

**Development Work Group Report**  
**“Revised DN Interruption Arrangements”**  
**Modification Reference Number 0090**

Version 0.2

At the request of the Modification Panel, Development Work Group 0090 considered this Proposal. [While no consensus was reached regarding the merits of the proposal, it was accepted that it was appropriate to recommend to the Modification Panel that the Proposal is sufficiently developed to proceed to consultation. However, Work Group attendees were conscious that the UNC Modification Proposal is only one part of the package which would need to be implemented in order to fully implement revised DN interruption arrangements, and emphasised to the Transporters and Ofgem that it would be highly desirable for consultation on the various elements to proceed in parallel.]

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**1. The Modification Proposal**

The Proposal, as discussed by the Development Work Group, was as follows:

“This Proposal seeks to introduce revised DN Interruption arrangements that would allow DN Operators (DNs) to determine the quantity of interruption they require on their networks and allow Users more flexibility to request their preferred interruptible terms.

Proposed Business Rules are attached to this Proposal but essentially the key features of the Proposal, which relate solely to DN connected supply points, are:

- 1.1. The existing Firm Exit Capacity booking arrangements will not be changed.
- 1.2. The existing arrangements for requesting a switch from Interruptible to Firm will continue to apply outside the annual process described in this document.
- 1.3. Arrangements for requesting a switch from Firm to Interruptible will only be via the interruptible application process
- 1.4. Applications for Interruptible LDZ Capacity and management of Interruption will continue on an individual Supply Point basis.
- 1.5. Applications for Interruptible LDZ Capacity will occur each year, at least 3 years ahead of the applicable Gas Year, for example June 07 for the Gas Year starting October 2010.
- 1.6. DNOs will be permitted to tender for Interruptible rights in timescales shorter than three Gas Years where, for instance, demand patterns change significantly
- 1.7. Shippers will be able to register for multiple Gas Years, up to [5], Interruption terms.
- 1.8. Shippers will be able to apply for “n” maximum Days of Interruption.
- 1.9. Interruption payments by DNOs to Shippers will be based on an option and exercise scheme where the option fee will be an upfront payment and the exercise fee will be payable for each Day that Interruption was incurred. The pricing methodology will be described in each Transporter’s Transportation Charging Methodology.

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- 1.10. Each Transporter will publish its Interruption requirements on a location by location basis and offer Interruptible Exit Capacity based on a range of maximum interruptible Days, say 5, 15, 30 and 45 Days. Prices for Interruptible rights would be dependent on the permitted number of Days of Interruption. Each number of Days of interruption will attract an option/exercise scheme dependent on the pricing methodology of the relevant Transporter.
- 1.11. Shippers will be able to apply for Interruptible Capacity in respect of all DM Supply Points, both Firm and Interruptible.
- 1.12. The Transporter will be permitted to reject an application for Interruptible Capacity if the application was not required to maintain its required transportation capability.
- 1.13. New Supply Points that will be connected outside the application process and want to go Firm will be allowed to go Firm when the Capacity becomes available. Otherwise, they will be allocated the minimum number of Interruptible Days that the Transporter believed it must have available in order to ensure it could continue to meet its obligations to other Supply Points. If the User wished the Supply Point to be Interruptible then it will be allocated 45 Days of potential interruption at the appropriate option discount and will enter the next available tender process.”

**2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

**1(a) the efficient and economical operation of the pipe-line system**

This relevant objective was not expected to be impacted. The way in which sites could become interruptible and the terms of interruption may vary, but operation of the pipe-line system would be unaffected.

**1(b) so far as is consistent with (a), the co-ordinated, efficient and economical operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporter.**

This relevant objective was not expected to be impacted. However, his Proposal has the support of all the DNs. By implementing the Proposal through the UNC, similar arrangements will apply in each DN, avoid inappropriate and unnecessary fragmentation. The Work Group also reviewed this Proposal in light of current NTS Capacity booking arrangements and also in the light of Modification Proposal 0116 “Reform of the NTS Offtake Arrangements”. **1(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee’s obligations under this licence**

Implementation of this Proposal is consistent with the efficient discharge of the licensee’s obligations with respect to reviewing the way in which DN exit capacity is booked and paid for.

