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Dear Ian,

**Storengy UK Limited's Application for an exemption from section 19B of the Gas Act 1986 Consultation**

Thank you for providing Scottish and Southern Energy (SSE) with the opportunity to comment on the above consultation. We have detailed our responses to the consultation questions below.

- 1. Do you agree with Ofgem's approach to considering whether nTPA is technically necessary for providing access to the system for the supply of customers? If not, please explain why.**

We agree with Ofgem's view that in the UK's highly competitive gas flexibility market, it is very unlikely that any new storage facility could be deemed technically necessary for the market to function.

- 2. Do you agree with our overall assessment that nTPA at the proposed Stublach facility is not technically necessary for providing efficient access to the system for the supply of customers? If not, please explain why.**

Yes.

- 3. Do you consider that our market scenario analysis is appropriate? If not, please explain why.**

Please refer to question 4.

- 4. In particular, do you consider that our three potential market definition scenarios to be appropriate? If not, please explain why.**

No. We believe that the assumptions used in Ofgem's analysis will lead to a major under estimation of the gas flexibility available in the UK market.

We agree with the Gas Storage Operators Group's view that the assumptions underlying even the broadest market measurement used appear conservative in a number of respects, in particular:

- The limitation of flexible beach gas to deliver through the Barrow and Sean terminals excludes a number of fields that between them contribute significantly to UKCS flexibility;
- The assumption that the BBL pipeline is not capable of providing flexibility to the UK market, but will be used as baseload import (particularly when NGT forecasts suggest that significant volumes of gas will be exported from the UK to the continent in future years, and the current Winter Outlook shows significantly higher imports from BBL in winter than summer in recent years);
- The assumption that IUK flexibility is constrained to a maximum import level that appears to be well below maximum import capacity, and even below the maximum import levels that have been seen in recent years;

- The assumption that Norwegian imports do not provide flexibility to the UK market, despite their variable delivery patterns;
- The exclusion of Short Run Storage (SRS) - whilst clearly SRS play a limited role in meeting seasonal flexibility requirements, clearly they can have an important role to play on peak demand days i.e. even though its re-injection capability is very limited, it behaves in the same way as a very high swing field. It should be possible to capture their limited duration through alternative flexibility measures, rather than by excluding them from the relevant market altogether;
- The ad-hoc assumptions made on the ability of LNG imports to provide market flexibility; and
- The omission of demand side response which can be an important contributor to market flexibility.

**5. Do you agree with Ofgem's approach to considering whether nTPA is economically necessary for providing access to the system for the supply of customers? If not, please explain why.**

We agree with the approach in general, but we believe that:

- The assumptions used in Ofgem's analysis will lead to a major under estimation of the gas flexibility available in the UK market;
- The use of "pivotality" as an indicator of market power is not robust, given that a player who is not pivotal may (depending on the costs and benefits of doing so) still have an incentive to withdraw flexibility from the market to drive up price, while a player who is pivotal may still not have such an incentive; and
- Vertical integration should not be presumed to be generally problematic, as it is also associated with potentially important pricing efficiencies that can benefit final consumers.

While the above weaknesses are not likely to be problematic in the context of a relatively small facility such as Stublach, in the assessment of TPA exemptions for larger facilities these weaknesses could well become problematic and result in the wrong conclusions being drawn.

**6. Do you agree with our overall assessment that nTPA at the proposed Stublach facility is not economically necessary for providing efficient access to the system for the supply of customers? If not, please explain why.**

Yes.

**7. Do you agree with the drafting of the exemption order?**

Yes.

**8. Do you agree with our overall conclusion that an exemption should be granted to Storengy for Phase 1 of the proposed storage facility at Stublach?**

Yes. We welcome Ofgem's view that Storengy UK Limited should be granted third party access (TPA) exemption for phase 1 of the Stublach storage facility, as we agree with Ofgem that the market for flexibility is already highly competitive, and nTPA is not required in this instance.

I hope that our comments are helpful. If you would like to discuss any of the points raised in more detail, please do not hesitate to get in contact.

Yours sincerely,

Claire Rattey  
Regulation Analyst