

Julian Majdanski  
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Dear Julian

30 November 2006

Re **UNC Modification Proposal 090 – Revised DN Interruption Arrangements**

Please find below Northern Gas Networks view of the UNC Modification proposal 090

We have responded in line with the headings set out in the Modification Report for ease of assessing our representation.

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

**1 (a) the efficient and economical operation of the pipeline system**

No impact

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

Implementation of this proposal through the UNC will avoid any inappropriate and unnecessary fragmentation between transporters.

**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 will enable Networks to efficiently discharge their licence obligations with respect to how DN capacity is booked to satisfy their 1 in 20 licence obligation, but only if sufficient interruption is offered. As Users will indicate their desired interruption terms, this will allow DNs to make informed decisions about investment in its network, facilitating the discharge of licence obligations with respect to the economic and efficient development of DN systems.

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

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

Implementation of this proposal is likely to reveal information about separate approaches to interruption by DNs, thereby providing increasing comparative regulation.

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

NGN do not believe the proposal will adversely impact on security of supply. Common DN arrangements will provide the surety to prevent inappropriate industry fragmentation in this regard.

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

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

No firm estimates are available for either the initial or continuing operating costs. Some increases are expected as arrangements would be more complex than existing arrangements, increasing administrative and managerial costs with more choice being available to both Shippers and DNs. Any significant capital costs are a potential outcome of the proposal, which are being assessed outside of the UNC process.

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

It is essential that any additional costs are recovered through application of the Transporters charging methodology via the established price control process. An additional cost recovery mechanism may be developed in light of the incentive schemes being assessed alongside this Modification Proposal.

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

Changes to DN charging methodologies are anticipated to support implementation, and new mechanisms maybe introduced to recover incentive costs.

Given the uncertainty of revenue with increased reliance on tenders and incentives, consideration maybe required to support more frequent revenue correction mechanisms. The increased risk to DNs should be reflected in the allowed cost of capital.

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

Implementation of this proposal places the risk squarely with the DN which will gauge exactly what level of interruption it requires and where.

Its risk increases substantially where insufficient interruption is offered by Users or if that interruption is offered at a price above regulatory allowance or above that assumed within an incentive scheme. This risk is outside the control of a DN.

**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 of the UK Link Systems and related computer systems of each Transporter and User.**

The UK link systems most likely to be impacted are the S&M database (recording of interruptible site status) and Invoicing 95 for payments of any Interruptible rights. DNs may also require a system to select supply points required for interruption based on the tender offers received alongside interruption volumes etc.

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

The lead time for Users between negotiating a contract (2007) and its effective date (2010) was viewed as requiring administrative costs that may ultimately benefit a different shipper (given that sites can transfer between suppliers in this period) with any interruption contract criteria following the customer and being part of the incoming shippers contractual relationship.

**9. Consequences on the legislative and regulatory obligations and contractual relationship of each Transporter and each user and NON Code Party of implementing the Modification Proposal.**

Implementation will require establishment of new contractual arrangements between DNs and Users (these should be reflected in the contracts between Users and their customers).

DNs are likely to be required to demonstrate compliance with 1 in 20 and emergency requirements where necessary. This may require a resubmission of the Transporters safety case.

## **10. Advantages and Disadvantages of the proposal**

In producing this proposal the following advantages and disadvantages have been identified.

- Allows DNs to gauge the level and location where it requires Interruption within its Network.
- DNs can respond to market signals from Users who tender, better establishing true value of interruptible rights to both parties.
- Provides DNs with the appropriate market signals to invest in their networks
- Shorter term tender process allows for discreet interruptible requirements to be satisfied.
- Transitional period to 2010 on existing Interruptible terms provides for an orderly move to new arrangements.

The primary disadvantage is the inability to predict whether sufficient interruption will be offered or at what price.

NGN is mindful of other workgroup members concerns over the potential for some customers stranded assets (alternative fuel) should their interruptible bids be unsuccessful.

NGNs concerns over the interruption regime are linked to the uncertainty over the incentive regime, together with the absence of a detailed impact assessment at that date.

### **Summary**

Given these issues associated with this proposal, NGN gives its qualified support to Modification proposal 090.

Should you have any questions regarding this letter please do not hesitate to contact me.

Yours sincerely

Robert Cameron-Higgs  
Network Code Manager