

# DN Interruption Reform

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EOWG

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# Content

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# Why DN Interruption Reform ?

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- ◆ *Standard Special Condition D8. Reform of Distribution Network interruption arrangements*
  - ◆ *Reasonable endeavours obligation to bring forward revised interruption arrangements for implementation by 1 April 2006 [discharged]*
  - ◆ If not compliant with above paragraph then reasonable endeavours to ensure that such arrangements are implemented as soon as reasonably practicable thereafter **[April 2007]**
  - ◆ All DNOs have the Licence Condition
- ◆ Interaction with NTS Exit Capacity Reform
  - ◆ Trade-off DN interruption with alternative capacity products e.g. investment in DN network, buying NTS capacity

# LDZ Interruption - Regime Reform

## Previous Consultations

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- ◆ 1998 – 99 Discussion Paper NCD1 published; Interruption Seminars; Interruption Questionnaire
- ◆ Consultation Paper PC39 – Transco Review of Interruptible Services (May 1999)
- ◆ Ofgem Decision on PC39 (July 1999) – veto of proposals
- ◆ Ofgem Review of Interruptible Services (2000)
- ◆ Discussion Paper PD15 (Nov 2001) – variable and/or flexible service
- ◆ Ofgem SO proposals (2001/2) – 15 day regime
- ◆ Transco GT Licence – Universal Firm NTS Exit (Jul 02)
- ◆ Workstream Development (Sep 02)
- ◆ Ofgem review (May/June 03)

# LDZ Interruption - Regime Reform

## Previous Consultations Part II

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- ◆ Ofgem consultation on future exit regime for DN Sales (July 2003)
- ◆ Ofgem Next Steps (December 2003)
- ◆ Ofgem Workstream Process (Jan 2004 to date)
- ◆ Ofgem Interruptions RIA (June 2004)
- ◆ Ofgem Interruptions RIA Conclusions (Aug 2004)
- ◆ Ofgem Final RIA (Nov 2004)
- ◆ Transco announce DN sales (May 2004)
- ◆ Licence Consultation (Nov 2004)

# Current Interruption Arrangements

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- ◆ Interruption status is choice of shipper
- ◆ Available for daily metered loads over 200,000 therms/annum
- ◆ No choice for transporters
- ◆ Some restrictions on ability for shipper/customer to switch
- ◆ Around 1400 DN sites
- ◆ Standard contract of 45 days in a year
  - ◆ However in past most loads typically interrupted less than 45 days per year
  - ◆ Standard discount – incentive payment for >15 days

# Current Interruption Arrangements

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- ◆ Some loads designated Network Sensitive Loads(NSL) or TNI
  - ◆ Less than [150] NSLs nationally
  - ◆ Some sites (TNI) can be interrupted > 45 days
- ◆ NSLs (and TNIs) are areas on DN Networks with constraints
  - ◆ More likely to be interrupted, particularly in an average year
- ◆ Loads may be interrupted for supplier reasons
  - ◆ Gas supply restrictions or gas price drivers
  - ◆ Much more common than transporter interruption

