



**Industry & Regulation**

3 The Square  
Stockley Park  
Uxbridge  
Middlesex

UB11 1BN

Direct Dial: 0208 734 9353

Facsimile: 0208 734 9350

Friday, 31 August 2007

Joanna Whittington  
Director, Gas Distribution  
Ofgem  
9 Millbank  
London SW1P 3GE

By E-mail: [Indra.thillainathan@ofgem.gov.uk](mailto:Indra.thillainathan@ofgem.gov.uk)

Dear Joanna,

**Re: Proposal to modify Standard Special Licence Conditions A4, A5 and D11 of the Gas Transporter Licence**

Thank you for the opportunity to comment on the above proposal, this response is on behalf of Centrica plc excluding Centrica Storage Ltd, and is non confidential.

In our view, this proposal is clearly linked to the recent Pricing Consultation DNPC03, conducted by the GDNs, which proposed changes to the Capacity/Commodity split and the charges levied on interruptible supplies. Hence, we would like this response to be considered in conjunction with our response to the Pricing Consultation. For your convenience, we have appended a copy of our response to the Pricing Consultation to this letter.

We appreciate the intention behind the proposals, and support Ofgem's overall aims, we also agree that, where this can be efficiently and economically achieved, the benefits of smoother pricing are likely to outweigh the costs. However, we are not persuaded that all the current proposals are necessary to achieve the desired improvements.

We do not consider that both DNPC03 and this proposal should be implemented.

At a high level, suppliers need and value information transparency and predictability. Stability alone is of limited value without the other two.

Under GDPCR, Ofgem is proposing to remove the volume driver from the price control, if implemented this would virtually remove GDNs' volume risk, transferring risk to suppliers. This

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

would be expected to lead to a reduced K. GDNs should, therefore, be able to predict their performance against incentives with more confidence. On this basis, we believe that the need for this modification is reduced, and that GDN forecasting performance should be monitored for at least 12 months and then this modification could be considered afresh in the light of the evidence gathered.

If, however, these modifications were to be made, we continue to believe that the major price change in the year should be aligned with the AQ review and the gas year. This would be further strengthened if DNPC03 were not vetoed. Our reason for this is that the AQ review may be expected to have a significant impact on the levels of capacity billed via the SOQ, and hence to align the major change in terms of revenues with the formula year will mean that there will simply be two major sets of change per year rather than one.

We consider that a reduced K should be capable of being processed over a six month period without undue effects. However, we equally see no reason why a Licence amendment could not be made to allow recovery over a 12 or even 18 month period, as the requirement to ringfence in the succeeding formula year is arbitrary.

If the amendment is made to allow changes twice per formula year, we believe that the main changes should be processed in October, when GDNs will be able to use full information from the preceding formula year to maximise accuracy. Any changes made in April should be minor, and limited to within +/-2% of the existing charge.

In terms of the question in the consultation on reducing the notice period to be given for indicative charges; if the volume driver is removed from the price control, we see no reason to reduce the notice period. This would be even more the case if DNPC03 is not vetoed. The revenue recovery would be largely independent of consumption, and hence far less sensitive to weather effects. There have now been a significant number of AQ reviews, and the GDNs should be able to estimate the effects with reasonable ease. Taking these things together, if anything, we believe it would be reasonable to extend the notice period for indicative prices to six or even seven months in advance of implementation.

However, on balance, we place more value on more accurate indicative charges than on a greater notice period. Therefore if the GDNs can demonstrate why, taking into account all the changes discussed above, it is still necessary to reduce the notice period, then we would not object to this element of the proposals, subject to the following:

- a) The quality of the indicative charges is improved (see points below)
- b) Information transparency is improved such that suppliers can carry out effectively their own assessments of the future path of prices with more confidence. Mod 160 and Review Group 162 both aim to assist in this area.
- c) The basis for two changes is agreed with the community.

Given the greater certainty under which they will operate, we believe it would be appropriate to incentivise the GDNs on the quality of their indicative prices, for example, by limiting the change in actual prices to within +/-[2]% of the indicatives.

Finally, Centrica has long been concerned at the asymmetry of influence in terms of the prices levied on suppliers and customers. We believe it is inequitable that suppliers cannot propose changes to charging methodologies, for example, and hence are almost entirely at the mercy of the GDNs in terms of pricing.

In our view, it would be beneficial for changes to charges and charging methodologies to be governed under the UNC such that all affected parties can seek to propose developments which will further the relevant objectives of all parties. In our view, shippers and suppliers are well placed to assess beneficial change, and hence it would be appropriate for such interested parties to be able to propose change rather than only responding to such changes as the GDNs are willing to propose.

We hope these comments have been useful, but should you wish to discuss any points in more detail, I should be happy to help.

Kind regards,

Yours sincerely,

*By e-mail*

Alison Russell  
Senior Regulation Manager, Upstream Energy