centrica storage

20th November 2006

Centrica Storage Limited
Venture House
42-54 London Road
Staines
Middlesex TW18 4HF

Telephone 01784 415 300
Facsimile 01784 415 318
www.centrica-sl.co.uk

Mr. Dominic Harrison
Regulatory Frameworks
National Grid, NG House
Gallows Hill
Warwick
CV34 6DA

j.harrison@uk.ngrid.com

Dear Dominic,

Re: NTS GCM 03 Introduction of an SO Commodity Charge for NTS Storage Facilities.

Centrica Storage Limited (CSL) welcomes the opportunity to respond to your consultation document NTS GCM 03 Introduction of an SO Commodity Charge for NTS Storage Facilities.

CSL does not support this proposal.

For ease of reference, CSL has addressed each point using the same paragraph numbers as the consultation document and provided a conclusion at the end.

3.3 Relevant Cost Elements

Shrinkage: We agree that compression should be excluded. However, where storage facilities contain their own compression and re-deliver gas to the NTS at higher pressure, thus providing compression to the grid, this benefit needs to be quantified and subtracted from any proposed commodity charge.

Unaccounted for gas (errors in metering) – NGT believe that Storage meters will contribute to the same extent as all other meters. CSL argue that Storage meters will only contribute to this if gas is lost from the facility, which is already captured by the full commodity charge. Where Storage facilities use the same meters for both input and output, any errors will tend to net off to zero over time. It is therefore not reasonable to include metering errors in the proposed commodity charge.

Internal Costs: These costs relate to administration and data handling and NGT propose that storage sites incur a share of the costs. CSL accept this but point out that IT data handling costs and administration costs are not proportionate to the volumes of gas flow at a meter but primarily a function of number of meters i.e. any charge should be calculated in proportion to the number of meters rather than the meter's throughput. Storage facilities move large volumes of gas and would receive a disproportionably high charge.

Exit TO Capacity Costs: CSL considers that any TO forgone revenues resulting from interruptible sites should be recovered via the TO charging mechanism and not recovered as a cross subsidy from the SO commodity charge. TO charges are based on peak capacity

requirements, interruptible sites (and storage sites in particular) only use capacity when it is not needed by other users and therefore NGT should not have not invested any monies in the network to support interruptible sites. Storage facilities generally withdraw gas and provide capacity support to the system rather than using network capacity. Storage facilities benefit the system by utilising interruptible capacity during periods of low demand and benefit the system by providing capacity during periods of high demand. We therefore do not think it is appropriate to charge storage facilities for use of interruptible capacity when the capacity costs to the system are zero and the capacity benefits remain unrewarded.

Revenue Adjustments: NGT is proposing that the storage SO charge should include an adjustment for SO under / over recovery. The variable SO costs relate to compression, shrinkage, operating margins and SO internal costs. NGT propose that compression and operating margins should not apply to the Storage charge and we argue that the two elements that comprise shrinkage should also not apply. This leaves the operators internal costs which are solely under the control of the operator and do not vary due to gas flow at storage facilities. We therefore argue that that the SO revenue recovery does not relate to storage facilities and any adjustments should not be incurred by storage facility users.

In conclusion CSL believes that Storage facilities do not incur flow related costs on NGT but rather benefit the NTS by creating transmission capacity and providing compression. Applying a flow related charge to storage facilities would not be cost reflective and would lead to unjustified tariffs on users of the facilities. We agree that storage facilities cause NGT internal IT storage costs and personnel costs however storage facilities cause NGT less burden than other sites due to the metering arrangements. All storage metering systems are managed, maintained and owned by the storage facility operators, the flow data is delivered to NGT free of charge. NGT supply, maintain and read most other system exit point meters and recover these costs through the commodity charges. Given this we purpose that NGT's cost to serve a storage facility is very low in comparison to other connected exit points and meter types.

3.4

NGT propose to apply the share of the costs in proportion to the expected annual throughputs of the storage facilities in proportion to annual system throughput. CSL believe this would create a disproportionately high charge given that the cost to serve a storage facility does not relate to its throughput. The method proposed would result in larger facilities incurring larger costs whereas most of the costs relate to administration and IT storage and do not relate to volumetric gas throughput. We therefore believe that the charge should be inversely proportional to the throughput of the facility to result in a level charge to each facility and prevent cross subsidisation from large facilities to small facilities.

3.5

With regard to cost apportionment CSL believes that these proposals will levy disproportionably high charges on larger storage facilities. We believe a more objective approach for any resulting charge would be to base the charge on a "per connection" basis. This approach would represent a proportional cost allocation but would result in a charge so insignificant that the administration of the charge would not be covered by the revenue.

