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Dear Lesley,

Object: Re: Centrica Storage Limited's response to National Grid Informal Consultation on Exit Capacity Substitution and Revision

Centrica Storage Ltd welcomes the opportunity to participate in the debate on *Exit Capacity Substitution and Exit Capacity Revision Obligations*.

We generally like National Grid approach for developing an exit capacity substitution methodology. However, we have comments and suggestions on: the definition of substitutable capacity, the role of the Authority in supervising substitution proposals, the setting of exchange rate cap and collar.

Please, refer to the annexed document as our detailed response to the related informal consultation, published by National Grid on 30 June 2010.

We hope that you have found these comments useful and please do not hesitate to contact us if you wish to discuss the response further.

Your sincerely,

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CSL Response to Informal Consultation on Exit Capacity Substitution and Revision (National Grid, 30 June 2010)

Please refer at the following references for all abbreviations in the text:

Statement	Exit Capacity Substitution and Revision Methodology Statement (draft for consultation, 30/06/2010)
NG	National Grid
CSL	Centrica Storage Limited

Section 2: The Exit Capacity Substitution and Revision Methodology

a. Are there any other factors that National Grid should consider in the analysis of exit capacity substitution and revision opportunities?
b. Are there any aspects of the analysis that should be excluded or amended?

See below the detailed response per each question.

Section 3.1: Substitutable Capacity

c. Is this definition of Substitutable Capacity appropriate? If not, why not?
d. Bearing in mind other issues raised in this consultation document, are there any additional factors that should be included to limit the definition of Substitutable Capacity? If so, please justify such inclusion.

We generally agree on the definition of "substitutable" capacity as the quantity of NTS baseline exit flat capacity in points where a certain percentage of it is no longer demanded. However, we suggest the following is added in chapter 2(19)(j) of Substitution Methodology Statement to limit the above definition:
j. Any NTS exit capacity at the following NTS Exit Points, whether NTS baseline exit flat capacity or NTS incremental exit flat capacity, shall not be Substitutable Capacity:

- NTS Exit Points to Storage Sites, where Exit capacity should be keep available for reasons of security of supply, even when it is unsold, in order to ensure the potential maximum usage of storage capacity.

In fact, per any Exit point related to a storage site, the available capacity should be at least equal to the injectability rate of the storage facility. Because of its nature of low/high frequency balancing tool, the existence of any storage facility is justified not only on the basis of its historic usage rate but also on its potential one. In the same way, the available exit capacity at the related NTS point should reflect not only the historic allocated (sold) capacity but also the potential increase in storage demand and, thus, increase in the related exit point. Higher the volatility in gas supply/demand, higher the potential usage of flexibility tools, like storage space.

Supposing, for example, the existence of a storage facility with maximum injectability of 10 GWh/d, NTS should ensure that at the relevant exit point at least 10 GWh/d of capacity is released. Supposing that after some years, at July application window only 80% of Exit capacity is sold out, the remaining 20% shall be available on day-ahead interruptible basis (as EC Regulation 715, art. 16(3)(a)). In case of a sudden increase in market demand for flexibility, the availability of this 20% of capacity will give the market to cover the increase of demand with the full usage of the storage facility. The above reasoning is particularly valid for short-range storage products.

The reliability on storage capacity should be even more underlined in a future scenario like the one depicted in both Ofgem Project Discovery and NG Winter Outlook 2010: decrease in UKCS supply and increase in imports will require heavier usage of storage capacity.

Section 3.2.1 DN Flow Swapping

e. Do respondents agree that the risk presented by exit capacity substitution to DNOs' ability to flow swap is not significant? If not, please quantify.
f. Are special arrangements that would exclude some/all DN offtakes from the scope of exit capacity substitution justified?
g. How would the DN offtakes to be excluded from exit capacity substitution be identified?

CSL has no comment to make on this area

Section 3.2.2 Interruptible Sites

h. Is National Grid's assessment of the risk to off-peak / interruptible gas flows correct? If not, what have we failed to include and what are the implications?
i. Are special arrangement that would exclude NTS Exit Points using interruptible capacity from the scope of exit capacity substitution justified?

