

Centrica's Purchase of the Rough Gas Storage Field

Consultation by Ofgem

Response by Powergen UK

1 Powergen welcomes the opportunity to comment on the competition and regulatory issues associated with Centrica's purchase of the Rough Gas Storage Field.

2 We have concerns about the impact of the transaction on the availability to other market participants of storage and flexibility in the wholesale gas market. These reflect Powergen's exposure to wholesale gas price risk as a major supplier of gas to the residential market.

3 While we are aware that there are a number of available substitutes to storage in the wholesale gas market, and we have not had time to undertake a detailed assessment of the effects of the transaction, we remain concerned that:

- the combination of Centrica's ownership of the Rough storage and Morecambe Bay fields could distort competition in the market for gas storage and flexibility, enhancing Centrica's influence over the price and availability of storage and flexible gas, potentially raising wholesale gas costs, particularly at time of peak demand;
- Centrica's increased ability to extract value from the storage and flexibility market through its combined ownership of the Rough and Morecambe Bay fields could reinforce Centrica's dominance as a supplier in the domestic gas market. We are particularly concerned that the acquisition may limit the availability of gas to competing suppliers to the residential gas market at periods of peak demand. The domestic gas market accounts for a large proportion of annual variations in UK gas demand, and residential suppliers must have fair access to flexible gas and gas storage services at peak times.

4 We believe that Centrica should be required to enter into undertakings which remedy these potential effects. We agree with Ofgem that these need to go further than those agreed with Dynegy. We believe that the following undertakings to the Secretary of State are required as a minimum:

Availability and access to capacity

- the maximum physical capability of the Rough storage field should be made available on non-discriminatory terms;
- this capability should be made available on standard terms on a variety of contract lengths extending out to a minimum of five years;
- standard documentation should be developed for approval by the Secretary of State for this purpose;

- a minimum of 25% of storage capacity should be reserved for annual sales rounds with 10% of total storage capacity reserved for sale by annual auction in order to provide some transparent price indicators;
- Centrica's shipping businesses should be limited to purchasing 25% of the deliverability of the field in the primary market, including any existing holdings, although it could procure storage in the secondary market;
- Centrica or any of its affiliates should be prohibited from participating in capacity auctions given that Centrica would have an incentive to bid at a high price to enhance the profitability of its storage business;
- the storage business should only buy and sell gas for operational purposes associated with management of the storage facility.

Separation of the storage business

- full business and legal separation of the Rough storage business from its businesses operating in competitive markets;
- confidentiality undertakings to prevent the disclosure of commercially sensitive competitor information to Centrica's supply, shipping or production businesses.

Transparency of market information

- in addition to the current market information obligations in Dynegy's undertakings, Centrica should be required to publish daily the aggregate quantity of gas in store.

Further Measures

5 The availability of storage will have increasing importance to the efficient operation of the UK gas market as UK North Sea fields deplete and their ability to provide swing gas diminishes over the next few years. Taking this into account, additional measures to address Centrica's market power arising from the combined ownership of Rough and Morecambe Bay, should include an obligation on Centrica to make available a given volume of NBP peak flexibility options over the winter period. This could be set at a level equivalent to the additional control over flexible gas they have obtained from ownership of the Rough storage field, or 75% of the field's volume taking account of their pre-existing usage. This should be sold bilaterally or through auctions with any unsold volume sold at auction in a manner consistent with the regulatory undertakings which had applied to Dynegy. The effect of this undertaking would in effect require Centrica to make available capacity from Morecambe Bay to other shippers in the market.

BTS

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