

**Statoil (U.K.) Limited
Gas Division**

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Steve Smith
Managing Director, Markets
Office of Gas and Electricity Markets
9 Millbank
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13 November 2006

Dear Steve,

Request for an exemption under section 19A of the Gas Act 1986 (as amended) (Gas Act) from the third party access requirements contained in Section 19B of the same Act.

Statoil (U.K.) Limited (STUK) is writing to the Gas and Electricity Markets Authority (The Authority) to request an exemption under section 19A of the Gas Act in respect of its share of the gas storage facility being developed at Aldbrough. The STUK share of the Aldbrough storage facility is not of sufficient size and is not necessary for the operation of an economically efficient gas market to warrant third party access.

As your decision letter in December 2005¹ on split ownership highlights, Ofgem will consider applications from owners of part of a facility. It also enables you to take into consideration the contractual arrangements between those parties when deciding on such exemption from third party access.

In order to provide The Authority with the necessary data to inform its decision regarding the STUK facility, we have included a short paper containing details of the facility being developed and parameters within which it is proposed that the facility will operate. It should be pointed out that many of the details at present represent the basis of design of the project and could be subject to the physical realities of developing the site. However, STUK will inform The Authority of any changes to these details should they arise.

I hope you find this request informative and that it provides the necessary information to conduct your review of the exemption requirements.. Should you require any further information please do not hesitate to contact me on the above number.

Yours sincerely

¹ 'Decision on the proposed treatment under section 19A of the Gas Act 1986 of gas storage facilities with split ownership' Ofgem December 2005



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Robert Cross
Short Term Markets Strategy and Regulation Manager



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Registered in England No. 1285743

Statoil (UK) Limited
Application for Exemption from 19B of the Gas Act

13th November 2006

1 Introduction

- 1.1 Statoil (U.K.) Limited (STUK) is a wholly owned subsidiary of Statoil ASA. The natural gas division of Statoil ASA (Statoil) is primarily responsible for the management of Statoil equity gas and the Norwegian states direct financial interest from the Norwegian Continental Shelf. STUK is an active trader at the NBP; in addition STUK also supplies gas to the large industrial and commercial customers.
- 1.2 The Gas (Third Party Access) Regulation 2004 came into force on 26th August 2004. Section 19A sets out the amended process via which owners of storage facilities can apply for exemption from requirements to provide negotiated third party access as detailed in section 19B of the Gas Act.
- 1.3 Therefore, it is under section 19A that STUK is requesting an exemption from the application of section 19B of the Gas Act for its ownership share of the salt cavity gas storage facility being constructed at Aldbrough. The exemption is related to the full extent of the capacity owned by STUK. The exemption will provide STUK with the necessary assurances that the revenue stream envisaged from its share of the facility will be able to be realised and cover the cost of investment
- 1.4 Under section 19A (6) of the Gas Act there are two procedures via which exemption can be granted. Section 19A (6) (a) provides that exemptions can be granted if the use of the facility is not necessary for the operation of an economically efficient gas market. Section 19A (6) (b) provides for an exemption to be granted if the 5 economic tests set out in section 19A (8) are satisfied. STUK is applying for an exemption under section 19A (6) (a) on the basis that the size of STUK's share of the facility would warrant an exemption of this kind.
- 1.5 It should be highlighted that this application is being made only with respect to that part of the project owned by STUK. The element owned by SSE Hornsea Limited (SSEHL), a subsidiary company of Scottish and Southern Energy Plc (SSE), is independent of this application.
- 1.6 As stated in the House of Lords Security of Supply report², the UK has a very low level of Storage capability as a proportion of demand in comparison to other European member states. It is therefore clearly an improvement to UK security of supply if further storage facilities are built.
- 1.7 When assessed against the definition of the appropriate market for flexibility, as set out in the Competition Commissions report on Centrica's acquisition of Rough Storage, the proportion of flexibility that is provided by the STUK share of the Aldbrough facility is not significant and therefore the use of this one third share by

²Gas: Liberalised Markets and Security of Supply; Report by European Union Committee Internal Markets (Sub-committee B), 24 June 2004



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other persons is not necessary for the operation of an economically efficient gas market. It is clear that the market for flexibility is already highly competitive and would therefore not be impacted by an exemption being granted to STUK.

- 1.8 Furthermore, the size of the STUK share of the Aldbrough facility is similar to that of the Caythorpe Gas Storage facility, in respect of which Ofgem granted an exemption in July 2005. STUK believes that as the Aldbrough project will increase the level of storage capacity and flexibility in the UK, therefore it is reasonable to assume that the level of economic efficiency of the market will not be reduced by the addition of this facility.

