



Legal, Regulation and Compliance

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Tuesday, 12 August 2008

Mr Ijaz Rasool
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Ofgem
9 Millbank
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By E-mail: ijaz.rasool@ofgem.gov.uk

Dear Ijaz,

Re: Regulatory arrangements for East West Cable One Ltd's two proposed GB-Irish electricity interconnectors

Thank you for the opportunity to respond to the above consultation. This non-confidential initial response is on behalf of the Centrica group of companies excluding Centrica Storage Ltd.

Centrica agrees with the principle of encouraging investment in interconnectors by allowing developers the freedom to offer flexible terms, accepting that some reasonable and proportionate regulatory safeguards may be required. Such safeguards clearly need to balance the need to protect consumers with the requirement to facilitate necessary investment, among other things by providing investors with confidence in the regulatory regime.

Overall, we support Ofgem granting the proposed exemption in this instance.

In this response we begin by making some general observations, before addressing specifically the questions raised in the consultation document.

General comments

1. Centrica supports the requirement for any exemption decision to be taken after consultation with the other Member States or regulatory authorities concerned. We are, therefore, disappointed that as Ireland and GB are both part of the North-West Regional Market, CER and Ofgem did not elect to consult jointly on this issue. Instead, CER issued its consultation on 20th June, closing on 18th July 2008. Centrica believes that for consultations such as this, a joint consultation and decision would be more efficient and effective, as well as being better for regulatory and investor certainty.

Whilst not specifically a requirement for the granting of an exemption, Centrica also believes that it would be appropriate for greater clarity to be provided at an early stage as to how any differences in the

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operating regimes in the two member states would be addressed and clear rules of engagement given the impact this might be expected to have.

2. Centrica notes that under the proposed exemption, SLC 13 would apply as would the revised binding Guidelines on Congestion Management, and has responded on this basis.

In addition to the extensive information included on the proposed UIOLI arrangements, we would encourage EWC to consider the facilitation of UIOSI arrangements. UIOSI is preferred to UIOLI, especially as there is nothing in the Cross Border Electricity Regulation which should oblige independent players to surrender firm capacity holdings without compensation, at a point where these holdings still retain material option value.

Ofgem notes in the consultation (3.59) that EWC intend to apply UIOLI arrangements in the same way as the existing Moyle Interconnector and that the arrangements EWC will employ to allow capacity holders to trade between the SEM and GB markets will be based on those that are already used for Moyle. In addition, EWC has indicated that they would be willing to discuss with CER/Ofgem how the UIOLI arrangements could be made more effective if concerns were raised.

In view of this reference, the application should have included a copy of the Moyle UIOLI arrangements as an annex to the consultation to enable participants to respond effectively, and we have not been able to locate them. In the absence of a copy of the arrangements, Centrica is not able to confirm whether it or not supports this aspect of the proposal.

3. The consultation notes that EWC proposes to introduce information transparency rules in accordance with those on the IFA interconnector, a brief note of which is included as appendix 7 to the Imera (EWC) application document. Whilst this does provide an indication of the proposed arrangements, Centrica would wish to see suggested improvements built into the arrangements for new interconnectors rather than a straight read-across being applied.

4. More generally, we would highlight the unusual nature of the EWC exemption applications. While the proposals put forward by EWC provide a regime in line with the current rTPA arrangements, EWC argues that an exemption from this rTPA regime is necessary to remove the risk that the regime may change during the period of the exemption (3.28).

Ofgem does not comment specifically on this point, but we believe that it illustrates the importance of considering applications on a case by case basis, recognising the specificities of each project and the differing concerns of investors. Other exemption applications in future are likely to take a more traditional approach, and it is essential that each is evaluated on its merits rather than being assessed against this particular approach.

Answers to consultation questions

Q1 Do you agree with our proposal to treat the EW1 and EW2 interconnectors as a single project for the purpose of evaluation of the exemption criteria?

Centrica agrees that it is reasonable to treat the EW1 and EW2 interconnectors as a single project for the purpose of evaluation of the exemption criteria. We note that the main distinction between the two in terms of the consultation document is the duration of the exemption sought (see below).

Whilst a minor point, we note that in 1.14, any change to the information and data provided by EWC in support of its application could be grounds for review and potential revocation. We would not wish to unnecessarily increase investors' perception of risk re infrastructure projects and believe that only material changes should apply. The draft exemption references "material" change, which we support.

Q2 Do you agree with our overall assessment that the exemption should be granted based on the examination of whether the exemption criteria have been met?

Centrica is content that the exemption should be granted based on the exemption criteria.

Q3 Do you agree with the proposed scope and duration for the exemption and the conditions for revocation?

The consultation sets out that the difference between the two exemption durations is supported by financial modelling provided to Ofgem on a confidential basis. Ofgem has confirmed that in their view the analysis supports the application in this respect. The durations do not seem unreasonable and on this basis we support them.

On the conditions attached to the exemption, both in sections D and E, we note that they are expressed only in general terms. This approach is common practice for exemptions, leaving much of the detail of Ofgem's approach to the conditions to be gleaned from the original applications and Ofgem's subsequent consultation/final views documents.

We believe that it would be beneficial to set out key conditions and terms on the face of the exemption in all cases. This would improve clarity of the regulatory regime and reduce uncertainty for all parties. We would encourage Ofgem to increase the detail provided in the exemption.

EWG has set out a number of Capacity Allocation principles, including capping the capacity acquired by parties. Ofgem confirms it considers that the arrangements are appropriate in principle. It also includes in the draft exemption grounds for revocation based on whether the Authority is satisfied with the outcome of the first Open Season. We believe it would be helpful if Ofgem were to provide some indication of the basis the Authority would use to decide whether, in fact, there had been a material change in the degree to which the requirements are met.

We trust the above comments have been helpful, and we should be happy to discuss any points raised in more detail.

Yours sincerely,

By e-mail

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