As we stated above, because of the particular role of storage service in balancing market supply/demand, even interruptible (or off peak) capacity should be kept for reasons of security of supply.

Section 3.2.3: Interconnectors

j. National Grid would like respondents' views of the development of European Regulations, and specifically Article 16 of Regulation (EC) 715/2009. Is National Grid's interpretation of the Regulations correct? Is National Grid correct in stating that existing processes comply with the Regulations as envisaged?
k. Are special arrangements that would exclude interconnectors from the scope of exit capacity substitution justified? If yes, what is the justification and should this be a permanent or temporary feature?

Given the extreme importance of interconnectors' role in security of supply, any unsold amount of Exit capacity shall be kept (and not made available for substitution) for the potential usage of connection's maximum capability. Thus, we agree to consider Exit capacity related to Interconnectors as non-substitutable.

Section 3.3: Partial Substitution

l. National Grid would welcome views on whether substitution should only be applied where the whole incremental quantity can be satisfied through substitution or whether partial substitution is preferred.
m. Do you think that partial substitution is an added complexity that is disproportionate to the potential benefits?
n. Would respondents accept a delay to capacity allocations and release (subject to a UNC modification) pending agreement of partial revenue drivers if banded revenue drivers are not available?

Since the substitution process would allow NG to partially save investments for new infrastructure, we welcome partial substitution as well as it will be an instrument to improve efficiency in investments allocation and saving.

Section 3.4: Donor NTS Exit Point Selection

o. National Grid would welcome views on its proposals for selection of donor NTS Exit Points.
p. Do respondents agree that selection on the basis of same pipeline first is appropriate?
q. Do respondents agree that selection on the basis of downstream donor points first is appropriate?
r. Should any other criteria be considered?
s. Bearing in mind their indicative nature, does the flow direction diagram add value to the methodology?

CSL has no comment to make on this area

Section 3.5: Process Timelines

t. Would you be in favour of a change to the Licence removing the Authority's right to veto substitution proposals put forward by National Grid?

CSL firmly believe maintaining the Authority's right to veto substitution proposals as this would remove the external auditing over the proper usage of substitution process. NG has the incentive minimize the substitution exchange rate and thus de-risking its network, maximizing the proportion of new investments and, in turn, maximizing the allowed revenue (as RPI-X regulation).

u. Would you support a UNC modification proposal that seeks to remove or limit the additional application processes for DNOs following closure of the July application window?

CSL believe that removing such capacity as available on the market will substantially decrease Users' and Non-Users' flexibility (not only DNO's). We propose that capacity would be made available for any ad-hoc or ARCA application anyway, the approval of which will be conditional to and postponed after the unsuccessful substitution process.

v. Are there any other alternatives that could be considered that would extend the available time for analysis of substitution opportunities?

It cannot be said in advance how long it would require to assess the feasibility of any substitution process, but we believe that delaying the decision for more than two months will not guarantee enough time to repeat the process, in case of Ofgem rejection of the first assessment.

w. Do you support National Grid's proposal to not make available capacity, which may be subject to substitution away from an NTS Exit Point, from sale until the Authority's decision on substitution proposals is known?

See response at §3.5.u.

x. What alternatives are available to manage the uncertainty of capacity availability for ad-hoc / ARCA applications during the Oct-Dec period?

See response at §3.5.u.

y. Is it appropriate to cover such arrangements in the exit capacity substitution methodology statement or should it be specified in the ExCR methodology statement and/or UNC?

We believe that Special Modification to the NTS licence should give NG the power to implement the Substitution process. A Methodology statement will define all the details on assessment and allocation of substituted capacity, subject to Ofgem approval and over sight.

