

18 December 2012

Colin Williams

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Dear Colin,

Re: Draft Discussion Document NTS GCD10 – Potential one-off change to TO Exit (Flat) Capacity Charges for April 2013

Centrica Storage Limited (CSL) welcomes the opportunity to provide its views on the potential impact of a one-off change to NTS Exit Capacity charges to reduce the volatility associated with the current arrangements. This is a non confidential response and as such we have no objection to it being placed in the public domain.

By way of background CSL operates the Rough Storage site, and may also develop the Caythorpe and Baird storage sites. The nature of gas storage, particular the long range storage sites such as Rough and Baird is to take gas off the system during periods of low demand and provide gas during periods of high demand. This service not only helps mitigate the risk price spikes and supply shortages during high demand periods, it also helps support the efficient operation of the gas network.

The economics of long range gas storage is primarily driven by the spread between summer and winter prices, while for medium range storage facilities, like Caythorpe, it is driven by price volatility. In both cases, storage system operators are dependent on the prevailing market conditions for their revenue with little scope to pass through cost increases to their customers. This also means that significant and unpredictable changes in costs, such as exit capacity charges, can place significant strains on storage system operators and can even render investment in storage facilities as uneconomical.

Given the potential impact of exit capacity charges on the economics of storage facilities, CSL welcomes any proposal that helps reduce such costs. Given this, CSL is supportive of NGG's proposal to have an initial one-off change to exit capacity charges in April 2013 in order to facilitate the smoothing of exit capacity charges going forward.

However, CSL also notes that it has experienced significant volatility associated with exit capacity charges at its Caythorpe site which were unrelated to the RIIO-T1 proposals, and notes that even under the allowed revenues provided for in Ofgem's initial proposal that the exit capacity charges would be in the order of ten to 25 times higher than those that were envisaged when CSL made its initial user commitment in 2009. This magnitude of change creates significant challenges for determining the profitability and therefore viability of such investments.

Given the service that storage sites provide to the gas network, CSL continues to have concerns regarding the methodology for determining and allocating exit capacity charges across exit points. Therefore, CSL considers that this proposal from National

Grid is helpful but constitutes only one piece of the exit capacity charging puzzle. CSL would request that National Grid continue to work with industry groups to develop exit capacity charging arrangements that will help facilitate investment.

In response to the questions set out in section 7 of the document:

- CSL supports the one-off April charge change effective being effective from April 2013.
- CSL notes that even under Ofgem's initial proposals for RIIO-T1 that a number of sites may benefit from the one-off change. Given this, CSL would not oppose a one-off change irrespective of the RIIO-T1 outcome.
- The one-off April change would not have an adverse impact on any of CSL's business processes.
- CSL would encourage NGG to continue to investigate the potential for a permanent shift to April for setting exit capacity charges.

Your sincerely,

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