



taking care of the essentials

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Our Ref.
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Dear Debra,

RE: GCD05 – Options for an SO Commodity Charge for NTS Storage Facilities Consultation

Centrica welcomes the opportunity to comment on the issues raised in the consultation on the options for a System Operator Commodity Charge for NTS Storage Facilities. This response is on behalf of the Centrica Group excluding Centrica Storage Ltd. There is no confidential information contained within this response. We attempt to answer each of the questions posed in the consultation document where appropriate, although there are some areas of overlap and so some of the questions may not be individually fully addressed.

Q1. Should storage continue to avoid an SO commodity charge?

We believe that storage represents a number of benefits to the NTS that should be modelled, quantified and considered as part of any proposal to introduce SO Commodity charges:

- injection of gas into storage facilities using off-peak capacity during periods of low consumer demand helps to maintain pipeline pressures at operable levels, potentially avoiding the need for costly compression;
- the delivery of gas from Storage to the NTS at times of high demand avoids capital investment by National Grid (demonstrated by negative Long Run Marginal Costs but not reflected by way of entry capacity rebates or the ability to benefit from appropriate short-haul tariffs);
- where the location of storage facilities is closer to points of gas offtake than the original entry sources of the gas, system efficiency is improved and pipeline constraints are reduced;
- storage deliverability is important in facilitating security of supply.

In addition to the benefits provided by storage, the costs they impose on system operation are not clear: many storage facilities, both existing and new, have their own compression and the impact on the system compression costs will depend on the actual pressure at the point and time of exit or entry rather than having the same proportional impact as other gas.

Therefore, without full consideration of the benefits of storage outlined above, storage flows should continue to avoid an SO commodity charge.

Q2. Which SO costs should be included within an SO Storage Commodity Charge?

From our perspective none of the SO costs listed should be included within an SO Storage Commodity Charge. The arguments for exclusion in section 2.1 of the discussion document outweigh the arguments for inclusion in all cases, but especially in the case of compression (see the answer to Q1 above).

Q3. Should the charge apply to physical or commercial flows?

In the event that an SO Storage Commodity charge is introduced then we strongly believe that in order to be consistent with other SO charges it should apply to physical flows.

Q4. If a charge were to be based on physical or commercial flows what are the estimated systems costs to Users and the industry? Please give details for the two possibilities?

The major part of the cost for ourselves would be in managing the introduction of a new charging code rather than whether it is based on physical or commercial flows. We do not understand why the IS costs to National Grid of a charge based on physical flows, which must already be metered, would be considerably higher than if the charge were based on commercial flows. Our overall perception, however, is that the cost of introducing a new charge would be greater than the benefit from raising overall charges by £0.5m to cover the cost of the new charge and re-distributing less than £2.0m among system users (it will be less than £2.0m as some users, including ourselves will incur a proportion of the new charge at the same time as having a reduction in normal SO charges).

Q5. Would it be unduly discriminatory to have a different commodity charge for storage Users?

We believe that storage users are already discriminated against because they do not receive any recognition for the benefits they provide to the operation of the network. Introduction of a storage commodity charge would increase the discrimination against them. A user should not suffer double charging for delivering a unit of gas to an end customer that has been transported through a storage site. It would be a further increase to the discrimination for such a charge to be based on commercial flows.

Q6. Are there any other possible approaches or issues that have not been discussed in the discussion document but warrant further consideration?

We are concerned at the possibility of attributing costs of system changes to the new storage charge which would increase this charge disproportionately.

If you have any queries in relation to this response, please do not hesitate to contact me.

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