

# UNC Modification Proposal 0090: Revised DN Interruption Arrangements

**DWG**

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# Content

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# Rationale for Proposal (1)

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- ◆ DNs have licence condition (SSpC D8)
  - ◆ requires that we bring forward revised DN Interruption arrangements by April 2007
- ◆ Ofgem consultation (May 2006): *“Initial thoughts on the reform of interruption arrangements on gas distribution networks”* highlighted:
  - ◆ some perceived weaknesses
  - ◆ principles for reform

# Rationale for Proposal (2)

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- ◆ Perceived weaknesses
  - ◆ DN's lack of control of amount and location of interruption
  - ◆ Too much interruption available – increased costs for customers
  - ◆ Poor long term investment signals
    - ◆ Preventing efficient trade-off
  - ◆ Lack of flexibility in interruption products and services to shippers
- ◆ New arrangements should:
  - ◆ allow DNs to determine amount and location of interruption
  - ◆ Provide efficient investment signals
  - ◆ Reduce scope for undue discrimination
  - ◆ Promote competition in provision of interruptible services

# Interruptible Arrangements Options

	Interruptible Rights take effect		Prices		Option/ Exercise		Interruptible Allowances		Length of Contract		Method of Sale	
	Year	3 years ahead	Market	Based on capacity charges	Option Only	Option/ Exercise	45 days	Variable e.g. 15, 30, 45 days	One year	Multi-year	Apply	Tender
Present	✓			✓	✓		✓		✓		✓	

# Interruptible Arrangements Options

	Interruptible Rights take effect		Prices		Option/ Exercise		Interruptible Allowances		Length of Contract		Method of Sale	
	Year	3 years ahead	Market	Based on capacity charges	Option Only	Option/ Exercise	45 days	Variable 15, 30, 45 days	One year	Multi-year e.g. (1-5 yrs)	Apply	Tender
Present	✓			✓	✓		✓		✓		✓	
Proposal		✓		✓		✓		✓		✓		✓

# Key Principles of Proposal (1)

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- ◆ Firm exit capacity booking arrangements to apply
- ◆ Firm to interruptible switching only to occur in the [annual] application process
- ◆ May need tenders with shorter leadtimes if better information obtained e.g. updated demand forecasts
- ◆ Interruption prices based on option exercise scheme
  - ◆ Option fee is upfront cost
  - ◆ Exercise fee payable on each occurrence of interruption
  - ◆ Pricing methodology to be published in the Transportation Statement
  - ◆ Shipper choice differentiates likelihood of being chosen

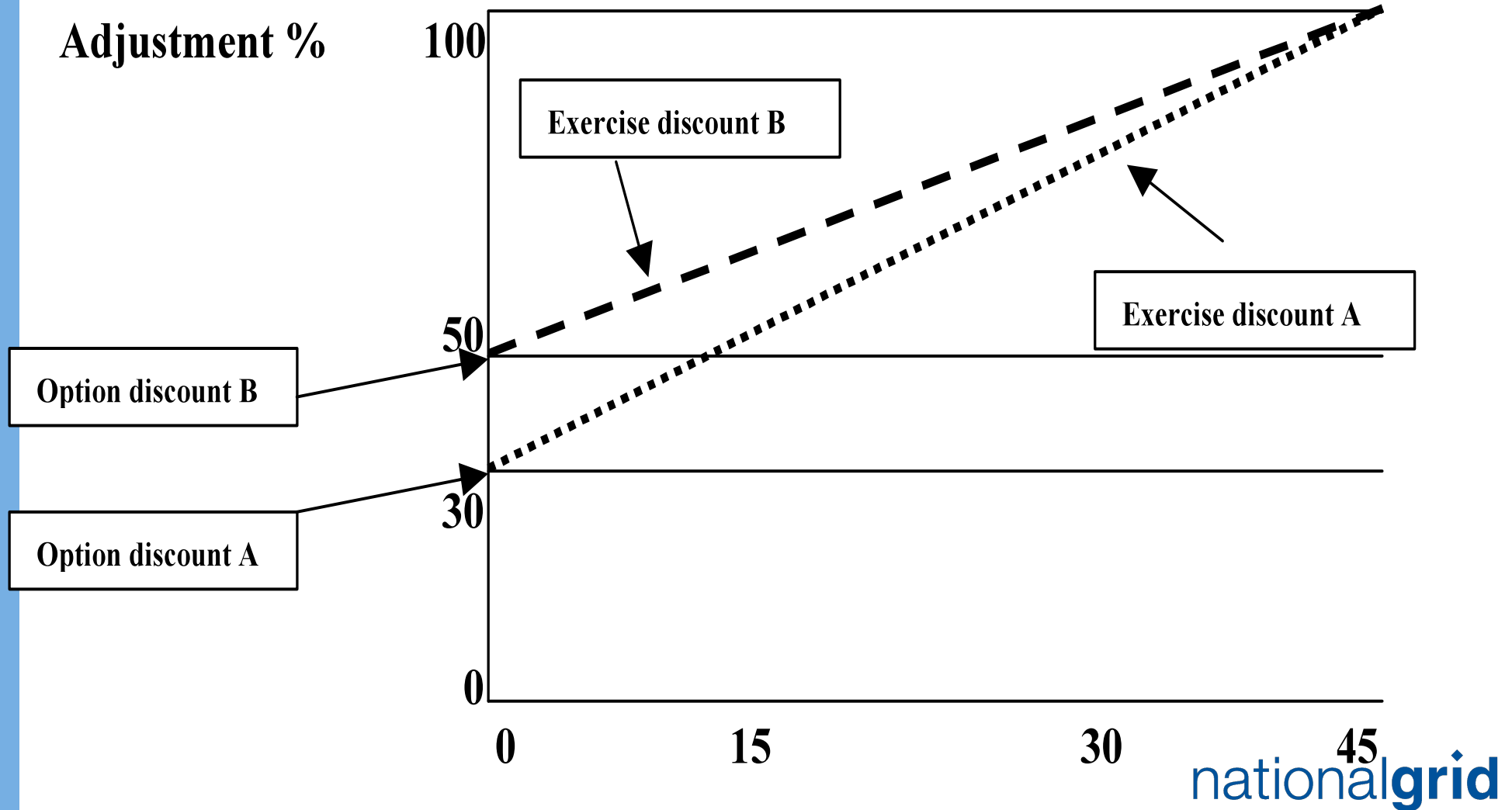
# Key Principles of Proposal (2)

