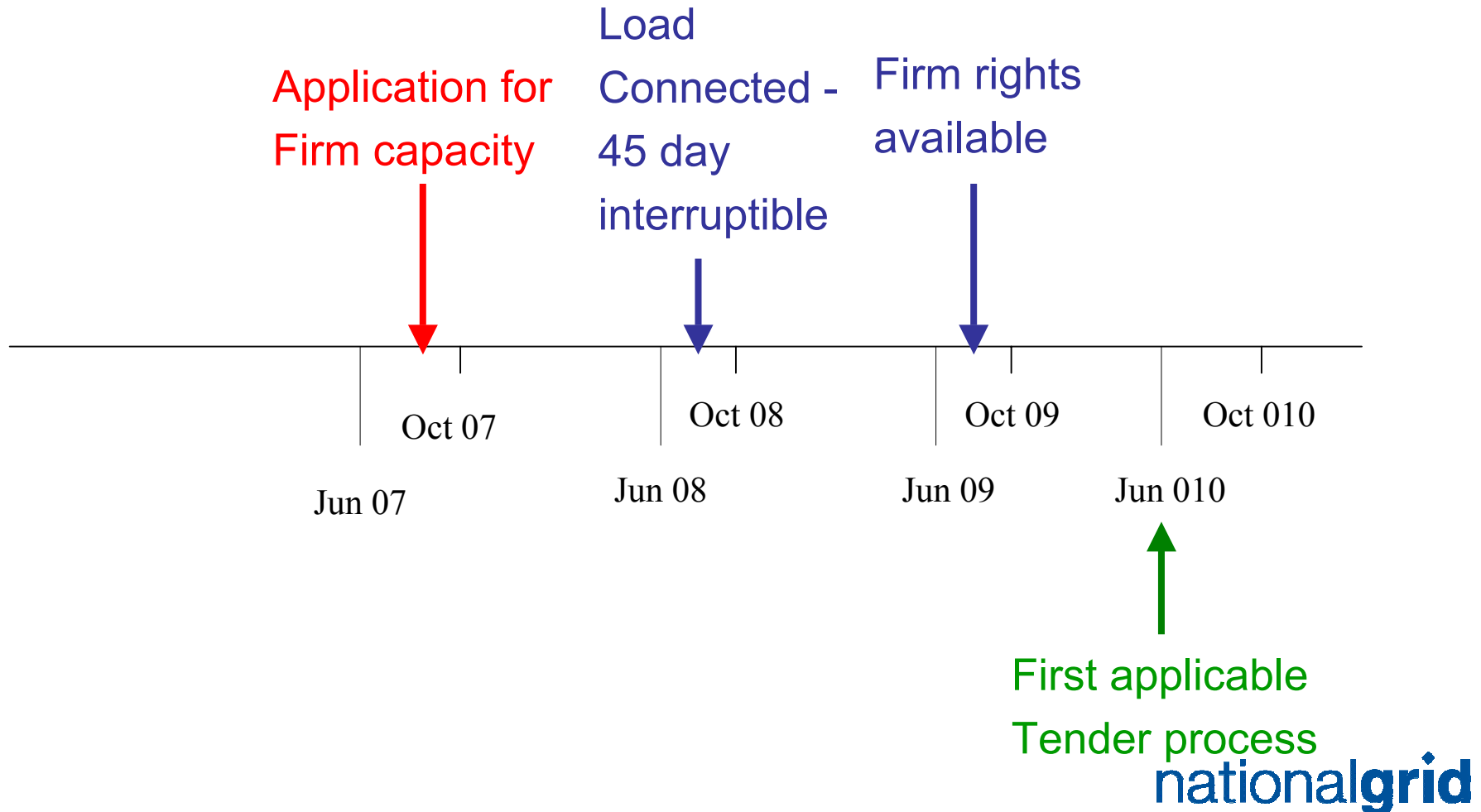
New Connections

Application for firm capacity – prior to new regime



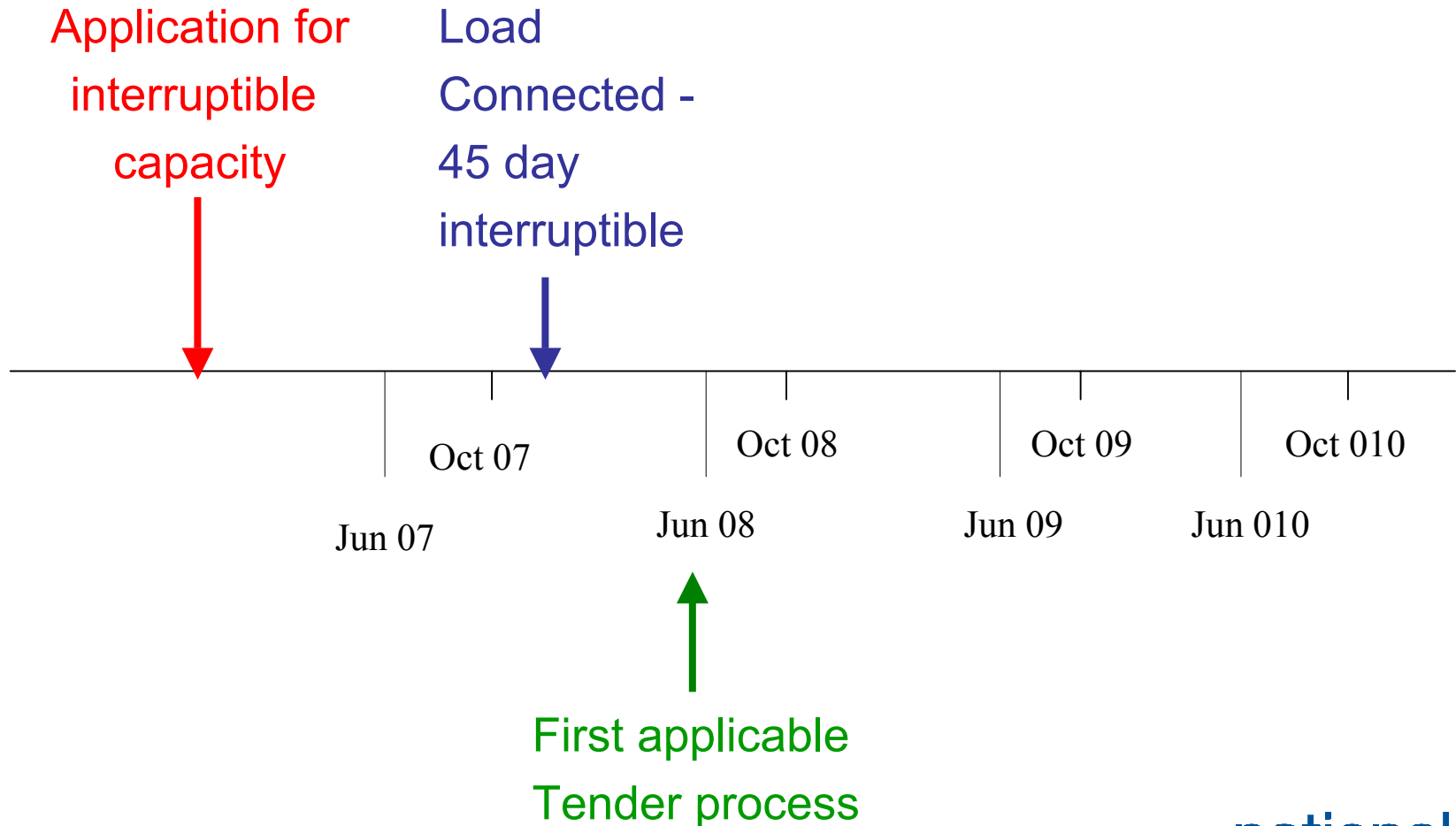
New Connections

Application for firm capacity – new regime started



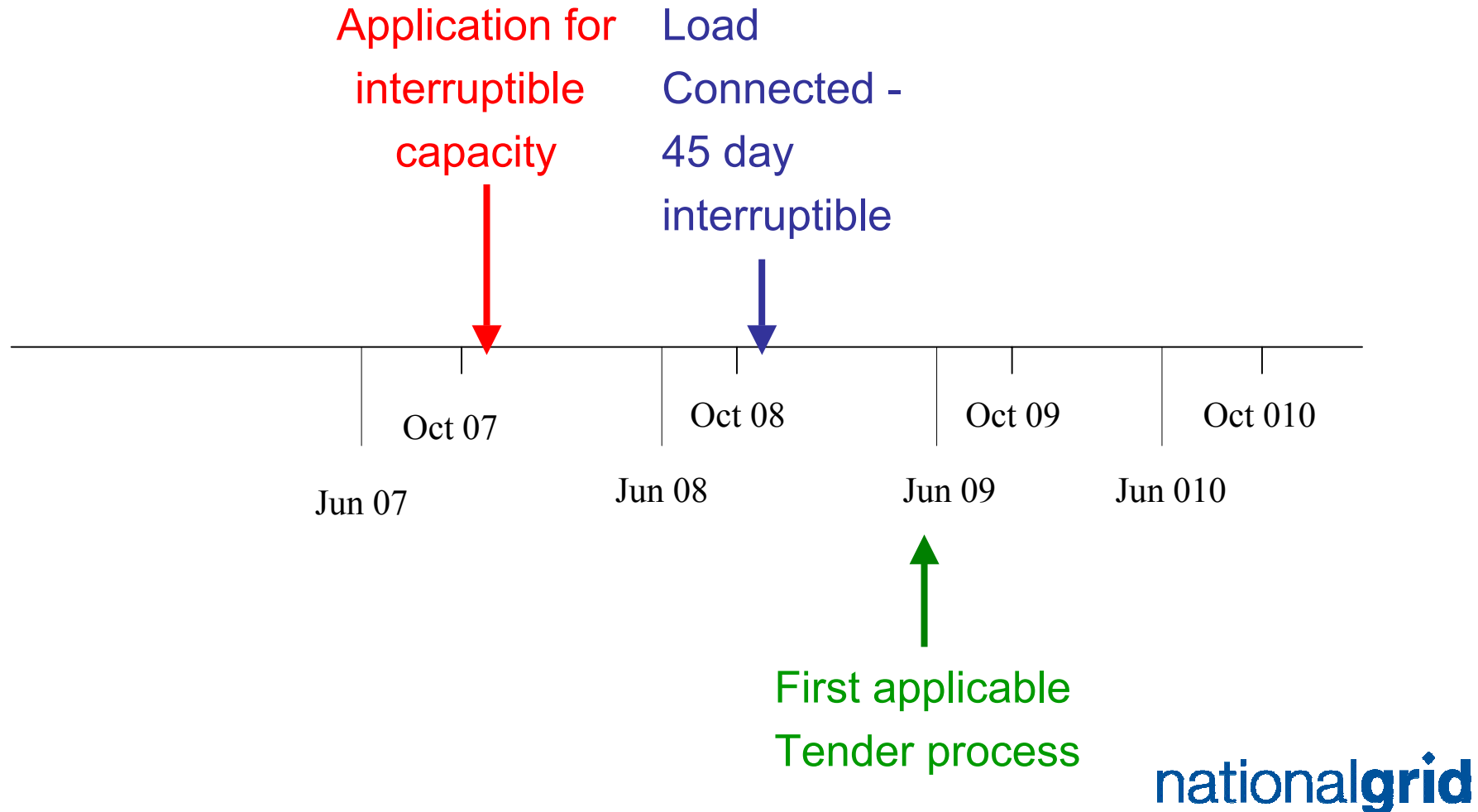
New Connections

Application for interruptible capacity – prior to new regime



New Connections

Application for interruptible capacity – new regime started



Process

- ◆ DNs publish Interruption Requirements by location (3 years ahead)
- ◆ Shippers bid for interruption rights
- ◆ DNs allocate interruption rights
- ◆ DNs bid for NTS exit capacity in UKT sale of firm NTS rights
- ◆ When DN constraint DNs call interruption based on least cost

Issues

- ♦ Challenging timetable – interaction with NTS Exit Capacity Reform
- ♦ Trade off DN Interruption with other capacity products
 - ♦ ... but NTS exit capacity bought at prevailing price ?
- ♦ Change to Capacity/Commodity split
- ♦ Simplification of process
- ♦ Transition Arrangements
- ♦ DN Safety case
- ♦ Incentives
- ♦ Systems

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