

Mr. Stuart Cook
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Ofgem
9 Millbank
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26 August 2010

Dear Stuart,

RE: Gas Shipper Entry Credit Arrangements

Thank you for providing the opportunity to respond to Ofgem's initial thinking on correcting National Grid's licence to facilitate a Shipper raising an Income Adjusting Event (IAE). This response is sent on behalf of the Centrica Group excluding Centrica Storage Limited.

Centrica has for some time been extremely concerned at the events surrounding the Fleetwood entry point, as set out in Ofgem's letter. It has become obvious over the course of this year, as a result of capacity that has been offered for sale at Fleetwood, that Canatxx has declined to pay to National Grid the capacity credit that is required of it under the UNC. This, and the failure by Canatxx to gain the planning consents necessary to allow the project to proceed, raises fears that Canatxx will ultimately fail to make good on its financial User commitments in respect of the incremental signal it provided at Fleetwood.

Indeed, our understanding is that Canatxx has now sold its interests in the Fleetwood project and, without knowing the detail, we would be extremely surprised if the new owner has taken on Canatxx's entry capacity liabilities. We would also speculate that any eventual storage facility at Fleetwood will be on a smaller scale than originally proposed. This further increases the probability of a smeared charge on GB gas shippers.

Capacity at Fleetwood remains due for delivery on 1 October 2010, with payment for that capacity becoming due thereafter. However, we have to agree with Ofgem that there appears to be very little in the way of network development undertaken by National Grid in order to deliver against the incremental signal. We acknowledge that National Grid may have acted in accordance with the incentives placed on it by its gas transporters licence in respect of economic and efficient delivery of capacity, however we remain frustrated that under the circumstances National Grid appears committed to collecting the full revenue resulting from the incremental signal at Fleetwood.

Our understanding from figures provided to us is that the total amount of SO revenue accruing to National Grid is in the order of £40m over the next five years. Of this, we understand that National Grid claims to have spent £10m (a figure we find staggeringly high for effectively "desk work" and in the

absence of much, or indeed any, physical network development for the benefit of network users). The smear which would result from Canatxx's non-payment is due to commence in Q4 of this year, meaning this matter now needs urgent attention.

We have long argued that costs genuinely incurred by National Grid as a result of the whole Fleetwood issue must be reimbursed in full, along with an acceptable return. However, we do regard any remuneration over and above this amount as a windfall which by any measure is extremely difficult to justify. We believe our customers would be horrified at having to pay a contribution to National Grid under these circumstances.

Given this, we strongly welcome the course of action intended by Ofgem, namely to correct the transporter licence deficiencies which have so far prevented us from seeking a more equitable outcome through an IAE. In simple language we believe that the licence changes must achieve the following:

1. Redefine in broader terms the IAE provisions such that shippers are no longer prevented from raising an IAE in circumstances such as those in the Fleetwood example, in particular tackling windfall auction revenues;

We believe that the proposed change to National Grid's licence achieves this. In addition, however, we believe changes to National Grid's licence should also be made in order to:

2. Relax or remove the need to identify a trigger date for the IAE. The Fleetwood example contains a number of dates (including the original incremental signal given 4 years ago) any of which could be argued to have been the trigger which started the clock ticking for an IAE. We see arguments such as this as an unnecessary obstacle, and one which runs the risk of distracting from or preventing a successful IAE; and
3. Relax or remove the time limit by which an IAE has to be raised. We believe that an IAE should be permissible at any time providing a reasonable link can be demonstrated to an event or series of events.

We do not believe that the proposed changes to the licence achieve either of these latter two aspirations, and consider that failing to tackle these issues at this stage runs the risk of allowing a shipper to raise an IAE, only for such a challenge to then be timed-out as a result of existing rules.

We look forward reviewing and commenting upon a statutory licence change consultation in due course, however in the meantime please don't hesitate to contact me should you wish to discuss any aspect of this response.

Yours sincerely,

Chris Wright
Commercial Manager