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23 December 2004

Sonia Brown
Director, Transportation
Ofgem
9 Millbank
London
SW1W 3GE

Dear Sonia,

Re: Notice under Section 23(3) Of the Gas Act 1986

Thank you for the opportunity to make representations on the above notice which relates to both NTS and DN Special Conditions 28A, 28B, 29, 30, 33, 34, 35, 36.

Centrica understands that the purpose of the changes proposed in the notice is to allocate the current Transco Price Control and associated Licence Conditions between the existing GT licence, and the five new GT licences which have recently been granted to Transco by the Authority.

We also understand that the detailed drafting amendments which will be needed to give effect to the proposed DN Sales, should Authority consent be granted in January 2005, will be addressed under a formal Section 8AA consultation expected in February 2005. This consultation is expected to capture detailed changes needed on all the licence conditions, not just those associated with the price controls, and it has been indicated that a further Section 23 consultation may follow around the time of Hive Down or Share Sale, if required, to address any remaining issues.

Based on the assumptions described above, Centrica believes that the drafting as published broadly achieves its aims as we understand them. Whilst we believe that there are a significant number of issues with the drafting that will need to be addressed going forward, we will raise the majority of these as part of our response to the informal Section 8AA response due on the 7th January. Should our assumptions above on the timescales and process not be correct, please would you advise us as soon as possible.

We believe, however, that there are some points it would be helpful to raise at this stage:

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- In each of the DN GT licences, we believe that the drafting would permit the summation of K factors across all the DNs owned by that GT prior to determination of the interest rates payable on over or under-recovery. We believe this “netting off” to be contrary to the principles of price control separation.
- We feel further clarification is required around the definitions of the term “Network Code”, as at present, it is not clear whether reference is being made to the Short Form Codes or the Uniform Network Code, though we appreciate that these licences will be in effect prior to DN Sale and hence that they need to function in the current regime.
- In addition to the Network Code point above, we note that the NTS conditions are defined in terms of the Licensee’s Network Code, whereas the DN GT Licences are defined in terms of Transco’s Network Code rather than the Licensee’s Network Code. Whilst this may be due to the structure of the Transco entities during the DN Sales process, and it may be resolved in subsequent drafts, we would welcome clarity on this point.
- In respect of the condition 28A in the NTS Licence, we are concerned that some definitions may have been deleted which are still required in some form, for example, we do not believe that there are any throughput or quantity definitions remaining. As we understand the intention is still for the NTS to collect some revenues directly from shippers in respect of NTS directly connected sites, we believe that there may well be a requirement for some volume related definitions and reporting, as well as a more general review of reporting requirements under condition 33.
- Whilst we will comment further in respect of incentives when the consultation is issued, we would like to reiterate our support for the principle of placing incentives on the new DN owners from day one. We also believe that the DN GT condition 36 on performance and incentives will require further review to ensure that standards are maintained particularly in respect of responses to shipper queries.
- Finally, in respect of aggregated reporting, we believe that it may be desirable for the NTS to be required to report all Exit Capacity related information at an Exit Zone or DN Level. The present drafting appears to indicate that in respect of the Exit incentives, the cost figures (for example those relating to curtailment) are reported aggregated by Exit Zone, whereas the revenue figures are reported in total for the year t. Going forward, to ensure transparency and equality of treatment of DNs, we believe it would helpful to report all Exit Capacity figures at an Exit Zone level.

We hope that the above comments are helpful, but if you would like to discuss any of the issues raised in more detail, I would be happy to help.

Yours sincerely,

Alison Russell
Regulatory Issues Manager

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