

DN Interruption Reform

Gas Customer Forum

Mark Freeman

2nd April 2007

Content

1. Background
2. Useful sources of information
3. Key Milestones
4. Types of Interruption
5. Key Features of the Regime
6. Interruptible Capacity Methodology
7. Tender Process
8. Dates to Remember

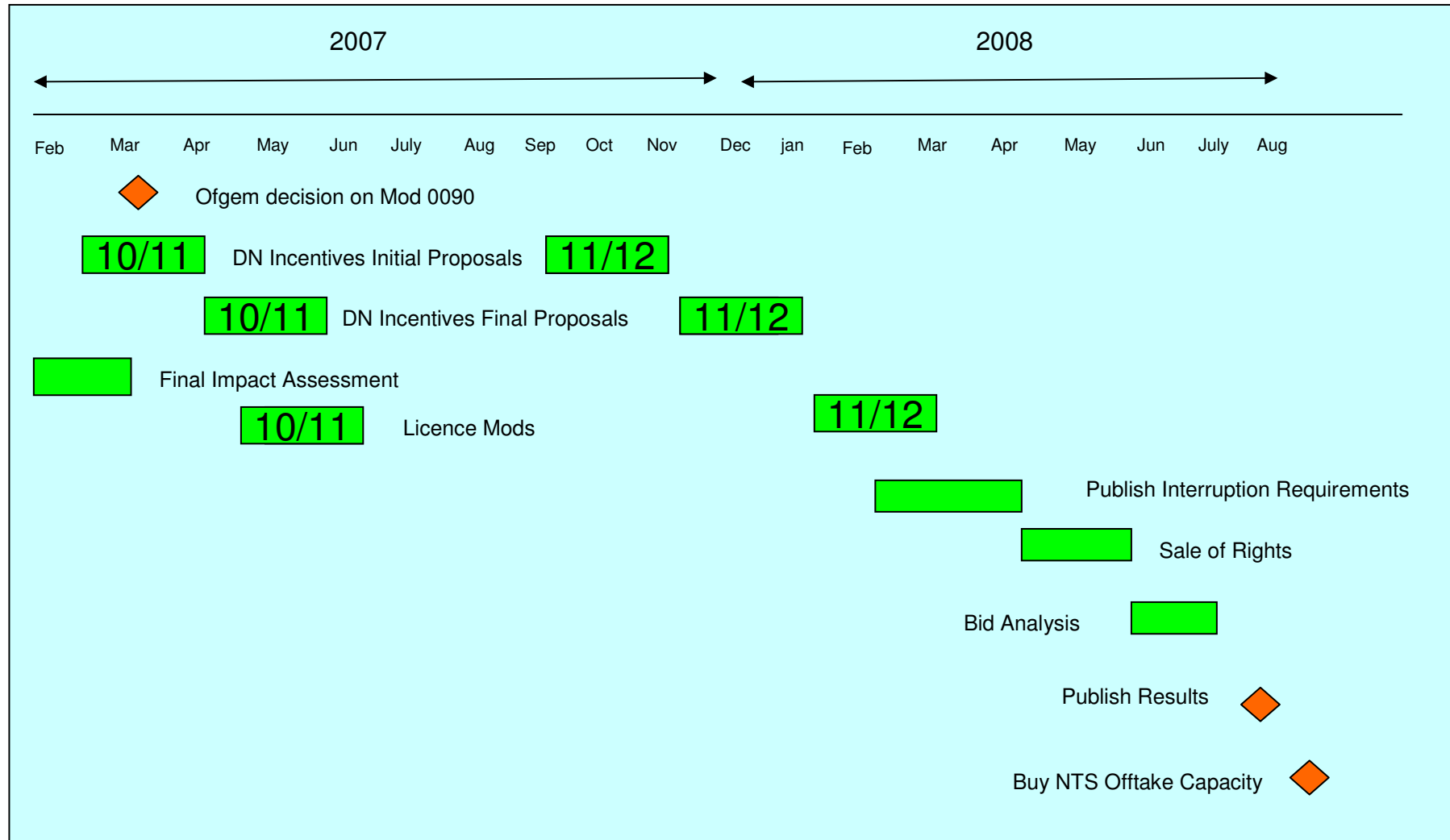
Background

- ♦ Revised DN Interruption Arrangements – Modification Proposal 0090 implemented
- ♦ Ofgem decision 15 March 2007
- ♦ Implementation Date 1 April 2008
- ♦ New regime significantly different from existing regime
 - ♦ DNs determine interruption requirements three years ahead (e.g. Feb 2008 for 2011 onwards)
 - ♦ DNs publish interruption requirements (May 2008)
 - ♦ Users value interruption - bid into DN tender process
 - ♦ DNs select bids (offers) based on interruption requirements
 - ♦ Successful Users receive payment for being interruptible
 - ♦ Transition Arrangements in place to 2011 (based on existing arrangements)

Key Information Sources

- ♦ Uniform Network Code
 - ♦ New rules in section G6
 - ♦ Transition Arrangements – Transition Document
- ♦ Interruptible Capacity Methodology
 - ♦ published by each DN
- ♦ Pricing Methodology papers
 - ♦ Removal of capacity discounts (issued 02/02/07)
 - ♦ Change of capacity/commodity split
 - ♦ Cost recovery of NTS charges
- ♦ Ofgem Consultations
 - ♦ DN incentives – initial proposals (Mar 07 ?)

Key Milestones (Apr 08 implementation)



Types of Interruption

- ♦ Commercial Interruption
 - ♦ Unchanged by reform
- ♦ Emergency Interruption
 - ♦ Unchanged by reform
- ♦ Test Interruption
 - ♦ Unchanged by reform
- ♦ Volume Interruption
- ♦ Location Interruption

Key Features of Regime (1)

- ◆ Users pay firm charges from 2011 onwards
- ◆ Users successful in tender receive payment for being interruptible in the interruptible period
 - ◆ Receive option payment (monthly in arrears)
 - ◆ Receive exercise payment each time interrupted
- ◆ Interruption Allowance is the number of days in an interruptible period (Gas Year) that a supply point can be interrupted
- ◆ Interruptible period is a Gas Year or other period that supply point capacity is designated as being interruptible
- ◆ Eligibility
 - ◆ LDZ Supply Point, AQ > 200,000 therms, daily metered (at time interruptible capacity is used)

