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28 June 2006

Dear Joanna,

Total Gas & Power Ltd (TGP) response to initial thoughts on the reform of interruption on Gas Distribution Networks

TGP note that the current Interruption arrangements clearly define to customers the circumstances under which they may be interrupted and the associated benefits should they choose to become interruptible. This has led to minimal costs in terms of administration and contractual negotiation, as there is little to no negotiation or tendering in relation to this service. Additionally, the present arrangements provide DN operators clarity both in respect of the amount of interruption available to them and when it may be instructed. We are keen that the advantages of the current regime in terms of simplicity and certainty to both customers and DN Operators are maintained.

We recognise however that, the following major criticisms have been levelled at the present regime and address these in turn:

Following the implementation of Modification 740a¹, Transporters are no longer able to interrupt customers for reasons of balancing supply and demand, except in emergencies. Interruption is now primarily used to manage system Transportation constraints and hence it has been suggested the level and location of interruption is incompatible with the post 740a arrangements.

TGP accepts that a degree of asymmetry exists with respect to GDNs being able to control the level of interruption available to them on their network (with the exception of NSLs) and some rebalancing may be appropriate in this area. We could add however that to date there has not been a situation where there has been insufficient interruptible or system capacity available to a DN to deal with a system constraint. We recognise this may be a concern under the suggested new arrangements where the interruptible discount may not provide sufficient compensation, particularly in the context of current commodity prices. If this is the case then one might suspect that additional inducements may be required to guarantee optimum levels of participation and hence interruption. These arrangements raise two important concerns; firstly, the potential costs borne by the community to guarantee participation; secondly, the form of an appropriate countervailing measure to ensure that the GDN does not inappropriately use its discretion to designate a previously non-NSL site to NSL status in order to maximise incentive returns.



¹ Amendment to Transco's rights to interrupt for supply / demand purposes

Additionally, it is presently unclear how the current GDN licence obligations, specifically SC16, will interact with the model proposed hence we request that this be clarified.

Another major criticism levelled at the current interruptible regime is that it represents an inappropriate level of cross-subsidy from firm to interruptible users. TGP notes however that a recent study undertaken by Nera indicated that there has not been a significant flight towards interruptible status from firm customers. This would suggest that either benefits levels are appropriate or the level of cross-subsidy is relatively small. Furthermore, Interruptible customers have not complained unduly about management of their status by DN operators and appear to be comfortable with the arrangements, with the notable exception of NSLs.

The current interruption arrangements do not align particularly well with investment time horizons. We accept that the ability to change (with the exception of NSLs) from firm to interruptible with one years notice is a cause for concern. However, we do not regard this as automatic justification for fundamental reform. An alternative option may be to allow some discretion to the GDN over the levels and location of interruption and perhaps increase the notice lead time to be consistent with investment timeframes.

In addition we have concerns regarding the proposed schedule to consider the reforms of the current interruption regime.

Our initial view is that the timescales for DN interruption are very ambitious as the GDNs are required to raise a modification proposal by the end of June 2006. If a fundamental overhaul of the interruption framework is undertaken it is unlikely to be fully completed by the June 2007 deadline, which further reinforces the argument towards an incremental change. Additionally, though substantial work has been undertaken by the Industry on the enduring offtake arrangements, there are still many questions to be answered on how the enduring regime will operate. It is therefore difficult to properly evaluate how the two regimes may interact.

Summary of TGP Response

In summary, we recognise it may be appropriate to reconsider the role of interruption post 740a implementation. We are concerned however that a fundamental overhaul of the regime may jeopardise the certainty and benefits of the current system and risk unintended consequences. TGP recommend that any reforms be fully justified through the use of a regulatory impact assessment to ensure that overall it is likely to deliver benefits to the market, since if reforms are not fully evaluated we risk a disproportionate cost being allocated to DNs and/or customers.

Should you wish to discuss our response further, please feel free to contact me.

Yours sincerely,

(This message is sent electronically and is therefore not signed)

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