

Mr. Julian Majdanski
Joint Office of Gas Transporters
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Dear Julian,

RE: Modification Proposals 0195 & 0195A: "Introduction of Enduring NTS Exit Capacity Arrangements"

Thank you for providing Centrica Storage Ltd (CSL) the opportunity to comment on the above modification proposals

Given CSL's involvement in the Review Group 0166 "Review of necessary reform of NTS Offtake Arrangements", CSL supports the implementation of Modification Proposal 0195A, offers qualified support for the implementation of Modification Proposal 0195, and of the two, 0195A best facilitates the relevant objectives.

Considering all of the Enduring NTS Exit Capacity Modification Proposals, CSL ranks those which it supports in the following order (most merit first):

1. Modification Proposal 0116A;
2. Modification Proposal 0195A; and
3. Modification Proposal 0195.

CSL ranks those which it does not support in the following order (most merit first):

4. Modification Proposal 0116CVV;
5. Modification Proposal 0116BV;
6. Modification Proposal 0116VD; and
7. Modification Proposal 0116V.

In the interests of clarity, of the proposals that CSL does not support, Modification Proposal 0116CVV is considered to be least worst, and Modification Proposal 0116V is considered the worst.

CSL has been actively involved in the numerous industry workshops tasked with designing an enduring NTS Exit regime. Our position as stated in our response to the 0116 suite of Modification Proposals remains; that our overarching conclusion arising from this involvement is that the case for the introduction of a flexibility product for Shipper Users has not been proven and it is indeed unwanted by all. This was

evident throughout the Review Group's work and is highlighted in the industry consensus Proposal 0195 and alternative 0195A. Furthermore, we are of the view that firm charges for exit capacity are inappropriate and not cost reflective for Storage Users, also highlighted in the Review Group's alternative proposal. CSL has serious reservations regarding the introduction of a flexibility product for Shipper Users and how this negatively impacts on the economic and efficient operation of the NTS. As a result, CSL unequivocally does not support the implementation of Modification Proposals 0116V, 0116VD, or 0116BV.

CSL urges Ofgem to consider the widespread opposition to the introduction of a flexibility product and to consider the inappropriateness of firm charges for exit capacity on Storage Users.

CSL offers the following comments in support of the stated position above in supporting the implementation of Modification Proposal 0195A:

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

(a) the efficient and economic operation of the pipe-line system to which this licence relates:

0195 and 0195A

Implementation of either of the Modification Proposals would provide a stable, economically efficient investment framework for National Grid NTS to undertake informed investment decisions and efficiently provide capacity in the NTS. Strong user commitment is combined with the positive elements of the ARCA regime. Such a strong but flexible investment regime would be expected to benefit the operation of the NTS and so facilitate the achievement of this objective.

0195A

In addition, the Daily Off-Peak NTS Exit (Flat) Capacity service will facilitate the use of spare capacity on the system thereby encouraging increased utilisation of the system. This also addresses the Competition Commission's comments concerning the utilisation of all spare capacity on the system.

The more certain 'standing offer' release mechanism based on the 1 in 20 peak day demand will allow shippers to pro-actively manage their use of the system thereby reducing the need for National Grid to manage constraints reactively.

(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporters;

0195 and 0195A

Implementation of either of the Modification Proposals would allow Users to formally request capacity levels and provide a climate under which both

National Grid and DNs could make efficient investment decisions benefiting the combined operation of the system.

0195A

In addition, the implementation of 0195A will facilitate the use of spare capacity on the system thereby encouraging better economically efficient use of the system benefiting the combined operation of the system

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

0195 and 0195A

Implementation of either of the Modification Proposals would facilitate provision of capacity to meet 1 in 20 requirements and transporters' obligations to meet all reasonable demand for gas, albeit possibly with significant implementation costs which the implementation of Proposal 0116A would not incur.

0195A

In addition, the implementation of 0195A might better facilitate provision of capacity to meet 1 in 20 requirements due to the voluntary interruption of gas off-take by Users opting for the Daily Off-Peak service on days where demand is over 80% of the 1 in 20 peak day demand.

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers;*
- (ii) between relevant suppliers; and/or*
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

0195 and 0195A

Implementation of either of the Modification Proposals would facilitate the achievement of this objective by removal of the current sunset clause and implementing enduring arrangements. Modification 0116A would also have this effect.

0195A

In addition, the customer-manageability of access risks allowed through the Daily Off-Peak service combined with the overrun requirement to apply for Enduring NTS Exit (Flat) Capacity will enhance effective competition.

The avoidance of firm charges by off-peak users will also enhance effective competition as those users who do not drive investment in system capacity will not be charged as though they do. Supporting this, the argument that Storage Facilities and bi-directional Interconnectors have the affect of

temporarily creating capacity on the system as they would be flowing Entry on peak-days further highlights the inappropriateness of firm charges when they arguably reduce investment in system capacity

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

0195 and 0195A

The implementation of either of these proposals will be beneficial to security of supply and to the operation of the Total System as the current Sunset Clause will be removed reducing the current levels of uncertainty.

0195A

In addition, the implementation of Proposal 0195A would allow Users to pro-actively manage their use of the system thereby reducing the need for National Grid to manage constraints, thus benefiting the operation of the Total System.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System

0195 and 0195A

Implementation of either of these proposals would allow economic and efficient investment in the System.

0195A

In addition, Proposal 0195A would benefit the operation of the System by reducing the need for National Grid to manage constraints.

b) Development and capital cost and operating cost implications

0195 and 0195A

Implementation of either of the proposals would provide a regime where economic and efficient investment in the System is promoted.

