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**Reform of interruption arrangements on gas distribution networks - An update**

CIA was actively involved in the development of Modification 90 "Revised DN Interruption Arrangements". At this moment in time we do not support the implementation of this proposal. This update from Ofgem does not include any information on the amount of excess interruptible capacity or the cost of "universal firm" on the gas distribution networks. It appears that the quantity of interruption required is a difficult amount to determine and depends on gas flows at any given time. We are concerned that risk would increase under modification 90, as the system is reliant on the accuracy of the GDNs' forecast of the volume of interruptible capacity.

CIA notes that implementation could lead to a reduction in interruptible sites available at Stage 1 of an emergency, and there could be more rapid progress to Stages 2 and 3 of a Network Gas Supply Emergency. We believe that this will have a negative impact on the responsiveness of customers going forward. CIA members would like to stress that to operate on back-up fuel is not a no-cost option as this requires long term investment and has ongoing costs, for example, maintenance and extra emissions permits. If a company is unsuccessful in a tender for interruption then a decision would then need to be made on whether to continue to spend money on maintaining this equipment. It would be hard to prove a business case for maintaining equipment on the vague notion that it might be needed if the company is successful in obtaining interruption rights. Furthermore, investing in new equipment to allow running on back-up fuel will be less likely as there is no certainty that chemical sites would be successful during the application process. The long term result could be that chemical companies will have significantly less ability and flexibility to operate an interruptible gas contract, reducing the overall ability to respond to future gas supply problems. For the avoidance of doubt, we do not support the implementation of modification 90 and do not believe that the case for change has been made through Ofgem's cost benefit analysis.

Kind regards,

Helen Bray

Helen Bray
Head of Competitiveness and Utilities

**CHAPTER: Four**

**Question 1: Do interested parties agree with the estimate of the costs of implementing GDN interruptions reform? Interested parties are requested to provide information about any costs they expect to incur to implement interruptions reform.**

We have submitted consumers' comments and costs to Ofgem for use in the final cost benefit analysis.

**Question 2: Do interested parties agree that Ofgem has identified the appropriate benefits of reform of the GDN interruption arrangements?**

We have made the following comments on Ofgem's stated benefits:

- *better investment signals for the GDNs to allow better trade-offs to be made between purchasing interruption, NTS offtake capacity and investing in its network;*

We believe that the current system provides sufficient investment signals as sites to not switch from being interruptible to firm very often.

- *improved security of supply through greater certainty about the availability of interruption;*

CIA does not believe that this will be enhanced, in fact we believe that this proposal would have a negative impact on security of supply, see our main response above.

- *a more flexible market for the offering and purchasing of interruption services;*

Flexibility is not always beneficial and we believe that the current proposals will represent extra complexity and administrative burden.

- *more efficient operation of the wholesale electricity market;*

We do not believe that this proposal will lead to the more efficient operation of the electricity wholesale market, if a constraint exists in one GDN with a power station but not in another how does this ensure that the most efficient CCGT is in operation?

- *wider economic benefits from GDNs selecting sites to interrupt based on the relative value they place on being interrupted;*

This proposal may give more choices to GDNs but it gives potentially less choice to industrial gas consumers.

- *control for the GDNs of the amount of interruption purchased will reveal which GDNs are the most efficient, allowing benefits to be passed back to customers in future price control incentives.*

We do not believe this proposal will control the amount of interruption purchased. It appears that it is very difficult to determine the amount of interruptible capacity required, hence no figures have been published by the GDNs so far. We believe that GDNs will need to over contract for interruption to ensure they have enough reserves should their calculations be inaccurate.

**Question 3: Do interested parties agree with Ofgem's estimate of the range of potential quantitative benefits of GDN interruptions reform?**

It appears that the cost benefit analysis is based on percentage efficiencies that can be made, and the chosen percentage efficiency by Ofgem makes the cost benefit positive. We believe that this is arbitrary and we are not sure that all the increase in consumer costs have been taken into account, for example increased administration, training, and stranded assets.

We believe that this proposal could have a negative impact on security of supply and have submitted evidence to Ofgem, the National Emergency Co-ordinator and HSE on this issue.

**CHAPTER: Five**

**Question 1: Do interested parties have any views about the timing of the introduction of the new arrangements for the customer charge?**

CIA supports measures to lead to greater predictability of charges and annual changes to charges less material and/or less likely.

**Question 2: Do the benefits outweigh the costs associated with changing the timing of changes to gas distribution charges from October to April each year to align it with changes in allowed revenue?**

We would need to see more information before making a final decision, but in principal we believe the benefits could outweigh the costs. However, we are concerned that prices will no longer be set in the light of annual demand statements, but we note that the importance of these forecasts in terms of charging diminishes as a higher proportion of the charge is recovered on a capacity rather than commodity basis. We are concerned that this change may initial mean that customers need to negotiate contracts for a 6/ 18 month period to realign with the new charging date or have other administrative requirements, and we will be working with membership on this issue to provide feedback to Ofgem.