

**Statoil (U.K.) Limited  
Gas Division**

Statoil House  
11a Regent Street  
London SW1Y 4ST

Switchboard: 020 7410 6000  
Central Fax: 020 7410 6100  
Website: www.statoil.co.uk  
Email: rob.cross@Statoil.com  
**Direct Line: 020 7410 6157**  
**Direct Fax: 020 7410 6108**

Robert Hull  
Director, Transmission  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

28 April 2006

Dear Robert,

**Transmission Price Control Review – Third Consultation**

Thank you for the opportunity to comment on the above consultation. Statoil (UK) Ltd (STUK) is responsible for the marketing supplies of its parent company's Norwegian equity gas and the Norwegian State's equity gas in the UK market. As we import gas into the UK and maintain a supply portfolio we are directly affected by changes to the National Grid Gas price control.

**4. GAS ENTRY:**

STUK have a concern over the proposed fundamental change to the allocation of entry capacity. When the regime was introduced at the last price control, it was envisaged that the arrangements would be long term, and by their nature remain relatively unchanged to allow stability in the arrangements encouraging investment and aiding security of supply.

Network users have made significant long term commitments by booking entry capacity under the current regime, and planning their operations in the UK network based on these commitments. Changing the allocation mechanism at this stage could potentially undermine the value of capacity already booked, change the nature of investment and create uncertainty in the future. It is vital that given its future import dependency the UK does not and is not seen to be creating obstacles to entry by creating an unfavourable regulatory environment. While STUK accept that the previous allocations are not affected by any further changes to the regime Ofgem must be aware of the impact such changes could have on the value of the capacity purchased.

STUK believe that the proposed capacity release methodology would need to be transparent and relatively simple to ensure understanding from all parties, to create certainty for future planning and investment. The industry would also require some reassurance that the regime would not fundamentally change again in the near future to ensure that the



ISO 14001 Certificate 156



ISO 9002 Certificate No. 34477

required stability is given to the regime to allow investments into the network both for development and reinforcement of UK infrastructure but also for any parties wishing to bring gas into the UK.

The third consultation proposes that NGG NTS be subject to an obligation to create a transparent methodology using the governance model that applies to other areas of transmission. It is difficult to comment fully on the appropriateness and use of the proposed methodologies when no draft has been put forward to date. On a general level STUK believe the licence obligation on NGG NTS is necessary but believe that the methodology should be published in the Uniform Network Code, to allow full industry input and for the established governance procedures and modification process to be applied.

Having an industry wide forum in the TCMF to discuss the allocation and pricing proposals allows for input and is welcomed. STUK agree that the reserve prices should be more cost reflective. However, STUK believe that clarity and stability in prices is also of high importance as there is the potential for some gaming around commitment to entry capacity booking, with shippers trying to second guess pricing changes and dilute the investment signal. STUK would like to see following this price control a limited change in the methodology used to generate a reserve price to enable confidence in the regime for forward planning and help to eliminate the risk that any booking decisions will not be undermined in the future.

STUK have concerns over the auditability of the proposed approach to the allocation and pricing of entry capacity. If NGG NTS are responsible for determining the amount of capacity available, how it is shared and how much it costs, the industry needs to be sure NGG NTS act in a manner which is beneficial to the industry as a whole and STUK would like to see incentives and obligations to this effect, to help to ensure effective competition and give assurances to the industry.

STUK are in support of a simplification of the transitional incentive arrangements and the retention of the entry point specific approach. However it is difficult to see the merit in creating a 'trigger level' for which the revenue driver would be activated and compared to the baseline level method used in the last price control. STUK feel that it is difficult to determine the affect this change will have on the regime without the detailed quantification of the revenue driver and the trigger levels for each entry point, and would wait for the completion of works by NGG NTS and Ofgem before formulating a final view.

STUK welcome a change to the buyback incentive as the potential for the cap on NGG NTS liabilities to be reached quickly, (removing any incentive on NTS to manage buyback costs), could become a reality with the increased number of large projects being undertaken on the NTS. However without full detail of how both the main buy-back incentive and the incremental capacity buyback incentive will work it is difficult to give a fully qualified response.

