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Dear Sonia

**NGT – Potential sale of gas distribution network businesses. Licensing: Next Steps  
Section 8AA**

Thank you for the opportunity to comment on the above Ofgem consultation. Statoil (UK) Limited (STUK) has been actively involved with the process of the potential sale by National Grid Transco of its gas distribution businesses and we are therefore aware of the huge task involved in substantially amending and restructuring Transco's existing transportation licence and the new additional licences. STUK are aware that modifications to the current licence conditions and the introduction of new licence conditions may need to be required so that they could reflect a divested industry structure. It is with this aspect where we are particularly concerned as the scale of change envisaged is vast within the tight timescales associated with this.

Please note that our response is not confidential and can therefore be placed on the Ofgem web site.

**Structure of licence**

As mentioned above, we recognise the fact that through the DN sale process there will be a need to restructure the existing Transco licence. However one of the main concerns which STUK have in connection to the structuring of the NTS and DN GT licences is in ensuring that they do not appear to be viewed as overly complex and difficult to follow. STUK believe it is imperative that a licence condition be placed on NTS and DN GTs to ensure that they publish their respective licences (containing both the standard, special standard and special conditions) ensuring they are complete and up to date, making them accessible via the internet. This will help to ensure that the industry is aware of their obligations and can be reassured that there is visibility in the arrangements.

We believe that any licence structure changes that are being introduced should continue to have the same principles that are currently in place with the ability to be flexible. The introduction of the private CLM procedure should ensure that collective modifications to the NT/DN GT licences can be undertaken and by enabling the switching on/switching off of



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various conditions or parts of those conditions will ensure that GTs are not subject to two very similar conditions in respect of the same issue.

## **Governance**

STUK continue to consider that changes to transportation charges should be limited to once a year based on a reasonable endeavours obligation as this will achieve stability in charges to both customers and shippers during contract periods. However, we note that Ofgem have opted for a licence condition which stipulates two changes in transportation prices in a given year due to the risks associated with over/under recovery of revenue by NGT. STUK believe that the new licence condition should ensure that the changes to these prices are made on pre-established dates within the calendar year and that the current 150 days notice period will continue to remain in place.

With regards to the structure of the UNC and the offtake arrangements, we consider that a UNC only approach to be the preferred option as this will ensure that shippers are able to raise modifications. This suggested approach will enable shippers to put forward proposals that could benefit customers and we therefore consider this approach to be the preferred option. The issue concerning separate bilateral agreements where the technical operator to operator arrangements would be contained is somewhat unclear. Firstly, this is because there could be some technical issues that could contain commercial information associated with this but would reside outside of the UNC (e.g. ramp rates, maintenance programme). It is therefore unclear how these arrangements could work. Secondly, it is unclear who the bilateral agreements would be between and whether this is referring to an agreement between shippers and Transco or DNs and Transco.

## **System security**

On the issue concerning emergency service at the DN boundaries, we note Ofgem's comments that these will form part of the GTs' safety cases. STUK believe that if no licence condition is required based on the above, then the GTs safety cases should be made available to the industry to ensure that these obligations are in place.

## **Pipeline security**

STUK agree with Ofgem that a licence condition should apply to both the NTS and the DN GTs for the 1 in 20 obligation as this will ensure that there is a commitment from these parties to develop their networks to meet daily gas demands.

However, we are concerned that Ofgem are proposing to amend one of the standard conditions in order to accommodate the changes being proposed under the offtake arrangements and the flexibility product. As noted in our response on the final impact assessment in December, we have strong concerns regarding the implementation of the flexibility product which we believe will increase complexity considerably and disadvantage NTS connectees. For this reason we do not consider it appropriate to have in place a licence condition that refers to this.



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## **Price Control and incentive arrangements**

STUK agree with Ofgem that the price controls should not be reopened and that appropriate incentives should be placed upon the NTS and DN GTs to encourage efficient investments decisions. The issue concerning the one year initial duration of the incentive scheme for DNs could lead to insufficient data being accumulated which could be used in establishing the incentives for the proceeding years. STUK believe that one years initial duration may not provide sufficient signals and that extending this period to a total of two years may provide suitable data.

## **Standards of service**

STUK asserts that appropriate standards of service should be in place for both the NTS and the DN GTs and that through this mechanism, customers will reap the benefits through improvements in efficiencies. On the issue concerning customer surveys, STUK believe that a licence condition would oblige all DN GTs to conduct such surveys and publish the results on the web-site. However, we note in the consultation document that no revenue implications will be attached to this obligation, and it is therefore unclear that without a monetary consequence, what incentive could be placed on DN GTs to ensure that efforts are made in achieving this standard.

On the issue concerning standards of performance in connections, STUK agree with Ofgem that a licence condition should be in place for all GT licencees to ensure that this activity continues and that connection customers are protected to all DNs. We also welcome Ofgem's move towards establishing new standards of service for connections due to the recent poor performance by Transco in this area.

## **Gateway requirements**

STUK are most concerned with Ofgem's proposal in introducing a new licence condition which requires the DN GTs to use reasonable endeavours in reforming the interruptions regime on the DNs so that implementation is completed by 1 April 2006. This date is very challenging and does not afford the industry with sufficient time in which to develop these proposals.

STUK consider that the industry must be allowed some "breathing time" in which to adjust to the new regime prior to rapidly developing interruption on the DN. We note Ofgem's concern of inconsistency of approach between the NTS arrangements and DN arrangements for interruption, and would question why both the NTS and DN interruption reform could not have been developed outside of the DN sale programme. If there are concerns relating to inefficiencies and costs associated to customers as noted by Ofgem, then the logical solution would have been to delay reform to both the NTS and DN at a time where they could have both been developed simultaneously.

STUK welcome the Ofgem comments that a full Impact assessment would be conducted on any further development of the DN interruption regime but would suggest that as this process has not yet been undertaken it would seem unnecessary to introduce this licence condition. Ofgem have the ability to conduct a review into any element of the onshore gas industry at any point in time and STUK is therefore unsure what including this licence condition would add to the process.



The industry is already under resource constraints to manage the DN programme, and we therefore do not think that it is appropriate that a licence condition should be placed on the DN GTs for the reform of interruption. Instead, STUK believe that any changes to the current DN interruption regime should not commence until 2008 when the industry will be well established and stable post the DN sales. Furthermore this would fit with the beginning of new price controls for the DN's and a realistic target date to establish if any change is required.

STUK trust that our comments will be given due consideration and 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

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



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