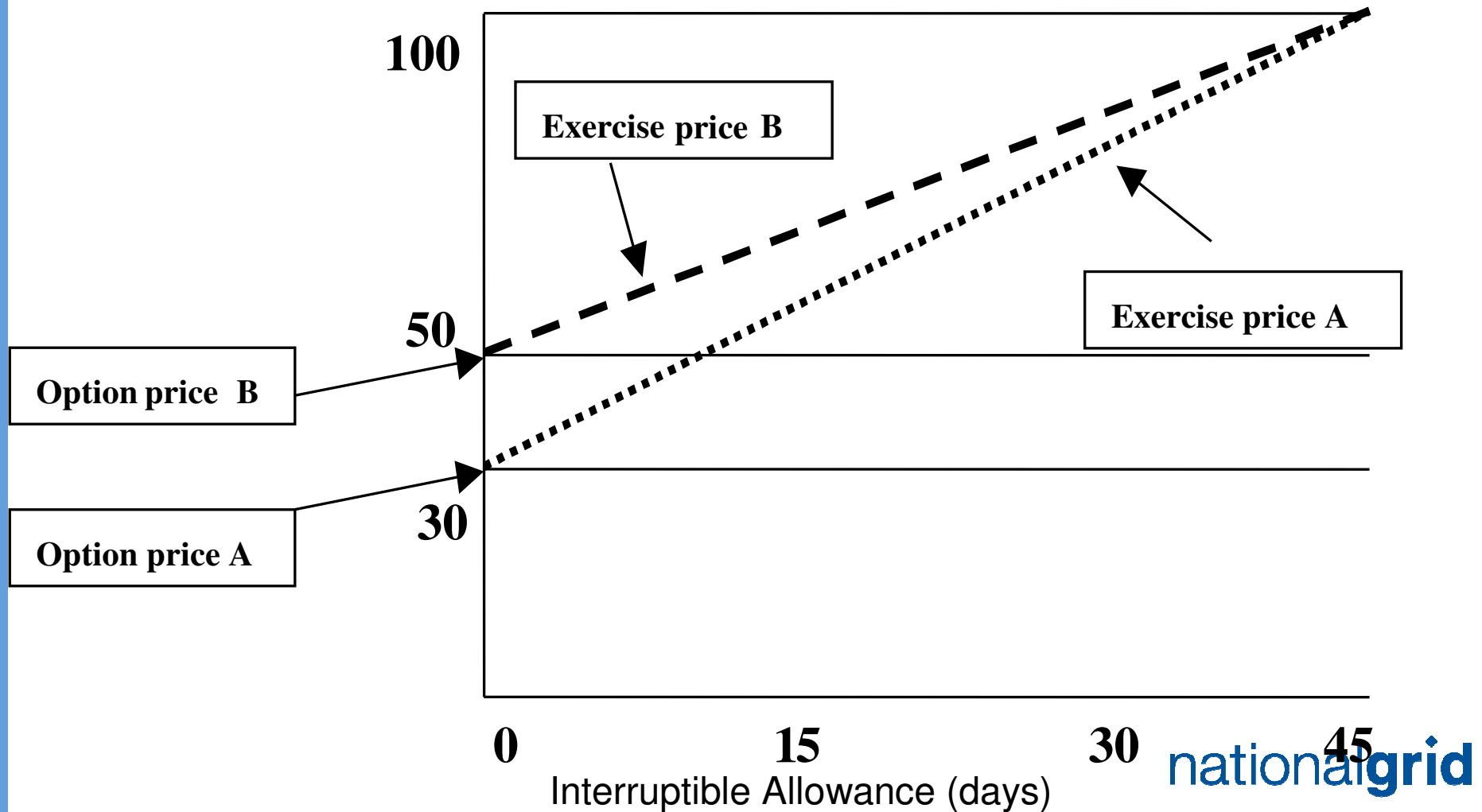
Key Features of Regime (2)

- ♦ Interruptible supply point capacity can be designated in tranches
 - ♦ Each tranche shall not be less than the minimum interruptible amount
 - ♦ Number of interruptible tranches shall not exceed 9
 - ♦ Aggregate amount of interruptible tranches shall not exceed the amount of registered supply point capacity
- ♦ Supply point transfer
 - ♦ Contract details supplied by DN within two days of submission of confirmation for an existing supply point
 - ♦ Same contract terms transfer to incoming shipper (prices, interruption allowance, interruption period etc)
- ♦ Increase/decrease in capacity (SOQ)
 - ♦ Increase supply point capacity shall be deemed as firm
 - ♦ Decrease in capacity shall decrease the interruptible supply point capacity tranches (highest price first)

Key Features of Regime (3)

- ♦ Tender processes
 - ♦ Annual process (May-July)
 - ♦ Ad-hoc process (dependent on requirements)
- ♦ Failure to Interrupt:
 - ♦ Charge calculated by:
 - ♦ $2 * \text{the quantity exceeding the effective capacity} * \text{the greater of the annual LDZ capacity rate or the overall interruption price}$
- ♦ Redesignation as Firm
 - ♦ A User can apply (other than during the tender process) to redesignate an interruptible supply point as firm
 - ♦ Similar process to the existing provisions
- ♦ Interruption Notices
 - ♦ Similar to existing UNC provisions

Option and Exercise Regime (1)



Option and Exercise Scheme (2)

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

Interruptible Capacity Methodology

- ♦ Will include:
 - ♦ The financial terms (including option price and exercise price) on which offers may be made
 - ♦ Basis for ranking interruptible offers for selection
 - ♦ The basis of defining interruption zones
 - ♦ The number of days in an interruptible period that may comprise an interruptible allowance
 - ♦ The basis for determining minimum interruptible amounts

