

Gas shippers

*Promoting choice and
value for all customers*

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Dear Colleague

DN interruption reform and shipper participation

I am writing to ask for your co-operation with the ad hoc auction tender for interruptible capacity on the distribution network that was issued on Monday. I'm sure you will agree the importance of the GDNs exploring all options for obtaining interruptible capacity at an economic price before considering the alternative of network reinforcement, which will ultimately be paid for by customers.

On 15 March 2007 the Authority directed UNC 90 'Revised DN interruption arrangements' for implementation with delayed effect from 1 April 2008. The revised arrangements provide for the allocation of DN interruptible capacity at annual tender by gas distribution network operators, rather than through supply point nomination by shippers.

The first interruption tender associated with the revised arrangements took place in June 2008. On 19 August the GDNs held an industry seminar to provide industry participants with an update on the outcome of the tender. In the meeting the GDNs indicated that in some interruptible zones they had received interruptible bids of economic value, while in other zones they had not received bids sufficient to allow them to meet their interruptible requirements in an economic manner. Before considering investment in these zones, the GDNs advised industry that they intend to use their powers under the UNC to hold an ad hoc interruption tender in October 2008, in order to test whether a greater volume of interruptible capacity might be available in certain locations.

From attending this meeting Ofgem is aware that there were a number of views expressed in this meeting as regards the success of the first annual tender. In the early stages of industry change as significant as interruption reform we consider that this is in part inevitable. Nevertheless, we would like to take this opportunity to reiterate that we expect shippers to fulfil their responsibility to support the annual interruption tenders process and in circumstances where the GDNs consider it necessary, any ad hoc interruption tenders. In particular we note that Standard Condition 3 of the gas shipper licence prohibits the licensee from knowingly or recklessly pursuing any course of conduct likely to prejudice the efficient operation of the network or the due functioning of the arrangements provided for in the UNC. In the light of SLC 3, and as shippers have chosen to be the focus of communication between the GDNs and customers, we consider this requires them to ensure that their customers are fully aware of the opportunities for their participation in the auction process, and to facilitate that participation.

Following the completion of this year's interruptions auctions process we shall be reviewing the behaviour of all participants in the process. As part of this review we will consider

shippers' conduct in the context of the working of a competitive shipper market. Should we conclude that the market is not working as we would expect, we may consider proposing licence modifications to ensure that all parties participate appropriately in ensuring the efficient operation of the gas distribution network.

If you would like to discuss the issues raised in this letter in more detail, please contact Paul Branston (Paul.branston@ofgem.gov.uk, 0207 901 7388) or Kieran Donoghue (kieran.donoghue@ofgem.gov.uk, 0207 901 7356).

Yours faithfully

A handwritten signature in black ink, appearing to be 'SS', is positioned above the printed name and title of Steve Smith.

Steve Smith
Managing Director, Networks