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Dear Lewis,

Re: Centrica Storage Limited response to Ofgem's Initial Impact Assessment on Gas Transmission Exit Capacity Substitution and Revision Methodology (ref. 17/11)

Centrica Storage Limited (CSL) welcomes the opportunity to participate in the debate on the implementation of the *NTS Exit Capacity Substitution Methodology Statement (issue 0.3)*, as published by National Grid on 4th January 2011. This is a non confidential response and as such we have no objection to it being placed on Ofgem's website.

So far, we have appreciated both Ofgem and National Grid's effort to engage with the industry in this complex process and we would like to continue to offer our help in making it more effective and efficient.

CSL generally supports the proposed methodology since we believe it has the potential to facilitate the objective to operate the NTS in a more efficient and economic manner.

However, we believe that there needs to be an additional assessment on the impact of the proposed methodology regarding the availability of off-peak exit capacity at points where substitution takes place.

While we appreciate that the proposed Exit Substitution Methodology will not affect the rules concerning the release of off-peak exit capacity, we believe that the proposal will have an impact on the effective amount of capacity to be released. At any relevant exit point, where part of the unsold firm capacity has been substituted to another point, may result in National Grid releasing a lower amount of off-peak capacity or releasing the usual amount of off-peak capacity which will be subject to a higher probability of being interrupted. In both cases, the Substitution process will have a consistent impact on the availability of off-peak capacity at points where substitution has occurred.

In some cases, e.g. at storage exit points, the certainty over the availability of off-peak capacity facilitates the efficient valuation and use of flexibility products. Therefore, any impact on the quantity of off-peak capacity released may have an impact on the flexibility market. Ofgem should assess and ensure that this interaction will not be detrimental for the efficient competition and innovation of the flexibility market.

National Grid has an obligation to release a certain amount of off-peak capacity under certain conditions¹, it does not have the obligation and/or the incentive to satisfy entirely the demand for it. However, National Grid does have the obligation to deliver the level of obligated incremental exit flat capacity, irrespectively of the demand for off-peak capacity at the point affected by substitution. The 3rd Energy Package² obliges the transporter to maximise the availability of capacity, viewed as the most efficient mix of services (e.g. firm and interruptible) to satisfy user demand. Therefore, National Grid should use all reasonable endeavours to satisfy the demand for both firm and interruptible capacity at each relevant point, subject to its primary obligation to meet "1 in 20" peak aggregate daily demand. We believe that this obligation supports the case for taking into account the demand for off-peak capacity point when the impact of substitution is assessed at the relevant donor point.

In conclusion, we believe that there needs to be further assessment by Ofgem of the interaction between substitution, the release of off-peak capacity and the potential negative impact on the flexibility market. We believe that Ofgem should recognise the importance the demand for off-peak capacity at the relevant donor exit point when a case-by-case assessment is made on the impact of a proposed substitution.

We hope that you have found these comments useful and please do not hesitate to contact me if you wish to discuss the response further.

Yours sincerely,



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¹ as stated in UNC Section B, paragraph 3.6

² EC Regulation 715/2009, article 14 and 16