2 Project detail

- 2.1 STUK purchased all the shares in the company, which holds the rights to develop a gas storage project in Aldbrough, on the 21 November 2002 and began to develop the concept of a three caverns salt cavity gas storage facility. Subsequently, SSE, after the purchase of the Hornsea Storage facility, announced plans for SSEHL to develop a separate gas storage facility in Aldbrough consisting of six caverns on land neighbouring the STUK development.
- 2.2 Given the proximity of the two projects and the high costs and risks associated with storage development, discussion began into the possibility of sharing costs of development to each others benefit while still maintaining the original rights to capacity.
- 2.3 Agreement was reached on 21 October 2003, and STUK entered into a Memorandum of Understanding with SSEHL to share the costs of developing a nine cavern facility.
- 2.4 The STUK share of the project consists of 1476 GWh of space with 70 GWh/d of injection capacity and 140 GWh/d of deliverability.

3 Contractual Arrangements

- 3.1 As previously stated, STUK and SSEHL have ownership of separate shares of the facility. The facility will utilise common above ground infrastructure. As a result, it has been necessary to appoint one operator for the facility. The parties have agreed that this should be SSEHL as it already has the necessary expertise and established infrastructure to manage the operations of a storage facility through its ownership and operation of the Hornsea Gas Storage facility. However, it should be noted that this service can be changed to another provider by the agreement of the contractual parties, or if SSEHL was to act in default.
- 3.2 SSEHL are a separate legal entity from SSE, which operates a robust separation policy in respect of its operation of the Hornsea Gas Storage facility, in order to sell storage services to third parties. It is agreed that SSEHL will act as operator for the whole of the Aldbrough facility and offer a separated service for the operation of its two third share of the storage facility.
- 3.3 The role and obligations of the Operator are laid out in the Joint Participation Agreement (JPA) and must act in accordance with the rights provided under the JPA.



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This Agreement ensures that the Operator acts in an independent manner and cannot represent the Parties outside the agreed limited scope. For the purposes of ensuring the independence of the Operator the Participating Parties have joint management control via a Management Committee.

- 3.4 The Utilisation Agreement, signed and dated on the 9 September 2004, enables STUK to have full control over the use of its capacity through instructing the operator how it would like to utilise the capacity available. Similarly, the operator would receive instructions from SSEHL, as owner of the other share of Aldbrough and provide operational information to National Grid based on the final position of the site in conjunction with the Storage Connection Agreement. This provides for effective operational separation of the facility.
- 3.5 The rights to enter into and exit from the system, i.e. through the purchase of capacity, are the responsibility of the individual companies.

4 Criteria to be satisfied for granting of Exemption of Section 19B of the Act

- 4.1 Through its one third ownership of the Aldbrough facility, STUK will be entitled to daily deliverability of 140 GWh/d. This deliverability will represent less than 5% of the total market for daily flexibility.
- 4.2 STUK's share of the Aldbrough facility has storage space of 1476 GWh this amounts to less than 5% of total UK storage space. The Caythorpe Gas Storage facility, to which Ofgem granted an exemption, also represents less than 10% of the storage capacity in the UK⁵.
- 4.3 Similarly, as is consistent with previous Ofgem decisions on storage NTPA exemptions, when compared to the storage market in MRS facilities, STUK's share of space would be less than 7% and deliverability would comprise an 11% share of such facilities.
- 4.4 STUK therefore assert that, in respect of the requested exemption, its one third share of the Aldbrough storage facility is not of sufficient size to have a significant impact on the economic and efficient operation of the UK gas market.

5 Conclusion

- 5.1 As stated above STUK wishes to apply for an exemption of the facility at Aldbrough in respect of that part of the facility owned by STUK. Section 19A (2) of the Gas Act provides that a person who expects to be an owner of a storage facility may apply for an exemption. As such STUK is applying for an exemption on the grounds that the use

⁵ Decision on an application by Caythorpe Gas Storage Limited for an exemption under section 19A(6)(a) of the Gas Act from section 19B of the Gas Act 1986.



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of its share of the facility by other persons is not necessary for the operation of an economically efficient gas market. STUK's preference is for an exemption to be granted indefinitely.

- 5.2 As demonstrated above, that part of the facility owned by STUK will not compromise more than 5% of total daily flexibility in the UK yet the building of this facility will increase security of supply in the UK.



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