

Work Programme
UNC Modification Reference Number 0166
Review of necessary reform of NTS Offtake Arrangements
Session 4 Questionnaire – Interruption Product

Name: *Peter Bolitho*

Organisation: *E.ON UK*

Stakeholder Group (if any): Shipper, generator, storage and interconnector user and future storage operator.

In answering these questions we have endeavoured to ensure that a clear distinction is made between traditional interruption arrangements and an alternative regime where firm capacity is bought back through long-term constraint management contracts. We also view short-term buy back mechanisms as primarily a means of providing firm users with an opportunity to obtain a fair value for that capacity if NGG fails in its obligation to provide it. Such a mechanism is likely to provide more ‘compensation’ than simply getting a refund of the capacity charge.

It is also important to note again that the starting point for the 116 Review Group is to review current NTS interruption arrangements not 116V implementation of which was quashed by the CC.

Objectives of NTS Interruption Arrangements

1 What should be the main objectives of the NTS Interruption regime?

(a) To provide access without requiring NG NTS to invest in the system.

Yes. Ultimately it is not only about efficient investment by NG NTS but also efficient investment by the user. Terms for interruption need to be freely available to enable new loads to evaluate the benefits and dis-benefits of connecting as an interruptible user rather than a firm user. Such users may wish to consider the economics of alternative fuels at times of interruption.

(b) To facilitate of the sale of spare NTS capacity.

The amount of capacity available at a given location varies depending on the configuration of the system and the balance of flows across the NTS. Any interruption regime should help facilitate the sale of spare NTS capacity.

(c) To seek to maximise use of NTS capacity.

Making use of capacity that might otherwise remain unused (providing such users cover avoidable costs and make a contribution to fixed costs) must be beneficial to all users as it keeps the unit transportation costs down. In a normal commercial organisation this would be classic revenue maximisation behaviour – however as NG NTS revenue is ‘fixed’ increased system utilisation should result in lower charges to customers instead.

There are some users on the system that can use alternative (non NTS pipelines) to supply particular loads. Lower interruptible charges may persuade such users to make better use of the NTS than might otherwise have been the case.

(d) To facilitate competition within GB and trade between EU member states through spot shipping and supply.

The shared supply point arrangements were originally designed to allow customers to substitute or partially substitute supplies between shippers. This enabled such customers to make competitive spot purchases or get an alternative supply in case of shipper driven demand side response. By having supply point with multiple registered users the interruptible users act as spot gas suppliers with typically the primary user holding the firm capacity. Such mechanisms clearly facilitate competition.

In a similar way interruptible users at interconnectors can flow gas against unused firm capacity or any additional spare capacity that might become available from time to time. Such a mechanism was first developed for the Irish Interconnector in 1997 and having a variety of firm and interruptible users registered at Moffat has proved to be an effective anti capacity hoarding mechanism.

The design of any new interruptible service must therefore help facilitate trade between member states of the EU.

- (e) To be compliant with all laws and regulations relevant to such services.

It is E.ON's legal opinion that Regulation 1775 requires NGG to offer 'up-front terms' for 'long-term' interruptible access. Long-term in this context is a service of one year or more. The design of any new interruptible service should reflect this. Buy-back arrangements which may or may not be offered by NGG cannot alone satisfy the full requirements of the Regulation.

- (f) Other (please state): *To enable NGG to prioritise load shedding in an emergency as part of the UNC Emergency Procedures and Safety Case. The design of any new service should consider the impact on changes on these procedures.*

- 2 To what extent do the current NTS interruption arrangements meet these objectives?

Very well. Arguably the only matter that needs to be addressed is whether the current interruptible service design results in charges that are too low leading to such users being effectively cross-subsidised through higher charges to firm users

Products Available

- 3 Which of the following interruptible/buy-back products do you believe should be available? (more than one may be selected)

- (a) A general entitlement to interruptible capacity based on zero or discounted capacity charges.

