



taking care of the essentials

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Our Ref.
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Dear Eddie,

RE: GCM05 – Enduring NTS Exit (Flat) Capacity Prices Consultation

Centrica welcomes the opportunity to comment on the issues raised in the consultation on the changes to the Gas Transmission Transportation Charging Methodology in order to allow for NTS Exit Capacity Charges post 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 section 7 of the consultation document.

Centrica generally supports the proposed amendments to the charging methodology although we have concerns over the unusually large differences between indicative prices quoted for some of the scenarios. We understand that this results from the current 'Merit Order' approach. Therefore 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 should be reviewed in order to produce more stable prices whatever happens, even if UNC Modification 116A is approved, 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 supports a negative TO Exit Commodity Charge in the event that a UNC Modification which introduces an auction is approved, provided 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 incentives which the whole Exit Reform package, including the charging methodology, gives to DNs to either over- or under-book exit capacity. In either case DNs could be immune from the impact of any additional costs if they were simply able to pass these through to shippers. The effect of these costs will ultimately be borne by customers in any case.

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 for all variations of UNC Modification proposals 116 and 195.
- 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 Enduring/Prevailing 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 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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