

Ofgem Security of Supply Seminar

Centrica's thoughts on the SCR process

18 January 2011

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Gas Supply Security: Background

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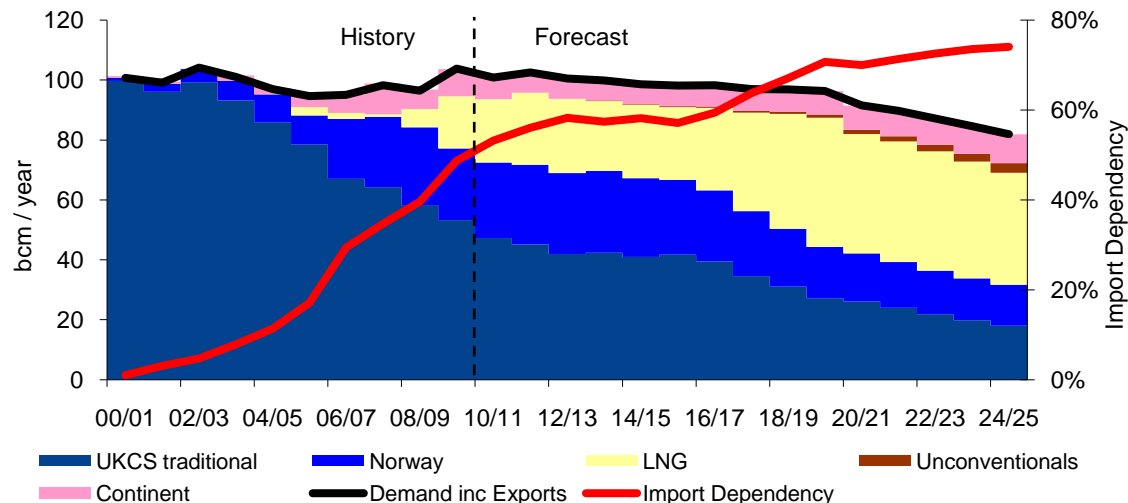
The role of gas in GB

GB heavily dependent on gas

- Provides heat and cooking to 80% of homes
- Fuels 1/3rd of electricity generation
- Feedstock for major industrial processes
- Major role in transition to low carbon future

And UKCS stock depleting sharply

- Current import level circa 50%
- Could rise to 70% by 2020



**National
Grid 2010
TYS
(slow
progression)**

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Growing import dependence - cause for concern?

Some think it might be. The evidence...

- Memories of 2005/6 winter (insecurity & prices up to £2.55/th)
- Russia-Ukraine (Jan 2009) & political attitudes to Russia
- Project Discovery – may have reinforced impressions of insecurity
- Gas Balancing Alerts last winter & political/media fall-out
- Uncertain prospects for major new gas storage development
- Security of supply conflated with “security of price”

Policy context:

