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Dear Sirs,

Object: Re: Centrica Storage Limited's response to Preliminary Stakeholder Consultation

Centrica Storage Limited (CSL) welcomes the opportunity to participate in the consultation process for next Transmission Price Control Review 5.

Please, refer to the annexed document as our response to your consultation.

Briefly, we like National Grid approach to TPCR consultations, and we look forward to take active part in the process, providing usefull comments and suggestions.

We hope that you have found this first response useful and please do not hesitate to contact us if you wish to discuss our response further.

Your sincerely,



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CSL Response to TPCR Preliminary Stakeholder Consultation (National Grid, June 2010)

Q1 – *Before you read this document, were you aware of price controls? If so, what is your understanding of them and what do they mean to you?*

Since UK gas and electricity transmission networks are natural monopolies, standard free-market rules in this industry are likely to fail, providing market distortions (low quantity and quality of supply) and harming consumer welfare (high prices).

The *Transmission Price Control* is a form of regulation that applies to gas and electric transmission system operators (TSOs) in order to avoid the above detrimental effects. It is a hybrid price-cap/rate-of-return regulation that, fixing a cap of allowed TSO revenues every five years, should provide proper incentives to transmission operators, so they:

- ✓ economically and efficiently run the network;
- ✓ supply the market with the demanded quantity and quality;
- ✓ timely and efficiently invest, so to maintain and innovate the network.

The *Price Control Review* is a process that aims to review objectives, characteristics and values of Price Control formula and framework, to better reflect current and next future industry needs. The process should be carried out through trilateral discussion between the Authority (Ofgem), NG and network operators, as well as public consultations with all stakeholders on modification proposals.

As a gas storage operator in the UK, Centrica Storage Limited (CSL) is directly affected by transmission prices (both capacity and commodity charges). We are interested to take part in the next TPCR discussion so that its output will continue to provide favourable conditions to run our business economically and efficiently.

Q2a – *Whose views do you think we should seek as part of our Transmission Price Control Review stakeholder consultation? Please list all the organizations, types of organisations and individuals you think we should contact.*

Q2b – *Which groups on the above list, if any, do you think we do **not** need to talk to in the course of this consultation? Please give reasons in each case.*

CSL appreciates the effort of NG to include a consistent number of stakeholders in TPCR consultation. We believe a number of different opinions and suggestions would better off the process outcome, as long as NG is able to manage it efficiently. We also strongly recommend Ofgem to provide the necessary supervision to ensure non-discrimination and transparency.

Q3a – *What methods and tools would you expect us to use in order to engage stakeholders in this consultation?*

Q3b – *Which of the methods and tools listed above, if any, do you think we should definitely **not** use for this consultation? Please give reasons in each case.*

CSL welcomes the different tools NG suggests to use for communicating with its stakeholders. We believe a dedicated and user-friendly on-line archive of all the non-confidential documentation would be particularly useful to be

published (consultations, responses, letter to and from Ofgem, letters from stakeholders, reports from analysts, statistics, etc.). It could also be useful an online archive of main documents of the previous TPCR4, in order to be aware of the “start point”, which has to be adjusted in the next review.

Q4a – *What themes would you expect the stakeholder consultation to cover? Please outline why you think each is important.*

Q4b – *Having now seen our suggested list of themes, what further themes, if any, should we include in our consultation? Please outline why you think each is important.*

Q4c – *Which themes on our list, if any, should be excluded from the consultation? Please give reasons in each case.*

Q4d – *What questions would you expect us to ask in our consultation under each of these themes, outlining why you think each is important?*

CSL agrees on the six themes proposed to be discussed in next consultations. We also recommend NG to ensure they will include the following topics:

- ✓ regulatory financial modelling techniques to assess NG risk framework, so to set appropriate incentives and rewards in the Price Control
- ✓ principles of releasing existing and incremental capacity (both entry and exit) and their impact on allowed revenues

Q5 – *On the right is a proposed timeline, with the stakeholder consultation planned to take place between November 2010 and February 2011. Do you think the proposed timeline should be changed in any way? If so, please give reasons for each suggested change.*

CSL does not have any suggestions about the timeline.

Q6 – *Please let us know if you have any other thoughts or comments on the points raised in this document, or if you would like to highlight any other issues you consider to be important.*

CSL understands a new framework will be put in place for setting the next regulatory price control (*Ofgem Consultation, RPI-X@20 Recommendations, 26/07/2010*). We look forward to read NG opinion on the application of the proposed framework to the next TPCR.