



3 The Square
Stockley Park
Uxbridge
Middlesex
UB11 1BN

Direct Dial: 0208 734 9375
Facsimile: 0208 734 9350

Thursday, 26 May 2005

Joanna Whittington
Director, Gas Distribution
Ofgem
9 Millbank
London SW1P 3GE

Dear Ms Whittington,

Re: Gas Distribution Charges from October 2005

Thank you for the opportunity to comment in respect of the above document. Whilst fully understanding the reasons behind the proposed prices both for 2005 and 2006, Centrica is concerned at the scale of the changes.

Since the separation of the DN Price Controls, it has been clear that distribution charges are likely to exhibit a greater degree of variability going forward. However, Centrica is of the view that where practical and possible, customers should be insulated from the effects of wide swings year on year.

It is apparent from the material provided by Transco that in many cases, those DNs exhibiting the largest changes this year are likely to experience equally large and opposite changes in 2006. If Transco's forecasts are correct, this is likely to result in unnecessary volatility in end user prices, and may create unnecessary short term hardship for some vulnerable or fuel poor customers.

With this in mind, Centrica is of the view that a simple smoothing mechanism should be employed to minimise such year on year swings. We believe that recovering revenues due under K and the various incentive schemes over the subsequent five years would be too long a period, given the implications for interest either due or payable on these sums. Instead, we suggest that a rolling two year period might be feasible, smoothing out the worst of the year on year swings in each region without unduly affecting charges in future periods. Centrica believes such a biennial approach would also prove easier to manage over the transition between price control periods.

Centrica plc
Registered in England No. 3033654
Registered Office
Millstream, Maidenhead Road
Windsor, Berkshire SL4 5GD

In general, we believe that suppliers have worked hard to maintain directional stability of customer prices and a simple smoothing mechanism would assist this.

In conclusion, we welcome Ofgem's consultation on this matter and would strongly support the application of a simple smoothing mechanism to ameliorate the worst effects of year on year price changes.

We trust these comments have been helpful, but if you would like to discuss any of the points raised in more detail, I should be happy to help.

Yours sincerely,

Alison Russell
Regulatory Issues Manager