

TRANSCO DISCUSSION REPORT ON PD15

Options for Reforming the Interruptible Regime

1. Transco's Initial Discussion

In PD15 Transco invited views on a number of options and implementation issues with regard to possible future reform of the present interruption regime. This paper summarises these views and sets out Transco's response to them. The options discussed were:

- A variable duration regime
- An option and exercise regime.

2. Summary

There were 14 responses to the discussion paper:

Shippers & Suppliers	
Amerada Hess	AMH
British Gas Trading	BGT
BP Gas Marketing	BPG
Innogy	INN
Powergen	PG
Scottish Power	SP
Scottish & Southern Energy	SSE
Shell Gas Direct	SGD
Statoil	STA
TXU Europe Energy Trading	TXU
Other Interested Parties	
Association of Electricity Producers	AEP
Corus	COR
Chemical Industries Association	CIA
Energy Intensive Users Group	EIUG

The respondents generally welcomed reform of the present regime and the opportunity to express their views on the various options.

3. Detailed Responses

3.1 General Response

Eight respondents (AEP SP SSE BGT BP SGD CIA EIUG) welcomed reform of the present arrangements and the opportunity to comment on various alternatives. Two (CIA EIUG) specifically thought that increased choice was of major benefit but were concerned about the potential effects on individual end users.

Two respondents (PG SGD) stated that an incremental approach to reform was preferable and that Ofgem's most recent proposals with regard to the exit regime appeared to be too radical. One respondent (SP), however, favoured reform based on the Ofgem model rather than continuation of the existing product in a revised form. Six respondents (AEP BPG AMH COR STA CIA) expressed concern at the apparent divergence between the Ofgem and Transco proposals, making the point that this was causing confusion within the community, with this confusion hindering proper debate. Another two respondents (SSE INN) were of the view that Transco should have brought forward a Discussion Paper after Ofgem published its final exit regime proposals.

Transco's Response

Transco welcomes the broad support from the community for a review of the need for reform of the present arrangements and suggests that any concerns about the effects of reform should be addressed in the usual forums.

Transco understands the concerns expressed at the apparent divergence between itself and Ofgem on the subject of exit regime reform. However, it brought forward PD15 in order to stimulate debate and inform both itself and Ofgem prior to the publication of Ofgem's final proposals for SO Incentives.

3.2 Variable Duration Regime

The potential benefits of this option, as stated by four respondents (SSE PG STA EIUG), included consistency with present arrangements, ease of implementation, simplicity and equity.

Four respondents suggested that the main drawback with the option was likely clustering at the level of service that maximised the available discount (AEP AMH TXU INN). Reasons for this likely clustering included the recent history of mild winters resulting in low levels of interruption and the large sunk costs involved in having the facilities to cope with interruption. Other respondents (COR EIUG) feared that interruption would only ever happen to those at the top of the hierarchy.

Four respondents (BGT STA PG COR) expressed a concern that the regime could potentially lead to a shortage of interruption capacity; this would require the creation of more TNIs in the view of one respondent (STA).

Other points raised by respondents included whether the scheme would be nationwide or localised (STA), and how existing mechanisms such as IFAs, buddying and the ability of shippers to choose which supply points to interrupt would be affected by this regime.

Transco's Response

Transco agrees with many of the points made by respondents with regard to this regime. Transco would suggest, however, that clustering is not inevitable under this regime and that if it did occur from freely made decisions, this should not necessarily be regarded as a problem. The details of how the regime would operate would need to be fully considered through the normal pricing and Network Code processes if it is proposed to develop such an approach.

3.3 Option and Exercise Regime

Five respondents saw merit in this regime (PG SP STA SGD COR) on the basis that it gave a greater range of alternatives to both end users and Transco; it was also regarded as the regime that was more likely to provide efficient economic signals. However it was suggested that much more discussion was necessary before a workable scheme was created.

Four respondents (SSE AEP COR EIUG) felt that the unpredictability inherent within the regime had the potential to make it unattractive to end users. Another three respondents (BGT AMH INN) were of the view that the value of the regime would be minimal because of clustering at the maximum available option discount. Another two respondents (PG STA) stated that one disadvantage of the regime was its potential complexity and the resulting opaqueness of the hierarchy to individual supply points.

One respondent (TXU) was of the view that this regime would allow Transco to achieve the existing level of interruptible capacity at a lower cost. Another (AEP) thought the regime had merit if it allowed existing firm supply points to offer constraint management services.

Transco's Response

Transco agrees that this regime may provide a greater range of choice for end users and thus a more efficient means of providing economic signals.

To the extent the scheme would allow, through pass-through or other arrangements in supply contracts, end users to obtain exercise discounts when interrupted, it would enable benefits to be provided which might offset other costs related to interruption, so reducing the present unpredictable impact of interruption.

Transco does not agree that clustering is inevitable under this regime since greater likelihood of the supply point being chosen to be interrupted, when interruption is required, might offset the apparent attractiveness of large option discounts.

Transco is of the view that the regime is not particularly complex or opaque, particularly in relation to other market mechanisms in operation within the gas supply chain.

3.4 Implementation

Seven respondents (AMH BGT BPG COR SGD SSE STA), although welcoming reform of the exit regime, were of the view that any amendments to the existing arrangements should not occur until October 2002 at the earliest. Reasons given included the need for major Network Code and IT systems modifications, the heavy workload already associated with the new price control, the need to adjust commercial arrangements, HSE issues and the need for a much fuller debate within the community. It was suggested that such a delay made little material difference given the low probability of interruption over the summer period.

Transco's Response

Transco is in agreement with these points and believes that October 2002 provides the earliest possible date for significant change to the existing approach.

3.5 Other Issues

Four respondents (SSE AEP BGT AMN) expressed the opinion that the discussion paper did not adequately address the issue of TNIs and more particularly NSLs, which had a much greater probability of being interrupted than other supply points.

One respondent (AEP) thought that the logic of the discussion was that there would be direct contracts between Transco and individual end users, and that this would lead to a mis-match of contracts along the supply chain.

Three respondents suggested a regime with a 15-day contract on the same basis as at present with an exercise fee paid for each day in excess of that (TXU COR CIA).

Transco's Response

Transco recognises that the issue of both TNi and NSL supply points needs to be addressed by any new exit regime. The treatment of TNIs and NSLs was discussed within PD15. If it is proposed to develop either scheme then the treatment of NSLs and TNIs will need to be considered in detail.

With regard to gas transportation services, Transco is prevented from having contractual relations with individual gas consumers by the provisions of the Gas Act.

Transco welcomes the suggestions for other interruptible regime structures. These will be considered before any proposals for change are brought forward.

4. Conclusions

Transco welcomes the high level of response to PD15. Conclusions drawn from the responses are:

- There is widespread agreement that the existing exit regime with regard to interruption would benefit from review:
- Debate on the issue is at an early stage. Ofgem's final proposals on the issue need to be considered before progressing further:
- There is no agreed view within the community about which of a number of possible options best meets the needs of end users, shippers and Transco: and
- Implementation of any new regime should not occur until October 2002 at the earliest.