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Friday, 15 April 2005

Sonia Brown
Director, Transportation
Ofgem
9 Millbank
London
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e-mail: Sonia.brown@Ofgem.gov.uk

Dear Sonia,

**Re: National Grid Transco – Potential Sale of Gas Distribution Network Businesses:
Formal Consultation under Section 23 and Section 8AA of the Gas Act 1986.**

Thank you for the opportunity to comment in respect of the above consultation, we are content that this non-confidential response and the attached table be placed in the Ofgem Library and on the Ofgem website.

In general, Centrica supports the licence changes as drafted, with minor drafting corrections as detailed in the attached table. However, we would like to highlight two areas from our response.

Business Separation and Information Protection:

Whilst Centrica believes that the conditions associated with the separation of the NTS from the retained DNs are broadly sufficient, subject to some minor amendments, we believe that the current scope of Standard Special Condition A33 is too limited to provide proper protection of information in respect of the independent DNs. We understand that an additional consultation is planned on the inclusion of generation businesses, which will expand the scope appropriately.

In view of the fact that a new and complex regime is being implemented, which will necessitate behavioural changes among staff at the DNs, Centrica is strongly of the view that the report provided to the Authority under paragraph 8 of this condition should be subject to independent audit, and accompanied by a formal audit opinion.

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We believe that the additional assurance provided by such an audit would be of value both to the Authority and the wider community providing confidence in the robust nature of the new regime. If, for example, the audit procedures have resulted in clean opinions for each of the years leading to the end of this price control period, then consideration could be given at that time as to whether the audit activity was necessary on an ongoing basis.

Price Control Drafting (Special Conditions C8A, C8B and C14):

As these conditions are subject to additional development and are expected to be subject to an additional consultation vis a vis the interim and enduring incentives regimes, we have not commented formally at this stage, but instead have concentrated on the remaining conditions. Centrica reserves the right to respond once all the relevant details have been clarified, and we assume that Ofgem have allowed sufficient time in the timetable to support such a process.

We hope these comments and the attached document are useful, but if you would like to discuss any points in more detail, I would be happy to help.

Yours sincerely,

By e-mail

Alison Russell
Regulatory Issues Manager

Cc: Suzanne Turner, Ofgem