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Your Ref:  
Our Ref: NTWK/GDPC/72  
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Email: paul.branston@ofgem.gov.uk

Date: 18 July 2008

Dear Colleague

### **GDN interruption reform – next steps for capex reopener**

Following completion of the first round tender process for interruptible capacity we have recently had communication with all GDNs on the process and studied the associated bid data.

From the follow up discussions it is clear that GDNs have received some potentially acceptable interruption bids which provide an opportunity to either defer or avoid reinforcement investment. However, there are zones where, due to bids being insufficient to cover interruption requirements or pitched at an uneconomic level, reinforcement is, at present, the more economic option available to GDNs to meet their forecast capacity requirements.

A number of GDNs have signalled to us their intention to hold a further ad hoc tender for interruption capacity. Such a tender is proposed under paragraph six of the Uniform Network Code – Transportation Principal Document Section G<sup>i</sup>.

Since ad hoc tenders could potentially allow GDNs to further defer or avoid reinforcement capex spending and optimise the use of interruptible capacity, we will not consider capex reopener applications from any GDN until the ad hoc tender process proposed by a number of GDNs for this year has been completed.

In situations where the decision to reinforce does not need to be taken until the next annual tender process has been completed, it is possible that a combination of the bids received then and an update of peak demand requirements following winter 2008/09, may remove the need for reinforcement, or defer it further. In such instances, where a capex reopener claim is made, we may defer consideration of the project until 2009. GDNs must therefore submit any capex reopener applications this year only and we will defer the decision if appropriate.

When considering capex reopener bids we will take into account the latest GDN data including the results of any ad hoc tender process and latest capacity data from the Offtake Capacity Statements (OCS) process. In assessing the GDNs' capex submissions, we will look at how well GDNs have managed the tender processes, and how effectively they have looked for ways of encouraging participation in any tender or ad hoc tender. We expect GDNs will use best judgement to secure the maximum economic interruption capacity offered in the recently completed tender process and proposed ad hoc tenders using the discretion available to them under the UNC.

Given that this is a price control reopener, all submissions will be subject to internal analysis, public consultation and presentation to the Authority for their decision. I will be in touch shortly to discuss the appropriate data format of any reopener submissions to allow us to consider all applications in an effective manner.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Paul Branston', with a large, stylized flourish at the end.

**Paul Branston**  
**Senior Manager, Gas Distribution**

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<sup>i</sup> [http://www.gasgovernance.com/NR/rdonlyres/6FAC142F-3D6F-469F-9DD5-CD1EBDD1D54B/25401/02\\_08\\_TPDG1.pdf](http://www.gasgovernance.com/NR/rdonlyres/6FAC142F-3D6F-469F-9DD5-CD1EBDD1D54B/25401/02_08_TPDG1.pdf)