

Eddie Blackburn
Regulatory Frameworks
National Grid plc
National Grid House
Gallows Hill
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19 February 2009

RE: **NTS GCM05 Re-Consultation**

Dear Eddie,

Centrica welcomes the opportunity to comment on the issues raised in the consultation on the Charging Methodology proposal relating to NTS Exit (Flat) Capacity and Exit Reform. 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 generally supports the proposed amendments to the charging methodology although we have concerns over wording of paragraph 4.13. We believe that the user commitment should be defined in terms of a number of years [4] at the prevailing prices, whether or not there is a price control boundary these will be unknown at the time of entering into the commitment. At times there will be a need to generate the indicative prices by rolling forward the prevailing price controls but the indicative prices are only required in order to determine a default financial user commitment.

Centrica notes the section 'Balancing S&D' in paragraph 4.9. We believe that it is important that this is identified as a separate issue. While we would not support a smoothing which involves a reduction of all supplies we do believe that some form of smoothing of the storage and import supplies should be applied. The supply/demand balancing rules within the methodology and transportation model need to be reviewed in order to produce more stable prices whatever happens and certainly before the amendments proposed in GCM05 are implemented. Efforts should be made, where possible, to avoid unpredictable and unstable prices. Long term certainty in exit capacity prices is important for large users such as power stations.

Centrica notes that by setting the exit prices such that sale of baseline capacity recovers allowed revenue it is extremely unlikely that the actual revenue will exceed the allowed revenue, such that a negative TO Exit Commodity Charge would be required. In the event that this does occur, however, it is important firstly that it is applicable to all exit flows, including those using short-haul commodity rates and secondly that it is not greater in magnitude than the SO Exit Commodity Charge at any time. If this is required then a separate consultation is needed.

Centrica does, however, have concerns with regard to the uncertainty which the whole Exit Reform package, including the charging methodology, gives to the actual level of booking of exit capacity. We would suggest that if the actual level of bookings turns out to be substantially lower than the baseline then there will be a need to revise the charging methodology in order ensure that most of the revenue is collected through capacity charges.

Turning to the specific issues raised in section 7 of the consultation we wish to make the following comments:

- Centrica agrees that a consistent approach has been taken to setting actual, indicative and auction reserve prices for NTS Exit (Flat) Capacity.
- Centrica agrees that NTS Exit (Flat) Capacity prices should be generated on a nodal basis.
- Centrica agrees that interruption credits should be removed
- Centrica agrees in principle with the proposed methodology for determining Annual/Enduring NTS Exit (Flat) Capacity prices or reserve prices for annual and/or daily firm auctions in that these should be based on a single year network model and supply/demand forecast. There does, however, need to be a review of the method of supply/demand balancing in order to see if it is possible to produce more stable prices while still retaining UKCS beach supplies at maximum.
- Centrica agrees that the expansion factor will be determined in year N in relation to setting all exit prices for year N+4.
- Centrica agrees with the proposed method of calculation of the annuitisation factor.
- Centrica agrees with the principle that a new SO Exit (Flat) commodity charge will replace the current SO Exit Commodity charge and that a new additional TO Exit commodity charge will be required to offset under recovery of TO Exit allowed revenue.
- Centrica agrees that the arrangements should be implemented with effect from the date of implementation of the relevant UNC Modification Proposal.

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

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