

David Hunt
Senior Manager, Electricity Transmission Policy
Ofgem
9 Millbank
London
SW1P 3GE

Monday 16th August, 2010

Dear David,

Re: Transmission Price Control 4 – Rollover (2012-2013), scope decision and consultation

Thank you for the opportunity to comment on the above consultation. This non confidential response is on behalf of the Centrica group of companies excluding Centrica Storage Ltd.

While Centrica has not supported the application of rollover for the period 2012-2013, we agree that as a decision has been made to apply a one year control, it is reasonable to take a proportionate approach.

It will be important to ensure that in applying the proportionate approach, suitable incentives are maintained and that customers do not suffer unnecessary costs. Where additional allowances are made to the network companies as a result of the scope decisions set out in table 1, the allowances must provide clear benefit to customers and not adversely change the balance of cost and risk. It will also be necessary to maintain the rigorous approach to investment such that any allowances for anticipatory investment are subject to the standard efficient & economic criteria.

We note in particular the commitments by Ofgem in terms of a review of the allowed return and the application of the pension principles set out in DPCR5. In chapter 3, Ofgem confirms that the true up for the overpayment of pensions can form part of the rollover subject to timely receipt of data. It will be important to ensure that such brought forward activity remains NPV neutral overall.

Chapter 2:

Question 1: Do you think it is appropriate that the revenue drivers should be used in the rollover year to determine allowed capex for the electricity TOs?

Overall we believe that it is reasonable to extend the use of the revenue drivers to determine allowed capex, together with the logging up mechanism. We note Ofgem's intention to review the rolled over capex as part of TPCR5 and adjust for disqualifications if necessary. In our view it would be helpful to clarify the interest treatment associated with such corrections at this stage. Consideration should be given to application of a penal interest rate if the disqualifications are extensive – perhaps as a percentage of the total amount rolled over – to

maintain incentives on the licensees.

Question 2: Do you believe the SF6 incentive scheme should continue into the rollover year and, if so, is the current structure appropriate or should it be modified?

A straightforward rollover approach seems most appropriate for the one year control.

Question 3: NGG have incentives to deliver capacity in a timely manner and we hope to continue this type of incentive for the rollover year. How do you feel this can best be achieved during the rollover year?

We agree that the issue identified in 2.20 with respect the reallocation of Dynevor Arms capacity should be addressed as part of the roll over, however we would also suggest that changes to baselines in the rollover should be minimised.

Moving specifically to the point on Fleetwood entry capacity revenues, as Centrica has previously argued most strongly, we do not believe it is appropriate to defer addressing this issue until the 5 year control and we encourage Ofgem to seek a timely resolution of this issue via whatever route is most efficacious. While we have some sympathy with the view that the most efficient route would be to address in parallel to the TPCR4 process, Ofgem should leave this route open in case other routes fail to provide an appropriate outcome.

Question 4: Do you believe that the current structure of the SO internal incentive scheme should roll over (accounting for updates to external SO incentive parameters as is currently the case)?

As above, we agree that a straightforward approach to the rollover would be reasonable and proportionate. However, particularly in the case of incentives, great care is needed in updating parameters to ensure that networks companies are not able to obtain windfall benefits as a result of the change to the balance of the overall price control package.

Chapter 4:

Question 1: We are in the process of finalising our approach to stakeholder engagement for the rollover period, do you agree with the proposed approach detailed in this section?

We welcome Ofgem's commitment to transparency in the rollover process and support this aim. We would encourage early publication of data such that interested stakeholders can assess that information in preparing responses to consultations. We also support the approach of using working groups to consider particular issues as suggested in paragraph 4.9. However to maximise the value available from these groups, it may be helpful to circulate papers etc in advance to enable participants to prepare. We will be happy to contribute to such working groups.

We trust these comments have been helpful. If you have any questions or comments relating to this response, please contact me on 01753 431270 or at alison.russell@centrica.com

Yours sincerely,

By e-mail

Alison Russell
Senior Regulation Manager, Upstream Energy