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Dear Malcolm

Response to National Grid Consultation on Potential TO Incentives for Timely Grid Connection and Minimisation of Constraint Costs

Thank you for the opportunity to respond to this Consultation Document. This is a non-confidential response on behalf of the Centrica group of companies excluding Centrica Storage Ltd. This document contains our high-level views on three key areas raised in the consultation.

1. Investment Incentives for Grid Connections

As set out in previous consultation responses, Centrica supports timely connections to the network. To this effect, we support some of the measures mentioned in the document to minimise the lead time of 'local' works and would welcome further analysis of the costs and benefits in this area. We also believe it may be necessary to reduce inconsistencies within National Grid's TO incentives to connect new customers to the network. However, it should be ensured that any incentive regime would not reduce National Grid's focus on completing the wider works and connecting non Connect & Manage parties. We would also point out that the costs for advancing projects will vary significantly and the key issue seems to be the assumed average unit capex cost. We therefore question whether a generic UCA uplift would be effective and appropriate.

2. SO / TO interface issues

Centrica wholly supports the communication between the SO and Scottish TOs in order to manage constraint costs. However, we are unsure as to the benefits that would be accrued from extending the duration of the final outage plan to more than one year. Separate outage plans already exist beyond one year and we do not believe that an aggregated outage plan would provide any further insight. Furthermore, in the past, National Grid has seemed unable to fully utilise the annual allowance for outage changes due to insufficient lead-time and the lack of available skilled resources. As such, we do not believe that extending the outage plan to two years would solve this issue, especially as there is currently nothing preventing National Grid from requesting the changing of provisional outage plans in future years. Also, we would not support the compensation of Scottish TOs for changes made prior to the Final Outage Plan. We believe that this would decrease the transparency of the compensation

process and could lead to perverse TO incentives, including a sub-optimal starting plan.

With regards to SO/TO interaction in England and Wales, we do support measures to reduce any inconsistencies in incentives, such as the differing sharing factors between National Grid's controllable SO costs and the incentive scheme for those activities which are deemed 'TO'. We believe that reducing the difference in incentives between these two would lead to the TO placing stronger consideration on constraint costs.

Finally, the consultation includes a proposal to provide Scottish TOs with a ring-fenced fund from the SO to incorporate works with the aim of reducing constraints. Whilst we support initiatives that would reduce constraint costs, we would require further analysis on the interaction with the existing TO licence conditions, the current price control mechanism and the impact on wider works before we could support such an approach.

3. Aligning TO and SO incentives

The proposals for aligning TO and SO incentives seemed to be mainly focused on the Scottish TOs. In our view the main reason for constraints in Scotland is the lack of transmission capacity. We believe that the key focus should therefore be on investment in the wider system (whilst keeping constraints at a minimum). Our initial view is that we see little value in developing a complicated incentive scheme that might actually work against this.

We hope these comments have been useful. Please don't hesitate to get in touch if you have any questions regarding this response.

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