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10 February 2020.

Dear Julie,

**Call for Evidence on the Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator Business Plans for RIIO-2 – the Gas Transmission sector.**

Thank you for the opportunity to respond to the above call for evidence. This is a non-confidential response on behalf of the Centrica Group.

This aspect of our response focuses on issues particular to the gas transmission sector. We highlight the following point having reviewed National Grid Gas Transmission's business plan.

- **The network capability analysis should be rerun given the changes to the network charging regime.**

We explain our concern below.

We also make the following general point:

- **The stability of the new charging framework will be important to maintain trust in market mechanisms.**

**The network capability analysis should be rerun given the changes to the network charging regime:**

NGGT's methodology for analysing network capability involved assessing how well the transmission network could accommodate combinations of forecast supply and demand patterns to 2049, set out in the 2018 Future Energy Scenarios (FES)<sup>1</sup>. The 2018 FES supply and demand patterns reflect a view of the behaviour of network users. The 2018 FES supply and demand patterns are a reasonable starting point for assessing how network capability might change over the RIIO-2 period.

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<sup>1</sup> "Annex A12.02 Network Capability Report December2019"; page 5:  
<https://www.nationalgridgas.com/document/129006/download>.  
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We are concerned that outputs of the network capability review and, by extension, the baseline obligated capacities recommendations do not take account of material changes in the behaviour of network users that could be triggered by changes to the transmission network charging regime. In its minded-to decision on UNC Modification 678, proposed to implement the findings of the Gas Transmission Charging Review (GTCR), Ofgem highlights expected changes in network user behaviour:

*Tariffs impact upon network users' operational decision making in relation to flows of gas and capacity bookings. Therefore, in the second stage of modelling, a gas market model was used to consider the changes to behaviours in relation to use of the gas system. The gas market model was coupled with an electricity market model to reflect implications for gas fired power stations in the electricity market and hence evaluate impacts on electricity consumers.<sup>2</sup>*

Further, in the accompanying impact assessment, CEPA states:

*However, changes to tariffs will likely impact the behaviour of network users, for example those with elastic demand and the marginal sources of supply.<sup>3</sup>*

Given the above, it is necessary the network capability analysis is based on credible and relevant profiles of network user behaviour. NGGT should rerun the network capability analysis incorporating the changes in demand and supply patterns due to the changes in the network charging regime. In extremis, network users' behaviour could materially change ahead of the RIIO-GT2 price control since the modification is expected to be implemented on 1 October 2020.

**The stability of the new charging framework will be important to maintain trust in market mechanisms:**

The RIIO-2 price control and the outcomes of the GTCR will both be implemented within the next 14 months. Both are likely to lead to sizeable changes that network users will have to respond to. There needs to be stability after implementation to allow network users to respond to the changes and to avoid damaging users' confidence in the regulatory regime. Ofgem and NGGT should consider what measures should be adopted to avoid further sudden changes. For example, significant over- or under-recovery of allowed revenues could arise if forecast capacity value vary from actual values as behaviours change following GTCR implementation.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning  
Head of Network Regulation, Industry Transformation, Investigations and Governance  
**Centrica Regulatory Affairs, UK & Ireland**

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<sup>2</sup> "UNC678/A/B/C/D/E/F/G/H/I/J: Amendments to Gas Transmission Charging Regime: minded to decision and draft impact assessment"; paragraph 5.6:

[https://www.ofgem.gov.uk/system/files/docs/2019/12/unc678\\_minded\\_to\\_decision.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/12/unc678_minded_to_decision.pdf).

<sup>3</sup> "UNC0678 – Analytical support"; page 6:

[https://www.ofgem.gov.uk/system/files/docs/2019/12/cepa\\_unc678\\_analytical\\_support.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/12/cepa_unc678_analytical_support.pdf).