



Mr. Julian Majdanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ
enquiries@gasgovernance.com

30 November 2006

Dear Julian,

Re: Modification Proposals 0090: “Revised DN Interruption Arrangements”

The Association of Electricity Producers welcomes the opportunity to comment on this modification proposal.

The Association of Electricity Producers (AEP) is the UK trade association representing electricity generators. It has some 90 members ranging from small firms to large, well-known PLCs. Between them they represent at least 90 per cent of the transmission connected generating capacity and they embrace nearly every generating technology used in the UK. Many member companies have interests in the production and development of renewable energy where the government has set ambitious targets for development over the next decades.

Our comments are as follows:

The Association offers comments only. We are unable to support this proposal at this time as it remains unclear what pricing structure will be in place for interruptible capacity (although we note the indication towards a tender approach in the note issued on 28 November) and the fact that the industry has little knowledge of what fraction of currently interruptible capacity would no longer be required by the DNs. We are of the view that considering the modification in isolation may establish a certain view in principle which depending on the issues above and other factors could turn out to have a different outcome in practice. We also note the concerns of the NEC regarding the impact on transporter safety cases and management of emergency situations. We therefore suggest that there should be a further consultation on this proposal once there is greater clarity on the pricing structure, quantities of interruption no longer required and the impact on safety cases.

The likely volume of interruption that would be required is an important parameter, especially at the point of implementation as this is mostly likely to be a step change from the current level

with changes in future years being less significant and incremental in nature. Therefore it will be the first year that determines whether the modification is successful in furthering the relevant objectives. For example if DNs needed most of the interruptible capacity that they currently have then a beneficial outcome might be less likely than if a much smaller fraction was required. This is because we expect many sites simply to opt for firm transportation and not participate in this process. Hence the larger the fraction of existing interruption that a DN requires the less likely it is that ‘enough’ interruption will be offered to ensure that the DN does not need to undertake investment which, absent any changes, would not be required. We would expect the Ofgem’s impact assessment to more fully explore these issues, but at this stage we are not confident that this will be the case.

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

Gas Transporter Licence Standard Special Condition A11.1

(a) *the efficient and economic operation of the pipe-line system to which this licence relates;*

It is not clear that the physical operation of the pipe-line system will be affected, although there may be some impact if DNs have fewer options (as a result of having contracts with fewer sites) for interruption at the time of a constraint.

(b) *so far as is consistent with sub-paragraph (a), the coordinated, 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 transporters;*

It is not entirely apparent that this proposal will interface seamlessly with any reforms to the NTS offtake capacity arrangements such that this objective will be furthered.

(c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

It is not entirely clear that this proposal **will** support more economic and efficient development of DN networks, as stated above this will very much depend on the amount of interruption required, whether customers are willing to offer the required quantity and whether the price offered is below the investment cost. All that can be said is that the proposal **might** lead to more economic and efficient development of the networks if a number of factors have a certain outcome which is unpredictable at this stage.

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

- (i) *between relevant shippers;*
- (ii) *between relevant suppliers; and/or*

Competition between shippers / suppliers **may** be enhanced but only where the volume of interruptible capacity required falls significantly below the amount that shippers/ suppliers/ consumers are prepared to offer in a particular location. Given the limited information available on the interruption requirements and the size of the zones it is simply not possible to say this **will** enhance competition between parties offering interruption.

The complexity of the arrangements and increased risk created by longer term contracts could diminish competition.

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

(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 (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and

The Association does consider this objective is impacted by the proposal

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

The Association does consider this objective is impacted by the proposal.

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

The Association believes that implementation of this proposal will lead to DNs contracting for reduced interruptible capacity volumes than at present, although as noted above the extent to which this is the case is not public knowledge, but it is thought to be significant in some networks. If this is the case then there would be less interruptible capacity available to call at stage 1 of a network gas supply emergency. This would lead to a more rapid progression and escalation of the emergency to stage 2 & 3. Also once current interruptible sites have gone firm there would be no reason to expect them to behave differently than any other firm site in response to a request to shed firm load. Therefore based on evidence from recent emergency exercises the probability of proceeding to stage 4 of a network emergency may also be increased. We therefore consider that implementation of this proposal could have the unintended consequence of leading to a reduced level of supply security. In addition, if an interruptible site goes firm, it may permanently decommission its backup fuel system, such that its interruptible capability would not be available to the DN in the future should the requirement for interruptible capacity increase, thus further decreasing the level of supply security.

Industry fragmentation will be avoided as including these arrangements in the UNC will ensure that arrangements are common across all DNs. However variations may emerge between the DN's Interruptible Capacity Methodology statements that could be confusing to shippers and consumers.

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

a) implications for operation of the System:

b) development and capital cost and operating cost implications:

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

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

Changes to the DN charging methodology will be required, not only arising from this proposal but also to consider how NTS charges are recharged to DN customers – these must be progressed in advance of the initial requests for interruption, so that customers and shippers are aware of the cost implications. It is unfortunate that DNs have not progressed these issues further at this stage.

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

If it is the case that DNs currently have more interruption available to them than they need to meet their regulatory obligations then there is currently very little risk. This proposal will increase the risks faced by transporters as they will have to more accurately predict their interruption requirements. The risk arises if they under forecast their requirements and are unable to meet their 1-in-20 obligations or have to seek short term interruption to achieve this. There would be no guarantee that short term interruption would be available.

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

The modification will introduce additional risks for shippers as a consequence of the lead time and longer term commitment to provide interruption services.

The arrangements will be more costly to administer than the current arrangements with standard contracts – each interruptible site may have different terms / charges.

The extension of the ratchet and overrun charges to all sites as a consequence of designating all sites firm will increase the risk to shippers

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

All DN connected consumers or their shippers will pay LDZ capacity charges

Consumers will need to consider whether to participate in this process or to go firm. Those that choose to participate will need to develop approaches to consider how they would price interruptible capacity to offer it to the DN if a tender approach is adopted.

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

This will require new contracts between DNs and shippers

This will add additional complexity to customer contracts for those customers seeking interruptible status.

We expect that this will require a change to the DN safety case.

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

We have identified the following advantages:

Current interruptible customers who wish to go firm will be able to do so without being constrained by the economic test.

DNs determine the interruption they require to meet their obligations (this could also be a disadvantage as this seems to be difficult for the DNs)

Sites that are not required to be interruptible will go firm – potentially removing a cross subsidy, but only if required interruption is secured at a lower cost overall

DN charges may fall if DNs secure their interruption more cheaply than currently

We have identified the following disadvantages:

Customers will no longer be able to choose between firm or interruptible transportation, that decision will largely be made by the DN.

If participation is limited DNs may have to invest in their networks, which would not have been necessary absent these changes. DN charges may therefore rise.

Some customers who have invested in back-up fuel capability will be left with assets which now have little value to them; consequently future demand side response may be limited.

Reduced quantities of interruption will be available at stage one of a network gas emergency which will increase the likelihood of progression to stages 2 and 3

Additional cost, complexity and risk of arrangements for customers and shippers

Long lead time may dis-incentivise participation

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

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

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

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

Implications of implementing this Modification Proposal upon existing Code Standards of Service

Further Comments

Yours faithfully

Julie Cox
Association of Electricity Producers