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Tuesday, 24 May 2005

Sonia Brown
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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:
Final Proposals for Interim Incentives and Formal Consultation under Section 23 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 be placed in the Ofgem Library and on the Ofgem website.

In general, Centrica supports the licence changes as drafted, however, we would like to highlight several areas where we continue to have concerns.

Consultation Document:

In the consultation document, we are unclear as to the meaning of paragraph 4.144, in that we understood that NGT currently recovered the costs of supplying customers on independent networks as part of their revenue under the price control, hence costs are effectively passed through to customers currently. The drafting of 4.144 implies that this is not presently the case. We would be grateful if this point could be clarified.

Interim Incentives:

Centrica is broadly in agreement with the proposals in respect of the interim incentives, which are only intended to apply until 1st October 2008, in respect of the form, caps/collars and sharing factors.

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We support the inclusion of parameters until September 2008, and believe that it would be beneficial to also extend tables A3 and A4 to this point for consistency.

Section 23 Notice:

Standard Special Condition A15:

The amendment of paragraph 3(iii) does remove the potential confusion over the use of the term “user”, however, Centrica is concerned that the change may leave some ambiguity. It is our understanding that the costs of the Agency will be met by the transporters until the end of this price control period, given that allowance has already been made for these costs in the existing control. We believe that the proposed drafting does not make this clear, as it simply states that “the costs of the agency shall be allocated on a transparent basis.”

Standard Special Condition A33 and Standard Special Condition A34:

Centrica supports the majority of the changes proposed to these licence conditions, but does still have some concerns.

Where the Authority grants consent to the licensee deviating from the strict provisions of the licence conditions, we believe it would be appropriate to require the licensees to include a section in the annual report to the Authority, covering the detailed use made of the consents.

In addition, we continue to believe that the licence should require that the annual report submitted to the Authority should be subject to independent audit. Further, we believe that the nature of the audit opinion should be published with the report.

Special Condition C4:

Whilst Centrica does not oppose the NTS and RDNs being permitted to jointly procure shrinkage gas until the end of the price control period, we believe, as mentioned above, that the use made of this consent should be included in the annual Compliance Officer’s report to the Authority.

Special Condition C20 and Special Condition C21:

Centrica continues to be concerned with respect to the degree of separation of the managerial boards provided for under paragraph 5 of C20, and the potential commonality of Directors between the NTS and DN Boards, especially as the DN board is expected to cover all four RDNs. With this in mind, we believe it would be appropriate, as a minimum, to require that the boards are not identical.

In addition, as under Standard Special Condition A34, we believe that the Report submitted to the Authority under C21 should be subject to independent audit, and the nature of the audit opinion published.

Standard Special Condition D4:

Centrica does not oppose the principle of affiliated IDNs being permitted to jointly procure shrinkage gas until the end of the price control period. However, we believe, as mentioned previously, that the use made of this consent should be included in the annual Compliance Officer’s report to the Authority, together with the provisions made to ensure that all information is appropriately protected and the shrinkage account remains in the name of the DN licensee(s). This will be of particular importance in the case of Scotia Gas Networks, as we note from the consultation document, that Scotia intends to apply for consent to allow joint procurement between its DN licensees and its affiliated Shipper business.

We hope these comments have been 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