

Eddie Blackburn/Debra Hawkin
National Grid plc
National Grid House
Gallows Hill
WARWICK
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6 April 2010

RE: **GCM19**

Dear Eddie/Debra,

Centrica welcomes the opportunity to comment on the issues raised in the consultation document GCM19. This response is on behalf of the Centrica Group excluding Centrica Storage Ltd. There is no confidential information contained within this response. We also attempt to answer the questions posed in the consultation document.

Centrica fully supports the work which has been done to date by the Entry Capacity Charging Review Group and the changes proposed in Phase 1 but believes that these represent a first step towards meeting the objective of minimising the proportion of the TO Entry allowed revenue collected through commodity charges. We are of the view that the current charging structure leads to high and volatile commodity charges, which in turn lead to revenue recovery being far from cost reflective. In this respect National Grid Gas is consistently failing to meet an important licence objective.

We believe, however, that the proposed measures will only serve to stop the proportion of TO entry target revenue recovered through entry capacity charges from reducing still further. While we support a phased implementation approach we do believe that Phase 2, with measures designed to increase the entry capacity charge revenue to around [75%] and make the commodity charge more cost reflective should follow shortly after Phase 1. There is little justification for delay to Phase 2 when the impact of the Phase 1 measures will of necessity be limited because the auctions are failing to sell sufficient capacity. It is the potential for further phases afterwards in order to bring capacity revenue more or less into line with target which will have to be assessed in the light of experience.

While we would ideally want better prediction of the TO commodity charge this should not be at the expense of keeping the charge at anything like its current level, which serves only to commoditise a charge when, in order to achieve true cost-reflectivity, this should be a capacity charge. A high level of TO commodity charge is likely to be passed through to consumers, except those large users who can benefit from short-haul tariffs, and stifles competition whereby users of lower cost entry points can offer consumers beneficial tariffs.

In the case of new incremental capacity, much of which has been built in order to secure imported supplies, the present level of commodity charges acts as a deterrent to bringing supply to the UK market as compared with other competing markets. This consequence poses a potential threat to security of supply.

We give below comments and responses to the specific questions for discussion posed in the document.

Q1. Should the discounts that apply to day-ahead (DADSEC) firm daily entry capacity be removed?

Q2. Should the discounts that apply to within-day (WDDSEC) firm daily entry capacity be removed?

Centrica agrees that a revised calculation for day-ahead (DADSEC) and within-day (WDDSEC) firm daily entry capacity should apply such that both prices (p/kWh/day) are equal to the rolling monthly auction reserve prices. We also believe that it is necessary to review the release mechanism and pricing of interruptible capacity.

All of the discounts serve to perpetuate the incentive for behaviour to secure capacity at a price below the true cost, without any risk of capacity not being available. We believe that the measures proposed are required in order to introduce cost-reflective pricing and incentivise appropriate shipper behaviour.

A further benefit from the proposed measures should be increased liquidity in the market for secondary capacity, whether through trade and transfer or direct trading of capacity between shippers. This activity will no longer be undermined by the availability of low price firm entry capacity.

Q3. Should the revenue from the sale of within-day obligated NTS Entry Capacity (if not redistributed via the entry capacity neutrality mechanism) be treated as TO revenue for charge setting purposes?

We believe the revenue from the sale of within-day NTS Entry Capacity up to the obligated baseline should be treated as TO revenue for charge setting purposes.

Please do not hesitate to contact me should you require further information about these responses.

Regards,

Clive Woodland
Planning & Analysis Manager