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24th November 2009

Ian Marlee
Partner, Trading Arrangements
Ofgem
9 Millbank
London
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project.discovery@ofgem.gov.uk

Dear Mr. Marlee,

**Stag Energy Response to Ofgem's consultation on
Project Discovery: Energy Market Scenarios**

We attach a response to your Project Discovery on behalf of Stag Energy.

Stag Energy is a private company based in Edinburgh.

We are currently in the process of developing an offshore salt cavern storage project in the East Irish Sea. This storage development project is registered as a separate company, namely Gateway Storage Company Ltd. ("GSCL"). Stag Energy provides a range of business services to GSCL.

GSCL is designed to both store gas from the NTS via an offshore pipeline, and potentially for imports which have been regassified directly from LNG tankers into storage. Planned total GSCL storage capacity is 1512 MCM. Salt cavern creation is anticipated to begin in 2011 and storage operations in gas year 2014/15. Planning consents and necessary permits have been granted for the GSCL project, both onshore and offshore. GSCL offshore permits will be transitioned by the relevant government departments under the Gas Storage Licence introduced by the Energy Act 2008. GSCL is the largest UK gas storage project already in receipt of such consents and permits. The NTS entry point for the GSCL project will be Barrow aggregated supply entry point ("ASEP").

Stag Energy is a full member of the Gas Storage Operators' Group ("GSOG"). The GSOG chairman, Roddy Monroe, has also written to you on 24th November on behalf of GSOG as a whole. Stag Energy fully supports this GSOG letter, but also wishes to make some additional comments.

We are concerned that the Authority's approach to security of supply may not provide a solid basis for evaluating policy alternatives.

Given the important role of gas storage in managing seasonal price variations, as well as short-term price volatility, it is of concern that the impact of gas storage on consumer prices has not been the subject of detailed analysis.

The importance of gas storage to consumer price security can be illustrated through a gas value chain analysis. During periods of global and regional gas market growth there may be periods of both oversupply and undersupply of infrastructure. In the longer term, infrastructure developments move towards the least cost solution, e.g. it is reasonable to assume that baseload LNG and long-distance pipeline gas supplies are the least cost option for deliveries to GB terminals. As the GB market becomes more dependent on imports, the use of market area storage to provide seasonal swing is most likely to prove to be the most effective means of providing energy at reasonable prices to consumers.

A second illustration of price security relates to re-structuring of power generation. Project Discovery scenarios identify annual load factors for CCGT power plants varying between ~25% (Green Transition) to ~52% (Dash for Energy). To be confident that such scenarios are robust, and may be used as a basis for evaluating policy alternatives, it is important to assess the role of gas storage in maintaining both physical and price security in the electricity market.

Please do not hesitate to contact us should you require any clarification.

Yours faithfully,

Mark Rigby
Commercial Director Stag Energy