STUK is in support of a of a new set of arrangements to handle the buy-back costs related to the late delivery of incremental capacity, but believe that the proposal to introduce a zero buy-back price in some circumstances seems open interpretation. Delays in planning applications was given as one example when NGG NTS should be able to buy-back at a zero price as this was a matter outside of their control, it can be argued that this is an issue that is not in the control of the shipper also and some strong assurances would need to be



given to give confidence that the delays in planning were not the fault of NGG NTS (eg. applying late initially or omitting the correct information).

Determining a single price for buyback could also prove to be an issue as the value of the capacity will vary as the completion date of the project moves closer, and will also have a differing value to all parties involved. STUK has sympathy that there needs to be a starting point for the cost of buy-backs before users and NTS can renegotiate a change in the price. However, there are no incentives or obligations to encourage NG NTS to enter these, negotiations or pay a market reflective price for capacity buybacks.

## 5. GAS OFFTAKE:

As stated in its response to the second consultation STUK is not in support of reform of the offtake arrangements and do not see that a reform of the regime is required. However, considering proposals outlined in the Third consultation paper and its attendance at the EOWG, STUK would like to make the following comments

### *Transitional arrangements*

Ofgems high level proposals for the transitional regime and transitional incentives seem to represent a continuation of the interim arrangements.

STUK are in support of the simplification of the incentive regime for a transitional period and agree with the removal of the charges forgone and exit investment incentive from both the remainder of the interim period and the transitional regime, with the restrictive caps and collars of the incentive having reduced its effectiveness. STUK are also in agreement with the proposed strengthening of the current mechanism by specifying revenue drivers as part of the TCPR and the incremental revenue should be contingent upon investment being remunerated and supports this process being continued for the duration of the price control period.

STUK agree that the transitional buyback incentives should be consistent with the scope for the enduring period, to allow stability in the regime. STUK are in support of the ARCA agreements being used for capacity allocations within the transitional period, and the adoption of a dispute resolution role by Ofgem.

### **The Enduring Regime**

As stated in its response to the second consultation STUK is not in support of long term user commitment and believes that the financial commitments made by companies when investing in building plant or pipelines should not be undervalued. This significant investment made by the user should be considered in the capacity planning process as it is unlikely that after building a large investment a site would not exit the UK market in a short timescale.

The NTS is used by many classes of user direct connects, distribution networks, storage sites and interconnectors, one set of arrangements will not be the most efficient for all. The DN sale created a very different user of the NTS and it is therefore only right that different contractual arrangements exist for them. STUK believe that there is still a lack of real



evidence to show the impacts of longterm user commitment and without the length of commitment and the notice period being finalised it is difficult to make qualified judgements.

Despite its objection to the reform of the offtake arrangements, STUK has been an active member in the Enduring Offtake Working Group and has been involved in the development of some of the high level options discussed in the second consultation. As a result of this, of the four options presented in the second consultation STUK is minded to offer its support to the Ofgem preferred model, a modification of approach EX2 as it offers the most comparisons to the status quo.

STUK does however have concerns over the substitution obligation to be placed on NGG NTS and the mechanism used to do this. Placing an obligation on NGG NTS to substitute capacity will dilute the investment signals seen as a result of the exit capacity bookings and long term user commitments made. Amendment of baselines as a result of substitution will create uncertainty for future investment and development as there will be no guarantees that a baseline will not be change during the planning process, creating confusion for longterm exit capacity bookings.

The mechanism used to calculate substitution ratios would also need to be as transparent and clear as possible and subject to governance processes to ensure that their was full industry understanding and input to reduce the discretion available to NGG NTS. STUK therefore supports the decision by Ofgem to only remunerate NGG NTS for incremental investment as a result of user commitment to prevent investments being made as a result of substitution decisions, and also supports the minded to proposal from Ofgem with regard to NGG NTS can meeting its 1 in 20 obligation by investing in line with user commitments.

STUK want to maintain, as much as possible, the current regime structure at Entry and Exit particularly as the entry the regime has not been given sufficient time to establish. Such broad changes to baselines, and auction methodology does not improve regime stability or investment signals.

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

