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Dear Paul,

Re: Centrica Storage Limited response to Ofgem's consultation letter on the Income Adjusting Event claim for the Canatxx incremental entry capacity signal at Fleetwood (dated 7 March 2011).

Centrica Storage Limited (CSL) welcomes the opportunity to provide the following views on the Income Adjustment Event (IAE) triggered by Centrica Energy (CE) for the charges due by the shipper community to National Grid Gas (NGG) in respect of the NTS Entry Incremental Capacity at Fleetwood. This is a non confidential response and as such we have no objection to it being placed on Ofgem's website.

CSL supports the proposed IAE as we believe it would make NGG's revenues, shippers' charges and, ultimately, consumers' bills, more reflective of the effective cost incurred to release the required entry capacity and, in general, to operate the NTS in an economic and efficient manner. We believe that the justification for raising an IAE stands in a Transmission Price Control Review (TPCR) principle, i.e. the adjustment mechanism which has been introduced to allow NGG to recover unexpected costs through revenue drivers.

CSL understands that the signalling process for incremental capacity and the related long term financial commitment by shippers has been put in place to allow the Transmission System Operator (TSO), i.e. NGG, to better drive its investment decisions and more accurately reflect shippers' network requirements. A TSO may have to allocate additional investment to release incremental capacity within a Price Control period, however the level of allowed revenues it can collect from shippers is fixed, therefore a mechanism was introduced to automatically adjust TSO's revenue allowances in response to shippers' demand for capacity during the period intervening between two TPCRs¹.

This adjustment process should occur either up or down, depending on whether a signal for increase or decrease the existing capacity has been given. However, the incremental capacity release process implies a standard lead time of 42 months between the initial signal for incremental capacity and the effective use of it. During this period, an unexpected event may occur and require further adjustments to the initial signal. The Canatxx case of failing to be granted planning permission is an example of why additional adjustments may be required after the initial signal.

CSL understands that an IAE notice is the formal process for adjusting NGG's allowed revenues to reflect an increase or decrease of TSO's costs (and shippers' charges) which was not envisaged at the time when the initial signal had been given and the related revenue driver had been set².

¹ as set out in the summary of the "Fourth Transmission Price Control Review's Final Proposals", Ofgem, ref. 206/06, 4 December 2006.

² as described in page three of the consultation letter to which this response refer to.

Recognising the TSO's need to be signalled in advance of the requirement for incremental capacity, NGG should be remunerated for all the legitimate costs incurred to date related to the Canatxx incremental signal.

However, on the understanding that no physical work has occurred to reinforce the network, NGG should not be allowed to gain the expected revenues as set up by the initial signal.

In addition, we do not recognise that NGG is exposed to the risk of being obliged to make such capacity practically available to other developers, at least for the current gas year (2010/11), in respect of which the IAE has been raised. Because no physical connection to the NTS has been provided at Fleetwood, it is physically impossible to flow molecules into the network even if it stands the commercial right to do it. Therefore, there is no reasonable incentive for any shipper to bid for such capacity.

In conclusion, we believe that an IAE should apply for the allowed revenues of the Canatxx incremental entry capacity signal at Fleetwood for the gas year 2010/11. We also believe that an IAE shall be raised on every gas year for which the same conditions would occur.

Given the complexity of relating due capacity charges to the relevant SO and TO revenues, Ofgem should be in the best position to assess what percentage of the expected revenues should be recovered by NGG due to effectively occurred costs and what percentage of revenues would, on the contrary, represent a "windfall" gain if allowed to be recovered.

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.

Your sincerely,



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