



Industry & Regulation

3 The Square
Stockley Park
Uxbridge
Middlesex
UB11 1BN

Direct Dial: 0208 734 9375
Facsimile: 0208 734 9350

Wednesday, 21 June 2006

Lewis Hodgart
Gas Distribution Analyst
Ofgem
9 Millbank
London SW1P 3GE

By E-mail

Dear Lewis,

Re: Changes to reasonable profit tests applied under SLCs 4 & 4A of the GT Licence

Thank you for the opportunity to respond to the above consultation letter. Centrica is content that this non-confidential response be placed on the Ofgem Website and in the Ofgem Library.

Centrica agrees that the current conditions for the NPV test will, over time, lead to failure of the test as a result of the rolling assessment period. Centrica further agrees that moving to a fixed assessment period (2000-2023) will address this issue in respect of Legacy IGT sites, leaving the IGTs to make only a Reasonable Profit on these sites as defined in the licence conditions.

Centrica believes it would be helpful for Ofgem to clarify the position post 2023, when the proposed fixed period ends. Our understanding is that by this time, it would be expected that the Legacy sites covered by the NPV test would have migrated to the Relative Price Control (RPC). Given that the term "Legacy" relates to assets either connected or contracted to be connected prior to 2004, it would seem reasonable that by 2023, capital recovery in respect of these assets would be complete, and any further investment in respect of maintenance or replacement would take place under RPC.

If our understanding is correct, we are happy to support the proposed amendment in respect of the NPV test. If this is not the case, then we do not feel able to support the change until clarity is given on the position post 2023.

We agree that similar issues apply to the ROCE test, and that over time the test is likely to fail, even where charges to customers remain unchanged. Given the continuation of the NPV test for the protection of customers and the instigation of the RPC since the ROCE test was proposed, Centrica supports the removal of the ROCE test in this instance.

Centrica plc
Registered in England No. 3033654
Registered Office
Millstream, Maidenhead Road
Windsor, Berkshire SL4 5GD

We hope these comments have been helpful, and would be happy to discuss any points in more detail if this would be useful.

Yours sincerely,

By e-mail

Alison Russell