



*taking care of the essentials*

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Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

For the attention of Philip Davies – GB Markets

Dear Philip

**Re: Consultation on SSE Hornsea Ltd's application for an exemption from Section 19B of the Gas Act 1986**

Thank you for the opportunity to comment on the application by SSE Hornsea Ltd (SSEHL) for third party exemption for its share of the Aldbrough gas storage facility.

British Gas Trading Limited (BGT) supports any increase in the availability of gas storage in the GB market. With domestic gas production falling and an increasing reliance on imported gas, we believe new sources of flexibility, including new storage facilities, will play a key role in the UK gas market. It is not clear whether the construction of new storage facilities will match the demand for their services going forward and decisions to exempt from third party access (TPA) should not be taken without a thorough examination of all the issues at hand.

**BGT'S RESPONSE TO THE FIRST FOUR CONSULTATION QUESTIONS**

As Ofgem will be aware, the first four issues considered by their SSEHL consultation paper are identical to those posed by the Statoil UK (STUK) paper e.g. the appropriateness of Ofgem's market definition, whether the flexibility market is the correct market when judging impact on competition, what is our experience of the functioning of TPA markets and should the ownership of TPA facilities be included in market share figures.

We have already responded to those questions in our recent STUK consultation response. With that in mind, and to avoid duplication, we summarise our arguments in respect of those initial questions here and then progress in more detail on those areas where this response differs to the STUK response.

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Ofgem will recall that we agreed that the flexible gas market remains the appropriate market definition for judging the effect on competition of new storage facilities. However, we suggested that Ofgem's analysis on substitutes to Medium Range Storage (MRS) was too narrow in that it was based on too small a sample size and should have included price responsive Isle of Grain flows and demand side response. Moreover, we consider that Ofgem should have taken a forward-looking market analysis consistent with the Competition Commission's 2003 approach. By way of further justification of our suggestions on market definition we appended a note from CRA International and, for completeness, we also append that note here. We also noted some inconsistencies in how Ofgem applied the methodology set out in their paper. Finally, we contrasted our experiences of securing storage capacity at Rough with Hornsea and in particular compared the way in which each primary sales process operates.

### **IS IT APPROPRIATE TO EXCLUDE HORNSEA FROM SSEHL'S SHARE OF THE MARKET GIVEN THAT HORNSEA IS SUBJECT TO TPA?**

As Ofgem will recall from our STUK response, we accept that ownership of assets subject to TPA can be excluded from market share as long as it can be demonstrated that the asset is operated in such a way that it meets industry benchmarks for non-discriminatory access, information transparency and competition. In the storage market this would most likely mean full compliance with the industry agreed Guidelines for Good Practice for Storage System Operators (GGPSSO).

We believe that if a storage site was not fully compliant with the GGPSSO - for example, withholding capacity availability, stock levels or utilisation information - then the owner of that facility might be in a position to distort or constrain the effective functioning of the flexibility market. In this instance, we wouldn't be comfortable with the ownership of such a facility being excluded from market share calculations.

Turning specifically to Hornsea, we agree with Ofgem in that this issue is more complicated in the case of SSEHL than STUK due to their ownership of the Hornsea facility. Furthermore, we have some concerns regarding the exclusion of SSEHL's ownership of Hornsea from market share calculations. As Ofgem will be aware, SSEHL's sales process does not operate under the same regulatory oversight as Centrica Storage Limited's (CSL) in relation to the Rough facility. CSL are fully compliant with the GGPSSO, have a fully transparent sales process and the amount of Rough capacity potentially reserved for Centrica companies is published.

The same cannot be said for SSEHL and the Hornsea facility. We believe that the ownership of Hornsea could potentially be excluded from market share figures on the basis of - for example, full compliance with the GGPSSO. The current freedom that SSE have in terms of reserving Hornsea capacity for themselves and then deciding how much of the remaining capacity to auction and on what duration leaves us uncomfortable with its exclusion.

### **DO YOU AGREE WITH OUR OVERALL ASSESSMENT THAT THE PROPOSED EXEMPTION SHOULD BE GRANTED?**

We note that Ofgem is minded to grant an exemption on the basis described in the paper, but, we do have some concerns and suggestions for consideration before the exemption is granted. We welcome the recognition that an effective Use-It-Or-Lose-It (UIOLI) regime is required, as highlighted in SSEHL's exemption application. However, as details of the scheme are not supplied we cannot comment on its specifics or how it will relate to the operation of the Aldbrough facility.

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As we previously mentioned in our STUK response, we strongly believe that a robust UIOLI regime should be made a condition of the exemption, as is the case for exempted LNG regasification terminals such as the Isle of Grain. This UIOLI regime should provide non-discriminatory access to interruptible withdrawal and injection capacity for all market participants and not just the shareholders in the facility. We believe that some third party access to firm storage space is necessary to underpin a successful storage UIOLI regime, because (a) interruptible injection and withdrawal capacity is worthless unless the market can obtain space into which it can inject and withdraw and (b) interruptible space in itself of little value, in view of the “enforced evacuation” risk.

Also, a UIOLI regime can only function effectively if market participants are able to identify opportunities to use that capacity. We believe the best way to facilitate this is the release of capacity utilisation information such as daily aggregate site nominations and weekly stock levels. Ideally, this would involve publishing Aldbrough stock information separately from National Grid’s MRS monitor level figures on the basis that stock figures give an indication of available flow rates and therefore the likelihood of interruptible capacity. The logical conclusion is that for an Aldbrough UIOLI regime to operate effectively, the operators should be subject to GGPSSO transparency requirements.

There is also a more general argument for adherence to the GGPSSO, above and beyond the need for effective UIOLI. In our view, its provisions should therefore be incorporated into the conditions of any exemption order. For instance, we note that SSEHL have been appointed operators of the Aldbrough facility. With the operator of both Hornsea and Aldbrough under the same roof as SSE Trading and Supply, the importance of the GGPSSO clauses on confidentiality and separation become clear.

Should you wish to discuss any of our comments please do not hesitate to contact me.

Yours sincerely,

Shaun Holmes  
Commercial Manager

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