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27th February 2007

Dear Sonia,

**Re: Gas Quality Scenario Development and Economic Regulation workstreams –
Conclusions**

Centrica welcomes this Ofgem report as another step forward in the important debate surrounding gas quality in GB and the necessary steps that will be required to ensure future gas supplies to the market. We also acknowledge the considerable effort that Ofgem has put into leading the workstreams and in developing questionnaires and this document. Centrica has input to both the scenario development and economic regulation workstreams as well as the industry sessions and continues to engage with industry players to try and identify a pragmatic and workable solution to a problem that by its very nature is difficult to quantify.

Centrica see this document as defining the basis for the next steps in a number of key areas, and therefore see it as important that the industry has a common understanding of the possible next steps and the timelines and possible cost implications of such activities.

However, we recognise that we still have a far from complete picture of the likely future situation with gas supplies on the continent and in particular from gas producers and importers as to gas qualities that will actually be seen in the future, which is inherently the main driver that will incentivise any party to invest or support investment in solutions to the problem. Centrica also recognises that this information is not necessarily in the right hands at this time. We would therefore encourage Ofgem (and NGG as appropriate) to liaise with continental parties to try and improve on that position, and share the information with the market.

We are also concerned that the real problem that the GB market is likely to face if problems with gas quality arise on the continent is not being addressed, namely that the current specifications in the interconnected pipes would prevent any "off-spec" gas from even reaching GB, hence invalidating any discussion on investment in GB. If this were to occur the GB market would face a potential shortage of gas with consequential impacts on gas prices.

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As such we would welcome Ofgem providing some clarity, in conjunction with the relevant parties, on the following issues:

- a) a more detailed work programme of the activities that would need to be carried out by NGG, connected TSOs, Government and regulators both in GB and on the continent to provide an appropriate backdrop for any investment, either in GB or any other location,
- b) greater clarity of the costs (and information inputs) associated with achieving each step e.g. the real costs and deliverables in moving forward with a high level feasibility study,
- c) the interaction between the Ofgem position, DTI responsibilities and moves by the European Commission to carry out a study to review gas standards across Europe and progress a common standard,
- d) the interaction of Ofgem's work with the ERGEG taskforce (1.14) on the same subject.
- e) Ofgem's views on possible ways forward, if the concerns identified by the workstreams with the hybrid approach do come to fruition and investment is not coming forward in a timely fashion, or the actions of other market rules or players prevent a solution coming forward.

Should you wish to discuss our comments further please do not hesitate to contact either myself or Alison Russell.

Yours sincerely,

Simon Goldring
Gas Transportation Manager