Yes

- (b) Use it or Lose It (UIOLI) rights based upon take-up of Firm Capacity over a previous period.

Yes - this is effectively provided by the current interruptible product. The current product also offers the prospect of allowing the release a additional capacity that may become available from time to time

- (c) Long term Buy-back Contracts where National Grid NTS would otherwise require investment.

Possibly – these are unlikely to be required if NGG continues to offer up-front interruptible services. In the event that NGG has not obtained sufficient interruptible capacity from such a service long term buy-back contracts may be appropriate if NGG considers this is more efficient than investing in the system.

- (d) Short term buy-back arrangements where National Grid NTS would otherwise require investment.

Possibly – short-term buy-back mechanisms may to provide for more appropriate compensation if NGG fails to make available capacity to firm users. The viability of any compensation mechanism of course depends on who pays for it. If most of the cost is borne by shippers it is less relevant.

- (e) Transitional Interruptible arrangements whilst firm capacity is being built on the NTS to support an application by that User

Yes – but this does not require any special allocation arrangement – just the offering of an up-front interruptible service. It may be worth checking whether the present “re-designation as firm once NGG has reinforced its system” process works okay.

General Entitlement Interruptible Service

- 4 Do you believe that NTS offtakes should have a right to opt for access on an interruptible basis?

Yes this is a requirement of Regulation 1775

- 5 If yes do you consider this should apply to particular classes of user (such as storage, interconnector users and ‘back-up supplies’)

Certain users may be able to avoid using the system at certain times. Such users may be able to switch to other fuels or halt production, thereby avoiding making use of pipeline capacity at peak times. The UK–Continental Interconnector and storage users are likely to be delivering rather than offtaking gas at peak times – this in fact ‘creates’ more usable exit capacity for the benefit of other users.

- 6 If so, should the capacity be available?

- (a) At zero or discounted capacity rate – and if so what rate.

At zero capacity rate. In a paper presented to the CC E.ON demonstrated that interruptible users in fact make a material contribution to fixed NTS costs. This would tend to suggest that such interruptible users are in fact cross-subsidising firm users. A further discount might be more appropriate – this is currently provided in certain circumstances through a rebate mechanism.

- (b) As a discount on another charge eg TO Commodity Charge and if so outline basis.

Let’s stick to the current mechanism

- (c) At a single rate associated with a standard maximum days of interruption.

There could be a single rate but with no limit or a higher than the present 45 day limit. One of the challenges may be to ensure that users do not get effectively a firm service at a lower price – if this is a genuine concern the

number of days needs to be set at a level that is sufficiently high to ensure interruptible users are not making use of peak pipeline capacity

(d) At rates associated with maximum days – if so outline structure. *One could design a range of different services but these may be difficult to manage.*

7 It has been suggested that some interruptible users are effectively firm because of the infrequency of interruption. Do you agree with this statement?

No. Interruptible users make use of spare capacity and are prepared to be interrupted on high demand days. Under the UNC Emergency Procedures they are also curtailed by NGG before firm users. This prioritisation of load shedding in an emergency may help prevent the emergency escalating further.

Ofgem certainly believe this statement 7 but has yet been unable to substantiate this belief. However, rules could be applied to test whether interruptible users are genuinely interruptible.

8 Can a ‘general entitlement’ interruptible service be defined in such a way as to ensure interruptible users do not receive a firm service at a discounted price? Please state any suggestions:

Yes. The raising of the or removal of the limit on the number of days of interruption, together with reclassifying such loads as firm if gas is offtaken on any day where overall system demand is greater than say [85%] of the 1 in 20 system peak day demand may provide additional safeguards.

In case of reclassification as firm the normal firm capacity reduction rules would apply. In addition a retrospective firm capacity charge could also be applied for the past 12 months.

