

## TOTAL GAS & POWER LIMITED

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Dear Julian,

### **Modification Proposal 0090 "Revised DN Interruption Arrangements"**

Total Gas & Power Limited does not support the implementation of Modification Proposal 0090

#### **Our comments are as follows:**

##### **Summary of Representation**

The current regime enjoys the advantages of being simple to operate for both Shippers and consumers, and provides certainty on the product offered. Due in part to these advantages, the current regime has always provided adequate levels of interruption capacity in times of system constraint, whilst not granting any market participant excessive influence on the benefits derived from interruptible status.

Whilst we recognise that this modification attempts to address the perceived deficiencies of the interruption regime by allowing DNOs to signal their requirements, it also creates a significant increase in complexity and potentially a reduction in security of supply. We note the comments by User groups, that the value of interruptible status to Users (i.e. firm transportation cost avoidance) is relatively small when compared to the cost of gas itself. Furthermore, the lead-times for the tendering process, whilst compatible with system reinforcement timescales, create a further disincentive. Given these issues, we anticipate that many interruptible customers will become firm and not offer any meaningful demand side response capability.

With the potential loss of a significant amount of the interruptible population, there may be insufficient levels of interruptible capacity offered in some locations. In order to prevent this from affecting the security of the Distribution Networks, and to satisfy the agreed safety cases, the DNO will be compelled to either reinforce the network or to subsequently purchase interruption from a disadvantageous position.

In addition, the removal of Network Sensitive Loads (NSLs) and Transporter Nominated Interruptible (TNI) status may create distortions upon the market by giving undue Market Power to certain consumers. As we stated in our previous response<sup>1</sup>, any reform to the current arrangements should strike a balance between the market power of such sites, and the powers granted to DN to ensure efficient decision-making. We note that the

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<sup>1</sup> Total Gas & Power Ltd (TGP) response to initial thoughts on the reform of interruption on Gas Distribution Networks – 28 June 2006.



modification does not address these concerns and it is unclear whether these sites will be adequately treated under the Charging Methodology Statement or the Transitional Arrangements

**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;***

The removal of Network Sensitive Loads and Transporter Nominated Interruptible status from the interruptible regime will compel Distribution Network Operators to either upgrade the network to supply such sites or purchase interruptible capacity from a distressed position. Both possibilities will generate more costs than the current interruptible regime and therefore this modification is detrimental to this objective.

**(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;***

At present DNOs submit capacity requirements to NG NTS, based on the known levels of interruptible and firm capacity within their network. If both the exit and interruptible regime reforms are implemented simultaneously, then the DN will be unable to make informed decisions on the levels of exit capacity and interruption required to satisfy their safety obligations. This may lead to inefficient signals being made to the market with regard to interruptible capacity requirements.

This modification therefore does not further this relevant objective.

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

As stated above, the indications given by consumer representatives have been that the many customers currently with interruptible status will not engage in this more complex process, and will accept firm status. There is therefore a likelihood that insufficient capacity will be made available at certain locations within a Distribution Network.

As the Distribution Network Operator is obliged to procure capacity in all appropriate locations to satisfy its safety obligations, the Distribution Network Operator will be required to either upgrade the network or purchase interruptible capacity from a distressed position. Both possibilities will generate more costs than the current interruptible regime and therefore this modification is detrimental to this objective.

This modification does allow the Transporters to discharge their licence obligations imposed upon them by the Authority at the time of DN sales and to that extent will further the objective.

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

***(i) between relevant shippers;***

The current regime provides certainty that interruptible status can be obtained if desired, hence the risks and benefits are quantifiable and easy to administer. The



proposed regime removes this certainty and adds costs from participating in the bid process. It is anticipated that many interruptible customers will not participate in the tendering process.

Any reduction in the number of active parties within a market sector will reduce competition and hence this modification will have an adverse effect on this objective.

***(ii) between relevant suppliers;***

The comments made concerning the effects on competition between Shippers also applies for Suppliers.

***and/or***

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

This modification will require DNOs to devise differing strategies to manage interruption. This will have some beneficial impact through comparative regulation.