# 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	✓			✓	✓		✓		✓		✓	
Strawman		✓		✓		✓		✓		✓		✓

# Key Principles of Strawman (1)

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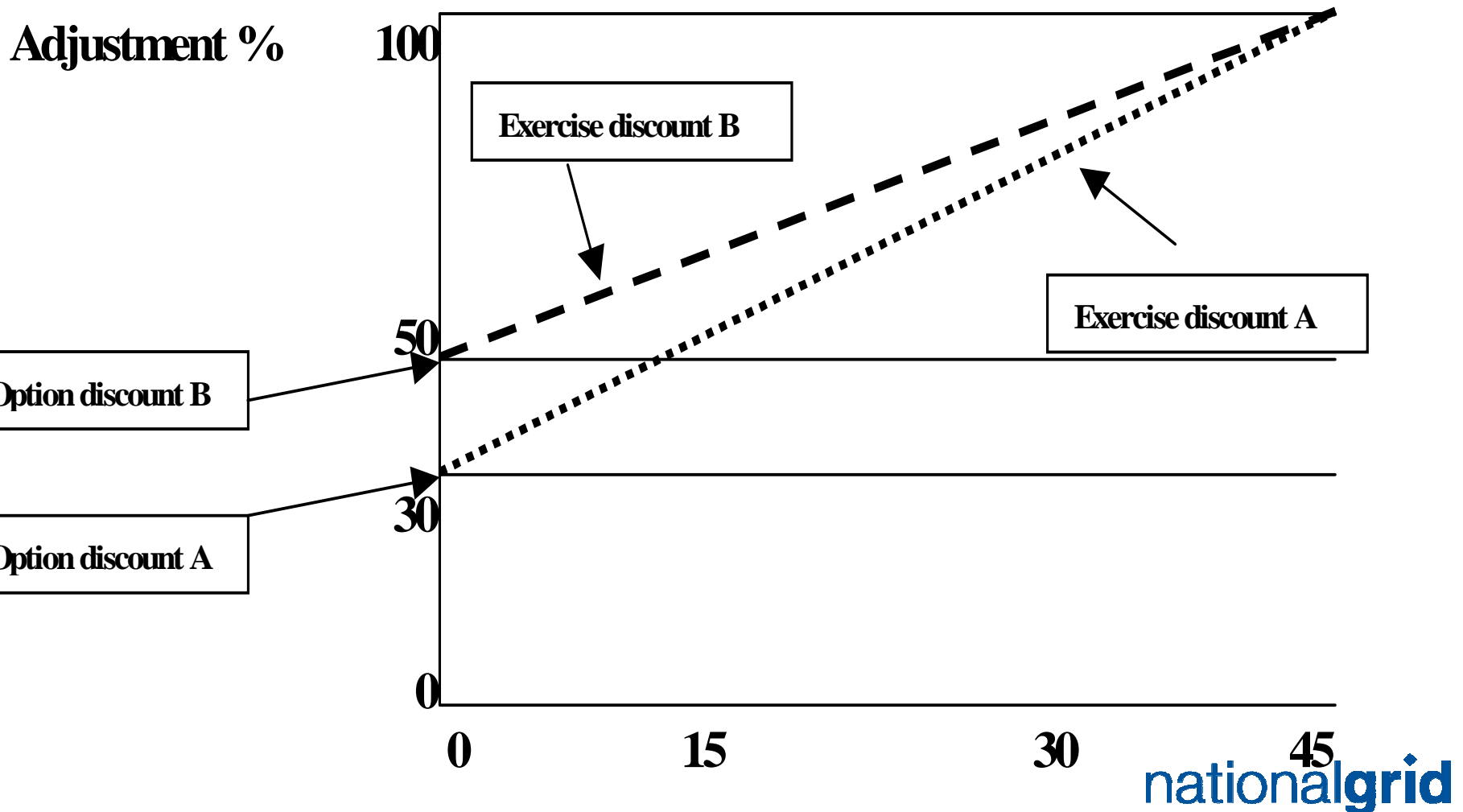
- ◆ Firm exit capacity booking arrangements to apply
- ◆ Firm to interruptible switching only to occur in the [annual] application process
- ◆ May need tenders with shorter leadtimes if better information obtained e.g. updated demand forecasts
- ◆ Interruption prices based on option exercise scheme
  - ◆ 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 Strawman (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)

