

28<sup>th</sup> April 2005

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Dear Steve

### **Caythorpe Gas Storage Limited**

Centrica Storage Limited (CSL) offers the following comments in response to your invitation of 15 March 2005 for comments on the possible exemption from third party access (TPA) requirements requested by Warwick Energy Limited.

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 unlikely to be reached until 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 Caythorpe facility is 3000 GWh space, 120 GWh/day deliverability and 90 GWh/day injectability. Caythorpe thus falls into the "medium duration" storage category as it requires 25 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 in 2007 -

<b>Storage Facility</b>	<b>Space (GWh)</b>	<b>Deliverability (GWh)</b>
Hornsea	3495	195
Hole House	600	60
Caythorpe	3000	120
<b>Total</b>	<b>7095</b>	<b>375</b>

Thus at its initial date of operation, Caythorpe is likely to provide over 40% of the space and over 30% of the deliverability in the mid-range category.

We believe that the lack of TPA to such a large proportion of mid-duration storage would be likely to have a detrimental effect on the efficient operation of the gas market. Furthermore, although the impact of individual exemptions may be questionable, we are concerned that the extension on a case by case basis of exemption to an increasing number of new storage facilities will in aggregate both reduce the efficiency of operation of the gas market and distort 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

Sonia Youd  
Commercial Director  
Centrica Storage Ltd