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- ◆ DNs publish interruption requirements (volume) on a locational (zonal) basis
  - ◆ Interruption allowances (number of days of interruption)
  - ◆ Discounts per zone
- ◆ All DM sites (firm and interruptible) can apply for interruptible capacity
  - ◆ Shippers are able to apply for “n” days of interruption
    - ◆ [n could be 5, 15, 30, 45 for instance]
    - ◆ Shipper indicate % option discount and number of days
  - ◆ If no application then assume want to go firm (in 3 years time) + transitional interruptible terms apply in interim
- ◆ Some interruptible volume offered by DNs for multiple year [5] terms
  - ◆ Shippers can apply on a “rolling” basis ?
- ◆ Transporter can reject an application for interruptible capacity if not required
  - ◆ Site goes firm
  - ◆ Transitional arrangements required



# Option and Exercise Regime



# Application Acceptance – Broad Principles

Application sequence	Option Price		Exercise Price		Exercise sequence
Accept last	$P_5$	50	$E_1$	10	Exercise first
	$P_4$	40	$E_2$	20	
	$P_3$	30	$E_3$	30	
	$P_2$	20	$E_4$	40	
Accept first	$P_1$	10	$E_5$	50	Exercise last

# Discounts by Location (Zone)

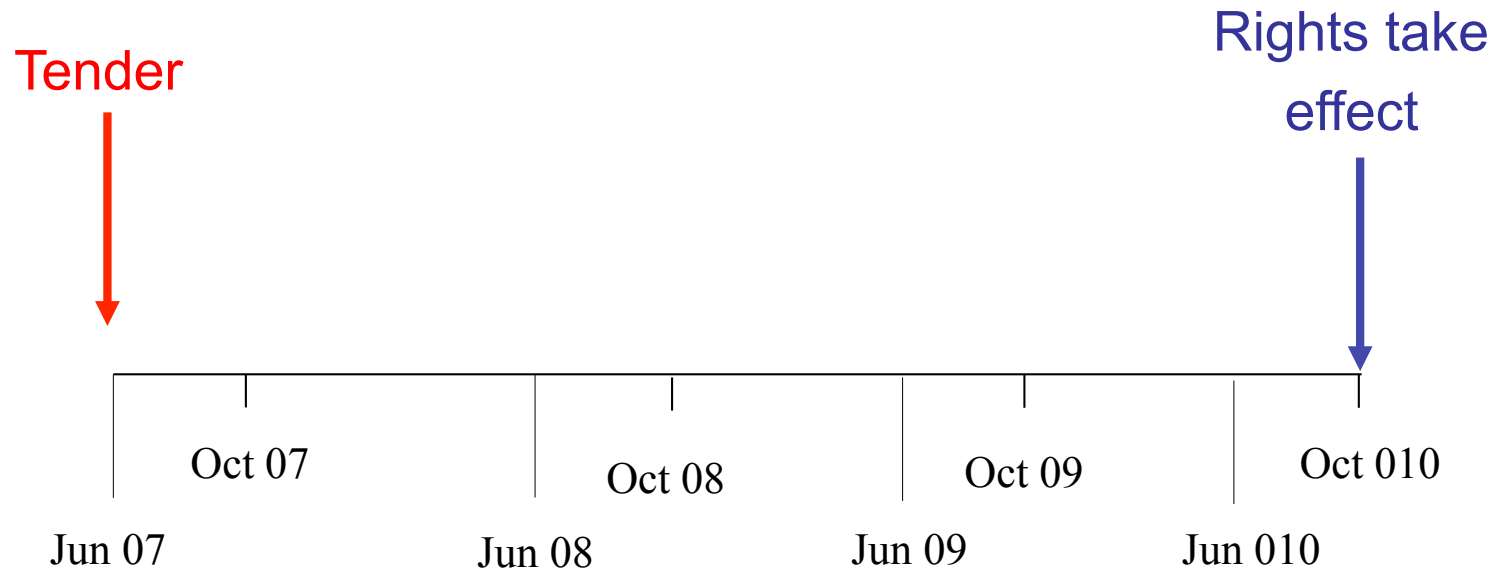
For Illustration

Location	5 days	10 days	15 days	25 days	30 days	45 days	Comment
A	5%	10%	15%	20%	25%	30%	
B	25%	35%	40%	50%	60%	75%	
C	50%	70%	80%	100%	120%	150%	
D	100%	140%	160%	200%	240%	300%	

# Interruptible rights take effect 3 years out

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To be consistent with sale of NTS exit rights



# Process

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- ◆ DNs publish Interruption Requirements by location (3 years ahead)
- ◆ Shippers bid for interruption rights
- ◆ DNs allocate interruption rights
- ◆ DNs obtain NTS exit capacity through NTS process
- ◆ When DN constraint DNs call interruption based on least cost

# Workgroup Outcome

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- ◆ Set of business rules supporting a UNC Modification Proposal that can proceed to consultation
