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### **Interruption arrangements RIA (146/04)**

Dear Sonia

We thank you for the opportunity to comment on the above. Our response is not confidential and may therefore be placed in Ofgem's library and on your website.

Our response to this consultation follows our response to the recent Offtake consultation. We take this opportunity to reiterate our comment in our response to that consultation that we believe that the responses to the two consultations should be considered before reaching conclusions on either.

Before commenting on the specific options for interruptible arrangements we take this opportunity to provide a number of general comments

#### **General comments**

We believe that whilst interruptible mechanisms are associated with the DN separation and sale process, and that compatibility is required, fundamental reform of interruption it is not a prerequisite for DN sale or separation. We believe that any reform of interruption should be considered with this fully in mind.

We believe that it is important that costs associated with any reform are clearly separated into those changes essential to facilitate DN separation/sale, and those which are not.

In our opinion this RIA, along with the three earlier DN Sales RIAs for Agency & Governance Arrangements, Roles and Responsibilities and Offtake arrangements, lacks detailed information on costs and it will not be possible to fully understand the costs and implications until more detail has been developed in the workgroups.

We now address the proposals for interruption reform contained within the RIA.

### **Development process**

As much detailed work is still required to develop the options, Ofgem explain that as a consequence, this RIA does not express a preferred option. However, Ofgem's initial view is that reform of the existing regime is necessary.

We note that Ofgem intends to make all significant policy decisions relating to the commercial and regulatory arrangements that could support a divested industry structure by early August, giving only a very short period of time to consider responses to this RIA, the consultation period for which closes on 28<sup>th</sup> July.

We appreciate that a further RIA consultation will be issued later in the DN process and will focus on the detail of the preferred option and will be informed by the outcome of this consultation process. We would however encourage Ofgem to develop options under consideration further so that they may be better assessed against the status quo before concluding the degree of reform that is necessary, or selecting a particular option.

It is our view that further detailed information is required to permit participants to form a comprehensive view on the relative merits of the options presented, and that selection of options should not be made on the basis of indicative estimates based on high-level assumptions.

### **Timescales**

We note that project timescales are being driven by the DN separation/sale process. In order not to compromise any solution we believe it would be beneficial to identify reform required to support the DN separation / sale process (which needs to be prioritised), and other reform which, if appropriate, could follow a timetable not necessarily aligned with DN work. Furthermore such separation/ prioritisation would facilitate concentration on any reforms considered necessary for the forthcoming winter.

Fundamental reform of Interruption would add to the already significant workload for Ofgem and the industry. There may therefore be a benefit if non DN separation/sale facilitating interruption reform can be identified separately, considered and if appropriate undertaken, to a timetable not dictated by the DN work.

### **Options proposed**

We note that the options for interruptions arrangements proposed by Ofgem are as follows

1. Status quo (base case)
2. Unconstrained allocation of the firm capacity product
  - 2A Pure matrix
  - 2B Tenders for interruption
  - 2C Tenders plus matrix
3. Constrained allocation of the firm capacity product
  - 3A Pure matrix
  - 3B Tenders for interruption
  - 3C Tenders plus matrix

As indicated by Ofgem, the RIA is a high level document and a significant amount of work needs to be undertaken to develop the detail on the options. By definition, it is therefore not possible to provide detailed comments on all the options proposed. Consequently, it would be of assistance for interested parties to understand from Ofgem what level of assurance they can provide to customers that the most appropriate option(s) will be selected for further consideration and development, should Ofgem choose to undertake selection on the basis of the high level information currently available and in the absence of full detail which has still to be developed.

Costs and benefits provided in the RIA are high level. It would be helpful if Ofgem were to publish further data showing more detail of the calculation of these estimates, and likely upsides and downsides.

We also believe that it is important that further detail is developed and presented which provide greater assurance on the predicted cost implications of each option. For the benefits as well as costs we believe it is equally important that figures are supported by detailed substantiation. It would for example be of assistance to understand the detail of the cross subsidies with current arrangements that Ofgem believe might be removed.

### **Implications for customers and their views**

The scope of this RIA includes consideration of fundamental change e.g. direct contracting between end users and Network Operators, and the possibility in some options that some customers may no longer be offered an interruptible service. It is therefore, in our view, vital that customers are fully engaged in the process. We are aware of some customer participation in workgroups, and the fact that the consultation is open to all via Ofgem's website, but considering the nature of these proposals it would seem appropriate that all interruptible customers ( and firm customers who might consider switching to interruptible) are proactively informed of the proposals and their views sought.

It would be useful to understand the level of communication undertaken by Ofgem, and the statistical significance of the number of customers engaged, as well as for Ofgem to publish a summary of their responses and the conclusions drawn. In addition, we believe that a series of customer workshops might usefully complement this consultation process. Achieving widespread customer participation would, we suggest, contribute positively to The Authority's principle objective of protecting customers' interests.