In the Proposer’s view, “this Proposal takes account of developments in the transportation business.”

The Proposer suggested that, “implementation would enable DNs to determine the quantity of Interruption that they require to meet their 1 in 20 licence obligation and Users to indicate their preferred terms of Interruption. This

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would allow the DNs to make informed decisions about investment in their networks” Hence implementation would facilitate the discharge of licence obligations with respect to the economic and efficient development of DN systems.

Whilst it was acknowledged that implementation of the Proposal would provides an opportunity for the true value of interruption to be revealed, it was also recognised that the market response may be limited such that the true value may not in fact be revealed. The existence of market power on the part of suppliers of interruption services could mean that offers in some locations may not be cost reflective and the incentivised DN response may be to invest beyond the truly economic level. Equally some were concerned that the potential costs of developing processes to actively value and offer interruption services to the DNs may exceed the perceived benefits. With limited participation, investment beyond the economically efficient level may be incentivised.

[consider relevance of objectives set out in Proposal, presentations and Ofgem documents]

**1(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:**

**(i) between relevant Shippers**

The Proposer suggested that, “implementation would facilitate the securing of effective competition between Shippers by allowing Shippers to bid for the Interruptible rights for their Supply Points.”

Some Work Group members believed that lack of transparency of Interruptible terms might inhibit the transfer of Supply Points, giving the incumbent Shipper a competitive advantage. However, the view of the Consumer representatives was that such terms should be disclosed only if the customer consented, as this would potentially reveal confidential terms between Shipper/supplier and customer. It was recognised, therefore, that individual consumers could manage this impact through their own decisions with regard to revealing information to potential Suppliers.

Work Group members also suggested that the additional cost and risk burden associated with implementing the Proposal could discourage Shippers from actively competing in a segment of the market, and would discourage market entry. Hence implementation could be expected to diminish competition between Relevant Shippers and between Relevant Suppliers.

**(ii) between relevant suppliers;**

See above.

**and/or**

**(iii) between DN operators (who have entered into transportation arrangements with relevant gas Transporters) and relevant shippers.**

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It was suggested that implementation may reveal information about different approaches to managing interruption by each DN, thereby providing increased comparative competition.

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**1(e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards ... are satisfied as respects the availability of gas to their domestic customers;**

The Work Group did not believe this Relevant Objective would be impacted were the Proposal to be implemented.

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**1(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of...the uniform network code.**

No cost estimates were available to the Work Group with regard to the initial implementation of the Proposal nor the continuing operating costs. Some increases were expected as the arrangements would be more complex than existing arrangements, increasing administration costs with more choice and discretion open to Shippers and DNs. However, simplification of some of the existing processes would provide offsetting savings.

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**3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

The Proposer did not “believe this Proposal, if implemented, would adversely impact security of supply, operation of the Total System, or industry fragmentation.” By implementing the Proposal through the UNC, common arrangements would be provided in each DN, avoiding inappropriate and unnecessary industry fragmentation.

The Work Group recognised that if implementation led to a reduction in interruptible quantities available there would be more rapid progress to Stage 3 of a Network Supply Emergency. The DNs stated that they did not believe that implementation would increase the probability of proceeding to Stage 4.

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**4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

**a) implications for operation of the System:**

The Proposer did not “believe this Proposal, if implemented, would adversely affect the operation of the System.”

**b) development and capital cost and operating cost implications:**

The Proposer believed “this Proposal, if implemented, would not have any capital cost or operating cost implications outside the Transporters’ incentive revenue.” Implementation of the Proposal would be expected to facilitate the efficient trade-off of capital and operating costs, providing information regarding the economic and efficient level of costs.

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**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

In the Proposer’s view, “any additional costs would be recovered through application of the Transporters charging methodology.” It was accepted that any change to the level of costs recovered – whether higher or lower – should be

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managed through the established price control processes. It was also recognised that additional cost recovery mechanism may be developed in light of the incentive schemes being developed outside, but associated with, the Proposal.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

Changes to DN charging methodologies would be needed to support implementation, and new mechanisms may be introduced to recover incentive costs. More locational and temporal variation of effective transportation charges is anticipated.