No limit or a high limit on the number of days of interruption is clearly not going to be attractive to users simply seeking ‘cheap transportation’. However, users that are comfortable in assessing the risks of interruption, the value of lost production and/or are in the position to use alternative fuels may be willing to make use of such a service. It would also be relevant for facilitation of spot gas supplies and the release of additional capacity that may come available from time to time.

Typical users of such a service might be interconnector and storage users and those that rely on the NTS for occasional back-up supplies. These are the very users that were most unhappy with the “universal firm with possible buy back service regime” outlined under 116V

9 Can a ‘general entitlement’ interruptible service act as an effective UIOLI anti-hording mechanism.

Yes and it does already at shared supply meter points and interconnectors. Being a registered interruptible shipper at the relevant exit points allows such users to be occasional suppliers using unused firm capacity.

Questions 10 to 19 are typically associated with a ‘universal firm’ regime.

UIOLI

10 Which of the following principles do you accept for release of capacity under UIOLI?

- (a) Availability based upon 30 Day rolling average of Firm Capacity Usage

This is only appropriate if a 'universal firm' regime is advocated. E.ON does not advocate this

- (b) Availability at 15.00 D-1

This is only appropriate if a 'universal firm' regime is advocated. E.ON does not advocate this

- (c) Additional National Grid NTS discretionary release up to baseline.

This concept is only appropriate if a 'universal firm' regime is advocated. E.ON does not advocate this. The current process at shared supply meter points and interconnectors achieve this 'discretionary release' implicitly anyway.

- (d) Additional National Grid NTS discretionary release up to and exceeding baseline.

This concept is only appropriate if a 'universal firm' regime is advocated. E.ON does not advocate this. The current process at shared supply meter points and interconnectors achieve this 'discretionary release' implicitly anyway.

- (e) Either(c) or (d) but with rules on National Grid NTS release – If so outline rules:

Not relevant

- (f) Right of National Grid NTS to curtail Interruptible flows prior to activating any other constraint management measure.

Yes – NGG should have the right to interrupt as they do now. The right to offtake gas above the aggregate firm capacity entitlement should be able to be withdrawn by NGC by giving the appropriate notice.. What are these other constraint management measures (buying and selling locational gas)? - probably the current priorities are appropriate but further discussion may be warranted.

11 What governance processes should be in place to ensure?

- (a) Fairness of terms

Good practice requires terms for access to a network to be clearly stated upfront. This transparency ensures non discrimination. The UNC and Transportation charging statements are the appropriate vehicle for this. Bilaterally 'negotiated' buy-back contracts do not necessarily provide for fairness, equitability or indeed transparency of pricing.

- (b) Equitability of terms

See answer to 11(a).

- (c) Transparency of price and take-up

See answer to 11(a).

Long Term Buy-back Arrangements

12 Should Long Term Buy-back Contracts be available?

- (a) For cases where National Grid NTS would consequentially avoid investment on the NTS.

Possibly if an up front 'general entitlement' interruptible service does not provide NGG with sufficient interruptible rights to manage constraints. If such services are to be contracted for this should be through a transparent tendering process set out in the UNC.

- (b) For constraint management reasons associated with maintenance or breakdown.

No this can be managed through any short-term buy back mechanisms that may be provided. NGG already has certain rights in the code for planned and unplanned maintenance

- (c) For other reasons – state criteria.

13 Should the structure of these Buy-back Contracts be option/exercise price?

This seems a reasonable approach

- (a) If so, how should the following be derived?

Through a tendering process but others may have more ideas on how this might work best. Hopefully retention of the current style of up-front interruptible service offering means we do not have to consider long-term buy-back arrangements.

- (i) Option Price

- (ii) Exercise Price

- (b) If not, what structure should apply

14 What governance processes should be in place to ensure?

- (a) Fairness of terms

In our view good regulatory practice requires terms for access to a network wherever feasible to be clearly stated upfront. This transparency ensures non discrimination and facilitates market entry. The process for offering buy back contracts (if required) should be through an open tender process. The volume of buy-back options acquired should be published for each exit point and the aggregate amount of expenditure on buy-back options should also be published. In addition NGG should, on an annual basis publish, the volume of buy-back options exercised together with the aggregate exercise expenditure.