Tender Process

- ♦ Interruption Invitation
- ♦ Interruption Offers
- ♦ Acceptance of Interruption Offers
- ♦ Publication of Results
- ♦ Processes and Systems
 - ♦ managed by xoserve, DN decision making
 - ♦ manual System developed; considering automated system for 2008

Tender Process Interruption Invitations (1)

- ◆ For annual invitation in Gas Year Y DN shall invite offers for Gas Years Y+4 to Y+8 inclusive
- ◆ Invitation dates shall be 10 consecutive Business Days in June
- ◆ First invitation date not less than 28 days after Interruption Invitation issued
- ◆ For 2008
 - ◆ First invitation date shall 4th June 2008
 - ◆ Invitation issued on 1st May 2008

Tender Process

Interruption Invitations (2)

- ◆ Invitation shall specify:
 - ◆ Identity of DN Operator
 - ◆ Interruptible Period(s) for invitation
 - ◆ Interruption zone(s)
 - ◆ Invitation Dates
 - ◆ Minimum Amount per Interruption Zone
 - ◆ Available Interruption Allowances per Interruption Zone
 - ◆ Estimate of Interruptible Supply Point Capacity per Interruption Zone
 - ◆ Maximum number of offers for the interruptible period per:
 - ◆ Supply point
 - ◆ Tranche of supply point capacity
 - ◆ Any other terms required or permitted by the Interruptible Capacity Methodology

Tender Process

Interruption Offers (1)

- ♦ Interruption Offer shall specify:
 - ♦ The identity of the User
 - ♦ The interruption Invitation
 - ♦ Supply Point (within the interruption zone)
 - ♦ Interruptible Period
- ♦ For each tranche:
 - ♦ The amount of supply point capacity
 - ♦ The interruptible allowance
 - ♦ The interruption option price
 - ♦ The interruption exercise price
- ♦ If supply point already interruptible (from previous invitation)
 - ♦ Can specify additional proposed interruptible tranches
 - ♦ Can increase the interruptible allowance (if allowed by methodology)

Tender Process

Interruption Offers (2)

- ♦ User can submit, withdraw or modify an offer between 08:00 and 17:00 hrs on an invitation date
- ♦ Can only have the permitted number of offers as per the Invitation, Supply Point, Interruptible Tranche and Interruption Period
- ♦ DN can reject an interruption offer if:
 - ♦ Supply Point is not eligible
 - ♦ User is not a Registered user
 - ♦ Does not comply with:
 - ♦ Stipulations on tranches
 - ♦ Stipulations for submitting, modifying or withdrawing offers
 - ♦ Does not comply with Interruptible Capacity Methodology
- ♦ DN will notify user of rejection of the offer within 2 days after the invitation date on which the offer was made

Tender Process

Acceptance of Interruption Offers

- ◆ DN will select offers in accordance with the Interruptible Capacity Methodology
- ◆ DN will inform Users which offers have and have not been accepted not more than 28 days after the last invitation date
- ◆ If accepted the applicable tranche becomes interruptible and the option price is payable to the User by the DN (at the time the interruptible capacity is to be used e.g. typically three years time)

Tender Process

Publication of Results

- ♦ Published not more than 28 days after the last invitation date for the LDZ as a whole and where in each Interruption Zone offers were accepted by at least 3 Users:
 - ♦ The number of Interruption Offers received
 - ♦ The number of interruption offers accepted by the DN
 - ♦ Aggregate Supply Point Capacity for which offers were received
 - ♦ Aggregate Supply Point Capacity designated as Interruptible
 - ♦ Highest and lowest overall (option + exercise) interruption prices submitted by Users
 - ♦ Highest and lowest overall (option + exercise) interruption prices submitted by Users that were accepted by the DN

Dates to Remember

- ♦ Proposal Implementation 1 April 08
- ♦ Interruption Requirements published 1 May 08
- ♦ Bid window opens (interruption offers) 4 June 08
- ♦ Bid window closes 15 June 08
- ♦ Notification of successful bids 13 July 08

DN Interruption Reform

Gas Customer Forum

Any Further Questions ?

Mark.freeman@uk.ngrid.com

Mark Freeman

2nd April 2007

nationalgrid