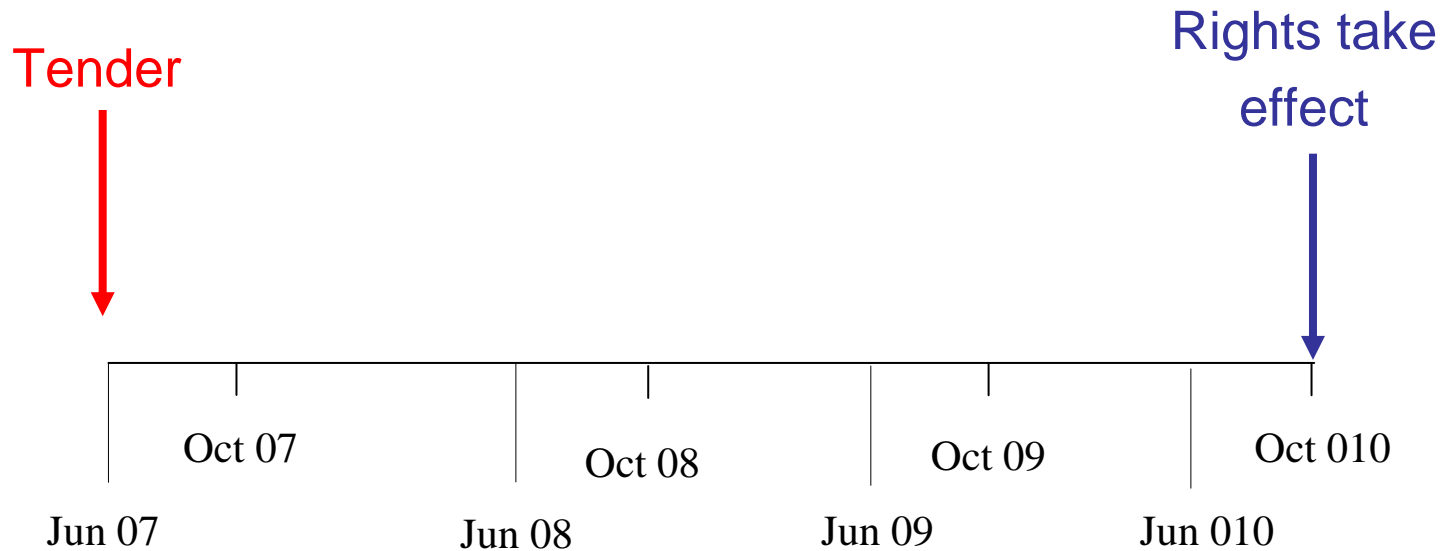
For Illustration

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 bid for NTS exit capacity in UKT sale of firm NTS rights
- ◆ When DN constraint DNs call interruption based on least cost

# Issues

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- ◆ Challenging timetable – interaction with NTS Exit Capacity Reform
- ◆ Trade off DN Interruption with other capacity products
  - ◆ ... but NTS exit capacity bought at prevailing price ?
- ◆ Change to Capacity/Commodity split
- ◆ Simplification of process
- ◆ Transition Arrangements
- ◆ DN Safety case
- ◆ Incentives
- ◆ Systems

# DN Interruption Reform

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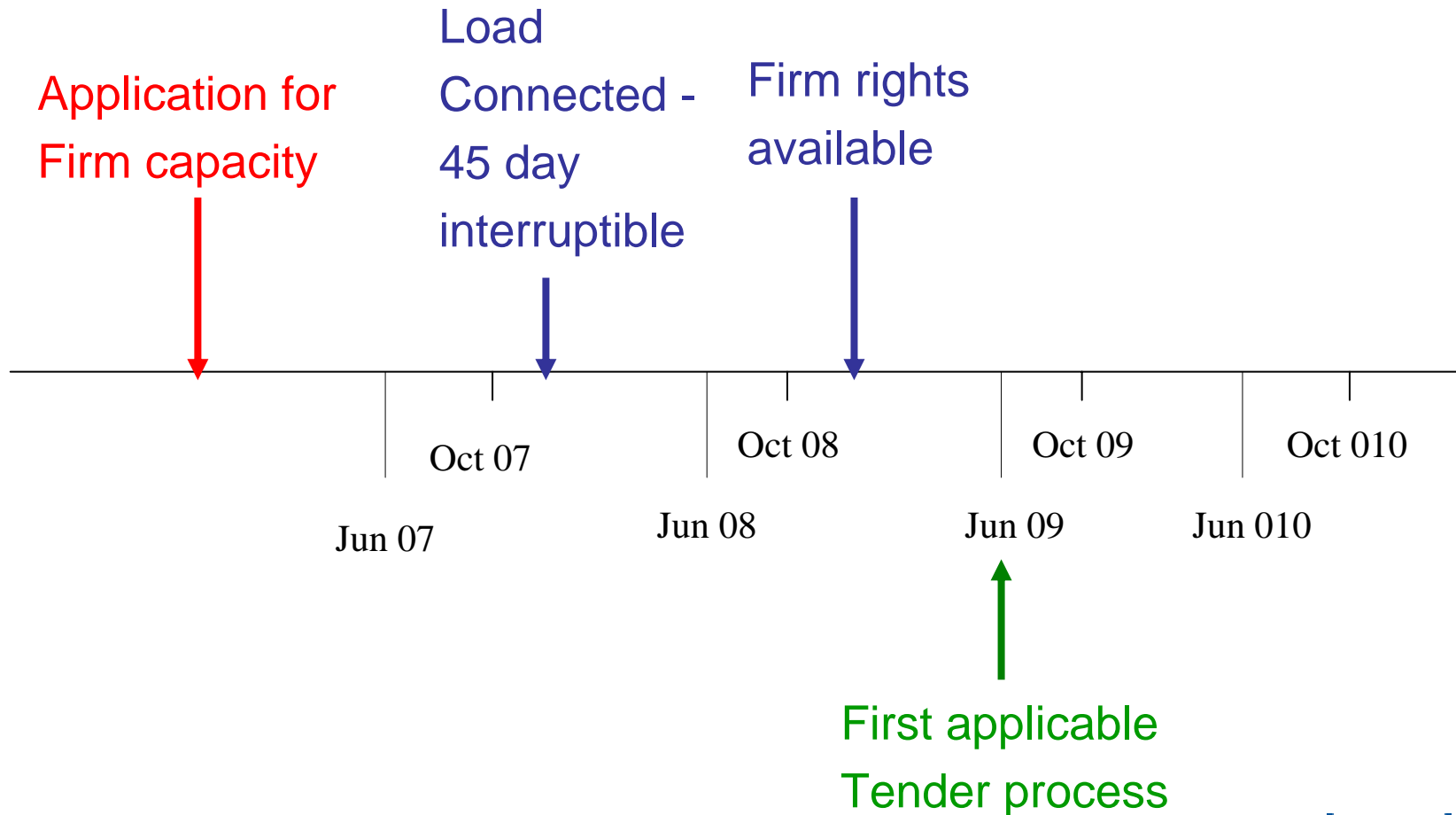
# New Connections

