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RE: **GCD08**

Dear Eddie/Debra,

Centrica welcomes the opportunity to comment on the issues raised in the discussion document GCD08. 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 give below comments and responses to the specific questions for discussion posed in the document.

Q1. Whether the objectives of the review are appropriate, namely to identify any charging methodology and/or UNC modifications required to;

a. Continue to recover allowed revenue while achieving the NTS Licence and EU relevant charging objectives.

b. Maximise the proportion of NTS TO target entry revenue recovered through entry capacity charges.

c. Appropriately incentivise long term booking of NTS Entry Capacity.

d. Appropriately differentiate by price between the NTS Entry Capacity products made available.

e. Incentivise Security of Supply.

We agree that the objectives of the review are appropriate. In particular we believe that maximising the proportion of NTS TO target entry revenue recovered through entry capacity charges ensures cost-reflectivity and also avoids any potential cross-subsidy between users of new incremental and existing obligated capacity. In the case of firm capacity users should be paying charges which are reflective of the long run marginal cost of capacity, this should also apply to capacity which is nominally interruptible but is effectively firm. Truly interruptible capacity should be made available at a reduced cost, which reflects the risk of interruption. 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 further believe that in order to enhance security of supply it is necessary to have a regime which is based on long-term firm capacity bookings, which give appropriate signals to National Grid with regard to requirements and expected flows. This will lead to greater certainty with regard to the actual landing of gas and may enable release of additional firm capacity which is physically available above obligated levels.

We therefore believe that it is important to ensure that appropriate incentives for long term booking of NTS entry capacity are in place. Producers and importers need stability of capacity prices and appropriate incentives to match capacity bookings with their long-term plans. The current availability of large quantities of capacity near to the time of flow at zero reserve price provides the very opposite – a strong incentive not to book longer term capacity in advance.

The current regime does not appropriately differentiate by price between the NTS entry capacity products in that short-term capacity is available at less than 1/365th of the annual cost. Phase 1 removes this differential prior to reversing it in later phases.

Q2. Whether a phased implementation approach, as suggested by the ECRG, is appropriate, with;
a. Phase 1 comprising removal of entry capacity discounts and
b. limiting the release of interruptible capacity to when firm capacity has sold out or is close to selling out.
c. Phase 2 covering further changes in light of experience of phase 1 including the potential re-introduction of price multipliers for daily and monthly capacity.

We fully support the measures proposed in Phase 1. We believe, however, that these 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 with a potential for further phases afterwards in order to bring capacity revenue more or less into line with target.

Q3. Should the 50-50 entry-exit TO revenue split within the Charging methodology be retained or should an increased proportion be allocated to exit with a reduced proportion for entry?

We believe that the 50-50 entry-exit TO revenue split is the most cost-reflective approximation. We have not seen any compelling evidence to suggest that this is not the case.

Q4. Should the TO Entry Commodity charge continue to apply uniformly to all entry gas flow allocations excluding storage and “short-haul”?

We believe that the option to vary commodity charges between ASEPs deserves further consideration as part of the Phase 2 package of measures. We believe that there may be scope for improved cost reflectivity without undue complexity.

Q5. Should the prevailing quarterly, monthly and daily entry capacity products, auction timings, and auction frequencies be changed or reviewed?

We believe that the current products, timings and auction frequencies are appropriate although additional products such as annual firm or tiered interruptible should not be ruled out. We believe that it is important to retain the ability for shippers to tailor their capacity requirements to their anticipated gas flows and that it is possible to do so while maintaining long-term signals and maximising revenue recovery through capacity charges.

Q6. Removal of Discounts
a. Should the discounts that apply to day-ahead (DADSEC) firm daily entry capacity be removed?
b. Should the discounts that apply to within-day (WDDSEC) firm daily entry capacity be removed?

c. Should a revised calculation for day-ahead (DADSEC) and within-day (WDDSEC) firm daily entry capacity apply such that both prices (p/kWh/day) are equal to the rolling monthly auction reserve prices?
d. Should the zero reserve price that applies to daily Interruptible entry capacity (DISEC) be retained?

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 all of the measures a, b and c listed above should be applied. We also believe that there may be a case for either applying a non-zero reserve price to DISEC capacity or introducing additional tiers of interruptible capacity. These products with different risks of interruption should be considered as part of Phase 2.

Q7. UNC Changes
a. Should the calculation of the Daily Interruptible NTS Entry Capacity quantity released be reviewed?
b. Should Daily Interruptible NTS Entry Capacity at each ASEP be limited to when the firm entry capacity at the ASEP has sold out or is close to selling out?
c. Should the revenue from the sale of within-day obligated NTS Entry Capacity continue to be redistributed via the entry capacity neutrality mechanism?

a. We believe that the calculation of the Daily Interruptible NTS Entry Capacity quantity released should be reviewed. The current method of calculation based on the usage in previous days leads to the situation where on some days insufficient interruptible capacity is released while on other days excessive amounts are released. In a situation where firm capacity is not available, the amount of interruptible capacity released should reflect the physical capacity.

b. We also believe that at each ASEP individually this capacity should only be released when the firm entry capacity at the ASEP has sold out or is close to selling out. In principle we would support UNC modifications designed to implement this change.

c. We do not believe that the revenue from the sale of within-day obligated NTS Entry Capacity should continue to be redistributed via the entry capacity neutrality mechanism by default (see the answer to question 8b below). It may, however, be appropriate to redistribute this revenue via entry capacity neutrality if TO revenue is in over–recovery.

Q8. Licence Changes
a. Should the Licence clearing obligation be removed?
b. Should the revenue from the sale of within-day obligated NTS entry capacity continue to be treated as SO revenue or should it be treated as TO

We believe that the Licence clearing obligation should be removed and that all the revenue from the sale of within-day NTS Entry Capacity up to the obligated baseline should be treated as TO revenue by default. If, however, the TO revenue is in over-recovery then it may be appropriate to treat this revenue as SO or incentive revenue.

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

Regards,

Clive Woodland
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