- (b) Equitability of terms

See answer to 13 (a)

- (c) Transparency of price and take-up

See answer to 13 (a)

Short Term Buy-Back Arrangements

15 Should Short Term Buy-Back Arrangements be available?

- (a) To address short term constraints due to maintenance or failure

Possibly – short-term buy-back mechanisms may provide more appropriate compensation if NGG fails to make available capacity to firm users. The viability of any compensation mechanism of course depends on who pays for it. If most of the cost is borne by shippers it is less relevant.

(b) For cases where National Grid NTS would consequentially avoid investment on the NTS.

(i) In respect of DN Offtakes where a 1 in 20 obligation exists

It seems illogical to have a short-term mechanism to seek to manage a long-term issue (i.e. whether to invest in infrastructure). Leaving this to ‘prompt timescales’ does not seem to be consistent with planning to meet a 1 in 20 obligation. Either NGG should rely on the ‘general entitlement’ interruptible service (as now) or if this is insufficient have long –term buy-back contracts on top.

(ii) In respect of NTS Supply Points where no such obligation exists.

Don’t understand the question – it is our understanding that transporters have to meet all reasonable demands from firm customers whether they are directly connected to the NTS or connected to DN.

16 Should Buy-Back Arrangements be exercised by National Grid NTS?

Only if this is considered a more appropriate mechanism to compensate firm users if NGG fail to make capacity available on the day.

(a) Through pay as bid Auctions - if not indicate other mechanism.

This would seem to be an appropriate mechanism for firm users to value the lack of availability of firm capacity. Clearly short-term buy back arrangements would not apply to ‘general entitlement’ interruptible services unless the maximum number of days has been reached.

(b) After 15.00 D-1 – if not indicate suggested time criteria.

Okay

17 What governance processes should be in place to ensure?

(a) Fairness of terms

The auction based process would be fair if the basis on which NGG decides to buy back capacity is known. This should be set out in the UNC especially if shippers find themselves having to pay a proportion of the buy back costs.

(b) Equitability of terms

See response to 16(a)

(c) Transparency of price and take-up

Data on the price at which users have had buy back offers accepted should be published, as should the volume of capacity buy backs purchased by NGG.

Transitional Arrangements

18 Do you believe that a User applying for Firm Capacity should be entitled to interruptible capacity to cover the intervening period, if National Grid cannot provide firm capacity immediately?

Yes. This process already exists under the code at the moment.

19 If so, should the capacity be available?

Please refer to comments under 'general entitlement' service in 6 above.

(a) At zero or discounted capacity rate – and if so what rate.

The normal 'general entitlement' interruption terms should apply as now. As per earlier comments we think this should at least be at the zero capacity charge.

See answer to 6(a)

(b) As a discount on another charge eg TO Commodity Charge and if so outline basis.

See answer to 6 (b)

(c) At a single rate associated with a standard maximum days of interruption.

See answer to 6 (c)

(d) At rates associated with maximum days – if so outline structure.

See answer to 6 (d)

Other Terms -Failure to Interrupt

20 In addition to any overrun charges that apply, do you believe that Failure to Interrupt charges should apply?

Yes

(a) If so, what charging structure and rate would you suggest?

The current rules should apply. In addition failure to respond to buy-back should also incur similar penalties. For transparency and to ensure non discrimination these penalties should be set out in the UNC.

21 Do you believe that National Grid NTS should have the right to request test interruption when it has reason to believe that the User is unable to comply with an interruption request?

Yes

(a) If so, what rules should apply?

The current rules appear to be adequate. Such rules should also apply to long-term buy-back contracts and again to ensure transparency and non discrimination these rules should be set out in the code.