

4 November 2009

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**Re: Storengy UK Limited's application for an exemption from section 19B of the Gas Act 1986 (reference 117/09)**

Dear Ian

Thank you for the opportunity to participate in the consultation process for Storengy's application for exemption from TPA for phase 1 of the Stublach facility. The views in this non confidential letter are expressed on behalf of the various companies of Centrica plc but exclude Centrica Storage Ltd.

We would like to make an overriding comment on the apparent need for a clear and consistent policy statement that applies for nTPA regimes and exemption applications, in order to provide a clear and positive investment climate for new gas storage in general.

We welcome the development of the Stublach gas storage facility and the contribution it will make to gas storage and gas flexibility in the GB market. Alternative and new flexibility sources will be needed for the market to continue functioning efficiently. Therefore, it is vital that a number of gas storage projects are brought to market.

We remain concerned however that exemptions are being granted covering an increasing proportion of mid range storage facilities without a clear and consistent overall approach to nTPA exemption across the wider gas flexibility market. We feel it is necessary for Ofgem to make a policy statement that outlines their view of the flexibility market going forth and how future exemption applications will be handled in this context.

We are delighted to see that Storengy intend to establish a UIOLI arrangement and they will endeavour to create a liquid secondary market for unused capacity. We suggest that the exemption should be granted on the formal condition that a workable UIOLI scheme will be established & maintained and that the operator follows the Guidelines for Good TPA Practice for Storage Operators (GGPSSO) especially prior to the implementation of the EU third energy package. We would also like Ofgem to formulate a definition for UIOLI and request this be linked to a minimum amount of TPA at each storage facility in order for the UIOLI scheme to be operational.

Whilst many aspects of the new EU Gas Regulation will not apply to storage sites that are not required to offer TPA, this is not the case for transparency rules. It is essential that Ofgem ensures that all required information regarding the use, availability and stocks of gas are published for all storage sites as per article 19 (4) of the Regulation, once it enters into force in March 2011.

Centrica plc does agree with the Ofgem proposal to grant exemption to Storengy for phase 1 of the proposed storage facility at Stublach. However, we would like to see the use of more explicit conditions that underpin the exemption (UIOLI, transparency and the following of GGPSSO).

We are pleased that Ofgem retains the right to amend the exemption as we believe that re-visiting exemptions granted for storage under 19B of the Act, periodically or in light of changing market conditions is prudent as the gas storage market in the GB continues to evolve.

Centrica plc would also like to offer some further observations on the market analysis conducted in reaching the decision to grant Storengy's exemption on the basis that this approach could underpin further applications.

**Short Range Storage** – we believe that the contribution that SRS can make in deliverability terms should not be overlooked and this warrants inclusion in any market analysis.

**Norway** – We do not agree with the presumption that Norwegian gas imports will always flow base load and the resulting decision to exclude these from the analysis. Our observation of Langeled is that it already demonstrates a significant degree of flexibility. The demise of UKCS flexibility and the development of market arrangements on the continent will impact current behaviour and further enhance the contribution that Norway can make to the GB flexibility market.

**BBL** – When BBL commenced operations in 2006 it initially ran baseload; since then it has operated in a more flexible way and the capability to provide a non physical reverse flow service will enable this piece of infrastructure to have the ability to behave even more flexibly. The fact that this has not been applied to the 2014 flexibility analysis even in the form of a sensitivity test is disappointing.

**LNG** - We agree with Ofgem's assessment of the LNG market in that it will continue to be dictated by the price differential between the GB market, Henry Hub and Asia Pacific prices. Centrica also agrees that the aggregate supply of LNG will continue to be constrained by the availability of liquefaction capacity globally. However, we see no reason to assume that those deliveries that are made will not behave flexibly and contribute to seasonal flexibility by responding to price/demand signals in the UK.

**Demand side** - The focus on supply side only to assess market size of flexibility does generate a conservative view especially given the power sectors' ability to respond quickly to price signals (e.g. November 2005). We would like to have seen demand side response included within the flexibility market.

**IUK** – We feel that the 43% flow rate in assigning an assessment of flexibility is a little low and underestimates the contribution that could be made by this piece of infrastructure in the event that NBP prices (and basis differentials) justify higher flows. We have seen maximum IUK flow at 16mtpd (Q1'06) but since this time have not needed to fully utilise IUK import capacity. That said based on our historic experience a 60% import utilisation figure might be more representative.

It is also unclear as to how Ofgem reached the conclusion that this proportion of flow rate should be used. We believe that the constraints that currently exist due to the speed of North West European liberalisation and gas quality issues could have been progressed by 2014 and give rise to greater utilisation and flexibility.

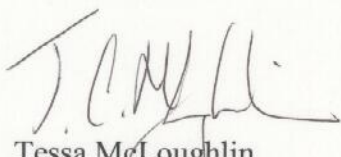
**Storage values** – The values used for the medium and long range storage contribution by 2014 look conservative relative to the number of proposed projects that could feasibly contribute to the GB flexibility market by this time.

Although we do not feel that the above changes would alter the decision to grant Storengy exemption for phase 1 of the Stublach facility.

We would also like our comments to be considered as relevant to analyses on the evolving UK flexibility market going forward.

Should you wish to discuss any of the comments please do not hesitate to contact me.

Yours sincerely



Tessa McLoughlin  
Commercial Manager