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Dear Anthony and Lesley,

Re: GSOG response to the Call for Evidence of project TransmiT (ref. 119/10)

The Gas Storage Operators Group (GSOG) is a trade association which was formed in May 2006 within the Society of British Gas Industries (SBGI). The group has 17 members and comprises of almost all the active participants in the GB Gas Storage Market, and as such represents a wide range of interests. The group includes both established operators and developers of new storage projects, large multinational companies and smaller private ventures. The current members of the group and signatories to this submission are detailed in Appendix A.

GSOG welcomes the opportunity to reply to the Call for Evidence of project TransmiT (ref. 119/10), recently launched by Ofgem to review the connection arrangements to the gas transmission network and the related charging methodology.

GSOG members are currently involved in developing a number of new storage facilities, in response to the market signal for additional capacity. Such a signal comes mainly from: the continuous decrease in the UK Continental Shelf gas supply, the increasing dependency on imports (up to 70% by 2020¹) as well as the increased need for gas-powered generation to make up for the intermittency of the increasing wind-powered electricity generation capacity². If all currently proposed gas storage projects are realized, the total expected capacity in the long term is envisaged to be circa 22 bcm (\approx 238 TWh) with a deliverability of up to 600 mcm/d³.

Storage projects are high risk (technically and commercially) and entail major expenditure and commitment of resources on the part of developers over a number of

¹ figure from "TBE 2010 – Development of energy scenario", National Grid, 8 July 2010, §3.2

² conclusion from "How wind generation could transform gas markets in GB and Ireland", Poyry Energy Consulting, June 2010, §7

³ forecast from "TBE 2010 – Development of energy scenario", National Grid, 8 July 2010, figure A24

years. Financing is exclusively from the private sector and the projects must compete for funds with other potential investments (often in other jurisdictions) where risks and rewards may be more attractive.

While we appreciate that gas storage projects are not unique in these respects, as soon as we recognize the need to encourage the development of significantly more storage capacity, improvements in the overall process of connecting to and using the NTS will benefit this aim.

Actually, the developer of a new storage facility is required to arrange a bi-directional connection to the National Transmission System (NTS): gas withdrawn (injected) from (into) the facility will supply gas into (off take gas from) the NTS at the relevant entry (exit) point. Current methodology requires the developer to take the following actions in advance of project Final Investment Decision (FID) but nevertheless entailing cost or commitment to the investor:

- I. contract with and pay National Grid for designing and then building the physical connection between the meter and the relevant NTS pipe⁴;
- II. negotiate and sign a Storage Connection Agreement (SCA) with NG;
- III. obtain sufficient NTS Entry and Exit capacity, the securing of which requires the developers to enter into two different and independent processes:
 - a. bid for firm entry capacity at the Quarter NTS Entry Capacity (QSEC) auction⁵
 - b. reserve Enduring Annual NTS Exit (flat) Capacity with an Advanced Reservation of Capacity Agreement (ARCA)⁶

We appreciate that each element is necessary to create an effective connection that meets the developer's needs and also complies with the Unified Network Code (UNC) but our concerns are with actual or potential conflicts in the process as it currently operates and the constraints under which developers inevitably find themselves.

Our members report that they receive good support from National Grid personnel in relation to individual aspects of the overall storage connection arrangements but we believe that the overall process – including but not necessarily limited to the points noted above - would benefit from a critical review by industry and National Grid working together with the aim of creating an integrated approach which recognises the particular characteristics – technical and commercial - of gas storage projects.

⁴ the SSO will remunerate NG for both the necessary design and construction work, as stated in the "Statement and Methodology for Gas Transmission Connection Charging" (version 4.0, effective from 1 April 2010), as required by the NG Gas Transporter License (Standard Condition 4B)

⁵ the methodology for allocating and charging for incremental entry capacity is detailed in the "Incremental Entry Capacity Release Methodology Statement" (version 9.3, effective from 1 January 2010), as required by the NG Gas Transporter License (Special Condition C15 and C8D)

⁶ for the purpose of explaining our concern within this response, we are assuming the applicant to SSO is not a registered shipper of NTS and, thus, he cannot reserve Exit capacity through the annual or ad-hoc application window. The ARCA process is detailed in the "NTS Exit Capacity Release Methodology Statement in respect of the Enduring Exit period" (version 6.0, effective from 1 June 2010), as required by the NG Gas Transporter License (Special Condition C8E)

We hope that you have found these comments useful and please do not hesitate in contacting us if you wish to discuss the response further.

Yours faithfully,



pp Roddy Monroe

Chair – Gas Storage Operatros Group

APPENDIX A

SBGI GSOG MEMBERS

BGE UK
Centrica Storage Ltd
Cheshire Cavity Storage Group Ltd
E.ON Gas Storage UK Ltd
EDF Trading Gas Storage Ltd
Eni UK Ltd
Gateway Gas Storage Company Ltd
Halite Energy Group
INEOS Enterprises Ltd
Infrastrata Plc
National Grid LNG Storage
Scottish Power Energy Management Ltd
SSE Hornsea Ltd
Star Energy Group plc
Statoil (UK) Ltd
Storengy UK Ltd
WINGAS Storage UK Ltd