

Robin Kunduchaudhuri
Competition and Markets Authority
Victoria House (6th floor)
37 Southampton Row
London WC1B 4AD

By email: Rough-Undertakings@cma.gsi.gov.uk

31 October 2017

CMA Review of the Rough Undertakings

Dear Mr Kunduchaudhuri,

We welcome CMA's decision to review the Rough Undertakings.

Strategic nature of Rough

The cessation of activities of the Rough facility would reduce the UK's natural gas storage to less than 2 bcm equivalent to 10 days of winter UK demand¹.

This is set against a background where the consumption of electricity is expected to grow significantly through the electrification of transport as the major car companies move away from petroleum fuels to electric engines over the next five years². It will be challenging for new renewable energy sources to match the level of additional electricity generation required for transportation leading to a period of increased gas-fired generation.

Rough is an asset of strategic importance particularly as our economy becomes ever more dependent on electricity to power its businesses, homes and transportation.

Currently the government, through various mechanisms, maintains strategic stores of petroleum products equivalent to 61 days of inland consumption. This appears prudent and puts the intention to materially reduce Great Britain's gas storage capacity at odds with an isolated island in a post-Brexit environment.

Notwithstanding CMA's current review, we believe Ofgem should consider the need to carry out a public consultation on the proposed closure of Rough so that industry can assess the impact on the broader energy sector and its impact to consumers.

¹ Assuming GB winter demand is more than 200mcm/d *cf.* 465mcm/d highest ever GB gas demand

² Based on recent announcements of GM, Ford, Toyota, Renault Nissan, Mitsubishi, Jaguar Land Rover, Mercedes-Benz, Volvo and VW.

Understanding alternatives for Rough

We consider it would be helpful for the shareholders of Rough to provide greater detail on their analysis of the facility's technical faults and remediation costs, including the reports of the Group Wells Technical Authority and CSL's independent expert on the costs and time required to rebuild Rough³. Access to this information would allow the market to better understand any changes in circumstances and assess alternative solutions that could provide benefits to consumers. Under alternative Undertakings and regulatory arrangements Rough could attract private capital for the repair of the facility that would be commercially acceptable to Rough shareholders and demonstrate a positive net social benefit.

Impact of revocation of Undertakings

The revocation of the Undertaking will pave the way for the blow-down of the Rough cushion gas and the irreversible termination of operations. The sale of the gas at current prices would create revenues of approximately £750 million⁴ against a current provision of £299 million⁵ for the decommissioning of the facility. We think it would be helpful to consider the impact of the proposed change of licence from storage to production to ensure that the eventual decommissioning of the facility is completed after taking into consideration the interests of consumers.

We are available to provide the Panel further information on these points if it considers it useful.

Yours sincerely

Simon Ludlam

Managing Director

³ Section 1.2.3 of Centrica Storage letter to CMA dated 29 September 2017

⁴ Assuming gas sold at 40p/therm and recoverable reserves are 183bcf

⁵ Notes 3 and 15 of Centrica Offshore 2016 Accounts