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Dear Philip

Ofgem Consultation 111/07: Statoil UK Ltd's application for an exemption from Section 19B of the Gas Act 1986

EDF Energy welcomes the opportunity to respond to this consultation and support Statoil UK Ltd's (STUK's) application for an exemption from the Negotiated Third Party Access (NTPA) regime.

We agree with Ofgem's analysis that Third Party Access (TPA) to STUK's share of the Aldbrough facility is not necessary for the operation of an economically efficient gas market. We believe that STUK's share of the flexibility market, as identified by Ofgem, is sufficiently small, at less than 5% under all scenarios, to ensure that NTPA access is not required. We further concur with Ofgem's view that the ownership of capacity within TPA facilities should not be included in market assessment. In particular, we believe that:

- Ofgem's market definition is appropriate, especially following experiences from last winter. It seems that the fundamental nature of UK gas supplies is changing with new supply sources and infrastructure coming on-stream in response to declining UKCS gas supplies. Last winter saw a shift in the operation of the Belgium-Zeebrugge Interconnector (IUK), which can now be viewed as a flexible source of gas, akin to Rough storage, for example. But it would seem prudent to keep this under review for any future exemption applications to ensure that accurate market definitions are applied.
- The flexible gas market as currently defined by Ofgem remains appropriate for considering the effect on competition of the development of a new medium range storage facility.
- TPA regulation in the UK is functioning effectively, with many non-asset owners utilising these arrangements to access capacity contracts in certain facilities.
- Ownership of TPA facilities should not be included in the market share used in these assessments. The TPA arrangements are working effectively in supporting a competitive market for flexibility and ensure that asset owners in these facilities do not hoard capacity. Any capacity acquired in these assets will have been done so through a

competitive process, and the duration of this capacity will vary between assets.

- The proposed exemption should therefore be granted to Statoil UK Ltd.

However, it is important to note that access to short-term entry capacity is essential for storage contracts and gas markets to operate efficiently. In particular, the duration of the storage capacity contract will determine which entry capacity product or auction users will enter into and the period that they will acquire capacity for. It is therefore necessary to ensure that any entry capacity regime reflects this and ensures that the capacity required to support these assets is available. Failure to reflect this could have a negative impact on the UK's security of supply and market prices if part of these assets became stranded.

I hope that you find these comments useful. If you wish to discuss them in more detail, please contact our Gas Market Analyst, Stefan Leedham (0207 752 2145, [stefan.leedham@edfenergy.com](mailto:stefan.leedham@edfenergy.com)).

Yours sincerely

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