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Julian Majdanski
UNC Panel Secretary
31 Homer Road
Solihull
West Midlands
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Dear Julian

Re: Modification Proposal 0210 Draft Report

Star Energy wishes to submit the following in response to the above draft report.

Star Energy does not support the implementation of this Modification Proposal as we do not believe that it will improve cost reflectivity in the DN transporter's charging arrangements.

As a developer of storage sites, Star Energy expects that charges relating to the transportation of gas to and from embedded facilities are cost reflective and non-discriminatory. The proposed discount put forward in the Modification Proposal will not properly reflect the costs associated with moving gas to and from an embedded facility.

Clearly, the future operation of a storage facility is related to market conditions in particular through the exploitation of arbitrage opportunities over various periods. Invariably this will mean that the load factor of a storage facility is likely to vary year on year. The prices which generate arbitrage options are set at the NTS level via the NBP markets. The industry has gone to some lengths to ensure that embedded facilities can effectively access the NBP markets via the entry arrangements established last year¹.

These arrangements were translated into UNC via Modification Proposal 0154. The result is that embedded facilities which are physically delivering gas into a DN are treated in a commercial sense as delivering gas into the NTS (the NBP). It is clear therefore, that the industry understands the need to encourage the development of embedded storage, by allowing access to the traded markets, however, this Modification Proposal 0210 will seriously undermine this desire by imposing costs which are wholly disproportionate to the service provided.

¹ "Entry Arrangements for connecting to the Gas Distribution Network" Ofgem, 3 Jan 2007

At the NTS level, storage is treated very differently. Gas is permitted to flow into the facilities on an interruptible basis, at no capacity cost and only "own use" gas attracts a commodity charge. It would be fair to conclude that National Grid NTS values storage and is eager to impose cost reflective charges on the Users of the facilities. National Grid NTS has stated in a recent pricing consultation paper that it "views storage as being part of the wider system". This infers that storage is an integrated part of the gas network and plays an essential role in ensuring that the overall supply and demand balance is maintained. Clearly, this is not a view upheld by the DNs which at one level categorise storage facilities as "normal" offtakes whilst recognising that they require specific arrangements in relation to inputs.

The proposed interruptible charge discount will likely render existing and potential projects as uneconomic. During this interim period, the arbitrary discount does not reflect the specific utilisation patterns of storage in relation to both entry and exit flows. It is reasonable to suggest that similar to CSEP charges and Short-haul charges, storage facilities should be considered separately to other connected points and a methodology specific to the costs developed.

Finally and consistent with the views expressed by National Grid NTS we believe that DNs should better assess the benefits provided by storage facilities to the operation of the DN networks. By the very nature of storage facilities they will tend to inject gas during low demand periods and withdraw during high demand periods. This activity will provide benefits to the DNs insofar as they will not need to "book" equivalent flexibility off the NTS. Incentives placed on the DNs to minimise flexibility offtaken from the NTS will provide financial benefits to the DNs which are in no way reflected in their proposed transportation charges. We do not believe any claims made by DNs that the flexibility generated by embedded storage facilities is "unhelpful" and cannot be relied upon. It is our view that this argument is used too freely and disguises reality. We suggest that Ofgem explores this further before considering implementation of this Modification Proposal.

In conclusion, Star believes that this Modification Proposal is based on incomplete analysis and will only serve to worsen cost reflectivity and introduce extreme cross subsidies. If implemented it will likely lead to the closure of existing facilities and abandonment of other future developments. Such an outcome is certainly not in the interests of UK industry and we would suspect that Government may take a dim of view of this eventuality.

Yours sincerely
For and on behalf of
Star Energy plc



Roger Pearson
Managing Director Gas Storage Division