The Work Group suggested that revenue correction mechanisms may become increasingly necessary to deal with uncertainty about both allowed and collected revenue with increased reliance on market mechanisms and incentives.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

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The Proposer believed that “implementation of the Proposal would reduce the contractual risk that the DNs would be exposed by allowing the DNs the opportunity to determine the volume of Interruptible rights they require. The NTS Transporter should not be affected by this Proposal.”

**6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

The Proposer was of the opinion that, “there may be some changes required to the UK Link System if this Proposal were to be implemented. The Systems most likely to be impacted are the Sites and Meters database for recording sites with Interruptible status, SC2004 for the exercise of interruptible contracts and Invoicing 95 for payment in respect of Interruptible rights. A new system may also be required for selecting those Supply Points that are required for Interruption and this might be dependent on each DN’s selection (pricing) methodology.”

Whilst related computer systems of Users will be affected by implementation, this is dependent on the precise nature of the regime which is implemented and hence no quantification of the impact was available to the Work Group.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

The Proposer stated, “nothing has been brought to the attention of the Proposer to suggest that Users would incur additional costs or risks under the Uniform Network Code as a result of implementing the Proposal.”

The Work Group members have highlighted the level and duration of commitment that implementation might generate and the consequential effect on Users’ risks. {User views welcome on development of the points below, raised during Work Group discussions}

Increases lead time which intrinsically increases contractual risk for Users.

More complex arrangements for Users to manage over prolonged periods of time – higher administration costs.

Blurs Supplier/Shipper boundary as dealing with a site may not supply in 3 year’s time

Risk from very high proposed FTI charges.

Credit management and risk increase – quoting eight years out (five year contract starting in three years).

Provides opportunity to develop innovative and flexible contracts.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

Consumers would be able to reveal and benefit from the true value of being interruptible. However, they may be inhibited from offering Interruption if they perceive the regime to be complex or if implementation reduces what are perceived already to be small incentives to accept Interruptible status.

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**9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

Implementation would require establishment of new contractual arrangements between DNs and Users. These would be expected to be reflected in the contracts between Users and their customers.

Safety case would have to be rewritten – time constraint and risk. Ability to demonstrate compliance with 1:20 and emergency requirements is necessary.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

It was the Proposer’s belief that, “implementation of this Proposal:

- would enable DN Interruption Reform to proceed in a timely fashion
- would enable DNs to determine the volume of Interruption they require
- would enable Users flexibility in the Interruption allowance they require
- would provide DNs with the appropriate market signals to invest in their networks.”
- More equitable treatment of all Users

**Disadvantages**

In the Proposer’s view, “the DNs do not believe there any disadvantages of the Proposal although some participants may argue with the timing of the Proposal if they believe that DN Interruption Reform should be linked to the timescales for NTS Exit Capacity Reform.”

Customer’s stranded assets

Emergency problem – less load available in Stage 1

**11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Work Group Report)**

No written representations had been received by the end of the consultation period (16 August 2006).

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**12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

No such requirement has been established.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Whilst implementation of this Proposal is not required to reflect any current change in the methodology, the Work Group acknowledged that such changes would form part of the total regime.

**14. Programme for works required as a consequence of implementing the Modification Proposal**

The Work Group identified changes at a high level to processes and systems for both DNs and Users.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

The Proposer suggested adoption of the following timetable:

Modification Panel agree consultation timetable	19/10/2006
DMR issued for consultation	26/10/2006
Close out of representations (15 days)	16/11/2006
FMR issued to Joint Office (15 days)	07/12/2006
Modification Panel decide upon recommendation	21/12/2006
Ofgem decision expected	<u>January 2007</u>
<u>Implementation date</u>	<u>1 April 2007</u>

The Work Group emphasised the importance of all linked consultation periods being aligned in order to allow considered responses and consideration of the proposed changes in the round.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications were identified.

**17. Development Work Group recommendation regarding progress of this Modification Proposal**

The Work Group believes that this Proposal is sufficiently developed to be issued for consultation and that a consultation period that reflects any Ofgem licence consultation would be preferable.

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