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Licensing & Industry Codes  
Ofgem  
9 Millbank  
London SW1P 3GE

Thursday, 29<sup>th</sup> July, 2010

Dear Ikbal,

**Re: 74/10 Gas and Electricity licences – Proposed changes to the Application Regulations and Revocation Schedules of future licences.**

Thank you for the opportunity to comment on the above consultation, this non confidential response is on behalf of the Centrica Group of companies excluding Centrica Storage.

Centrica supports the objective of simplifying and clarifying the Application Regulations and in particular the principle of providing a clear, simple template for completion by applicants. The current Regulations do lack clarity in places which can lead to unintentional omissions during the application process, leading to a less efficient outcome for both Ofgem and the applicant. We believe this review is timely and constructive.

We believe that applying a risk based approach to the assessment of Licence Applications and publishing clear criteria in advance is a sensible and proportionate approach. It will be important to ensure that the arrangements will treat new entrants appropriately and address the specific issues which arise with joint venture developments, for example, as seems increasingly common with offshore wind farms.

In respect of the proposed approach to revoke unused or dormant licences, again, this seems reasonable providing Ofgem first consults the licence holder to confirm whether or not the course of action is appropriate. For example, if a developer holds a generation licence, but there have been delays to the build programme, however the developer can evidence an intention to use the licence.

We are more concerned by the proposal to remove the requirement for a gas shipping licence for non-physical trading. While we are not opposed in principle, this may not necessarily be a straightforward change and should, we believe, be subject to Impact Assessment before a decision is made.

Moving to the discussion of revocation, we agree that a consistent approach across new licences

would seem to be a reasonable way forward, however it is important to recognise the different nature of the various licensable activities and to make provision to accommodate. For example, it may be appropriate to have a shorter period for revocation for failure to commence the licensable activity in some licences than others. An alternative approach would be to make explicit provision for the licence holder to request an extension to the period based on the specific circumstances of the case in the same way as the current provisions allow an applicant to request changes to other aspects of the standard licence conditions.

In the attached annex, we have addressed the specific questions raised by the consultation.

I hope the response has been helpful, if you wish to discuss any points in more detail, please contact me on 07789 570046 or [Alison.russell@centrica.com](mailto:Alison.russell@centrica.com).

Yours sincerely,

Alison Russell  
Senior Regulation Manager, Upstream Energy

## **Annex 1 – Response to consultation questions**

### **Chapter 2**

#### **Question 1: Do you agree with the proposed changes to the Current Application Regulations and the Current Guidance Document?**

In general we believe that the proposed changes improve the clarity of the Regulations and the current Guidance document.

#### **Question 2: Are there any additional questions which you consider could be included in the New Regulations?**

No

#### **Question 3: Do you have any additional comments on the content and format of the Revised Guidance Document?**

We would suggest the provision of an automated form and pre-prepared extension sheets for all relevant questions to ensure no relevant fields are missed, it may also be that a tabular approach may be more helpful for some questions.

We believe that it would be helpful to clarify that the applicant could request an amendment to the proposed revocation period of 1 year if they have good reason for this, in the same way that variations can be requested to the standard licence conditions.

#### **Question 4: Do you have any views on the proposed introduction of a tiered application process, based on risk profiling?**

We support the tiered approach in general, but are concerned that some of the very extensive additional requirements under tier 2 may be unduly onerous, particularly for new entrants or smaller participants. With this in mind, it may be worth considering whether some of the requirements under tier 2 could actually usefully form part of tier 3 to improve the proportionality of the process.

In addition, under Tier 2 questions, we believe the following may be helpful:

- a) Further clarity on which “key details” require supporting evidence (Q1)
- b) Provision of formalised templates for Q2
- c) Correction of possible typo in Q3
- d) Including a list of “relevant” regulatory bodies

### **Chapter 3**

#### **Question 1: Do you have any views as to why such a high number of gas shipper licences are not being used for their intended purpose?**

It seems likely that the “trading only” licences arise as a result of the current industry requirements. We have no other views in this area.

#### **Question 2: Do you think further action is necessary or proportionate given the issues raised in the chapter in relation to gas shipper licences?**

Where licences can be demonstrated to be unused or dormant, it seems reasonable to revoke providing contact has been with the licence holder in advance and an opportunity to object to the revocation given. If the licence holder cannot provide a substantive reason for continuing to hold the licence in question, revocation should follow.

However, while the industry rules do require a licence to enable trading activity, we do not believe such licences should be revoked unless the industry rules are reformed. This would be expected to adversely impact liquidity at the NBP and participants' confidence in the market. Such regulatory uncertainty would be undesirable.

**Question 3: Do you agree that parties should not be required to obtain a gas shipper licence prior to being able to carry out non-physical trades of gas?**

Centrica notes that shippers who are using xoserve's systems solely to trade are contributing positively to liquidity at the NBP, helping to make it the liquid and effective gas hub it has become. We are not persuaded that this particular group of shippers pose an issue which need addressing.

We have no particular objection to a licence being required where parties are trading non physically, rather than shipping gas across the network. If the preferred route post consultation is removal of the requirement for a shipping licence for "trading only activity", then providing the appropriate amendments were made to the industry rules with substantial notice well in advance of the change, we would not object to removal.

It should however be noted that such an alteration is a major change, and the timing of any such alteration will need to allow ample time for any consequential contractual amendments which may be required of parties. On that basis, we believe that removal of the requirement for a gas shipping licence for non physical traders should be subject to a full Impact Assessment to ensure necessary lead times are properly evaluated.

Chapter 4

**Question 1: Do you agree with our proposed changes to the Revocation Schedule of future licences? In particular:**

Yes, subject to Q3 below

**Question 2: Do you agree we should align the Revocation Schedule between the gas and electricity sectors?**

Yes, as far as practicable

**Question 3: Do you agree that we should reduce the time period to 1 year before a licence can be revoked in cases where parties have not commenced the licensable activity?**

We have some concerns in this area, while we agree that it would be sensible to make provision for such revocation, it seems possible that in some case one year may be too short. As suggested elsewhere in this response, we suggest there should be provision for a variation to this period to be requested where the applicant can present good reasons for such an extension. We are supportive of the requirement for Ofgem to contact the licence holder before such revocation, we believe it to be appropriate that this requirement should be formalised.