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Ian Marlee
Partner, Trading Arrangements
Ofgem
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project.discovery@ofgem.gov.uk

31st March 2010

Dear Ian,

**Centrica Storage Limited Response to Ofgem's consultation on
Project Discovery: Options for delivering secure and sustainable energy
supplies**

Centrica Storage Limited (CSL) welcomes the opportunity to respond to this important wide-ranging review of the electricity and gas market arrangements. This is a non confidential response and as such we are happy for this to be placed on Ofgem's website.

By way of context, CSL believes that the current liberalised market has worked well. The industry has attracted over £10 billion of investment in new infrastructure with more import capacity than annual demand; performed well during the geopolitical stress caused by the 2008/09 Russia / Ukraine dispute and managed to maintain supplies, at relatively low prices, during the 2009/10 coldest winter in 30 years.

However, recognising the challenges that now face the GB energy market in delivering secure, affordable and sustainable energy supplies we see no room for complacency.

With regards to gas, there is currently a global supply softening which has meant that the GB market is well supplied with LNG thus easing security of supply concerns. However, we believe that the global markets will tighten by 2013/14 and the GB market will need to see increased storage capacity by that date.

Given the long lead times for storage development we have a relatively limited window of opportunity to respond to this challenge.

Storage economics look challenging with the collapse of the winter summer spread, lack of liquidity in the finance markets and strong competition for capital. We believe that the market will deliver but support may well be needed if it is to be in time for the supply tightening.

We believe that the Government could provide support through enhanced stimuli including the following measures:

- directing the Crown Estate to take a pro investment approach to storage investment;
- providing certainty of the regulatory regime under which new storage project will need to operate;
- introducing 100% capital allowance for storage related capex; and potentially

As we have made Ofgem aware, this year CSL plans to make further investment decisions on at least 2 of the 3 gas storage projects currently under consideration; namely the Caythorpe and Baird storage facilities. Before the final investment decision can be made CSL requires clarity on the future regulatory regime that operators will be governed by and in particular clarity of the nTPA regime. Further, before the Caythorpe decision can be made, CSL requires clarity on the status of the existing minor facilities exemption.

To conclude, we believe that the above measures, which build on and do not undermine the competitive market, should help support the market and ensure delivery of the additional gas storage capacity in time for the expected supply tightening. We do not believe that the case has been made for wholesale reform of the energy market and in particular the more extreme reforms proposed by Ofgem's report. Even suggesting the need for such extreme forms of non-market intervention, as is the case in Ofgem's document, risks undermining signals for much needed investment and potentially undermine security of supply.

We hope that you find our comments of use and would be happy to discuss these further with Ofgem if you believe this to be of value.

Yours sincerely

A handwritten signature in black ink that reads "Roddy Monroe". The signature is written in a cursive, slightly slanted style.

Roddy Monroe, Regulatory Manager, Centrica Storage Limited