



taking care of the essentials

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NTS System Management Principles Statement - Annual Consultation

Dear Chris,

On behalf of Centrica's group of companies, excluding Centrica Storage Limited, we welcome the opportunity to comment on National Grid's NTS System Management Principles Statement.

There are three key features that we focus on: transparency of operation; the audit process; and governance. On the latter two we highlight the importance and necessity of enabling User engagement. On the subject of transparency of operation, we recommend a thorough review of the SO Incentives scheme and consideration of what regular system management information needs to be regularly provided to Users to help them better understand the actions taken by National Grid.

Transparency

Our primary reason for not commenting on the detailed actions set out in the Statement forms the core of one of our chief concerns - that of transparency of operation. We are of the firm opinion that there remains significant scope for National Grid to provide more useful and timely information to Users concerning its operation of the NTS. Whilst it is appropriate to afford National Grid a degree of discretion in its operations there is a need for continuous open assessment of the decisions National Grid makes and how these decisions impact on the market place. Only with such openness can

discretion be confidently lent to National Grid. In our view, for a regulated monopoly, the presumption should be in favour of publication of data on NTS activities, with exceptions to expected operation being challenged on a case by case basis and kept under review.

To a very limited extent, in our opinion, a degree of transparency of operation has been sought and is regulated via National Grid's SO Incentives. In our recent response to National Grid's consultation on the SO Incentives we recommended that a more fundamental and thorough review is required; there is a need to ensure that the Incentives framework is compatible with the modus operandi of a Reasonable and Prudent Operator. We are not at all convinced that the current SO Incentives package fulfils that basic requirement and might even act as an inducement, in certain circumstances, for National Grid to take inefficient operational actions in the pursuit of financial reward.

Audit Process

Some degree of assurance that National Grid operates the system in a safe and efficient manner should be derived from the independent audit that is conducted periodically (we believe this should explicitly be at least annually). However, the lack of engagement of Users in the audit process (both in terms of the conduct of the review and in setting the audit scope) serves to limit the possible coverage and depth of investigation that might more reasonably be expected, consequently undermining the credibility of any assurances to be derived from the exercise. Any audit should be required to comment on how National Grid's operations and management of the NTS impacts on the market and this cannot, in our opinion, be properly addressed without affording Users the opportunity to provide their inputs to the audit process.

One of the key outputs from the audit should be that it highlights to Ofgem any areas of operation which might bring into question National Grid's compliance with its licence. The scope of the audit should not ignore this by limiting its conclusions to assessing the degree to which National Grid has complied with the commitments enshrined in the Statement.

Governance

Where any aspect of National Grid's operation and management of the system would benefit from more robust and tighter controls or where certain actions might give rise to undesirable effects on the gas market, a transparent and inclusive process for modifying National Grid's control procedures should be made available. This would allow Users and any other parties likely to be affected by National Grid's actions to make proposals for change. This would include, where appropriate, the ability to make proposals to circumscribe National Grid's discretion in how it manages the system and to highlight areas of operation requiring specific auditing. Should National Grid respond to this view by claiming these concerns can be addressed through some other avenues open to Users and other parties (for example via the Unified Network

Code modification process) then the function of the System Management Principles Statement and this consultation process, and how it contributes to some of the duties required of National Grid, would be brought into question.

Summary

In conclusion, we are seeking the following changes:

- a more open audit process that enables Users and other interested parties to help define its scope and to volunteer relevant inputs and evidence to the Auditor;
- a requirement that an output of the audit process is that any potential non-compliance with National Grid's licence obligation is documented and brought to Ofgem's attention; and
- a process whereby modifications to the behaviours and actions governed, or perhaps not explicitly governed, by the Statement can be discussed, challenged and modified by Users and other interested parties. In particular, Users should be entitled to propose their own changes to the Statement.

Additionally, we believe it would be worthwhile there being a thorough and comprehensive review of what should be included in the SO Incentives scheme and what further operational and system management information should be made regularly available to Users to improve transparency of operation.

Please contact me if you would like to discuss, or have any queries on, this response.

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