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Leonardo Costa
System and Wholesale Market Operations
Ofgem
9 Millbank,
London SW1P 3GE.

Dear Leonardo,

Consultation on Gas System Operator incentives review: Initial proposals

Thank you for the opportunity to respond to the consultation regarding the Gas System Operator (SO) incentive regime. This is a non confidential response on behalf of the Centrica Group excluding Centrica Storage.

- **Performance targets for the D-2 to D-5 Demand Forecasting Incentive should be set at a maximum level of 13.1 mcm.**
- **Advice Notices should not be included in the Maintenance Incentive**
- **The proposed funding mechanism for the greenhouse gas (GHG) emissions research is not necessary.**

Targets for the D-2 to D-5 Demand Forecasting Incentive:

We welcome the recognition that the current targets are insufficiently challenging and the proposal to tighten targets. However the target should be set at a maximum level of 13.1 mcm to reflect performance achieved and rewarded in 2013/14. If it is accepted by both National Grid and Ofgem that part of the performance in 2013/14 was outside of National Grid's control then the appropriate course of action is to use the data unadjusted to set future targets. This should act to return this element of the outperformance reward back to customers. It is inappropriate for networks to be able to retain outperformance rewards for outcomes which are outside of their control whilst simultaneously excluding those outcomes from future target setting. This creates an asymmetric incentive regime. We also consider it unlikely that in the event performance had been worse than target in 2013/14, the question of to what extent any underperformance was inside or outside of the control of National Grid would now be being asked, unless it was for the purpose of allowing the network to claw incentive penalties back.

Given that the targets are to remain static for 2015-18, even setting the target at a level of 13.1mcm, the performance level achieved in the first year of the scheme, may still not be sufficiently challenging for performance three to five years later and may still not strike the right balance between challenging and achievable targets.

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Maintenance Incentive

We welcome the 5% efficiency factor that has been embedded into the Maintenance Incentive targets and the tightening of those targets that reflect the observed outperformance. However, we do not consider that the inclusion of Advice Notices (which are advance agreements between customers and the SO) in the targets is compatible with the original intent of the incentive – to minimise the impact of unexpected outages on customers.

The additional GHG incentive for emissions research:

We recognise the importance of carbon considerations in regulatory frameworks and support initiatives that encourage regulated businesses to minimise their impact on the environment. We also believe that developing a deeper understanding of venting issues is worthy because customers are required to fund gas lost through shrinkage or leakage. However, we fail to understand why an additional funding mechanism would be necessary to support this particular initiative. We believe this initiative satisfies the criteria for eligibility for funding under the Network innovation Allowance¹ (NIA) and the £400k threshold can easily be accommodated within that funding which has already been awarded. We acknowledge the SO has suggested the NIA is an appropriate funding route. We do not support the implementation of the additional GHG incentive.

We hope you find our comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning
Head of Network Regulation, Forecasting and Settlements

¹ The criteria are presented in the Gas Network Innovation Allowance Governance Document (<https://www.ofgem.gov.uk/ofgem-publications/56865/gas-nia-governance-document.pdf>).