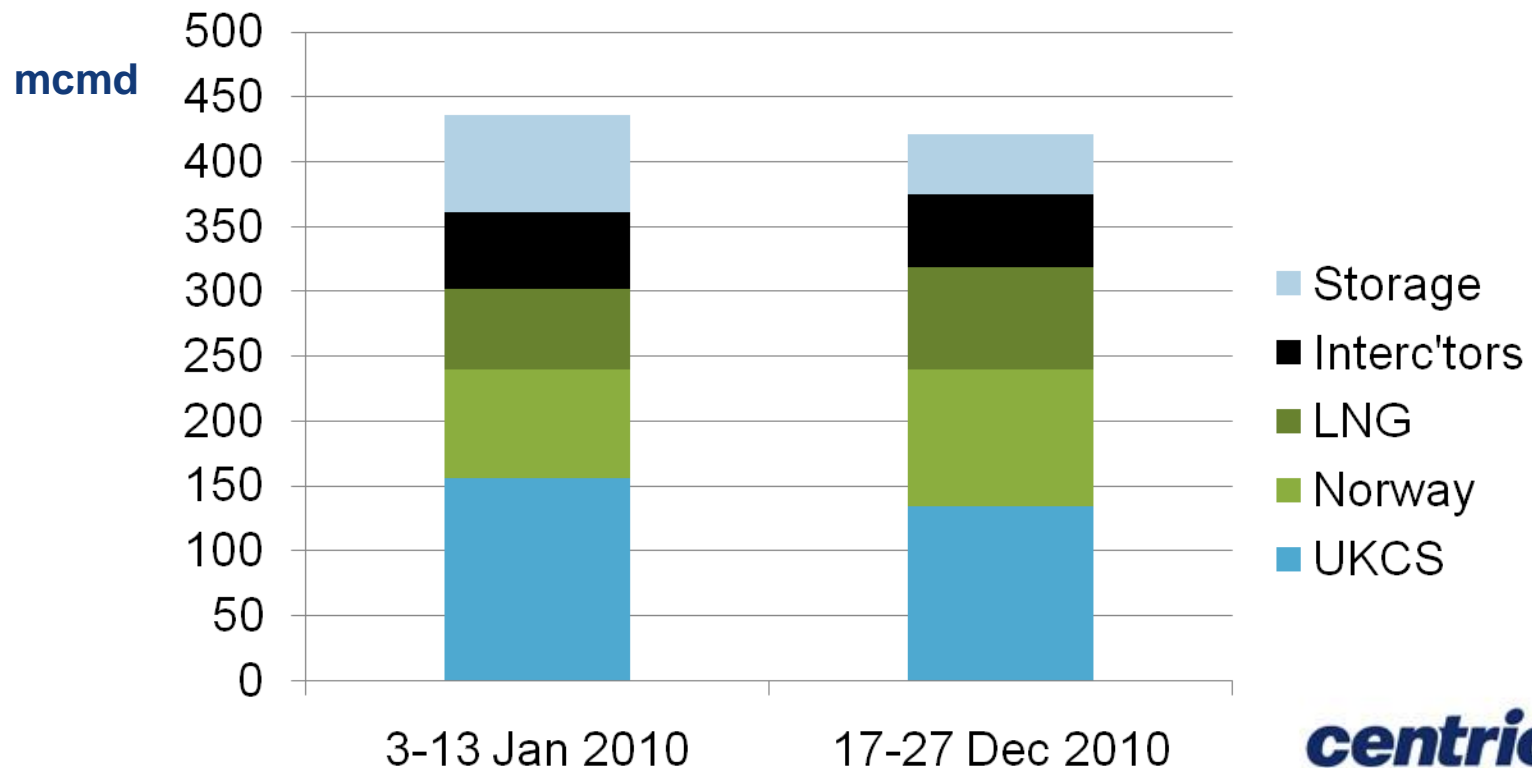
- Pre-election policy debates (early 2010)
- DECC policy statement on Gas Security of Supply (April 2010)
- Coalition agreement commitment
- Poyry reports for DECC (published in June)
- DECC presentation of 2011 Energy Bill (September)

But:

- The market has delivered, and continues to deliver

In fact the market coped well with two very cold winters...

Among the principal UK gas supply sources, Norway and LNG have both stepped up to compensate for UKCS decline



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Significant Code Review

Our approach to SCR process

Open minded...

- Previous UNC reviews/modifications had narrow focus/single issue
 - Opportunity for broad debate (we've repeatedly called for, but not necessarily through SCR route)
- Seek evidence that change/intervention is necessary
 - What has fundamentally changed to require intervention at this time?
 - Market arrangements have facilitated desirable outcomes in challenging times
 - Must recognise impact of changes already implemented/in train
 - Unintended consequences

...Pre-requisites

- Recognise benefits of markets over regulation/intervention
 - Changes must “work with the grain” of markets
 - Focus on incentives
 - Avoid market erosion

Thoughts on consultation document

- Stronger case required around need for change (“may”, “could” etc)
- Recognises there may be cost to consumers
 - Ascertain “insurance premium” for every solution – assess value
- Extensive work required on many proposed solutions (e.g. VoLL)
- Some possible changes fall outside of UNC
- Removing liquidity from markets due to long term (wholesale) contracts
- Role changes
- Import gas quality conspicuous by absence
 - IUK = 70mcm, BBL = 60mcm
- IUK regulatory regime > 2018

What are the potential pitfalls?

- **Compressed workshop timescale/limited attendance**
 - Accusations of abuse of process
 - Subsequent legal challenge
 - Unwinding of Code changes
- **Under-developed solutions**
 - E.g. VoLL – potentially massive on its own
 - Where/how/when to set VoLL?
 - Mechanism for setting likelihood of load loss?
- **Missed interactions/interdependencies**
 - Within gas market, but also in electricity
 - Erosion of deep and liquid wholesale market – a valuable source of flexibility
- **Over-ambitious delivery timescales**
 - Lead time for some solutions (e.g. Long term contracts)
 - Only minor changes implemented and effective for winter 2011

Thank you

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