

Ms. Juliana Urdal
National Grid Plc
National Grid House,
Gallows Hill,
Warwick,
CV34 6DA

4th August 2011

Dear Ms. Urdal,

Re: National Grid Gas (NTS) System Operator Incentives for 1st April 2012 Initial Consultation

Centrica welcomes the opportunity to comment on the issues set out in the initial consultation on the National Grid Gas (NTS) System Operator Incentives. This response is on behalf of the Centrica Group excluding Centrica Storage Ltd. There is no confidential information contained within this response.

Our responses to your specific questions are as follow:

Chapter 2: Shrinkage

Question 2.1: Are there any additional items which require consideration for the roll over of the Shrinkage incentive?

Yes, it is worth considering how meter errors impact negatively on Unaccounted for Gas (UAG) and whether this could be effectively tackled through in an incentive regime.

Question 2.2: What is the appropriate level of change and what are your priorities for the rollover of current arrangements in respect of the Shrinkage Incentive for a single year scheme for 2012/13?

National Grid's impressive recent performance against its shrinkage targets might suggest that further performance enhancements might be within its gift if properly incentivised. Therefore, for the rollover period National Grid must demonstrate continuous improvement and the current target is not stretching enough. Setting a more stretching target would be appropriate.

Question 2.3: Do you consider a review/update of the current CFU model appropriate for a rollover year, or do you believe that a more fundamental review is required? If so what approaches and/or techniques should be explored?

We would support a review of the current CFU model for the rollover period in order to ensure appropriate targets are established. In particular, the large increase in supply of gas from the South and West of Great Britain could have a significant impact on this.

Question 2.4: Do you consider TBE base case at seasonal normal demand remains an appropriate supply-demand scenario assumption for CFU target setting?

Yes, we agree that the TBE Base case at seasonal normal demand level does form an appropriate set of supply and demand assumptions.

Question 2.5: Do you believe it is necessary to review the CFU adjuster? If so, should this be an update of the current values or a revision of the methodology itself?

Please refer to our answer to Question 2.3.

Question 2.6: Are the latest programmed dates for the installation of electric drive compressors an appropriate basis for the disaggregation of the baseline CFU target into gas and electric target volumes? If not, what do you believe would be the appropriate basis?

We would support the use of the current expected operational dates for planned installations as the basis for disaggregation into gas and electric target volumes. National Grid stated that there is no material impact on incentive performance in the given scenario however it would be appropriate to take into consideration any environmental impact of the delay.

Question 2.7: In respect of the Shrinkage procurement incentive; do you believe that it remains appropriate for the UAG component of the gas volume target to continue to be based upon net outturn volumes?

Given the recent incidence of large NTS metering errors, resulting in inaccurate reporting of UAG in recent years, we would like the whole UAG incentive to be reviewed.

Question 2.8: Do you believe it is appropriate to maintain the mechanism that enables exclusions (for specific CV risks that cannot be mitigated economically) to be identified within the current incentive structure? If not, how should these risks be accommodated within the incentive structure?

It seems to be appropriate.

Question 2.9: Do you believe that swing is an incremental cost for which there should be an allowance in addition to the benchmark price?

Swing should influence National Grid's procurement strategy and not be subject to an additional allowance.

Question 2.10: Is the current ex-ante market benchmark approach appropriate for the purposes of a one year rollover? If not, what alternative arrangements do you believe are appropriate?

We haven't formed a definite view on this question.

Question 2.11: Do you believe it is appropriate to review the ECRP reference price uplift?

Yes

Question 2.12: Do you believe it remains appropriate for the ECRP reference period within the rollover arrangements retain a bias to prompt price?

Yes

Question 2.13: What do you consider is an appropriate incentive treatment of the TNUoS, DUoS and CRCEES costs?

We haven't formed a definite view at this stage.

Question 2.14: Do you think it is appropriate to have a bespoke environmental dimension to the NTS Shrinkage incentive? If yes, do you believe it is appropriate to review the adjustment for the shadow price of carbon within the 2012-13 scheme to ensure the appropriate level of interaction with environmental legislation?

It's appropriate for National Grid to be mindful of how its operations can affect the environment and whether this is best addressed via an incentive scheme, licence conditions or higher order of legislation. This is something that we would expect Ofgem to form a view on.

Chapter 3: Unaccounted for Gas (UAG)

Question 3.1: Do you believe that National Grid has a central role in the minimisation of UAG volumes? If not, who do you believe should take this role?

