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15th April 2005

Dear Sonia

**National Grid Transco – Potential sale of gas distribution network businesses.
Formal consultation under section 23 and section 8AA of the Gas Act 1986**

Thank you for the opportunity to comment on the above consultation document. Statoil (UK) Limited (STUK) welcome the opportunity to further contribute to the development of this process by submitting our response to this licence consultation.

STUK considers it important that changes to the gas transporter licence are carefully considered. Whilst these licence changes primarily involve the gas transporters, both shippers and suppliers will be directly affected by these changes.

Enduring Exit Arrangements

STUK are aware that the sale of the distribution networks by NGT will require some necessary change, primarily due to the new commercial relationship between the NTS and the DN's. However we do not consider all the proposed changes to be either suitable or entirely necessary to accommodate the DN sales. The proposals for the new enduring exit arrangements are typical of the issues which are still being questioned by many shippers with regards to their establishment. STUK continue to maintain that the arrangements for the provision of flow flexibility capacity should not apply to direct connect users of the NTS (end users, storage, Interconnectors) and they should be exempt from these arrangements as it is appropriate to treat these offtakes as different from Distribution Networks under entirely different commercial incentives.

STUK are most concerned that Ofgem are using a licence condition to force the implementation of the enduring exit arrangements into the UNC without any specific financial analysis being undertaken solely on the proposed exit regime. Ofgem's



ISO 14001 Certificate 156



ISO 9002 Certificate No. 34477

impact assessments undertaken in 2004 covered DN sale as a whole and at that time the sufficient details of exit arrangements were not developed. In fact the enduring regime proposals have changed substantially since the time of the last impact assessment was completed and it is questionable how relevant this impact assessment is.

STUK do not consider it appropriate that a licence condition is placed on the NTS and all DNs to use best endeavours to implement the enduring exit arrangements. It would be prudent and in the best interests of consumers that the Authority be given an opportunity to consider a full impact assessment of the enduring exit arrangements as finally proposed by any modification that is to be raised by Transco. STUK do not consider that it is necessary to put in place this licence obligation as if change is genuinely required the regulator has sufficient powers to ensure that such changes can be made.

We note in Ofgem's Corporate Strategy and Plan 2005 -2010 a statement which would support our proposal for such an analysis to be undertaken. An extract can be found below:

Improving Ofgem's Policy Process

"High quality decision-making based on sound, well researched analysis, the firm commitment to our statutory responsibilities"

We would therefore request Ofgem to undertake a review of the proposed enduring exit arrangements independently of the DN sale process and in particular identify the benefits that such proposals could deliver to customers.

DN Interruption Reform

STUK would like to reiterate our concerns made in an earlier licence consultation in that we 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 time to adjust to a newly fragmented industry structure 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, which have not as yet been demonstrated to the industry by Ofgem, then the logical solution would be to delay reform to both the NTS and DN at a time where they could have both been developed simultaneously.



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. STUK believes that prior to a decision being made on this licence condition, it is fundamental that an impact assessment be undertaken by Ofgem in order to identify the perceived benefits that such a regime change will have on consumers.

The proposed timescales would mean that shippers would not have sufficient time in which to make the necessary changes to their gas sales agreements with their customers as the standard duration of these agreements are usually for a 12 month period. The proposed date for DN reform would mean that shippers would have less than 12 months in which to make changes to these agreements.

In addition to this are issues concerning short timescales in which to develop our systems to ensure that the data used in communicating with the GTs conforms to specified requirements. Again, without commencing this work and understanding the details behind this, it is difficult to ascertain what changes shippers and suppliers must undertake to their systems.

Conclusion

While we welcome certain changes being proposed by Ofgem to the gas transportation licences, we remain concerned about significant other areas, notably the licence conditions being proposed for the enduring exit arrangements and the DN interruption reform. We would recommend that Ofgem reconsiders the suitability of these proposed licence conditions.

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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