Interruptible customers may face different interruptible contract structures, in some cases possibly no longer being able to contract for an interruptible supply if they are required to go firm by Transco. This may be interpreted by customers as a reduction in choice available to them.

A possible consequence for such customers is the redundancy of standby plant, not to mention an impact on their competitiveness should they be required to pay higher transportation costs, and any costs that they may occur to implement the initial change to firm.

We believe that customer's uncertainty might be further compounded if availability of interruptible to them were to change over time as a result of developments in Transco's network and changes in Transco's need to procure interruptible contracts.

We note that there appears to be significant pushback to the proposals contained within this RIA from customer groups, as illustrated for example by the EIUG presentation at the TBE seminar on 8<sup>th</sup> July which indicated their significant concerns and that they were unconvinced that there is a compelling case for change. We trust that Ofgem will take into account this and feedback from other customers, and ensure that the views representative of all customers are obtained on this important issue.

Overall we do not perceive a clamour for fundamental change from customers.

### **Security of supply**

We believe it would be beneficial for Ofgem to provide further detailed assurance relating to the safeguarding of security of supply in relation to each option proposed, particularly when (as was noted at Transco's TBE seminar on 8 July) a tightening supply/demand balance position in the UK is predicted.

The analysis of interruption presented in the RIA details historical performance. We believe that it would also be beneficial for Ofgem to consider significant changes expected over the next few years including the following, and their possible impact on interruption needs

- The UK's transition to become a net importer, and the associated likely change in Network dynamics away from a primarily North to South flow which could change the geographical needs for interruption, and

- The predicted tightening of the supply/demand balance and reduction in available UK swing

Perhaps analysis could be undertaken which includes modelling around the importation scenarios developed by Transco in their TBE work. This might then be utilised to attempt to predict what impact there might be on interruption requirements in the future, for which any interruptible reform would need to be appropriate.

### **Investment signals**

Efficient network planning is a key factor in achieving future security of supply.

Ofgem refer to a three-year lead-time for NTS investment. Ofgem's belief is that market signals for investment are desirable.

We believe that many customers' gas supply contracts have durations of around one year, and that the majority will be of less than three years duration. It therefore follows that interruptible services are likely to be booked for similar durations and at time relatively close to the start of the supply period. In order to provide the long-term investment signals that Ofgem seek, it would therefore appear that a change would be required in customer behaviour.

It would therefore be helpful to understand details of the analysis that Ofgem have undertaken to gain assurance for each option with respect to the probability of long-term investment signals being generated.

Ofgem indicate in the RIA document that they consider it is important that Shippers are able to signal the terms on which they are willing to provide interruptible services. Under circumstances where Direct Contracting between Customers and Network Operators is envisaged, investments signals would appear to emanate from Customers. In such circumstances it would be beneficial to understand the way in which Ofgem envisage Shippers contributing to investment signals.

### **Flexibility vs. costs and complexity**

BP is supportive of improving the interruptible regime, of providing additional flexibility, and of encouraging demand side responses, where overall benefits can be demonstrated.

It is our view that until the detail of options is fully developed and demonstrates a sound case to the contrary, incremental reform should not be discounted as a possible alternative to fundamental reform for improving current interruption arrangements.

However, in our opinion change must not be made if it involves undue complexity and or cost, either in the implementation phase (costs of new systems, training, administration), or during the operational phase. It is also important that the regulatory burden on the industry and customers is not increased disproportionately. Such cost and complexity could present barriers to market entry for new participants.

### **Universal Firm**

We note Ofgem's comments relating to the Universal Firm licence obligations on Transco. However we take this opportunity to reiterate that many questions and concerns regarding the concept and how it might be implemented have been raised previously by customers and the industry.

### **Transitional arrangements**

Ofgem indicate that transitional arrangements should be considered. Should a need for change be identified, and be of a fundamental nature, we agree that it would appear sensible to develop transitional arrangements.

Ofgem suggest as a possible option 'grandfathering' arrangements linked to the duration of customers existing interruptible contracts. Taking into account the fact that most customer contracts will be of less than three year's duration, and the fact that the life of assets such as those relating to standby fuel capability are significantly longer, we believe that in certain circumstances customers may seek arrangements extending well beyond the duration of their existing interruptible contracts.

### **Conclusion**

There is much work required to develop the detail of the proposed options in the workgroups, and in our view this needs to be undertaken before selecting the most appropriate option. BP expects that Ofgem will take full account of input from industry participants and from customers when making its decisions.

We trust that the above comments will be of assistance in compiling the modification report. Please do not hesitate to contact the undersigned should you wish to discuss the contents of this letter further.

Yours sincerely

David Slack  
Regulatory Affairs