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Dear Amy/Thomas

SSEHL's application for a minor facilities exemption for Hornsea

I am responding on behalf of SSE Energy Supply Limited (SSEESL) in its capacity as a participant purchasing gas storage from the market. As you are aware SSEESL is a separate legal entity from SSE Hornsea Limited (SSEHL), with SSEHL operating its gas storage facilities independently of all SSE affiliates.

We believe that gas storage delivers an important service to the energy market and is important for both short and long term security of supply and value to customers. In particular, the ability to store gas at times where this is being sold cheaply (generally throughout the summer months), and withdraw in winter during times of demand is a valuable service for gas suppliers who are trying to deliver the best value to their customers. Suppliers also rely on GB gas storage facilities during times of supply stress, for example in the event of unplanned loss of capacity through interconnectors.

At the moment, the market is not seeing significant seasonal price differentials for gas storage in the market and therefore the service offered by gas storage operators is not currently valued by most market participants. We are concerned by the prospect that a lack of volatility for a sustained period will threaten the continued commercial viability of storage operators such as Hornsea and may accordingly see a reduction in the available services in the future, which as well as being a bad outcome for customers of gas storage facilities, could also undermine long term security of supply for gas.

From SSEHL's application, we understand that under a regulated framework certain onerous conditions are placed on gas storage facilities, which threaten their ability to offer the



flexible services required to meet an ever changing market and customer needs, and that the requirements under the framework make it even more challenging for these facilities to operate economically. Amongst other things, if Hornsea were exempt from the nTPA rules; it would be able to offer more services to the market as and when the market dictates; it would not be restricted by the rules and timeframes for consulting on proposed commercial changes and instead could react quickly to changing market and customer needs; and it would be able to offer services at times when it is most efficient to do so, placing less risk on the facilities commercial running.

In 2013, DECC determined that there was not a case for providing financial support to gas storage , despite noting both that the UK's gas storage capacity is lower than in many other European countries and that the commercial environment was not conducive to significant investment in this area. We are aware that the commercial environment has not improved and that existing facilities are struggling to remain profitable. In order to ensure continued commercial viability of Hornsea during this period of stable, low gas prices, it must have the opportunity to innovate and, to do so; it should be afforded the opportunity to operate on a level playing field to new storage facilities which benefit from being exempted from the regulatory framework.

We understand from Ofgem's consultation that it intends not to grant Hornsea a minor facilities exemption (MFE); however we hope the points outlined in this response will assist Ofgem with its review of SSEHL's application and the value we believe the Hornsea facility would bring to the market if it were granted an MFE.

If you would like to discuss the content of our response in more detail please do not hesitate to get in touch.

Yours sincerely

Louise Murphy
Regulation Manager (Retail)