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Interruptible Charging Methodology Options for UNC Mod 0090

Dear Steve,

RWE npower welcomes the opportunity to comment on the above discussion paper.

In response to the questions posed we would make the following points.

Which of the three main approaches outlined in Section 5 is favoured?

We do not believe that DNs will require much interruption at the commencement of the new arrangements and, except in a small number of cases, we believe that end user costs of running and maintaining back up capability, or their lost opportunity costs, are likely to exceed the costs of DNO investing to avoid capacity constraints.

Also the majority of current, or potential, interruptible customers are unlikely to participate in an open tender process and would prefer the straight choice of administered prices.

For these reasons we favour the Option A approach and providing the interruption prices are broadly reflective of DN investment costs this approach is no less inefficient than the current interruption arrangements. Introducing an element of trade off between option and exercise under Option A may provide some of the more sophisticated end users to better align their offer to their back up capability or lost opportunity costs, but it is arguable whether even this level of complexity is really needed.

Option C, which is a hybrid of open tender with upper limits or pre-set choices, could be of merit to a relatively small number of interruptible customers, and would be preferable to Option B. However, we still think it is unlikely to interest the majority of current, and potential interruptible customers, and believe that those parties that did participate would simply price at the price cap or within a cluster of pre-set option choices.

Whilst on paper this might appear more efficient than Option A, this will only be the case if the extra complexity involved does not detract end users from bidding. If Option

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C is pursued it is likely that a follow up tender exercise based on Option A will be needed at a later date.

Given that shippers/consumers will need to determine their own value for interruptible rights to some extent under all the approaches, are the shipper's/consumer's costs for the tendered price approaches significantly greater than for the administered price approach?

We expect there to be an increased administrative burden to shippers and consumers under all three approaches. Shippers will need to enter into discussions with customers about their options under the new interruption arrangements and will need to reflect these new arrangements in their contractual terms. They will also need to offer interruption arrangements on behalf of their customers and possibly assist customers in developing a bidding strategy.

Customers probably already know roughly what their costs are for retaining back up capability and what their lost opportunity cost would be from an interruption. However, to the extent that an open tender approach was pursued they would also need to try and estimate the DNs need for interruption at their site and what a DNs alternative investment cost might be, so as to maximise their opportunities in the open tender.

The more complexity in the process the greater the administrative burden, and we expect Ofgem to seek to quantify this when they undertake their final impact assessment on interruption reform.

The varying level of operational requirements and competition for interruptible rights in some zones could lead to greatly differing levels of price achieved for interruption rights in different zones, Is this seen as a potential drawback or as an appropriate outcome?

We believe this is an appropriate outcome as it simply reflects the realities of past network investment and day to day gas flows on transportation systems. In our opinion it is little different to the fact that exit capacity charges can differ significantly from location to location.

Providing the methodology used to determine investment costs is the same there should be no reason for concern.

What are respondents preferences for the structure of the option and exercise scheme outlined in Section 6?

We remain to be convinced whether an option and exercise scheme is desirable but in the event it were to be pursued for any of the pricing option we would argue that a maximum of four 25% steps for both option and exercise be used (i.e. eight options in total). Similarly a maximum of 8 time bandings would seem appropriate for interruption requirements.

If interruption rights are offered for multiple years ahead, say for years 4 to 8 from the time of the purchase, this may lead to infrequent purchases and so put extra emphasis on achieving the best outcome possible at each purchase time. To what extent does the frequency of purchases of interruption rights impact on the decision about the method chosen to purchase them? If rights are purchased for 5 years, or longer, does this justify the possible extra complexity in the tender-based purchasing methods outlined, and potentially extra decision-making costs for respondents, since the decisions reached on who has interruptible rights and at what price have a more significant impact?

We doubt whether customers will be prepared to offer interruption services for longer than three years and therefore the question of added complexity for more infrequent purchases is likely to be irrelevant.

Extra complexity will put customers off offering interruptible services in both the short and long term and longer term contracts will significantly increase the risks carried by suppliers and shippers in their respective contracts. They will also require increased security to be put in place between suppliers, shippers and customers.

Should you wish to discuss our response please do not hesitate to contact me.

Yours sincerely,

Steve Rose
Economic Regulation

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