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Our Ref.  
Your Ref.  
29 April 2008

Dear Paul,

**RE: Open Letter Consultation on National Grid proposal to commence generating electricity at Gas Distribution pressure reduction sites**

Thank you for providing the opportunity to offer comments on the above subject. This response is sent on behalf of the Centrica group of companies, excluding Centrica Storage Limited.

In addition to this response, Centrica is one of the co-sponsors of and signatories to a joint response, which is being sent to Ofgem under separate cover. We fully agree with the points raised in that separate response, but in addition wanted to emphasise a few further points of our own. The two responses are therefore to be seen as complementary to each other.

The first point that we would wish to emphasise is our strong support in general for projects which genuinely help to satisfy or reduce energy demand with minimum impact upon the environment. Nothing in either this response, or the associated joint response, should be taken to indicate otherwise.

**The Environmental and ROCs**

We wish to emphasise and expand upon the environmental concerns raised in our joint response to this consultation. Regarding the CHP Generator, it might appear somewhat perverse that a CHP generation project based around natural gas distribution, with ready access to a suitable gas supply, should require the import of an additional fuel. Presumably this would have to be brought in by road, with the additional environmental impacts that this entails. However, the financial attraction of 2 ROCs as a result of the biomass input is obvious.

The requirements of the Banded RO are very clear and it appears to us that this project meets the requirements of the Emerging Technology band. Therefore, although we may have significant concerns about the logic or environmental benefits of using biomass in

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this way, it would seem there are no grounds for any objection. We would simply question whether such a rare biomass resource could be better deployed given that the transport sector is likely to be set an extremely challenging biofuel target under the EU Renewables Directive.

If the CHP projects do receive ROC support from the Emerging Technology band, each generating set must only use biomass fuel as any use of natural gas or any other fossil fuel as a backup would result in the project being reclassified as co-firing with the ROC band being adjusted to 0.5 ROCs/MWh. We would urge that Ofgem maintains appropriate monitoring on the use of backup fuel.

## **Financial and Regulatory questions**

We believe that there are still a number of significant questions about the intended financial beneficiaries of projects such as this, and the allocation of associated costs, and these questions inevitably spill over into the regulatory framework which underpins such projects. For example, in terms of the “expander” turbine, we understand that this relies upon the pressure within the gas/pipeline in order to operate. Some of that pressure will be from mechanical sources, either on or off shore, the energy for which will have been paid by shippers and producers. There are real questions about who should therefore benefit when that pressure is turned back into a useable energy source.

There is also an element of residual geopressure, and arguably this could be seen as the property of the producers who release the gas from the ground. Whilst it could be extremely complex to try and understand what element of that geopressure exists at the NTS to DN interface, we believe that such understanding is necessary in order to satisfy both the question about who should benefit, and also the extent to which the expander turbine should qualify for ROCs.

In terms of other costs and benefits, we believe the following points require further clarification:

- Any impacts from this scheme upon National Grid's participation in the ETS scheme, particularly with regard to the use of compression or which we understand National Grid was granted allowances free of charge;
- Who will actually be the licensed generation entity;
- Impacts upon National Grid's corporate structure in terms of legal and physical unbundling, both now and in the light of the measures set out in the 3<sup>rd</sup> Package;
- Payment (or not) of ground rents/rates for these sites, and who benefits from such payments/recharges.

## **Summary**

Upon considering this proposal, it has become evident to us that there are a large number of issues, some quite complex, that need further consideration, and it is not clear to us what the next steps are in this process.

We believe that both this letter, and the joint response to which we are a signatory, raise a large number of very important questions in respect of this specific technology; issues that were not set out in Ofgem's Open Letter of 3 April 2008.

We believe that some or all of these issues are so fundamental to the gas (and possibly electricity) industry, and indeed the environment, that they should be the subject of at least one further round of consultation by Ofgem, where they can be brought to the attention of the wider industry with views being sought. It is not clear to us from the open

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letter whether or not Ofgem had considered that a further round of consultation was required, or in fact whether the open letter of 3 April was intended to be the full extent of Ofgem consultation on this matter. We would be very concerned if this latter was the case.

Please do not hesitate to contact me if you need any clarifications or details relating to this response.

Yours sincerely,

Chris Wright  
Commercial Manager

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