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Gas Division**

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

29 June 2007

Dear Emma

Re: SSE Hornsea Ltd's application for an exemption from section 19B of the Gas Act 1986

Statoil UK Ltd (STUK) shares Ofgem's initial view that an exemption should be granted to SSE Hornsea Ltd (SSEHL) for its share of the storage facility at Aldbrough.

The House of Lords Security of Supply report¹, states that 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.

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.

Question 1: Do you consider that our market definition is appropriate?

STUK agrees with Ofgem's definition of the market

Question 2: In particular, do you consider the flexible gas market remains the appropriate market definition for considering the effect on competition of the development of a new medium range storage facility?

STUK believes that the flexible gas market remains an appropriate market definition; this ensures that requests for exemptions are considered on an equal basis and accurately reflects the sources of flexibility open to market participants, to meet fluctuations in supply and demand.

¹Gas: Liberalised Markets and Security of Supply; Report by European Union Committee Internal Markets (Sub-committee B), 24 June 2004



ISO 14001 Certificate 156



ISO 9002 Certificate No. 34477

Question 3: What is your experience of the functioning of Third Party Access (TPA) regulation in the GB market?

Our experience is positive, with respect to TPA regulation in the GB market, where it applies to market participants, which hold a significant share of a defined market and would allow that participant to exert market power, as a direct result of their share of that market.

Question 4: Should ownership of TPA facilities be included in the market share used in this assessment?

STUK agrees with Ofgem that facilities subject to TPA should not be included in the market share analysis as the provisions of TPA remedies are, as Ofgem state, specifically designed to prevent the exercise of market power.

Question 5: Is it appropriate to exclude Hornsea from SSHEL's share of the market given that Hornsea is subject to nTPA?

As we have noted above, facilities subject to nTPA should not be included in the market share analysis; it therefore follows that Hornsea should be excluded from SSHEL's share of the market as the nTPA means that SSEHL is unable to use its ownership of Hornsea to adversely influence the economic and efficient operation of the gas market.

Question 6: Do you agree with our overall assessment that the proposed exemption should be granted?

Yes.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

Christiane Sykes
UK Regulatory Affairs Manager
Statoil (UK) Ltd

*Please note that due to electronic transfer this letter has not been signed.

