Exit and interruption arrangements: Regulatory impact assessment

Discussion of options

Outline of presentation

1. Objectives and principles
2. Option 1 – No change
3. Option 2 – Network owner determined interruption
4. Option 3 - Auctions
5. Summary

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Ofgem's duties

Protect customers
Promote competition
Section 4AA of Gas Act

The Authority is "to protect the interests of consumers in relation to gas conveyed through pipes, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas".

Licence and Gas Act obligations of licensee

Economic and efficient
Gas Act 9(1)(a)
and
Special Licence condition 27 (1)

".. duty of the gas transporter…. to develop and maintain an efficient and economical pipe-line system."

"The licensee shall operate the NTS in an efficient, economic and co-ordinated manner"

Non discrimination
Gas Act 9(2)(b)
and
Standard licence condition 4D(1)

"…the duty of a gas transporter to avoid any undue preference or undue discrimination …"

"The licensee shall conduct its transportation business … to secure that neither … any gas shipper or gas supplier obtains any unfair commercial advantage including….from a preferential or discriminatory arrangement, …"

Cost reflective charging
Standard licence condition 4A(5)(a)

" ..the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business"

Key issues for exit and interruption

1. Network owner should determine level of interruption
2. Arrangements should not discriminate between users
3. Increase in customer choice
4. Investment signals for network owner and users
5. Interactions with the electricity market
6. Safe and secure pipeline system

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Option 1 - As now

Key features:

- Shipper's elect for sites to become interruptible
- Interruptible sites can elect to become firm unless Transco determine that the interruptible site is a network sensitive load (NSL)
- Most interruption contracts for 45 days of interruption in any one year (although some variants)
- Price for interruption set on an administered basis – equivalent to foregone capacity charge for first 15 days of interruption

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Option 2 – Network determined interruption

- Three variants

Option 2A: Tenders for interruption	**Option 2B: Tender and matrix approach**	**Option 2C: Matrix only approach**

Option 2A – Tenders for interruption

Network owner would:

- hold tender for interruptible contracts
- strike interruption contracts with customers where required
- invoke interruption contracts
- optimise between costs of interruption and costs of investment in pipeline capacity and localised storage

Option 2A proposals - charging

- Implication is that current charging regime would need to change…..

All customers pay network capacity charges	*and*	Interruptible customers receive payment for interruptible status under terms of contract

….. need to consider further charging basis

Option 2B – tenders and matrix approach

Key differences from Option 2A:

- Transco publishes matrix of interruptible contracts specifying variety of prices and number of days interruption for one year…….

5 days	10 days	15 days	25 days	30 days	45 days
£5,000 option fee £500 exercise fee	….	….	….	….	£5,000 option fee £500 exercise fee
£5,000 option fee £2,000 exercise fee	….	….	….	….	£7,500 option fee £500 exercise fee
£75,000 option fee £60,000 exercise fee	….	….	….	….	£300,000 option fee £5,000 exercise fee

…. could also have some cells as percentage discount to firm transmission charge

Option 2B – tenders and matrix approach

- Participants either:
  - select cell in matrix they are willing to sign up to; or
  - participate in tender (which would be both short and long term)
- Transco selects only those offers it requires
- Participants that have their offer rejected become firm

Option 2C – "Pure" matrix approach

Similar to matrix and tender approach except:

- Matrix only
- Network operator can select different duration to that indicated by customer / shipper
- Charges only in percentage discount from firm charges (and no exercise fee)
- Each year, shipper can reduce preferred amount of interruption, but only increase it when network owner requires additional interruption

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Option C - Auctions

Key elements of regime….

1. Define exit rights by time and location
2. Allocate exit rights through auction
3. Trade exit rights in secondary markets
4. Incentives to hold exit rights – over run charges

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Summary – initial assessment

	Option 1	Option 2A	Option 2B	Option 2C	Option 3
Network owner determined interruption	✗	✓	✓	✓	✓
Non-discrimination	✗	✓	✓	✓	✓
Customer choice	✗	✓	✓	✓	✓
Investment signals to network owners	✗	✓	✓	✓	✓
Investment signals to users	✗	✗	✗	✗	✓
Electricity market interactions	✗	✓	✓	✓	✓
Safe and secure pipeline system	✓	✓	✓	✓	✓

…. yet to consider competition, costs and transitional measures

Promoting choice and value for all gas and electricity customers