

CODE MODIFICATION PROPOSAL No 0205
Interruptible Capacity Charges
Version 1.0

Date: 12/03/2008

Proposed Implementation Date: 01/10/2008

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

Urgent procedures are not sought for this modification. The Proposer recommends that the Proposal is referred to Distribution Workstream for development.

Nature and Purpose of Proposal (including consequence of non implementation)

Following the decision by Ofgem to approve Distribution Network Price Control DNPO3, Interruptible Supply Points will be subject to a capacity element of transportation charges from 1 October 2008. This category of supply point has previously only incurred a transportation commodity charge element in recognition of the fact that their utilisation of capacity can be curtailed via the interruption rights held by transporters.

It is intended that the capacity charge to be applied will be based on peak daily load or Supply Offtake Quantity (SOQ) in line with the methodology currently applied to firm supply points. This contrasts with the existing methodology used to derive transportation commodity charge rates for interruptible supply points which uses Bottom Stop SOQ (BS SOQ).

In terms of interruptible supply points, it has been acknowledged by Ofgem in their Final Impact Assessment DNPC03 that SOQ and BS SOQ have diverged over time such that the former is no longer representative. An illustration is given of the impact of the introduction of capacity charges to interruptible supply points, the analysis for which uses BS SOQ rather than SOQ. If as proposed, SOQ is used to derive the capacity charge rate, it is likely that at supply points where there is a large divergence between BS SOQ and SOQ the actual impact will mean substantially increased costs. An example of this increase is shown in Appendix 1.

We understand that it is not the intent of DNPC03 to see a particular market sector penalised arbitrarily as a consequence of a situation that has arisen over time.

We also understand that the reason for introducing a capacity element to interruptible supply points is two fold. Firstly to ensure that the reduced commodity charge resulting from the introduction of the 95:5 capacity/commodity split does not in itself produce a disproportionate reduction in use of system charges to this class of supply point; and secondly to introduce a fixed element in support of the desire to promote stability of charging.

However interruptible supply points do not enjoy any capacity rights. By using SOQ they are paying charges, albeit at a reduced rate, based on the same principle as firm supply points that do have capacity rights.

We believe that it would be more appropriate to align the methodology with that used for transportation commodity rate, i.e. using BS SOQ.

By using BS SOQ there will be no requirement to process the large numbers of capacity amendments that could be anticipated during a very short time period.

Should this proposal not be implemented then interruptible supply points will either pay a disproportionate charge or seek to align their SOQ with BS SOQ. In order to do this the relevant shipper would need to carry out a capacity amendment during the Capacity Reduction Period which runs from October to January. Clearly given the implementation date for application of capacity charges on 1 October 2008 this means that all amendments would need to have an effective date of 1 October 2008. There is no margin for rejected files etc.

The Capacity Reduction Period cannot be brought forward as it needs to follow the preceding Gas Year. This is because capacity cannot be reduced below the BS SOQ which itself is determined by the actual peak day from the preceding Gas Year.

It is our understanding that any file submitted, as part of the DM capacity reduction process, prior to 1 October will be rejected by xoserve systems. The affect of this is that it will not be possible (due to xoserve system constraints) to lower the SOQ to an appropriate level in time for the new charge structure.

In October 2011 as a consequence of DN Interruption Reform all sites will become firm. Firm sites are subject to ratchet penalties rightly applied to incentivise the booking of appropriate levels of SOQ to ensure system efficiency and security. In all cases the firm SOQ will be equal to or higher than BS SOQ. It is usual practice at a firm DM supply point to book sufficient capacity to cater for anticipated peak day consumption and therefore in most cases a margin will exist between SOQ and BS SOQ.

Those customers who are currently interruptible may have no experience of evaluating their capacity requirements on a firm bases. The opportunity exists up until 2011 to give these customers sufficient time to gain this experience, including crucial periods of winter consumption.

The proposed methodology using SOQ for interruptible capacity will incentivise the booking of the lowest levels of SOQ up to 1 October 2011. This will prevent customers in conjunction with their shipper from gaining the relevant experience as described above.

In addition those consumers may take the view that by paying capacity on the same basis as firm customers they have some rights (approx. 47%) to capacity during times of interruption.

This will provoke an unnecessary debate and could threaten system security.

The proposed methodology using SOQ will place an unfair cost burden on shippers particularly active in the interruptible market and produce a disincentive to any shipper wishing to become active in this sector.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence

By ensuring that transportation charges are appropriately applied for the relevant supply points that make up the interruptible market sector, thus promoting competition between shippers/suppliers active in this and other market sectors.

By ensuring that appropriate levels of capacity are booked in order to facilitate efficient use of the transporters system.

Standard Special Condition A11

- (a) the efficient and economic operation of the pipe-line system to which this licence relates
- (c) so far as is consistent with sub-paragraphs (a) and (b) the efficient discharge of the licensee's obligations under this licence
- (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:
 - (i) between relevant shippers
 - (ii) between relevant suppliers

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

System costs are expected to be minimal as the change is limited to an existing value.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B 4.6.2 B 4.6.5

Proposer's Representative

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Proposer

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Appendix 1

Example showing the increase in LDZ System Charges as a result of using SOQ rather than BS SOQ for a site with AQ 290,000,000 kWh SOQ 2,000,000 kWh and BS SOQ 1,000,000 kWh.

The example is based on April 2008 transportation charges.

AQ = 290,000,000 kWh

SOQ = 2000,000 kWh

BS SOQ = 1,000,000 kWh

Network	Annual Increase	Percentage Increase
West Midlands	£ 14,075	6.8
London	£ 15,024	6.7
North West	£ 13,868	6.8
Eastern	£ 13,223	7.0
Northern	£ 13,502	6.7
Southern	£ 14,361	6.8
Scotland	£ 13,600	6.8
Wales	£ 13,600	6.8