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Dear Rochelle

Centrica's Acquisition of Dynergy Storage Limited and Dynergy Onshore Processing UK Limited)

Thank you for providing the opportunity to comment on the above acquisition. These comments are made on behalf of Derwent Cogeneration Limited ("DCL"), owner of Derwent Power Station in Spondon, Derby.

As you may be aware, Derwent is a 232MW gas-fired cogeneration plant providing steam to Acordis, the host industrial user, on an uninterruptible basis. The bulk of DCL's gas requirements are supplied under a Long Term Interruptible (LTI) contract with Centrica, with additional gas being bought in the market. Within-day swing is a key requirement for all gas supplied to the station due to the varying nature of the steam load.

As a customer in the market for swing we share Ofgem's concern in respect of the impact of Centrica's acquisition of Rough on its overall share of gas flexibility and on other aspects of the competitive energy market.

It is clear that the acquisition would further entrench Centrica's unique dominance of the wholesale gas market and in particular the market for swing gas, given its ownership of Morecambe Bay and its interruption rights under the Long Term Interruptible (LTI) contracts. The ability of competing suppliers to source swing gas is central to the development of supply competition. Centrica's acquisition of the Rough storage facility would thus effectively foreclose the retail energy market to new entrants and would significantly inhibit the ability of existing suppliers to compete with Centrica.

We agree with Ofgem that the primary mechanism by which demand-side responsiveness contributes to supply-demand balancing is through the use of interruptible contracts. However, in considering the extent of demand-side interruption as a source of swing, Ofgem refers to Transco's interruptible rights. While this may be relevant in respect of Transco's management of demand/supply fluctuations under its role as residual system balancer and its management of transportation constraints, we do not believe that Transco's interruption rights are relevant in terms of the commercial market for supply flexibility, i.e. in respect of commercial interruption.

Ofgem has recognised that there are likely to be numerous and varied contracts that are relevant for consideration in respect of commercial interruption, but information about them is not readily available. However, we do know that Centrica has a unique and distinct advantage over its competitors by virtue of its inherited Long Term Interruptible (LTI) contracts. The interruptible feature of these contracts was originally intended to be a tool for management of the physical transportation system. However, at the time of the British Gas plc demerger the LTI contracts were handed to Centrica and since then Centrica has been able to interrupt numerous power stations at short notice for entirely commercial reasons, for up to forty-five days a year. At the time these contracts were entered into they provided gas for around 5092MW of electricity generation which, at average conversion efficiencies, approximates to commercial interruption for 230GWh/day. This is another key source of flexibility available to Centrica.

Thus the holders of LTI contracts, such as DCL, potentially lose out both ways since we provide the swing through Centrica commercial interruption, and now, as a result of reducing competition in this market, are faced with paying more to buy back swing gas from the market during those interruption periods.

Any future formal regulation should also provide for undertakings not to utilise the interruption rights under the LTI contracts for commercial purposes, as these are another potential key source of swing gas held by Centrica. They could also potentially undermine security of supply given that interruption of power stations for commercial purposes would be likely to occur at times of high system demand. We therefore believe that interruption rights under the LTI contracts should be used solely in response to a request from Transco for constraint management purposes

Finally, I note from your consultation document that you may find it helpful to meet to discuss these points further. Please let me know if you would like to arrange such a meeting.

Yours sincerely

Rick Hemmings
Director