

Comments from Richard Street - Statoil

Sonia,

At the CIWG Ofgem asked Shippers to comment on a number of areas of discussion. I have attempted to note the major areas below and where possible give feedback now. Certain areas of debate, such as the Offtake Code and Diurnal Storage, will require further comment due to their size and complexity.

Asset Management Paper

STUK note that as this issue was raised by the representatives of potential iDN owners, many of whom were absent from the last CIWG. STUK request that Ofgem consider the potential value in conducting an Asset Management survey six months to a year after the DN Sale process is concluded. This could provide confidence that all owners were managing their assets in an appropriate manner and indicate whether comparative regulation was being effective in ensuring the efficient management of assets.

Joint Office

STUK recognises that a mechanism which allows Shippers to provide expert resource into the modification process holds benefits. This should not weaken the level of Transparency and Control of the modification process however. If the provision of Subject Matter Experts were to provide influence over the process then Shippers such as STUK that have relatively small organisations will be disadvantaged as they will be less able to do this. It would therefore be essential that the modification panel approved the modification reports.

Rights of Appeal and UNC Panel Structure

STUK have always maintained the view that members of the Modification Panel should be appointed by the industry and not by any regulatory body. As the Network Code is and the UNC will be the contract between Shippers and the primary Transporter(s) it seems appropriate that the process to vary that contract should be controlled by the signatories. Indeed the new governance structure for SPAA does not contain a role for the regulator to appoint any of the SPAA Executive or to appoint a chairperson. Despite the absence of the regulator from this process, the industry has been willing and able to resolve issues and conflict amicably.

STUK would prefer a mechanism that allows this principle to remain in tact. STUK believe this could be achieved by allowing panel members to agree by simple majority on an independent chair. It is STUKs opinion that consensus could be reached by the industry on such a suitable candidate without input from the regulator.

Offtake Code

Ongoing analysis of the impacts of the Offtake Code continues within STUK. STUK will also be discussing the new Offtake arrangements with it's NTS customer base. STUK has serious concerns that the new arrangements may potentially result in NTS offtakes being unable to access NTS Exit Capacity due to problems with credit provision.

STUK believe that the time available to comment following the issuing of the Ofgem decision document on the Offtake RIA and the detailed proposals of the Offtake Code has been insufficient given the huge impact that this change will have on the structure of the UK gas industry. Even small details such as the effects of this change on invoicing regimes will be massive. Without time to consult properly with end-users (many of whom have been unaware of the impacts of these changes) and to consider the knock-on effects through wider industry processes, STUK are concerned that Shippers will not be aware of all of the issues when they provide costs for, and respond to, Ofgem's final RIA . Ultimately this could result in the authority making a decision without the understanding the full impacts.

Credit Arrangements

STUK do not support the one out all out principle as outlined at DISG. The Oxera paper did not support this principle but rather suggested that centralised credit arrangements managed by the agency would have significant cost savings. Given the decision to progress a model with separate credit holdings and varied approaches to credit by different DN owners, it seems inconsistent to have governance that would link the financial arrangements between a Shipper and a DN with those of another DN. It could be argued that such arrangements could be considered as protectionism by the DN owners at the expense of Shippers and end users.

Diurnal Storage

As stated in it's RIA response, STUK have never supported any form of market based diurnal storage. STUK would however support a structure, where diurnal storage

could be allocated by the NTS to both RDNs and IDNs under a planned approach (Option A in Ofgem's document). This would eradicate issues concerning discrimination between RDNs and IDNs by the NTS and enable the allocation of diurnal storage and operational flow requirements to be based on agreed rules defined by the NTS. This process provides for a level playing field for all DNs across the network.

A market based allocation of linepack would not be suitable as it is not a homogenous national product. NGT currently have a number of linepack zones and each is affected by the relative supply demand situation for that region. It is difficult to see how each DN could value a single product, as the level of flexibility would vary across the zones and across each day. STUK would argue that the local engineers would have full knowledge of the unique situation in that area are best placed to define accurately the level of variation in load that is possible while maintaining a safe, secure network.

Under the current operational arrangements, Transco exclusively controls linepack levels. They are therefore, able to fully recognise the true value of linepack and its availability. It is difficult to see diurnal storage allocated on a market-based structure, as Transco would have a more comprehensive understanding of its mechanics and value than any other industry member. Further a market-based structure that was selling this kind of product years ahead would not be able to take into consideration changing circumstances. This could lead to problems with the NTS being configured to fulfil contractual relationships rather than to operate in a safe and efficient manner.

As linepack levels are clearly a requirement of the DNs in order to manage their networks both effectively and securely, they should not be offered under a market-based method. This could lead to situations where constraints could occur at one DN if another has been able to purchase higher levels of linepack at its expense.

STUK also are yet to be convinced that the locational and temporal changes within the levels of line pack between and throughout the gas year can be accurately factored. If that information is not available then STUK believe that there could also be at risk of overselling of this product. This could substantially effect the value added, in terms of economic and efficient management of the network, of the flexibility of the NTS and the safety of the network.

If you would like more information or would like to discuss the contents of this email then please feel free to contact me on the numbers below.

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