

Consultation on Centrica's Acquisition of Dynegy Storage - EIUG Response

EIUG believes Centrica's acquisition of Rough will reduce rather than enhance competition in the UK gas market. We understand that the deal would give Centrica control of around 85% of storage by volume, 65% of the supply market and 10% of production. We fear that this acquisition is a step towards recreating the old British Gas, as it was before it was broken up, which did so much to hold up the progress of competition in the UK gas market. We agree with Ofgem's initial view that this acquisition represents a substantial lessening of competition, and therefore runs contrary to the interest of customers.

EIUG believes that the undertakings made by Dynegy when it took over the assets from BG storage are the very minimum that should apply to Centrica or any other owner. We are concerned by the possibility of Centrica reserving up to 30% for its own use. In our view, Rough is an essential facility for which there should be open commercial access on a non-discriminatory basis. We question why any percentage should be reserved for availability to Centrica (or to anyone else, for that matter) on a preferential basis.

EIUG also expects robust safeguards to be imposed to ring-fence the Rough storage business from trading activity. We do not believe 'Chinese walls' are adequate to ensure separation of business activities under common ownership. We agree with Ofgem's observation that Centrica's access to confidential information could be detrimental to competition in wholesale gas trading. We regard this as being yet another instance of the general problem of imbalance in access to gas market information, an issue we have raised before on a number of occasions (most recently in the DTI's consultation on gas prices and possible improvements to market efficiency) but one which remains largely unaddressed.

Centrica now has a unique position in the market for flexibility, coupling Rough's strategically important swing capacity with that of its Morecambe Bay facilities. Ensuring adequate access to flexibility, particularly to new entrants, is therefore a matter of great concern. We doubt whether it is healthy for Centrica to control Rough whilst retaining its facilities in Morecambe Bay.

EIUG expects Ofgem to satisfy itself that there is no question of Centrica being able to abuse its dominant position in storage and supply, whether this is done by means of additional undertakings, ring-fencing or conditional asset disposal. If doubts remain, either about competition in storage or the impact on the wider market, then the transaction would not be in the public interest and should therefore be referred to the Competition Commission.