

06 May 2005

Steve Smith
Managing Director, Markets
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Centrica Storage Ltd
Venture House
42-54 London Road
Staines
Middlesex
TW18 4HF

Telephone 01784 415 304
Facsimile 01784 415 302

www.centrica-sl.co.uk

Dear Steve

Holford Gas Storage Limited

Centrica Storage Limited (CSL) offers the following comments in response to your invitation of 24 March 2005 for comments on the possible exemption from third party access (TPA) requirements requested by Scottish Power Energy Management Limited (HGSL).

In general, CSL supports Ofgem's initial view that use of the facility by other persons is not necessary for the operation of an economically efficient gas market, but we consider that this position is only achievable once other new medium-duration storage facilities are also operational.

As you know, CSL is firmly in support of steps to ensure that effective third-party access to storage services is available in the UK and throughout Europe. CSL has been active in the development of the Guidelines for Good Practice for Storage System Operators (GGPSSO). We have consistently argued that regulated and negotiated third-party access may co-exist in any market alongside some facilities exempt from an obligation to offer third-party access (if the operator wishes), for example because they are too small to affect materially the existence or scale of competition.

Our view remains that the role and scale of the storage operator has to be taken into account in determining whether exemption from TPA or negotiated access is appropriate for a specific storage facility and that a key criterion is whether the operator's facilities in total are considered of a scale to exert market or pricing power in a relevant market.

We note that the declared capacity of the Holford facility is 1758 GWh space, 175 GWh/day deliverability and 88 GWh/day injectability. Holford thus falls into the "medium duration" storage category as it requires 10 days of maximum withdrawal capacity to empty the space.

The table below is derived from that in your invitation but shows only the mid-range storage likely to be operational at the time Holford becomes operational -

Storage Facility	Space (GWh)	Deliverability (GWh)
Hornsea	3495	195
Hole House	600	60
Caythorpe	3000	120
Aldbrough	4427	421
Byley	1758	175
Total	13,280	971

Thus at its initial date of operation, Holford is likely to provide 13% of the space and 18% of the deliverability in the mid-range category should all the other storage sites be operational. This analysis would reinforce Ofgem's initial view in respect of an exemption for the Holford facility.

However, we would urge Ofgem to continue to assess the operation of the storage market with the potential option to revisit exemptions granted through an ex ante case-by-case approach for any subsequent reduction in the efficiency of operation of the gas market and distortion the operation of the market in gas storage itself.

Please contact me should you wish to discuss further. CSL does not consider this response to be commercially sensitive.

Yours sincerely

James Lawson
Centrica Storage Ltd