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Dear Cheryl,

Re: Transmission Access Review – Enhanced Transmission Investment Incentives: Update and Consultation on Further Measures

Centrica welcomes the opportunity to comment on the above consultation. This is a non-confidential response on behalf of the Centrica group of companies excluding Centrica Storage Ltd. This document includes our high-level views on three key areas raised in the consultation.

1. Projects for funding consideration

As set out in previous consultation responses, we believe that strategic transmission investment is essential in meeting the government's 2020 targets, ensuring timely connection of conventional generation and reducing constraint costs. This investment is urgently required and we therefore support Ofgem's approach for taking forward the assessment of all requests for funding during the current price control period (pre-construction and construction).

To avoid delay in the necessary investment, we believe Ofgem's funding consideration should also include funding of pre-construction works that are required now for projects planned to commence construction in the next price control period.

2. RPI-X@20 interaction

We understand that Ofgem would like to align the work on TO incentives with the RPI-X@20 project and we support this in principle. We are, however, concerned that Ofgem's proposed two options for this alignment could delay TO investment because of possible financeability issues and uncertainty with regards to future funding. These options may also lead to a sub-optimal approach with regards to network investment and financing.

In addition, we do not see how the final TO incentive proposals, which under option 1 will be published in March 2010, can be based on well advanced output from the RPI-X@20 project, which is not due to be completed until later in 2010. It is our understanding that when Ofgem consults on the final TO incentive proposals, there will still only be emerging thinking output from this project.

With regards to option 2, we are not sure that it would be feasible to identify suitable break points for investment projects, in particular projects for which construction is planned for 2010/11 and on which pre-construction works have been completed. We also question whether a dual funding mechanism for single projects would work. It seems that, for example for projects that cannot be phased, an investment decision under the first funding mechanism could (pre-)determine the investment decision under the enhanced incentive mechanism, which might make that second mechanism less effective.

3. Funding framework and competitive approach

We have provided comments on the funding arrangements and competitive approach in our response to the December 2008 consultation. In summary, we are not yet convinced that with regards to electricity transmission the proposed Ofgem approach is necessarily the right way forward. We note that other parties have also raised concerns. We are disappointed that Ofgem's views on these concerns have not been included in this consultation document, but we understand that these will form part of a future consultation document.

Finally, we would welcome further clarity in a future consultation document on the role of the consultants that Ofgem are appointing, in particular with regards to the ENSG study. It is also not clear to us why these consultants have not been appointed during the ENSG process or shortly after the publication of the ENSG report. This might have made for a more efficient process.

We look forward to attending Ofgem's proposed industry workshop. In the meantime, if you have any questions regarding this response, please do not hesitate to contact me.

Kind regards,

Merel van der Neut Kolfschoten
Centrica Energy