



Agip (U.K.) Limited Response to Ofgem's Consultation Paper on Centrica's Completed Acquisition of Dynegy Storage Limited and Dynegy Onshore Processing UK Limited

Agip (U.K.) agrees with Ofgem's initial view that the Centrica's acquisition of Dynegy Storage Limited and Dynegy Onshore Processing UK Limited represents a substantial lessening of competition.

- As outlined in section 4.1 of the Ofgem consultation paper, Centrica's position in the UK market is already far more dominant than Dynegy's was during the period when Dynegy was actively trading in the UK. Centrica has a dominant or significant position in gas production, shipping, trading, customer supply, hence adding 85% of UK gas storage to its portfolio will complete Centrica's dominant position across the whole of the UK gas trading industry.
- The importance of gas storage in the UK market is set to increase over time as North Sea swing fields decline. This will serve to reduce the availability of peak capacity gas in which Centrica already have a strong position through their ownership of the Morecambe fields. Hence Centrica's position as the owner of Rough will become even more significant over time.

Agip (U.K.) believes that the following undertakings would need to be made by Centrica in order address the competition issues surrounding Centrica's ownership of Rough:

- Continuation of Dynegy's previous undertaking that 100% of storage capacity be put into the market
- Continuation of Dynegy's previous undertaking of robust separation of the storage business from the trading business. This should include physical separation of the offices.
- Minimum volumes of 20% of capacity to be available on a one-year basis through an auction process on a standard storage contract. Having only small volumes of unsold storage being available through auction causes the auction result to be artificially high and reduces transparency.
- An additional 30% of capacity to be available through the auction process which may be sold up to 5-year basis.
- Remainder of capacity to be available for sale through bilateral contracts either as standard bundled units or shorter/longer duration contracts. Any capacity remaining unsold to be included in auctions each year. Any part service (injection, withdrawal, space) remaining that cannot be made into a bundled unit due to non-standard contracts previously sold to be auctioned each year after the standard storage unit auctions.

- Results of auctions, including amount sold, minimum paid, maximum paid and WAP to be made available to participants.
- A maximum of 20% of capacity of Rough to be held by Centrica internal customers on firm contracts.
- All unused injection and withdrawal on a day to be made available on an interruptible basis to storage customers on a non-discriminatory basis. Interruptible space also to be made available.
- The continuation of all undertakings by Centrica in perpetuity. The increasing importance of gas storage in supplying the UK gas market means that transparency of storage transactions and access to gas storage by all market participants is vital for the continuation of a competitive and efficient gas market. Hence it would be undesirable for Centrica's undertakings for Rough to expire in the future.

We believe that these measures would provide practical and pragmatic solution to the potential problems that might otherwise be created by Centrica's acquisition of the Rough Storage facilities.