



3 The Square
Stockley Park
Uxbridge
Middlesex
UB11 1BN

Direct Dial: 0208 734 9353
Facsimile: 0208 734 9350

Wednesday, 25 January 2006

Mark Feather
Ofgem
9 Millbank
London SW1P 3GE

Dear Mark,

Re: Open Letter on Income Adjusting Events thresholds for Gas Distribution Networks

Thank you for the opportunity to comment on the open letter consulting on the Income Adjusting Event (IAE) thresholds for the gas distribution networks (GDNs).

Centrica is of the view that it is important to ensure a sensible balance between consistency and materiality. As the GDNs have less exposure, it is reasonable that their need for protection is less. As such, we believe that it would not be appropriate to adjust the IAE thresholds for GDNs, but to leave them at £2m. We support Ofgem's view that it is important to recognise and minimise the costs involved in managing IAE claims, and hence that claims should only be possible where significant loss is faced.

We also note the points raised by Ofgem that a proportionate threshold might be at a very low (possibly insignificant) level due to the cap and collar issues. Hence we would strongly oppose option 3.

Under DN Sales, it was acknowledged that the extension of the £2m threshold to the GDNs was a temporary measure, but upon reflection, Centrica does not believe that a strong case for change has been made.

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

Yours sincerely,

Alison Russell
Regulatory Issues Manager

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

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Registered in England No. 3033654
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Windsor, Berkshire SL4 5GD