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08th April 2005

Dear Jenny,

**Re: Consultation – The proposed restructuring of National Grid Transco’s
metering business**

Thank you for the opportunity to comment on the above consultation document. Statoil (UK) Limited (STUK) is an active participant in the newly revised gas metering structure. As such we would like to further contribute to the development of this process by making the following comments. We have answered each of the questions Ofgem has raised in its consultation in turn. Please note that our response is not confidential and can therefore be placed on Ofgem’s website.

**Issue 1 – what are suppliers’ views in respect of the extent to which they
have been made aware of this proposed sale and the contract options
they have been offered by NGT?**

As a member of the supplier community STUK was made aware of high level plans for the proposed restructure of Transco’s metering business both by mail and also via a presentation given by a Transco Metering (TM) representative at a DN Sale workshop. Since then however there has been little consultation with the industry on this matter. STUK understand that TM has been discussing issues of the restructure in more detail on a bilateral basis with Suppliers with MSA contract and we would encourage TMS to adopt an open and transparent approach towards these discussions.

Issue 2 – whether suppliers consider that they can effectively access the



price controlled tariffs for gas meters under NGT's proposals

As STUK do not operate MSA contracts all of the tariffs obtained are price controlled.

Issue 3 – what issues arise from the rebalancing of meter charges?

Under existing arrangements all meters within T.M. are considered to be inside the regulatory ring fence. Moving the meters which are subject to the MSA provisions into the UMS (OnStream) part of Transco's business raises questions about whether these assets continue to be regulated in the same way, how they are transferred and the appropriate value of the asset transfer.

As the majority of the gas meters in the UK are now provided under the MSA contracts the movement of these assets outside of the regulated ring fence also raises questions about the appropriateness of the contracts themselves and in particular their restrictive nature. STUK are concerned that the effect of moving these assets into a commercial structure will effectively create an unregulated monopoly.

As all of NGT's metering businesses have repeatedly refused to consider entering into arrangements to transfer assets between MAM's, and the MSA contracts are designed specifically to restrict the loss of T.M.'s market share, this restructure will reduce the likelihood of developing a competitive metering market.

STUK have had concerns for sometime that the MSA contracts may not be in the best interests of consumers as they could obstruct the development of effective competition in the market. While the assets that the MSA contracts governed were inside the regulated ring fence there was a measure of comfort that these assets were subject to regulatory scrutiny. If these assets are to be moved outside of the regulatory arena then STUK would be interested in understanding Ofgem's views on whether this would or would not encourage competition to develop. We would also request Ofgem to identify what measures could be taken to ensure the metering market remains competitive.

Issue 4 – whether there are any issues raised by the proposal in respect to the transfer of the status of 'Gas Act Owner' and the associated responsibilities that are passed on with this transfer?

STUK agree with Ofgem that because of the wording of the Gas Act the net effect of the novation of the MSA contracts will be that the consumer will become the Gas Act Owner (GAO) of the meter. STUK's initial analysis indicates that there is a fundamental mismatch between the RGMA baseline and the envisaged scenario which could have serious consequences.



It is unclear for example whether the supplier could charge a consumer for a meter that they were responsible for. Surely the consumer could claim that as they were providing the meter under the gas act the supplier had no right to charge them. The supplier would be unable to argue that adequate metering had not been provided and T.M. would be forced to attempt to acquire revenue directly from the consumer.

STUK believe that until these important issues are addressed it would not be sensible for TM in attempting to move any of these meters from within the regulatory ring fence.

Issue 5 – are there issues concerning the Weights and Measures Act 1985 that should be considered as part of NGT’s proposal?

STUK does not believe that this issue is of any relevance to the restructure of Transco’s business.

Conclusion

In principle, STUK do not have reservations regarding the restructure of Transco’s metering business. It is entirely likely that combining TMS and UMS will realise benefits of economies of scale. However, we believe that there are still a number of issues which still need to be carefully considered prior to Ofgem’s approval of the removal of regulated assets into the new NGT metering structure.

STUK are concerned that the proposed structure will create an unregulated monopoly that could reduce the ability of new entrants into the metering market to object to practices that could hinder effective competition. In such circumstances, STUK believe that the absence of a regulator and the lack of effective competition would not be in the best interests of the consumers.

On the issue concerning the Gas Act Ownership, STUK believe that the resolution of this issue may require changes to statute. It is imperative that this issue is resolved prior to any decision made to transfer asset title.

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,

Sam Parmar
Regulatory Affairs Advisor



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* Please note that as this letter has been sent electronically it has not been possible to sign it.



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