- ◆ Identify changes required to the UNC
- ◆ Identify associated changes required to processes and procedures
- ◆ Workgroup report for Mod Panel to consider

# Work Areas (1)

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- ◆ DNs notifying interruption requirements
- ◆ Interruptible criteria & application process
- ◆ Shipper tendering process
- ◆ DN Selection process
- ◆ Interruption notice
- ◆ New Supply Points

# Work Areas (2)

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- ◆ Supply Point Registration
- ◆ Firm to interruptible switching & vice versa
- ◆ Partial interruption and Interruptible Firm Allowances
- ◆ Emergency Arrangements
- ◆ Interaction with NTS arrangements
- ◆ Transitional Arrangements



# Out of Scope

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- ◆ Charging Methodologies
- ◆ Change to Capacity/Commodity Split
- ◆ Arrangements between shipper/suppliers and consumers
- ◆ Incentives
- ◆ Safety Cases
- ◆ Systems
- ◆ NTS exit reform

# Mod Proposal Timetable

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- Modification Proposal 90 raised 21<sup>st</sup> July
- Workgroup Development start 3<sup>rd</sup> August
- Workgroup Development finish 5<sup>th</sup> October
- Mod Panel consultation 19<sup>th</sup> October
- DMR issued 26<sup>th</sup> October
- Reps close-out 16<sup>th</sup> November
- FMR issued 7<sup>th</sup> December
- Mod Panel recommendation 21<sup>st</sup> December
- Ofgem Decision 30<sup>th</sup> December

# Workgroup Timetable

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- Meeting 1 3<sup>rd</sup> August
- Meeting 2 16<sup>th</sup> August  
*[30<sup>th</sup> August]*
- Meeting 3 [Transmission w/s] 7<sup>th</sup> September  
*[14<sup>th</sup> September]*
- Meeting 4 21<sup>st</sup> September  
*[27<sup>th</sup> September]*
- Meeting 5 [Transmission w/s] 5<sup>th</sup> October
- Workgroup Report to Panel 12<sup>th</sup> October
- Mod Panel 19<sup>th</sup> October
- DMR issued 26<sup>th</sup> October

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