Centrica Storage Limited
Registered in England & Wales No 3294124
Registered Office
Venture House
42-54 London Road
Staines, Middlesex TW18 4HF

With regard to double counting, CSL considers that, unlike other exit points, gas entering storage facilities does not leave the NTS but is 'parked' and as such may be considered as latent linepack. Charging for compression when this gas leaves the NTS and again when it enters appears to introduce double charging and therefore suggest that this approach is fundamentally flawed.

3.6
We have already argued that no flow related costs should be included in the charge therefore applying under/over recovery in proportion to flow is not reasonable.

Section 4 Justification

4.1 Reflect the costs incurred by the licensee in its transportation business

The proposal does not reflect the costs incurred by the transporter. The methodology applies the costs in proportion to gas volume flowed however this is not an appropriate mechanism for non volume related costs and does not reflect the costs incurred by the transportation business. The proposal fails to acknowledge the benefits that storage facilities provide both in providing additional system capacity and saving NGT compression costs.

4.2 So far is consistent with (4.1) properly take into account of developments in the transportation business

Increased numbers of Storage facilities have added very little overheads to the costs of operating the system and all incremental costs have already been provided through the entry capacity mechanism. There have been a number of Network Code Modifications raised to introduce this charge, all of which were rejected. The increase in the number of storage facilities does not change the issues raised in those consultations in any way.

NGT have stated that introduction of this charge would ensure consistency with the intent of PC73. CSL has reviewed the OFGEM decision letter for PC73 and found that Ofgem left the decision for consideration in Network Code Modifications. NGT have currently raised a UNC modification to introduce these charges and have stated that the modification is required by the pricing changes. The statement in this consultation document is incorrect because the intent of PC73 was for the charges to be subject to network code modification consultation and there is no requirement for the charges to be implemented before that process is complete. The current modification proposal also fails to recognise the outcome of PC73 because it has been raised on the premise that the consultation required the charges to be introduced.

CSL welcomes the opportunity for the storage SO charge to be consulted upon through the network code modification process as required by PC73. Both this consultation and Network Code Modification 120 should not be taking place until the application of the SO charge has been properly consulted through the UNC modification process.

4.3 So far as is consistent with (4.1) and (4.2) facilitate effective competition between gas shippers and between gas suppliers

Centrica Storage Limited
Registered in England & Wales No 3294124
Registered Office
Venture House
42-54 London Road
Staines. Middlesex TW18 4HF

We do not agree that a current anomaly exists because storage sites avoid SO charges for stored gas. Storage sites pay SO charges for gas consumed in the same manner as any other site. Storage facilities save the transporter costs by reducing peak capacity requirements and providing compression. Introduction of charges would arbitrarily and wrongly introduce charges at facilities which provide more benefits than costs to the transporter.

This proposal is clearly discriminatory against connected storage facilities unless it is also applied to storage provided by line pack and embedded storage facilities.

4.5 EC Regulation 1775/2005

NGT state that charging proposal complies with the EC regulations because it would be so small that it will not influence the actions of storage users however CSL estimates that the value proposed to be passed through this mechanism would be £5.3m per year. Although this value is small in comparison to the total volume of gas transmitted through the NTS it will have a direct impact on the cost of marginal gas provided from storage facilities. The cost to serve different sizes of storage facilities is level however this proposal will target costs at large volume facilities. Rough would suffer 77% of the costs which equates to £4.081m / year. The gas delivered into the Rough storage facility has travelled about 20 meters through NGT's pipes and reduced the volume of gas which NGT needs to transport to the rest of the system it has removing the requirement compression and associated shrinkage. We estimate that NGT's administration and IT storage costs for the Rough facility equate to no more than 30 minutes of man time per day for dealing with flow profiles and manual entry of meter readings. The data storage of 1mb for meter reading using the best available storage is about 1pence per year. CSL provides metering services to NGT at zero cost. We therefore estimate that NGT's costs to serve the Rough facilities injection needs is at most £3,000 per annum.

We therefore conclude that £4.081 Million does not reflect the Transporters costs of approximately £3,000 per annum, is discriminatory, will interfere with effective competition and add unnecessary costs to marginal gas trading and cause cross subsidy from storage facilities to other users. It therefore does not comply with ECD Regulation 1775/2005.

Conclusion

The proposal is clearly non cost reflective. In the Rough storage facilities case, potentially a £4.081m charge would be made where the Transporter incurs £3,000 at most. Storage facilities save the system operator significant money by providing peak system capacity through local delivery and a substitute for transmission compression. The consultation has not followed the process required by Ofgem in PC73 and has misstated those requirements as the basis for this proposed change. Implementation of this proposal will introduce a very distinct and clear misapplication of costs and can only lead to inefficiency and additional gas costs to the end user. If the commodity charge were to be applied at a cost reflective rate then that rate would either be negative or so low that the administration would outweigh it's value.

Yours sincerely

Stuart Waudby, Operations Manager

Centrica Storage Limited
Registered in England & Wales No 3294124
Registered Office
Venture House
42-54 London Road
Staines, Middlesex TW18 4HF