

21 September 2012



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RIIO.T1@ofgem.gov.uk

RE: RIIO-T1: Initial Proposals for National Grid Electricity Transmission and National Grid Gas

Statoil (UK) Ltd would like to thank you for the opportunity to comment on the above consultation, our response will focus on the proposals relating to National Grid Gas.

As the primary importer of gas from the Norwegian continental shelf to the GB market, a Gas storage owner and a supplier to large end consumers, Statoil is interested in the maintenance of a stable and transparent transportation regime. We believe that the price control arrangements should provide the TSO with the necessary revenue and incentives to provide a safe, reliable and fit for purpose system and encourage them to behave in a way that ensures its safe and efficient operation.

Statoil welcome Ofgem's view on National Grids proposals around Incremental Capacity release. Whilst we accept that significant work has already been undertaken in this area, of which Statoil have been part, there is still a lot more to be done before final proposals can be developed. This is complex area with far reaching implications. Both Entry and Exit capacity arrangements need to be fully considered and the interactions between the two regimes explored. Statoil agree with the decision made by Ofgem that given the potential impacts of such regime changes an implementation date of April 2013 is not achievable and the existing regime should be rolled over until commercial changes can be agreed.

We acknowledge the input of Ofgem at some of the meetings and discussions had in this area to date. We would welcome further future involvement by Ofgem in the development of the Incremental Capacity release arrangements to help ensure that the proposed solutions are fit for purpose and that a commercial agreement is reached as efficiently as possible.

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Statoil are concerned that implementation of the RIIO-T1 price control and the regime changes associated with it will have a negative impact on the stability and predictability of transportation capacity pricing, particularly at Exit.

Stability and predictability in this area are vital not just for the calculation and pricing of supply contracts but also for developers and storage operators as well as new market entrants.

Whilst Statoil recognise Ofgem’s acknowledgement of this issue in its consultation on network charging volatility, we are not convinced that any of the proposed solutions will result in a more stable transportation pricing environment. We are aware National Grid have presented an interim solution for this (a one off Pricing adjustment in April 2013), and are discussing longer term options but as yet no firm proposals in this area have been made. This in itself poses more pricing risk especially at a time when many annual contracts are up for renewal.

Statoil also has concern over National Grids proposal for a single incentive mechanism in relation to capacity constraint management at both entry and exit. As the products are sold independently Statoil would like to see them managed as such so that the transparency over National Grids actions can be maintained. We remain unconvinced that a single incentive mechanism would allow the industry the transparency to review National Grids actions and believe that National Grids level of risk in this area could be reduced.

We would like to see further analysis conducted on constraint management incentives which gives consideration to other alternative arrangements. We would therefore support a continuation of the status quo until such time that more information on alternative capacity constraint incentive mechanisms is available.

We trust that you find our comments helpful and if you have any questions please contact me on the below numbers.

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Yours Sincerely,

*

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*please note that due to electronic transfer this letter has not been signed

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