- (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***

Does not apply to this objective

- (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.***

Does not apply to this objective

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

At present the NEC is able to call upon large quantities of interruptible capacity to manage Stage One Emergencies. The revisions proposed may significantly reduce the amount of interruptible capacity available to the NEC for this purpose. This will increase the likelihood of any emergency progressing to Stage Three with customers being removed from the system involuntarily. As it will take some time, and considerable effort, to reconnect such customers the modification will have an adverse impact on the operation of the current system.

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

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

Further to our comments above, our view is that the DNO will have lower levels of interruptible capacity to utilise during a transportation constraint and therefore may be compelled to enter stage 3 emergency situations earlier than under the current regime.

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

It is anticipated that this modification will allow the DNO to make decisions on how best to



manage the network by making trade-offs between system investment and the procurement of interruption. As the amount of system reinforcement possible is constrained by resource availability, a certain level of interruption will in any event need to be purchased to satisfy safety obligations. If this interruption is not offered in all locations, then the DN will be required to make interruption purchases from a distressed position. Furthermore, the removal of the NSL and TNI status may lead to additional costs for the DNO who will either be required to invest in system upgrade for that individual site or purchase interruptible capacity at a high price.

This modification also creates additional complexity for the DNOs in that a detailed set of interruption requirements will need to be calculated in order to allow tenders to be issued. This will therefore incur additional operating costs.

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

The DNOs need to be suitably incentivised to ensure that any costs incurred are efficient and are beneficial to the industry.

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

We anticipate that the DN charging methodologies will be adjusted to take into account the new regime.

**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**

The current regime does not place any obligation on the Transporters on the level of interruption provided in managing their network, only that the interruption available is used efficiently when dealing with transportation constraints. Making the DNs responsible for determining the amount of interruption required places upon them a greater obligation to manage the process and hence increases their contractual risk.

**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**

We anticipate significant system changes to take into account the new payment flows and the changes to interruptible status.

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

The modification will create a more flexible interruptions market, which Users may wish to participate in. If a User chooses to participate there will be significant costs from devising, submitting and managing bids on behalf of the customer. Even if a User does not choose to participate in the auction process however, there will be additional costs incurred from dealing with any interruptible customers that are subsequently acquired.

Extending the Ratchet Charge and CSEP overrun regime to all customers will also increase the risk to Users that a site will incur such charges.



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

Consumers will be required to participate within an auction if they wish to secure interruptible status. This is a significant increase in requirements compared to the current simple process. It is therefore expected that some consumers will not participate.

## **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**

Any User that wishes to procure interruptible status for a site will need to enter into a separate commercial agreement with the Transporter. We anticipate that such contract would be standardised and such an arrangement easily available to ensure that no one Party had undue control over the terms of such a contract. Reviewing and agreeing to such contracts will create additional costs for both Parties.

In order to allow this modification to proceed, the Transporter will need to satisfy the Health and Safety Executive that they will still be able to manage their networks within their safety cases.

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

### **We have identified the following advantages:**

- Discharge of the Transporter's licence obligations imposed at the time of DN Sale.
- Enables DNs to signal the levels and location of interruption required.
- Provide some market signals.
- Eliminates perceived excess levels of interruption capacity.

### **We have identified the following disadvantages:**

- Increase in cost and complexity in procuring interruptible status
- Considerable lead-time between bidding for interruption and subsequent acquisition of interruptible status.
- Decrease in number and location of Consumers offering interruptible services.
- Significant increase in cost and complexity in managing Distribution Networks.
- Interaction between Interruptible reform and Exit reform not fully understood,

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



Not required for this purpose

**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**

Not required for this purpose.

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

The programme of works required to implement this modification will be significant and will include:

- Creation of an interruption tendering process by Transporters
- Shippers devising market strategies to participate within new process.
- Evaluation by consumers of the value of interruption to their business.
- Creation of a methodology statement to recover such costs.
- System adjustments to include interruption payments and revisions to interruptible process.
- Adjustments to the Transporters' safety cases.

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

Any implementation timetable should take into account the requirements for both customers and Shippers to adjust to the new process.

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

No implications identified

***Further Comments***

None

Should you wish to discuss our response further, please feel free to contact me.

Yours faithfully

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