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18 November 2009

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Dear Paul

**The Gas Storage Operators' Group Response to Ofgem's consultation on User Commitment for National Transmission System Quarterly Entry Capacity – Initial Impact Assessment on modification proposals**

The Gas Storage Operators Group (GSOG) welcomes the opportunity to comment on the above consultation.

The GSOG is a trade association which was formed in May 2006 within SBGI. The group has 16 members, comprising 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 the Appendix.

We appreciate the effort from National Grid and Shippers in Review Group 221 which led to the suite of 0246 Modifications and believe that the Ofgem Impact Assessment (IA) fairly represents the discussions at that Review Group which was unable to reach a consensus.

A number of individual GSOG members will be responding to the consultation but our position, shared by all members, is that the IA does not make a case for implementation of any of the 3 variants to the Modification to be implemented.

We believe that at a time when new gas storage is urgently required, coupled with financing difficulties brought about by the credit crunch and uncertainties in relation to summer-winter spreads and the level of gas demand, it would be inappropriate to impose a significant additional burden on developers of new gas storage facilities.

In the 13 years since the Network Code came into place, there has not been a track record of an entry capacity default causing an impact to other shippers. However, we recognise that there is potential for a charge to shippers of around £44 million in

respect of the new Fleetwood entry point, in relation to which National Grid has made investment of around £10 million. None of the Modifications have any impact in relation to that financial impact.

GSOG believes that all 3 proposals impose significant additional costs and timing issues in respect of funding that would make it considerably more difficult, in particular for “Independents”, to develop new gas storage projects and lead to higher costs that are ultimately paid by consumers. The IA accepts that there would have to be significant volumes of capacity default to justify these costs but does not make the case that such capacity default is likely.

Notwithstanding the fact that there is no history of entry credit defaults, GSOG does recognise that there is a legitimate issue and steps should be taken to avoid a repeat of the £44 million issue associated with Fleetwood. However, we believe that it would be more appropriate to introduce a mechanism in the NG Licence to create the opportunity to ‘cancel’ a new entry booking if certain milestones are not met, picking up some of the mechanisms that exist in electricity. Whilst this would not be ‘cost free’ in terms of its impact on the shipping community it would have reduced the £44 million event at Fleetwood to around £2 million (according to the figures in Appendix 4 of the IA). Whilst there is a degree of complexity associated with this approach for existing entry points with incremental capacity, we believe that Ofgem and National Grid could agree some form of mechanism as part of the next price control that would address the specific £44 million scenario without imposing a burden on all shippers and on gas storage shippers in particular.

Yours sincerely

Roddy Monroe, Chair – SBGI Gas Storage Operators Group

## **Appendix 1**

### **List of Members of the Gas Storage Operators Group:**

Bord Gais Eiereann  
Canatxx Gas Storage Limited  
Centrica Storage Limited  
E.On Gas Storage Ltd  
EdF Trading Gas Storage Limited  
ENI UK Gas  
Gateway Gas Storage Company Ltd  
Ineos Enterprises  
National Grid LNG Storage  
Portland Gas plc  
Scottish Power Energy Management Ltd  
SSE Hornsea Limited  
Star Energy Group plc  
Statoil (UK) Limited  
Storengy  
Wingas Storage UK Ltd