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24 April 2015

Dear Tom,

**Re: Consultation response to SSEHL's application for a minor facilities exemption for Hornsea**

Following Ofgem's intention not to grant Hornsea gas storage a minor facility exemption (MFE), the Gas Storage Operators Group (GSOG) would like to take this opportunity to outline its response to this decision.

GSOG is a trade association which was formed in May 2006 within the Energy and Utilities Alliance (EUA). The group has 12 members and comprises of almost all the active participants in the GB Gas Storage Market, and as such represents a wide range of market interests. The group includes both established operators and developers of new storage products, large multinational companies and smaller private ventures. The *majority* of current members of the group are signatories to this submission as detailed in Appendix A.

GSOG considers that the market for flexibility in GB has developed and continues to evolve such that need to regulate access to storage facilities is diminishing. GSOG considers that it is appropriate to assess whether access to the Hornsea facility needs to be subject to nTPA requirements. GSOG agrees that access to Hornsea is not technically necessary for the efficient operation of the system and may not be economically necessary. GSOG would welcome greater clarity between how Ofgem weight the outcomes of the different tests used to assess economic necessity.

Further, in relation to third party access, GSOG notes that SSEHL's application for the exemption sets out its intention to provide third party access.

I trust that the comments provided below from such a wide ranging professional body are sufficient for you undertake a review of the minded to reject decision on the Hornsea application.

Yours sincerely

Roddy Monroe  
Chair, Gas Storage Operators Group

## **Annex: Assessment of economically necessary**

### **Question 1: Do you think our definition of the relevant market for gas storage is appropriate? If not, please explain why.**

We agree with the definition stated in para 2.8 that the relevant market for gas storage is the market for gas flexibility in GB.

We agree that “the service provided by gas storage is flexibility, in allowing shippers to inject gas in periods of low demand or prices, and withdraw it when demand or prices are high.”

In terms of deliverability measures for market share, GSOG notes that the adopted approach may be an oversimplification as deliverability is dynamic over the storage year.

In terms of the adopted measures, it is possible that the estimated market shares may overstate SSEHL’s position due to the level to which LNG capacity is being de-rated (maximum of 50% in all scenarios). GSOG questions whether this is consistent with the de-ratings applied in the pivotality analysis. There is a general market expectation that LNG utilisation is likely to increase over the coming years. Further, the treatment of Norwegian flows may also be conservative considering the increase in flexibility and price responsiveness seen in recent years.

### **Question 2: In particular, do you consider that our three potential market definition scenarios are appropriate? If not, please explain why.**

As noted above, GSOG would question the level to which LNG is de-rated in the market definition scenarios. Further, it may also be appropriate in the case of storage facilities to factor in the fact that storage deliverability is not constant over the storage year.

GSOG understands that the pivotality analysis does factor in the fact that storage stock levels change and influence deliverability in different periods, such is not the case in the static assessment of market definition.

### **Question 3: Do you agree with our approach to considering whether nTPA is economically necessary for the operation of an efficient gas market? If not, please explain why.**

GSOG agrees that it is prudent to consider a range of assessments of market power and economic necessity. It would be helpful if Ofgem could provide more clarity regarding how the different assessments are rated in order for Ofgem to reach its final decision.

### **Question 4: Would you suggest any additional analysis to assess whether nTPA is economically necessary? If so, what?**

GSOG believes that the pivotality model set out originally as the main test of market power was a thorough and appropriate test of market power.

*Guidance on the regulatory regime for gas storage* December 2011 – para 2.6 – “Our view is that pivotality should be used as the main structural measure of market power.”

We agree with this assessment as we believe the pivotality model provided by Ofgem encompasses what the market share analysis attempts to provide while also taking key measures of flexibility into account such a storage space, injectability, demand profiles, sensitivities, and time scales.

We would suggest that Ofgem provides a clear, objective framework for determining economic necessity that leaves less room for bias and subjectivity.

**Question 5: Do you agree with our overall assessment that nTPA at Hornsea is economically necessary? If not, please explain why.**

*Ofgem has stated “only grant an exemption if we are confident that there are no appreciable risks of market power or other market distortions. We think that proving access is not economically necessary must be demonstrated to a high standard”.*

GSOG questions the extent to which nTPA is economically necessary at Hornsea. The market conditions in GB from when the nTPA framework was developed and implemented have changed significantly and continue to evolve and the level of competition in the flexibility market means that the regulation of storage should be minimised wherever possible.

## Appendix A

### EUA GSOG MEMBERS

Centrica Storage Ltd  
E.ON Gas Storage UK Ltd  
EDF Energy  
Gateway Storage Company Ltd  
Halite Energy Group  
Humbly Grove Energy Ltd  
INEOS Enterprises Ltd  
Islandmagee Storage Ltd  
King Street Energy  
SSE Hornsea Ltd  
Statoil (UK) Ltd