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Dear Robert,

**Transmission Price Control Review (TCPR) – Capital Expenditure Projections 2007-2012**

Thank you for the opportunity to comment on the above consultation. Capital expenditure is an important part of the price control process and as such Statoil (UK) Limited (STUK) would therefore like to make the following comments.

STUK's initial view on the requested increase in capital expenditure by NGG, (an investment by NGG of £1.4 to £2 billion on the current asset base), is that it sounds excessive, although it is difficult to make constructive or objective comments due to the lack of supporting documentation available.

STUK recognise that there is a need for flexibility to allow for further developments in the network as investment patterns change but would assume that a degree of modelling would have taken place to create the scenarios used to calculate the forecast capital expenditure. We would also assume that these are in line with those produced as part of the ten year statement. STUK would argue that it would be of benefit to the industry if these models or some specifics over the types of intended investment, could be shared as part of future consultations to enable more objective comments to be made and suggestions of value to be given.

However from the information that has been provided, STUK understand that as most of the forecast investment is load-related and with the uncertainty over size, location and timing of projects the actual investment requirement is difficult to predict. The importance of Users signalling their requirements for network capacity in an effective manner is highlighted but it does not necessarily indicate the need for long term user commitment models, and STUK believe that other solutions should be considered.

The commitment made by Companies when investing in new projects should not be underestimated. They are making a long term commitment to the UK, by connecting to the network they are agreeing to pay capacity charges for as long as they are in business and by following the planning procedures currently in place it is unlikely that a User will decide to exit the market within a short timeframe of such an investment.



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STUK also have concerns over regulatory certainty and its effect on further investment into the UK. There are a number of large projects currently being planned or under construction in the UK dealing with many gas sources (storage, pipelines, LNG) that have successfully undergone the existing planning process. It is therefore difficult to determine what the shortcomings in the current regime are. It is vital that as the UK becomes more reliant on imports, that a complex and frequently changing regulatory regime does not deter investment.

The working groups looking at the current TCPR (EOWG and TCMF) are considering longterm user commitment models at present. There are a number of entry and exit models currently on the table, all with very different consequences, and to date no agreement has been reached as to the suitability of the arrangements or the form that they could take. There has therefore been no consideration given to the consequence of the chosen regime and as such it is difficult to consider how it will affect the suggested Capital Expenditure Projection.

STUK do not believe that a single model for all NTS users at either Entry or Exit is the most efficient process to follow and that there is a strong argument for due discrimination in this case as the arrangements would need to consider not only DNs but also interconnectors, storage facilities and directly connected customers.

STUK have specific concerns regarding proposed changes to the Exit regime. STUK believe that there is a real risk of damaging competition in the market as NTS directly connected customers will not be able to transfer supplier as freely as non directly connected customers, to enable them to compete effectively with players in their own markets. There is also the risk that industry may move away from the UK if the exit regime is seen to damage competition. As the UK become more reliant on imported energy it is vital that security of supply and new infrastructure projects are not damaged by a regime that discourages them to invest in the UK.

If long term commitment is needed STUK believe that the ARCA arrangements could be a possible solution. As the agreement is with the network and the connectee and a financial commitment is made there will be no barriers to a change in supplier for a customer.

The price control should be designed to be able to adapt to changes in investment and planning and be able to be adapted to include new projects as they come on line. The continued improvement of the system should also be included in an adjustable price control. The removal and installation of assets should also be taken into account, and therefore the ability to decrease or increase the asset base accordingly is required.

It is important that the flexibility in the control is maintained whilst ensuring some price stability to ensure that maximum benefits are gained by the industry and its players and that NGG are incentivised to maintain the pipeline system efficiently as possible.

Yours sincerely

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