

1<sup>st</sup> February 2012

Andrew Pester  
Senior Economist, GB Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mr Pester

**Halite Energy's Response to Ofgem's Gas Security of Supply Significant Code Review (SCR) – Draft Policy Decision**

Halite Energy 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.

Halite Energy is developing the Preesall gas storage project. The project is located in Lancashire and once built will provide 600 mcm of working capacity in 19 salt caverns. The company has submitted an application for a Development Consent Order for the project to the Independent Planning Commission (IPC). The application was accepted in December 2011 and is now in the pre-examination phase of the application process. A decision is expected from the IPC by April 2013.

Halite has the following observations to make in respect of the consultation. Whereas we welcome the proposal to reform cash-out arrangements in the event of an emergency we do not believe that these measures will in themselves stimulate storage investment on the scale that is likely to be required. It is our view that this stage of the SCR process deals solely with ameliorating the effects of an emergency, rather than defining and putting in place adequate and appropriate measures to avoid an emergency happening.

Post the reform of emergency cash-out arrangements it is our view that a gap will, as a consequence, continue to exist in ensuring the United Kingdom's security of supply. Halite consider that the best way to ensure supply security is to have an adequate provision of high flexibility gas supplies sourced from within the home market. Gas storage represents the most efficient and economically sound method to do this on the scale that is likely to be required. For this reason we welcome Ofgem's intention to consult on the requirement for "Further Interventions".

The energy supply mix is going to change dramatically in the next ten years and the exact mix of both energy sources and supply is not clear. It is clear that the security of supply standards that are in place for the market in 2012 are almost certainly not fit for purpose in a world where the UK is heavily dependent upon imported energy and power generated from unpredictable renewables sources.

Halite consider that the next stage of the SCR should initially focus on defining the appropriate standards for supply security over the coming years to meet these diverse scenarios. Halite also consider that any interventions deemed necessary should meet the following criteria:

- Avoid picking winners allowing the most viable projects and effective technologies to be developed first.
- Not give existing projects windfall gains when it is new storage that the market requires.
- Allow the development and use of storage to occur alongside and in harmony with the market – not distort it, or create boom and bust scenarios through timing of investment.
- Deliver the security of supply standard on a least cost basis.

We look forward to being a part of the process to debate the requirements for supply security and further interventions in the next part of the review.

Yours sincerely

A handwritten signature in black ink that reads "Keith Budinger". The signature is written in a cursive style and is underlined with two horizontal lines.

KEITH BUDINGER  
Chief Executive  
Halite Energy Group