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Dear Sonia,

National Grid Transco – Potential Sale of Gas Distribution Network Businesses Interruptions Arrangements

Thank you for the opportunity to comment on the above consultation document. Statoil (UK) Limited (STUK) is an active participant in the development of a divested industry structure through the potential sale of one or more DNs by NGT. As such we would like to further contribute to the development of this process by making the following comments.

While we have commented on specific aspects of the consultation our principal concern with this consultation relates to the fact that the sale of one or more DNs should not be linked to reform of the exit regime. Instead, the simplest and most practical approach would be to continue with the existing exit capacity and interruptions arrangements until the DN sale process has been completed. The industry can then discuss in more detail the requirements for enabling a robust exit and interruptions regime to be implemented without the pressure of time constraints enforced by the sale process. STUK would welcome the opportunity in discussing this issue in more detail with Ofgem at the earliest opportunity.

During industry meetings, various customer representatives stated that they did not want fundamental changes being introduced to the current interruption arrangements and that customers would not be able to manage complex arrangements. Customer representative groups have informed the industry during these workstream discussions that changes to the interruption regime should be minimised and that prices should remain simple. They have expressed a need to be able to receive a greater level of choice from Transco on interruptible services instead of the flat 45 days interruption that Transco currently requests from them. The vast majority of customers would not welcome fundamental reform to the current interruptions regime as this could lead to extra complexity and increases in costs which they may not be able to manage effectively.

Ofgem have previously stated that the exit and interruption regime needed to be reformed as evidence suggested that firm sites were subsidising interruptible sites through the charging mechanism. They also stated that Transco were over contracting for the provision of interruption that was necessary to run a safe and efficient system. The workstream members requested further analysis of this from Ofgem in order to justify whether fundamental reform of the exit and interruption arrangements were required. We are unsure if this analysis is still being undertaken, but would request that Ofgem provides the industry with the information they have collated to date.

Under the current arrangements, Transco pays a fixed fee to all interruptible customers. However, some interruptible sites are more likely to be interrupted than others depending on their location but would receive the same level of discount. During workstream discussions, customers expressed a view that should changes be introduced to enable more choice in interruptible services, that both administered and market based arrangements could be preferred by various customers. Whilst it is important that customers are offered a choice, it is also equally important that those not wishing to enter into complex arrangements can avoid doing so. Consequently, it is difficult to derive to a perfect solution where one set of arrangements would suit all customers.

Ofgem state that new customers may decide to locate their plant based upon the perceived value of interruption in a particular location. STUK consider this is unlikely to be a significant factor in the location of new plant. However, when a customer chooses a fuel, contractual complexity could influence the choice made.

STUK are concerned that the interruptions RIA document does not address contractual relationship, i.e. who is contracting with who. The rights the NTS and the DNs will have to contract will impact upon the products made available to them as will the ability of the networks owners to contract directly with customers. We would be interested in Ofgem's view on this.

In the interruptions RIA (Way forward), Ofgem state that if reform of the interruptions arrangements is required, that more detailed proposals will be subject to further consultation. It also states this consultation process could be undertaken by either Transco in the form of a Network Code modification proposal or by Ofgem. STUK would like to emphasis that currently the proposals are not sufficiently developed even at a high level to warrant development through the modification process, especially when the modification process itself is under review as part of the sale process.

Transitional Arrangements

STUK believe that changes made to the current exit capacity and interruptions regime should encompass reliable transitional arrangements to be in place. This is to ensure that customers who currently benefit from the exemption from capacity charges and who will not be offering Transco interruptible services will not be faced with severe price shocks.

STUK believe that transitional arrangements should be in place to enable interruptible customers to recoup the costs associated with investments in standby fuel and equipment. Effectively, this will enable customer to 'earn' back these costs over a number of years. STUK favour appropriate transitional arrangements, but are mindful of the fact that such arrangements must have suitable time periods in place. It is unclear what the proposed time period should be for any transitional arrangements, or the price at which customers would expect to be offered for their interruption services. These prices should be set so that the customer's total costs can be recovered.

Allocation of Firm Capacity

Although the allocation of NTS exit capacity is dealt with under the Offtake RIA, STUK would like to make further comments in light of the interruptions RIA consultation, in particular with reference to the nature of the allocation mechanisms suggested as part of this process.

The document mentions the need to allow Shippers the opportunity to signal demand for capacity in the long term. This has the potential to provide Transco with long term signals and the end user would want to ensure that there is capacity to supply their site going forward. However, unlike the situation at entry, where the purchase of long term capacity is underlined by high levels of long term investment offshore and capacity is required as a route to the wholesale market, shippers as the purchaser of NTS Exit capacity will only be willing to do so for the length of the contract with the end user.

In conjunction with the long term allocation of Exit capacity STUK would also assume that some mechanism for allowing new entrants to enter the market would be maintained. If all capacity is sold in the long term and utilised then a new entrant may find difficulty offering supply to customers, and use it or loose it may not be sufficient protection in these circumstances.

Further more capacity cannot be allocated on a purely market based mechanism as at entry due to the obligation on supply to domestic customers. For example if an I&C shipper bought a majority of the capacity at an offtake point for firm loads, domestic shippers may be unable to purchase sufficient capacity in the short term to meet their customers needs, forcing them to overrun and increase costs. The transporter may then have to curtail I&C flows, by taking emergency curtailment powers if there is not sufficient interruption contracted. This would surely increase the costs to all end consumers.

Another concern with capacity allocation methodology for the constrained allocation is revenue stability. The Entry auctions have created a significant level of instability in transportation pricing since their introduction and continue to do so. The ability of transporters to recover revenue to target will be further reduced by both the capacity allocation methodology and a market based interruption regime. The impact of this on end consumers, shippers and suppliers is that charges are increasingly less cost reflective and have the potential to create further cross subsidies.

Conclusion

STUK believe that the following must be taken into account when considering any proposed change to the current exit capacity and interruptions arrangements:

- To try and maintain the existing processes and procedures and ensure that customers and shippers are not adversely affected by introducing costly and complicated solutions
- To avoid complexity which could create barriers to entry (i.e. deter potential interruptible customers from offering available capacity to Transco)

- To ensure that a workable and least cost option is in place for the industry
- To ensure that reform benefits all end consumers

STUK would like to ensure that customers are protected over the possible impacts that a sale of a DN could introduce. The gas industry is seen to be already complex in nature and introducing new interruptions arrangements could have negative impacts on customers.

STUK welcomes the opportunity to comment on this consultation and trusts that our comments will be given due consideration. Should you wish to discuss any aspects of this response further please contact me on the above number.

Yours sincerely

Robert Cross
Regulatory Affairs Manager