Section 3.6: Exchange Rate Cap & Cap

z. Should the exit capacity substitution methodology use an exchange rate cap to limit the impact o substitution on donor NTS Exit Points? If an exchange rate cap is used:

aa. At what level should the exchange rate cap be set?

bb. Notwithstanding that National Grid is obliged to review the substitution methodology on an annual basis, should the exchange rate cap be set initially at a low level in the expectation of being revised / increased in future years?

We welcome the use of an exchange rate cap, since we believe it would give NG the proper incentive to maximize the efficiency of Substitution process. We also welcome the setting of an initial low-level exchange rate cap in the expectation of being increased in following annual revisions, at a proportional rate over the time that tends to an efficient value (economies of learning).

cc. Should the exit capacity substitution methodology use an exchange rate collar to simplify the analysis of substitution proposals?

If yes: dd. Is a collar set at 1:1 appropriate? If not, what alternative level should the collar be set to?

If no: ee. What alternatives / simplifications could be considered for reducing the amount of analysis required?

CSL sees no need for a collar to be set. We believe that a certain amount of exit capacity at the donor exit point could represent higher capacity at the recipient point; thus, setting any collar to the exchange rate would limit the fully exploitation of Substitution process efficiency.

Section 3.8: National Grid / Ofgem Discretion.

ff. Do you believe that National Grid should have discretion to deviate from the approved methodology where the methodology would result in clearly inappropriate substitution proposals?

Yes, we believe NG should have discretion to deviate from the approved methodology under proper circumstances. However, since NG has the incentive to minimize the full exploitation of Substitution potentiality in order to maximize new revenue driving investments (as explained in §3.5.t), we believe that any deviation from the approved methodology shall be thoroughly scrutinised and audited by Ofgem.

gg. Do you believe that discretion should lie with the Authority to reject inappropriate substitution proposals?

Yes, we do. As we stated above, we believe that only an external review and approval would gives NG the proper incentive to fully exploit the efficiency of substitution process. Ofgem should be able to mirror the NG reasoning and reasonably audit the efficiency of the proposal. We would also ask Ofgem to ensure the market they will assess the feasibility of a capacity substitution even when NG has not submitted any proposal but there is clear evidence of it.

hh. Do you agree that the Licence and Ofgem's statutory duties provide enough protection for the Authority to apply sufficient discretion to reject inappropriate substitutions?

Yes, we believe the current regulatory framework gives the Authority enough power for rejecting inappropriate substitutions.

ii. Do you agree that the methodology should allow discussions between Ofgem and National Grid to identify and eliminate inappropriate substitution proposals before they are submitted?

Yes, we do. However, we believe that such an arrangement should be transparent. In the case NG has assessed that no capacity is available or feasible for substitution, Ofgem will review the decision in the given time-frame (i.e. 28 days in December, as proposed in NG timeline).

jj. Do you believe the Licence should be amended to make clearer the criteria by which the Authority will reject National Grid's substitution proposals? If so, what criteria should be included?

CSL has no comment to make on this area

Section 3.9: Transitional Rules

kk. Do you believe that any transitional rules should be included for the initial exit capacity substitution methodology? If so, what areas should be covered?

CSL has no comment to make on this area

Section 4: Key Issues with Exit Capacity Revision

ll. Do you agree that exit capacity revision should only apply to the release of funded incremental obligated entry capacity where investment has been made in new infrastructure?

CSL has no comment to make on this area

Section 4.1: Process Timelines

mm. Do you agree with National Grid's proposal that exit capacity revision should be applied only when reliable gas flow are established and/or can be confidently assumed?
nn. Is there an alternative that could allow revision to be applied earlier following entry capacity release in the QSEC auction?

CSL has no comment to make on this area

Section 4.2: Recipient NTS Exit Point

oo. Do you agree with the proposal that notional exit points should be created as the only recipient exit point for exit capacity revision?
pp. If notional exit points are not used as suggested, how should recipient NTS Exit Points be selected?
qq. Irrespective of question oo, do you agree with the principle of creating a notional exit point for unallocated exit capability?
rr. Would the use of notional exit points require a Licence change?

CSL has no comment to make on this area

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