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Robert Hull  
Director, Transmission  
Office of Gas and Electricity Markets  
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9<sup>th</sup> September 2005

Dear Robert,

**Transmission Price Control Review – Initial Consultation**

Thank you for the opportunity to comment on the above consultation. Statoil (UK) Ltd (STUK) is responsible for the marketing of supplies of its parent company's Norwegian equity gas and the Norwegian State's equity gas in the UK market. Due to its size, proximity to Norway the UK market is of great interest to us.

The Price Control in place upon Transco will clearly have a direct impact on their incentive to meet the changing needs of the UK gas market as its reliance on imports increases. It is therefore important that Transco be given the opportunity and flexibility to invest appropriately to meet the growing requirements to import gas. As a result STUK believe that the price control review should establish a sound basis for future development of the network which provides a stable environment for both Transco and for those investing in import infrastructure who are required to show their commitment to investment projects. STUK would therefore like to make the following comments.

**Framework, context and objectives**

STUK agree that it is important for the significant developments in the UK gas market to be taken into consideration during the next Transmission Price Control Review, particularly the changes to gas flows as the UK becomes a net importer of gas. As the demand for imported gas increases so will the need for a robust network and regulatory framework to ensure the successful delivery of gas into the UK.

Entry capacity availability and pricing will therefore be a prime concern. The Price Control needs to send the right signals to Importers to the UK, to ensure that as other markets develop, the UK is still an attractive destination for their gas, whilst striking a balance between ensuring the networks are fit for purpose and protecting customers from unnecessary investments.



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As a result it is important that some consistency is maintained in the long term entry capacity auction process. While STUK understand that it is not sensible to expect reserve prices to remain consistent, dramatic shifts in the balance between terminals should be avoided. Gas producers and their shipper affiliates wanted to develop a longer term access to entry capacity to reflect the long term nature of upstream investments in gas production. While there has been limited investment signals at existing terminals the auctions have provided greater certainty over access to capacity for those who want it.

There is as yet nothing to suggest that the 5 year control and RPI indexation model should be replaced. This approach coupled with incentive based price regulation for new investment should provide sufficient flexibility to adapt to the challenges of a changing gas market.

Ofgems objective to make the Price Control transparent, inclusive and accessible is welcomed by STUK. This approach should assist in a Price Control agreeable to all network users being set, and discourage the need for the reopening of the controls or regulatory changes at a later date.

## Incentives

STUK believe that during the next Price Control it is important to maintain the distinction between Gas and Electricity transmission and the entry and exit arrangements.

The nature of the two markets are sufficiently different to warrant a different approach, as are the products of entry and exit capacity in gas. Incremental outputs in the gas markets do not need to be defined as for Electricity transmission, equally the remuneration of incremental outputs for NTS do not need to reflect those set for the NGC. It is important to ensure that the Price Control Review identifies the appropriate arrangements for each industry. The arrangements should take into account the type of network, numbers and types of users etc. to create the best solution for that network rather than trying to force compliance to a regime that has not been designed with the particular networks specific requirements in mind.

When deciding to connect to the UK gas Transmission network a new end user makes a significant initial investment (e.g. building plants or factories) this investment should indicate that a long term commitment is intended and should provide the required signals to the NTS to ensure that capacity is made available to them. STUK recognize that the addition of ARCAs could bring some further confidence to the NTS, that booked capacity will be used and paid for but it would not seem practicable to expect end users to commit to specific capacity levels too far into the future. Gas has to compete with other fuels when being chosen as a fuel source by a consumer and as a result the additional burden of the obligation and credit required to support long term purchases of exit capacity may be a barrier to choosing gas as a fuel source.

Furthermore the debate that accompanied the Distribution network sales highlighted the practical barriers to shippers purchasing long term exit capacity on behalf of end users, in that it may lead to difficulties when the customer wanted to change shipper.

Ofgems recent consultation on UCA's has created a need to look again at some of the processes of setting the drivers for the UCA's and the resulting reserve prices. This is most



sensibly done as part of the price control review. The recent modification proposals by Transco NTS to effectively modify their license conditions by limiting the amount of baseline capacity available are not an appropriate approach to addressing their concerns with investment lead times. It is important to recognise that the long term auction process will only work effectively if there is a reasonable level of stability in its procedures and processes.

STUK believe that during the setting of the Price Controls Ofgem should not be planning to reopen them. Discussing and determining a Price Control with reopening in mind undermines the process giving unclear messages to new users of the networks and confusing investment signals. If events are significant enough to warrant a reopener this can be dealt with at the time without specific elements built in.

Since the setting of the previous price control the gas industry has undergone a period of significant development (e.g. the merger of National Grid Holdings Plc and Lattice Plc, Carbon Emissions Trading and Distribution Networks Sale), during these developments there has been no evidence that the price control should have been reopened indicating that the industry can handle significant change sufficiently well without reopening the price controls.

STUK agree that as far as practicable a set of price controls should be set that adjust revenues automatically as circumstances change.

STUK appreciate that the price control review process is a complex set of issues and welcome the debate on these issues which will shape the way the power and gas markets develop in the UK. STUK consider that the incentive arrangements in both gas and power over the next control period will shape how the transporters respond to further requirements on their networks and the need to invest.

STUK trust that our comments will be given due consideration and should you wish to discuss any aspect of this response further please contact me on the above number.

Yours sincerely

Robert Cross  
Regulatory Affairs Manager

