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1 February 2012

Dear Andrew,

**Re: The Gas Storage Operators Group response to Ofgem's Gas Security of Supply Significant Code Review – Draft Policy Decision**

The Gas Storage Operators Group (GSOG) welcomes the opportunity to provide views on Ofgem's Significant Code Review – Draft Impact Assessment Consultation. The response is non confidential and therefore can be placed in the public domain.

GSOG is a trade association which was formed in May 2006 within SBGI. The Group has sixteen members and comprises of almost all the active participants in the GB Gas Storage Market, and as such represents a wide range of interests. The Group includes both established operators and developers of new storage projects, large multinational companies and smaller private ventures. The current members of the Group and signatories to this submission are detailed in Appendix A. Statoil (UK) Ltd does not support the views outlined in this letter.

Whilst a number of GSOG members will be responding individually to this consultation, we would like to offer the following observations.

The group agrees that the whilst the proposed reforms to the cash-out arrangements will help Ofgem meet its objective to enhance gas security of supply by minimising the duration and severity of a gas emergency and to improve the compensation of firm customers if they ever were interrupted, we do not believe that this will have a material impact on Ofgem's objective to minimise the likelihood of a gas emergency occurring. We firmly believe that prevention should be the primary focus of this review.

We believe that for this objective to be met the GB market needs access to increased sources of flexible gas. Our view remains that the ability to call upon physical gas, located within the UK borders must form the cornerstone of any policy aimed at reducing the risk of a gas emergency occurring. GSOG believes that the most reliable and efficient way of delivering this is through increased storage capacity and therefore it would seem sensible to move away from oblique interventions and concentrate on ways to best deliver what is needed in a timely and cost effective way. To that end we welcome Ofgem's intention to consider 'Further Interventions' as part of this review and welcome the opportunity to engage with other stakeholders in this important debate.

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Gas Storage Operators Group

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We have concerns regarding the Redpoint model; in particular we question the degree of certainty that can be placed on the modelling of such extreme events. For example, the modelled benefits of holding gas in store appear to be based on non transparent and arbitrary assumptions and we do not recognise the costs associated with introducing such an obligation. Furthermore, it appears that the model does not adequately address the scenario where there is a global shortage of gas resulting in a significant escalation in global gas prices; for example, what happens if Asia decides to pay £2 per therm where an indigenous supply of gas would be needed to see the UK through that period to help mitigate against the severe impact sustained high prices would have on GB industry.

We believe that Ofgem's draft proposals will not lead to a discernable change in Shippers' behaviour with regard to investment and that post the implementation of the proposed cash-out reforms, a gap will still exist in the emergency arrangements, both in terms of supply and price security, which will need to be addressed.

Finally, we appreciate Ofgem's invitation to have more in depth dialogue with the group during the review period between the 31 January and May and will be in contact to arrange a suitable date.

I hope Ofgem finds GSOG's comments helpful and if you would like to discuss any of the points raised in more detail, please do not hesitate to get in contact.

Yours sincerely



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Roddy Monroe  
Chairman – Gas Storage Operators Group

## APPENDIX 1

### **SBGI GSOG MEMBERS**

Centrica Storage Ltd  
Cheshire Cavity Storage Group Ltd  
E.ON Gas Storage UK Ltd  
EDF Trading Gas Storage Ltd  
Eni UK Ltd  
Gateway Gas Storage Company Ltd  
Halite Energy Group  
INEOS Enterprises Ltd  
Infrastrata Plc  
King Street Energy  
Scottish Power Energy Management Ltd  
SSE Hornsea Ltd  
Star Energy Group plc  
Storengy UK Ltd  
WINGAS Storage UK Ltd