Yes, National Grid as System Operator is in a unique position and is obliged as a Reasonable and Prudent Operator to minimise UAG volumes.

Question 3.2: If you consider that National Grid has a central role to play, do you believe that National Grid should be incentivised to perform this role or should it be subject to a funded obligation?

National Grid should perform to a minimum acceptable standard. This should comprise an unfunded obligation coupled with a funded obligation or incentive to meet a stretching target.

Question 3.3: If an incentive were in place for UAG in 2012/13, what would an appropriate incentive structure be? For example, the current incentive scheme is based upon the absolute volume of UAG in a year.

In the light of the metering errors experienced and how they impacted on UAG, we would support a wholesale review of this area.

Chapter 4: Demand Forecasting

Question 4.1: Do you support the view that the structure of the current D-1 13:00 Demand Forecasting Incentive remains fit for purpose for incentivising National Grid to provide valued information to customers? If you do not agree with this view, do you have any views as to how the structure could be improved to apply from 1 April 2012?

The current structure D-1, 13:00 Demand Forecasting Incentive remains appropriate.

Question 4.2: Do you have any views or evidence regarding the volatility of demand in 2012/13? In addition, do you have any views on how this demand volatility will impact the Demand Forecast incentive?

Our expectation is that National Grid should provide accurate demand forecasts and must demonstrate continuous improvement in accuracy over time.

Question 4.3: If National Grid was able to improve its demand forecasts, how would this impact on your business?

There might be some Improvement in managing balancing costs.

Question 4.4: Do you agree with the analysis we propose to undertake in order to review the annual error target as described in paragraph 140 above? If you do not agree with this proposed approach are you able to state which amendments or additions you consider are appropriate to this analysis?

It would be more beneficial to shippers to have accurate targets on an LDZ or shipper level.

Question 4.5: What value (or relative value) do you place on each of the demand forecasts?

We place highest value on the D-1, 13:00 demand forecast. Our observation is that the accuracy of later forecasts improves in a fairly predictable manner.

Question 4.6: Which of the forecast times do you believe should be incentivised?

The 13:00 D-1 forecast is the only one which should be incentivised.

Chapter 5: Data Publication

Question 5.1: What value do users put on the data items that are published under this incentive? In particular we welcome views from small suppliers and large consumers.

We value this data highly.

Question 5.2: Are the current target levels of website availability and timeliness of data publication appropriate?

Somewhat yes – It is important for data to be available ASAP hence target levels' revision would be appropriate in relation to website availability and timeliness of data publication.

Question 5.3: Do you agree with our recommendation that the structure of this Incentive should not be reviewed for the rollover year in order to allow for a more detailed focus on SO Incentive schemes effective from 1 April 2013?

Yes, we agree.

Question 5.4: What information, if any, do users consider should be incentivised beyond the existing defined dataset?

The system operator should be acting in the interests of transparency and market efficiency without incentives of this kind.

Chapter 6: Residual Balancing

Question 6.1: Do you support the view that the structure of the current Residual Balancing Incentive remains fit for purpose in incentivising National Grid to not enter the market where possible and minimise our impact on the market when we do enter? If you do not agree with this view, do you have any views as to how the structure could be improved to apply from 1 April 2012?

For the purpose of a one year roll over the current structure should remain in place.

Question 6.2: Do you support the view that the target parameters of the PPM should be reviewed?

Yes, the target should be further strengthened.

Question 6.3: Do you agree with the analysis we propose to undertake in order to review the PPM target as described in paragraph 183 above? If you do not agree with this proposed approach are you able to state which amendments or additions you consider are appropriate to this analysis?

Yes, it looks reasonable and appropriate.

Question 6.4: Do you believe that the LPM target parameter should also be reviewed?

Not for a one year roll over period.

Question 6.5: If possible could you provide your views on suitable levels for the residual balancing scheme parameters?

We have not formed a definite view at this stage.

Chapter 7: Information on Incentive Performance

Question 7.1: Is the information provided as summarised above useful?

Yes.

Question 7.2: Is there any further data that could be issued by National Grid to improve the level of information available in respect of SO Incentives?

We haven't identified anything at this time.

I trust that above comments have been helpful and constructive in determining the final structure of SO Incentives effective from April 2012 for rollover period; if you would like to discuss any aspect of this response, please do not hesitate to contact me.

Yours sincerely,

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