0195A

In addition, Proposal 0195A would better promote economically efficient investment in the System avoiding inefficiently incurred costs through ensuring better usage of 'spare' capacity on the System

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs

0195 and 0195A

n/a

d) Analysis of the consequences (if any) this proposal would have on price regulation

0195 and 0195A

Implementation of either of the proposals would reduce the level of contractual risk by introducing a four year commitment for capacity procurement and by allowing flexibility of application and start dates.

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

0195 & 0195A

Transporters contractual risk will reduce through the introduction of a four year commitment for capacity procurement and by allowing flexibility of application and start dates.

The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

0195 and 0195A

The UK Link System would have to undergo some changes as would National Grid's website.

User's internal systems would also require modification.

0195A

In addition, the implementation of 0195A would mean National Grid's website will require changing to publish D+1 forecast demand expressed as a percentage of the 1 in 20 peak day demand.

The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

0195 and 0195A

Both proposals would involve increased costs due to the new capacity application process and User Commitment Term. The new interruptible capacity products compared to the current long term interruptible product would also increase costs.

The longer user commitment term associated with both proposals would also increase the contractual risk of Users.

The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and any Non Code Party

0195 and 0195A

The removal of long term interruptible status means that there will be reduced incentives for Customers to install back-up systems which could consequently limit the ability of the market to provide demand side response, and possibly limit the effectiveness of any response to a Network Gas Supply Emergency.

0195A

Users that rely on the Daily Off-Peak product may be exposed to significant risks by not acquiring firm access rights. Depending on firm demands by other Users, the Daily Off-Peak product may become unavailable, thus restricting the Daily Off-Peak user's ability to remove gas from the System.

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

0195A

This proposal ensures the best use of 'spare' capacity as commented on by the Competition Commission and is consistent with the spirit of Regulation 1775/2005.

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

0195 and 0195A

- ◆ Provides an enduring set of Exit Arrangements that would enable parties to plan for new NTS Supply Points or capacity increase at existing NTS Supply Points or Offtakes with greater confidence than that of the Interim Arrangements.
- ◆ Provides all Users with the ability to place a value on short term capacity and buyback.
- ◆ Provides Users with aggregated information in respect of capacity applications and bookings to better inform User intentions in respect of future use of the NTS.
- ◆ Provision of zonal linepack information represents a major step forward in allowing Users to better understand the risks associated with the purchase of particular capacity products.

0195A

- ◆ Better meets the needs of storage users and bi-directional interconnectors both of which will typically be delivering rather than offtaking in peak demand periods, and better meets the needs of those delivering back-up gas supplies to particular power stations and those willing to use alternative fuels during peak periods.
- ◆ Better addresses the concerns set out in the Competition Commission decision than the main proposal 0195.
- ◆ The mandatory capacity allocation process for overrunning Users together with substantial Overrun Charges ensures that non firm users do not receive a firm service

- ◆ Charges for off-peak users are likely to be more 'cost reflective' than the largely UIOLI daily interruptible capacity suggested in 0195 which is not as certain to be made available.

Disadvantages

0195 and 0195A

- ◆ Increases the contractual risk for Users or Non-Code Parties entering into an ARCA.
- ◆ Costs to shippers remain much higher than 0116A. 0116A will better facilitate the relevant objectives.

0195A

- ◆ Off-peak users may pay too much compared to the existing interruptible users.
- ◆ May not be entirely consistent with Regulation 1775/2005 which requires TSOs to offer both short and long-term interruptible services.
- ◆ The removal of interruptible status requires changes to NGG's Safety Cases. However, the fact that Off-Peak interruptible capacity will not be released under this proposal during peak demand conditions means off-peak users are not likely to be offtaking gas under the most likely gas emergency scenarios.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

0195 and 0195A

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 of the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

0195 and 0195A

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

Programme for works required as a consequence of implementing the Modification Proposal

0195 and 0195A

No programme of works has been identified as a consequence of implementing the Modification Proposal.

Proposed implementation timetable (including timetable for any necessary information system changes and detailing any potentially retrospective impacts)

0195 and 0195A

It is unlikely that the Implementation of either of the proposals would meet a 2008 implementation target. Modification Proposal 0198 has been proposed to extend the current Sunset Clause by one year to allow 2009 implementation of enduring arrangements.

Implications of implementing this Modification Proposal upon existing Code Standards of Service

0195 and 0195A

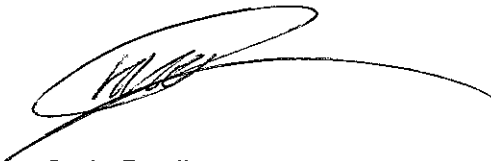
No implications of implementing either of the proposals upon existing Code Standards of Service have been identified.

Further Comments/Summary

Storage is fundamentally and physically different from other categories of NTS user. Given that storage typically provides demand when supply is high, and provides supply when demand is high, storage operation usually acts to reduce the costs of operation of the NTS. It is therefore inappropriate that firm exit charges are applied to a category of user which is materially different and which does not drive investment on the NTS.

Proposal 0195A best recognises the interruptible characteristics of storage and the benefits which it delivers to the NTS. CSL urges Ofgem to recognise these characteristics also in coming to its decision. We also urge Ofgem to recognise the widespread opposition to the introduction of a flexibility product.

Yours sincerely



Craig Purdie
Regulatory Analyst