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Ofgem
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Dear Anjali,

RE: Gas Significant Code Review Statutory Consultation

Thank you for providing the opportunity to comment on Ofgem's Statutory Consultation on the gas Significant Code Review changes to emergency cash out arrangements.

Centrica does not support these reforms

Throughout this process Centrica has supported the idea that some reform to the current emergency cash-out arrangements could prove beneficial to GB security of supply. We have, however, been unable to support the extent of the interventions proposed by Ofgem. We believe they go significantly beyond what is necessary in order to sharpen incentives on gas shippers and suppliers to ensure that their customers' demands for gas are met. In doing so, these reforms bring with them a real risk of unintended consequences ahead of, within, and after any emergency. Our concerns remain as variously set out in our previous and extensive consultation responses and discussions.

We do not believe that the cost to customers has been considered as carefully as it might have been. In our view, excessive reliance is made upon qualitative analysis, which identifies the largest consumer benefit as being compensation in the event of involuntary isolation, with very little evidence provided as to the increase in supply security that is expected to result. Overall we do not believe that these reforms meet the criteria of being beneficial, market based, and reducing the likelihood, duration or severity of an emergency occurring.

Ambiguity regarding causes of emergencies

We have repeatedly expressed our concerns that shippers may have very limited transparency as to the underlying cause(s) of any gas supply emergency. Given the significant increase in shipper/supplier liabilities being introduced by these interventions, it has never been more important that cause and, where relevant, "fault", can be readily identified and attributed. It would, for example, be wholly inappropriate for shippers and suppliers to be penalised as proposed by

these arrangements where the underlying cause was, in fact, an onshore transportation problem for which they are not ultimately responsible.

In this respect we find TPD Section Q 1.2.3 deficient. In particular, 1.2.3(b)(ii) sets out that a Gas Deficit Emergency (being the classification of emergency which would give rise to the arrangements at hand) can be caused by “a Transportation Constraint affecting deliveries of gas to the Total System”.

It would therefore appear that as currently worded, an issue with the onshore pipeline network, which prevented National Grid from accepting deliveries of gas tendered by shippers, could be classified as a GDE with shippers having to pay the price through inflated cash-out prices, customer compensation etc.

Such an outcome would clearly be perverse, and would completely undermine any incentive that these arrangements happened to create for shippers to behave differently. We therefore continue to believe that the UNC needs to be much clearer in identifying causes and assigning responsibilities, and that this needs to be supported by much greater transparency of underlying data in order to prevent cross contamination of causes and effects between UNC parties. We are disappointed that the proposed legal drafting does not address this.

Comments on UNC legal text

We set out below our comments on the proposed changes to UNC legal text and associated changes to transporter, shipper and supply licences respectively. As an observation, Centrica has always considered that it is good practice to ensure that arrangements in an emergency are as simple and straightforward as possible. The extent and complexity of the legal drafting presented with this UNC modification is therefore somewhat disappointing. We wonder if it risks distracting Users from the key activities of managing the system back to health rather than trying to unpick these extremely complicated liability arrangements.

UNC Legal Text

- The proposed legal text introduces terminology which is inconsistent with existing UNC references. New terminology in Section 4 refers variously to “...Stage 2+ GDE...” and “Stage 2 or higher...” whereas existing references are in the format of “Stage 2 or higher...” only. Further, “Stage 2+ GDE” is now given as defined term, meaning that some such references are undefined.
- We are concerned that the legal text at 4.1.4 does not align with Business Rule 1.6(b) in respect of assessing the validity of a dynamic, market based SAP for use in cash-out calculations. The Business Rule states that to be valid, SAP must meet the three conditions listed, whereas the legal text states that none of those three conditions must be met.
- There are two different paragraphs both numbered as 6.4.2(b)(ii)(1).
- 6.4.2(c)(i)(1) uses a lower case for “stage”. This is not a defined term.
- 6.4.2(c)(i)(1) includes the word “or” where it might in fact mean “on”.
- 6.4.2(c)(i)(2) uses a lower case for “stage”. This is not a defined term.

- 6.4.2(c)(iii) is unclear. Does it mean the day on which a GDE, which subsequently went on to become a Stage 2 + GDE, started; or does it mean the day on which Stage 2 of a GDE started?
- 6.4.2(h) repeats the word “the” on the first and second line.

We have no comments on any of the licence conditions presented for consultation.

Please don't hesitate to contact me directly if you have any queries on anything raised within this response.

Yours sincerely

Chris Wright
Commercial Manager