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- ◆ Greenfield sites
  - ◆ Given firm capacity if available and want it
  - ◆ Otherwise 45 days and applicable discount for location
  - ◆ Apply for other terms in next tender
- ◆ Sites in process of connecting (but will be connected after 2007)
  - ◆ If want to be firm
    - ◆ go firm when agreed
    - ◆ Interruptible until then
    - ◆ enter next available annual process after going firm
  - ◆ If want to be interruptible
    - ◆ Standard terms until enter next available annual process

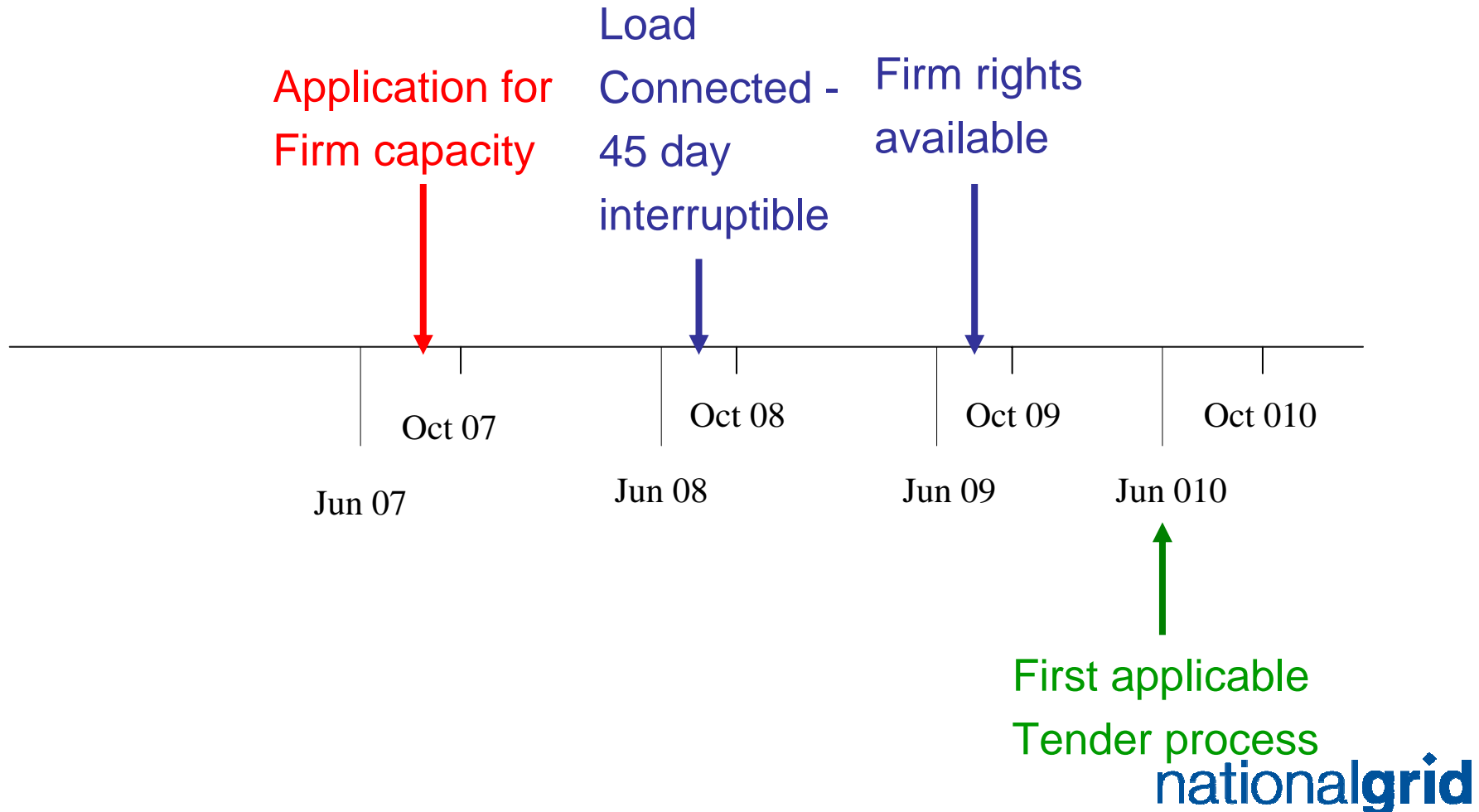
# New Connections

## Application for firm capacity – prior to new regime



# New Connections

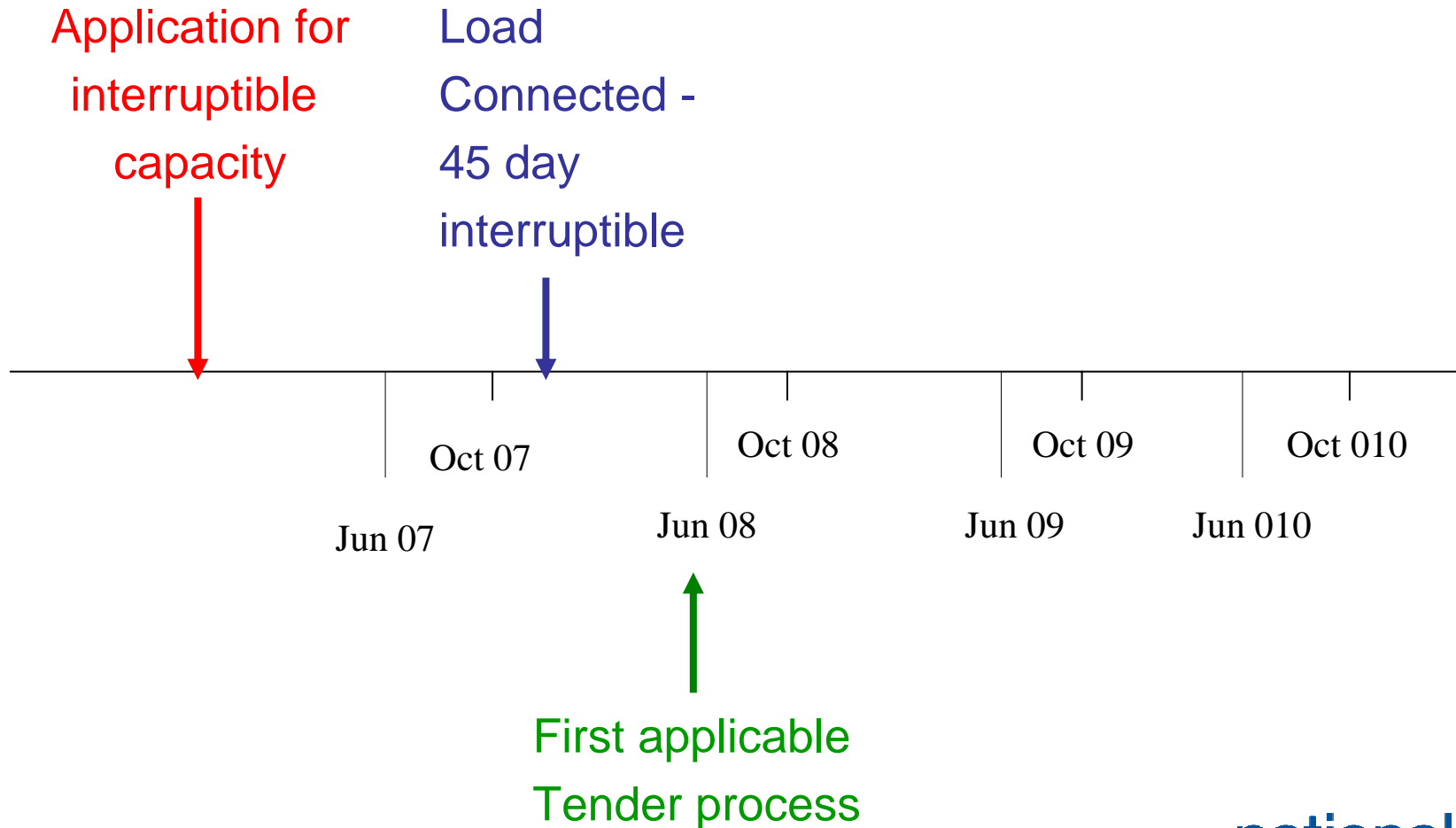
## Application for firm capacity – new regime started



