



**Legal, Regulation and
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Monday, 29 October 2007

Ayesha Uvais
Ofgem
9 Millbank
London SW1P 3GE

By E-mail: Ayesha.uvais@ofgem.gov.uk

Dear Ayesha,

Re: GDPCR: Initial Licence Drafting Consultation

Thank you for the opportunity to comment on the above document, this non confidential response is on behalf of Centrica plc excluding Centrica Storage Ltd. We are happy that Ofgem place this response on their website and in the Ofgem library.

This response takes the form of general observations on the principles proposed in the consultation document rather than comments on the detailed licence drafting at this stage. Noting Ofgem's points about the areas of drafting still under review, it is our intention to comment more fully on the next draft.

In terms of general principles, we support Ofgem's efforts to make the licence clearer and more easily navigable. We note that Ofgem has had a number of working groups with the GDNs to move these matters forward, and we would encourage Ofgem to extend an invitation to suppliers to participate directly in the discussions where relevant, for example, on xoserve and standards of performance.

In our view there are certain principles to be followed in any review of the GT licence drafting, including simplicity and increasing information transparency. We do have concerns in specific areas, for example, around standards of performance, that changes to the drafting might result in less reporting being made available in key areas. In addition, it is key that services to the customer are seamless, for example, where payments are due under supply restoration, disputes between GDNs as to which GDN is liable are not relevant to the customer.

We support the principle of consistency between the licences, for example, ensuring consistency with the Supply Licence, but we have not reviewed the drafting in detail.

In terms of re-openers, we believe that it is essential to constrain allowances made under any reopener to only those sums which can be clearly evidenced. All requests by GDNs for these

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allowances must be robustly challenged by Ofgem before being passed through to customers. Such arrangements are an unknown quantity in advance and hence it is vital that customers' interests are fully protected. We suggest that in advance of GDNs being allowed to collect these sums, a full report on how the amounts have been calculated should be placed into the public domain and consulted upon.

With respect to the proposals around Income Adjusting Events, we support the principle of shippers and suppliers being able to challenge GDN revenues in this way, as we believe it provides a necessary counterbalance. As has been correctly recognised, Shippers' ability to use these provisions is constrained by the information asymmetry which exists between GDNs and shippers. However, we do not believe that the answer is to remove the provisions, instead the industry needs to address the underlying problem.

We believe there would be merit in a workgroup meeting to discuss these provisions under Ofgem's auspices, to consider how the information asymmetry may be practically addressed so that these provisions are more effective in the future. This may require additional disclosure of information, or intervention by Ofgem. In addition, it will be important to ensure that the changes to the drafting do not inadvertently reduce the abilities to challenge currently afforded to shippers.

In terms of reporting, we agree with Ofgem that it is sensible to rationalise the conditions to ensure that there is no unnecessary duplication of effort. In addition, we support the approach of using guidelines and appropriate governance to support them. However, we also believe that the presumption for a licensed, price controlled monopoly must be in favour of full disclosure of information. Any departure from this principle on the grounds of commercial sensitivity must be strongly challenged in each case and reviewed at regular intervals. We believe that the reporting requirements under the licence should recognise the needs of all parties and not just the GDNs.

In addition to the above points, we are pleased that Ofgem has recognised that a charging methodology is required in respect of xoserve/User Pays. However, we believe it may be appropriate for such a charging methodology to be set out in (or to be an ancillary document to) the UNC. Whilst the Licence should properly set out the obligation to compile a charging methodology, we believe that greater flexibility in the governance over charging methodologies would be beneficial going forward.

Overall, based on a review of the consultation rather than the detailed licence drafting, and subject to the comments above, we broadly support the principles/intent of the proposals as set out. However, as noted, we will comment more fully on the next iteration.

Should you wish to discuss any of the points raised above in more detail, I should be happy to help.

Yours sincerely,

By e-mail

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