



**Legal, Regulation and
Compliance**

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Friday, 09 November 2007

Joanna Whittington
Director, Gas Distribution
Ofgem
9 Millbank
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By E-mail: Joanna.whittington@ofgem.gov.uk

Dear Joanna,

Re: GDPCR: Capacity Outputs Incentive – October Update 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.

We note that this proposal relates solely to capacity output incentives for the period from 1/10/2011 to 31/03/2013.

Interruptions Incentive:

In terms of the proposals, we are not clear from the letter how it would be clear that the GDNs are contracting for the "right" level of services; and even if the level is correct, how Suppliers and customers will receive assurance that GDNs have paid fair value. Assuming that these two questions are adequately answered, we do not oppose the overall structure of the Interruptions incentive. However, we are concerned that Ofgem does not propose to limit the incentive, we believe that some protection of customers would be appropriate, rather than a complete absence of cap or collar.

Flat & Flex Capacity:

In terms of the proposal for a flat capacity incentive, Centrica is not opposed to the proposals, and believes that a cap and collar in the range 7.5 to 15% is not unreasonable. We take this view on the basis that a degree of clarity is provided in advance of the likely money equivalent. However, we do not see any evidence suggesting that a 15% range is more appropriate than a 7.5% range and hence are not persuaded of the need to make the change.

With respect to the proposal not to formulate a flex incentive at this stage, this does not seem unreasonable. However, as we have previously commented during the exit capacity debate,

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we believe it will be appropriate to monitor requirements closely, and it may be appropriate to reconsider this area at a later date.

Capex Re-opener:

We have found it difficult to consider this area properly given the uncertainties which continue to exist pending publication of the Final Proposals in December.

Whilst on the surface, this may appear reasonable, we believe that this proposal may be a cause for concern depending on the Final Proposals when they are published. Centrica believes that the figure of £1m may be too low to justify a capex reopener as a criterion. If the Final Proposals are a tough and challenging target for the GDNs, this may be reasonable, however, if the Proposals are less tight, then £5-10m per GDN would seem more appropriate. In addition, we believe that it is essential that any re-opener should be fully publicised and all interested parties properly consulted, before a decision is made.

Overall, we consider that the Updated Proposals are already generous to GDNs and further allowances, and in particular reopeners, should be subject to the most rigorous challenge.

Income Adjusting Events:

In the light of our comments above, we believe that whilst IAEs are an appropriate safety net for the GDNs, the threshold level must reflect the degree of challenge posed by the price control overall. On balance, we are inclined towards a percentage figure rather than an absolute figure in money terms, but either is an acceptable way forward providing the level is appropriately set.

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

Kind regards

Yours sincerely,

By e-mail

Alison Russell
Senior Regulation Manager, Upstream Energy