

11th June 2008

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By E-mail: GDPCR@ofgem.gov.uk

Dear Rachel,

Re: GDPCR – Review of process

Thank you for the opportunity to comment on the GDPCR process. 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.

Overall, Centrica believes that the GDPCR process was a significant improvement on the process conducted for previous price controls. We welcomed the constructive debate with the GDPCR team throughout the process. We also very much appreciated that the most senior decision-makers in both our organisations had an opportunity to discuss the views we presented. We hope that this level of access will be carried forward into EDPCR.

It is essential that those who pay the costs should have the same level of input to the process as the organisations whose operations are funded as a result. Contrary to those who suggest that network costs are simply treated as a pass-through cost for suppliers, Centrica takes substantial price risk on its network costs when it enters fixed price contracts with domestic and non-domestic customers. We need to aggressively manage and forecast our network costs, just like all our costs. The commercial exposures we face in managing those costs should be properly recognised by the process that Ofgem leads, given that however good our forecasting, the network costs we face year-on-year are entirely beyond our control, once the price control is set.

Centrica considers that the need for equality of representation in the process should go a step further, and that suppliers should also be able to veto final price control proposals, or request that the proposed package is referred to the Competition Commission.

We would like to highlight some specific areas of improvement where we felt the progress compared to previous controls was most marked:

- 1) Information provision
 - a. More information was provided and provided earlier in the process than ever before.
 - b. The sharing of the audited Ofgem models was very helpful, though we would have preferred them to be released in conjunction with the consultation document
- 2) Access and approachability of Ofgem staff
 - a. We found Ofgem staff very helpful at all levels, willing to meet or teleconference to explain and clarify complex issues or questions of drafting.
 - b. Ofgem staff members were also willing to engage in constructive discussion and debate on technical areas.

We do have some suggestions for process improvement. These fall into three categories: the consultation process; information provision and user pays.

- 1) Consultation process
 - a. Many of the documents associated with the price control process are, of necessity, long and complex, with large amounts of supporting data. During GDPCR we have demonstrated our commitment to taking an active role in the process. Whilst we appreciate the difficulties of producing PCR documents, we have found the consultation periods, especially on major documents, too short. The guidelines suggest 12 week consultation periods, and though this may be difficult, we believe that a 6-8 week timescale should be achievable and would provide a better balance for non-GDN/DNO stakeholders in evaluating major documents which will impact their businesses for years to come.
 - b. Building on our comments on equality of access, Centrica believes it is inappropriate only to announce the final proposals at a stage when suppliers have no further opportunity to comment. This is a key aspect of the asymmetry of the current process which excludes those who pay the costs from a seat at the table just at the time when the final package is coming together.
 - c. Supporting the requirement for equality of access, more active engagement between network companies and consultees is needed. This would improve the quality of responses and levels of understanding. Whilst this could be led by network companies, Ofgem should oversee the process to ensure it is fair and delivers meaningful results.
 - d. We believe that more balance needs to be achieved between smaller, practical issues and higher level policy/economic matters. For example, we believe that some areas such as a radical overhaul of DN losses, broader User Pays issues and a need for stronger obligations on the accuracy and completeness of site records suffered from inadequate attention as a result of being overtaken by "bigger ticket" items.

2) Information provision

- a. Centrica would like greater disclosure of GDN information, including the drivers of costs as well as outputs with the objective of improving understanding of key drivers and the rationale for outcomes/decisions. We would like to see more detail on the analysis of previous over/underspends (capex, opex and repex) and the implications for the next PCR period as the knock on effects are often difficult to ascertain. A detailed commentary would be useful in understanding causation and what this tells users about GDN behaviour.
- b. The timeliness with which information is released is important. For example, Ofgem provided a large amount of information during the initial proposals consultation, but it was difficult to use as it was only provided partway through the consultation period.

The actual consultation and appendices were issued on 29 May 2007 with a closing date of 13 July 2007 allowing just over 6 weeks for responses, though the complementary financial model was only issued on 14 June. The consultation heavily referenced Ofgem's consultants' reports, but these were not released until 3 July. As there were almost 3,000 pages, it was only possible to make limited use of the information before the consultation closed. This was a pity, as the material included was both useful and informative.

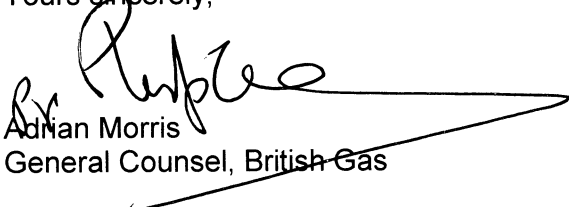
- c. All numeric information should be provided in excel as well as pdf format at the same time as the pdf document is released.

3) User Pays

- a. We believe that the general model of User Pays is potentially positive and a step forward for the industry.
- b. The process under GDPCR was very new and suffered from inadequate time being allowed for discussions and a lack of commitment from some key players. Of particular concern was the fact that key documents were made available for industry review very late in the process. This left very little time for constructive industry debate on, for example, the Agency Charging Statement and the Contract for User Pays Services.

We hope that this feedback has been useful, and should you wish to discuss any of the points raised in more detail, please contact either Philip Davies or myself.

Yours sincerely,


Adrian Morris
General Counsel, British Gas