

James Thompson
Ofgem
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26 September 2014

Dear James,

RE – Consultation on changes need to implement new arrangements for incremental gas transmission capacity (PARCAs)

Thank you for the opportunity to respond to the above consultation. This response to the above-referenced consultation is on behalf of the Centrica group of companies, excluding Centrica Storage Limited.

From your involvement with the development of the PARCA proposals you will be aware of the considerable effort that Centrica and other industry parties have made in deriving the suggested processes and rules. The current proposals were modified throughout the lengthy development phase to accommodate the views and expectations of Ofgem. Ofgem's concerns included ensuring all shipper users have fair access to existing and incremental capacity through open and transparent processes, and that capacity is not unduly withheld from the market. Ofgem's involvement with the development of the PARCA proposals was necessary to ensure that the final set(s) of proposals, detailed in the 2 alternative UNC Modification Proposals, would stand the best possible chance of meeting with Ofgem's approval.

It has therefore been surprising and disappointing that progress in finalising the new arrangements has essentially stalled throughout the greater part of 2014 so we welcome the current re-engagement with you.

We do not have any comments to make on the detailed licence changes but want to highlight for your attention 2 key principles that still need to be considered very carefully by Ofgem:

- Timing of Decision for Capacity Substitution and
- Sharing of Risk and Costs by National Grid NTS as an incentive to perform

Timing of Decision for Capacity Substitution

Our support for the PARCA process is predicated on having certainty on when incremental capacity will be delivered by National Grid NTS. Our response to the industry consultation on the UNC Modifications for PARCAs was on the understanding that this could be achieved by the implementation of one of the 2 alternative proposals.

The delivery of incremental capacity, over long lead times, will depend on a number of factors. Key to this is the early establishment of just what quantity of incremental capacity needs to be built. This will depend on how much existing unsold capacity there is available at the relevant system point and how much capacity can be made available to the relevant system point through substitution from other system points. So, at a very early stage of the process, National Grid NTS should be in a position to know what incremental capacity they have to plan to deliver.

We are therefore very concerned that, for a PARCA, Ofgem may delay a decision on how much capacity it will allow to be substituted until very late in the PARCA process, when capacity is to be allocated (i.e. towards the end of Phase 2). If Ofgem were to reject proposals for substitution at this very late and critical stage then the work undertaken by both National Grid NTS and the PARCA applicant will have been in vain because the former will most likely be unable to meet the applicant's full system capacity requirements. Such a process might result in a number of outcomes, including:

- the project proceeds but with a sub-optimal outcome for the applicant;
- the project has to go back to the start of Phase 2 and may be set back for up to 5 years; or
- the project is aborted.

None of these outcomes is desirable from the perspective of customers, the PARCA applicant, National Grid NTS, the energy markets or, presumably, Ofgem.

A further scenario may be more likely – potential PARCA applicants (who require incremental capacity for their projects) may be unwilling to risk their time and money in the event that their projects will rely on capacity substitution as part of their project delivery plans. So, projects might not proceed from the outset because of the risk involved.

It is therefore of paramount importance that Ofgem removes uncertainty about capacity substitution early in the process to allow PARCA parties to proceed with much greater confidence. It would be unacceptable to come up with a key industry process to manage certainty on the delivery of capacity over extended lead times only for that process to be undermined from the outset by regulatory uncertainty.

We therefore urge Ofgem to put themselves in the shoes of PARCA applicants and to ensure that certainty around substitution of capacity is established at an early stage of the process.

Furthermore, it would be helpful if this could be captured in the National Grid NTS licence to provide National Grid with the right and incentive to ensure that early decisions on capacity substitution can be made.

Sharing of Risk and Costs by National Grid NTS as an incentive to perform

Our expectation is that National Grid NTS will act as a Reasonable and Prudent Operator (RPO) in performing its duties under the UNC and the PARCA contract. Notwithstanding this, during discussions on the PARCA contract the question of how costs will be recovered in the event of a termination of a PARCA where National Grid NTS may not have performed its duties as an RPO remains unanswered.

It is possible that a dispute on whether National Grid NTS acted as an RPO may not end up in court simply because the value of the termination fee at stake is too low to justify this course of action. This could therefore leave the wider shipper community exposed to costs for which they are not responsible but which have arisen through some inefficiency or negligence on the part of National Grid NTS.

It is therefore important that Ofgem builds into National Grid's licence some form of protection against such an eventuality. Where a PARCA has been terminated National Grid should be required to explain this to Ofgem and, specifically, to highlight the nature and outcome of any dispute, including the views of the PARCA applicant. Ofgem should then determine whether it is satisfied that in its opinion National Grid acted in a manner consistent with being an RPO and to what extent the relevant costs incurred by National Grid NTS can be recovered from users of the NTS.

Please contact me if you would like to discuss this response.

Yours sincerely

Graham Jack
Commercial Manager