# New Connections

## Application for interruptible capacity – prior to new regime

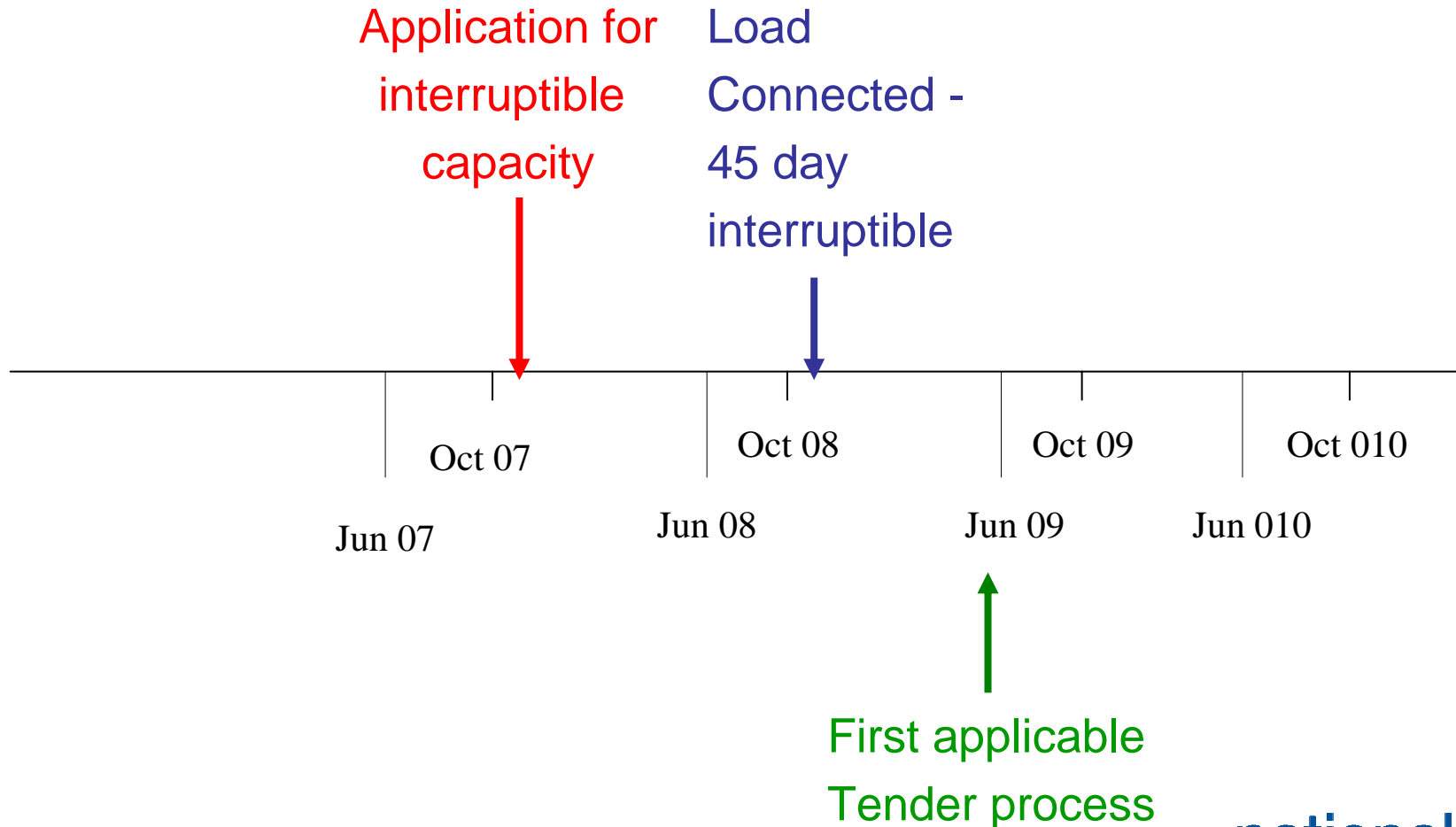
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# New Connections

## Application for interruptible capacity – new regime started

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# Timetable

