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Matt Wieckowski
Department of Energy & Climate Change,
4th Floor, Area D
3 Whitehall Place,
London, SW1A 2AW

Email: DECC.capacity.mechanism@decc.gsi.gov.uk

Dear Matt,

Re: EMR Consultation on alternative approaches to a potential Capacity Mechanism for the GB electricity market

Centrica Storage Limited (CSL) welcomes the opportunity to respond to this consultation. CSL is a wholly-owned subsidiary of Centrica plc and is legally, financially and physically separate from the rest of the Group.

CSL operates the Rough gas storage facility in the southern North Sea and the Easington onshore gas processing terminal in East Yorkshire. It is the largest gas storage facility in the UK, providing approximately 70% of space and able to meet approximately 10% of the UK's current peak day gas demand.

Whilst CSL has no direct involvement in the electricity market (unlike Centrica Group which will be providing a separate response to the questions asked within the consultation) we are following the EMR proposals with interest because of the obvious links between the electricity market and the gas market.

The White Paper sets out the Government's view of the security of supply challenges faced in the GB market, and concludes that a Capacity Mechanism is required to ensure future security of supply by ensuring resource adequacy (i.e. that there is sufficient reliable and diverse capacity to meet the swings in demand caused by wind intermittency).

We agree with the Government's view that left to its own devices there is a risk that the market may not provide the capacity needed to provide sufficient resource adequacy and we also support the proposal to introduce a mechanism which will help reduce this risk.

However, we believe that there is a risk that Capacity Mechanisms alone may not be sufficient to achieve the Government's stated goals and that to ensure resource adequacy there has to be both the generating capacity available to be able to meet the swings in demand and the secure supplies of fuel needed to fuel the generating capacity.

Whilst we accept that future generating capacity will comprise of a number of technologies we believe that gas will remain at the heart of our energy mix both in the short and longer term. Gas fired power provides more than 40% of the UK's electricity and will be increasingly used to ensure that the electricity system balances as more intermittent sources of supply come online. It is the only type of large scale generation which has been built in recent years or is currently being built (apart from subsidised wind projects). Some 10GW of gas fired generation capacity has come on-line in the past two years or is under construction for completion in 2011 and 2012. There is a further 8GW with consents granted and due for completion during 2013 to 2016 (ref. National Grid's Seven Year Statement for 2011).

It is widely recognised that as the GB gas market moves to ever greater import dependency the risks of supply security increase. In particular, increasing reliance on LNG means that the GB market will be linked to events in the global gas market (e.g. nuclear outages in Japan).

Indeed studies recently commissioned by the DECC concluded that there are certain scenarios, with a low but not negligible probability, which could have a high impact on gas consumers in GB. The impacts of such events could lead to involuntary gas supply disruption and / or very high wholesale prices.

Given these low probability and extreme impact supply risks, we suggest that the Government will need to extend the boundary of its review to include gas supply security. This may potentially include introducing support mechanisms which secure gas supplies to GB.

CSL has been developing its thoughts on how such support mechanisms may be introduced to provide a greater incentive for gas storage development and would welcome the opportunity to discuss these with DECC if the opportunity should arise.

Yours sincerely

A large black rectangular box redacting the signature of the Head of Regulatory Affairs at Centrica Storage Limited.

Head of Regulatory Affairs, Centrica Storage Limited