

Mr. Ian Marlee
Director, Trading Arrangements
Ofgem
9 Millbank
London
SW1P 3GE

27 March 2009

RE: SO INCENTIVE PROPOSALS FROM APRIL 2009

Dear Ian,

Centrica welcomes the opportunity to comment on the issues raised in the final proposals consultation on the System Operator Incentives for April 2009. This response is on behalf of the Centrica Group excluding Centrica Storage Ltd. There is no confidential information contained within this response, which covers the gas SO incentives proposals only.

Chapter 3:

Question 1: Do you consider that the final proposals for the SO incentive to apply to NGGs external SO costs represent a fair balance of risk and reward?

Centrica welcomes and agrees with a number of items contained in the final proposals, including the separation of UAG, continued use of ex-ante GCRP, full environmental target and 3% demand forecast target. Centrica is disappointed that targets for UAG and shrinkage have been set for three years, particularly with an annual scheme, and looks forward to opportunities to make these more realistic in future. In the meantime we are pleased to see that there are plans for further workshops and reviews in the coming year, where we would like to put detailed effort into analysis of a smaller number of important issues such as GCRP uplift and residual balancing, where the final proposal may not provide a strong enough signal for National Grid to concentrate on the price incentive rather than being concerned with small changes in linepack.

Overall Centrica agrees that there are a number of improvements to the gas incentive schemes included in the final proposals. We are not convinced, however, that the package of incentives proposed appears to be providing the right balance between risk and reward. In some cases National Grid again appears to have gained an increase its reward without an appropriate increase in risk. For example with regard to shrinkage and UAG we are concerned that NGG's performance may deliver the maximum incentive payments for three years without delivering real and lasting benefits to shippers and consumers.

Finally with regard to the overall process we consider that it would be helpful to have an earlier indication of Ofgem's thinking, particularly if the final proposals are likely to contain significant differences from options presented in National Grid's initial proposals consultation.

Please do not hesitate to contact me should you require further information about any of these responses.

Regards,

Clive Woodland
Planning & Analysis Manager