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23 June 2006

Dear Sonia

Re: Potential new System Operator quality of information incentive schemes for National Grid Gas

Thank you for the opportunity to comment on the above consultation. Statoil (UK) Ltd (STUK), have been active members of the demand side working group and have therefore been party to the industry discussions regarding both the National Grid Gas website and its performance and the impact it has on its users, and the reliability of the National Grid demand forecast data and as such would like to make the following comments:

During 2005 the Ofgem led Demand Side working group, which was attended by both industry players and consumers, worked hard to introduce measures for winter 05 that could provide essential information regarding the supply and demand balance to the industry, to enable users to make informed purchasing decisions and to assist in encouraging users to offer a demand side response. This led to the introduction of the NG daily summary page to the NG website, the Gas Balancing alert and related changes to OCM trading arrangements.

The importance of the timely implementation of these revised arrangements, in time for winter led to many of the arrangements being developed quickly, with the National Grid daily summary report being introduced in October.

STUK believe that some of the problems experienced by the Operational Page during the winter can be attributed to this hurried implementation and the unprecedented high usage of the site.

National Grid alongside Ofgem and industry players worked throughout the winter to improve the availability of the site, and it is acknowledged that improvements were seen. NG have regularly stated that a number of server and operational improvements have been



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made to the site since last winter, and expect the robustness of the site to be greatly improved.

STUK therefore do not believe that an incentive relating to the availability of the site is necessary as there is a risk that any improvements seen will relate to work already completed by NG following the experiences of last winter.

More of a concern is the timeliness of the updating of data on to the website, this is an area where STUK do see that an incentive maybe of some benefit to users. Analysis has shown that on average only 12% of data was updated after 15mins which increased to 40% after 20mins. During periods of system stress any delays in consumers seeing system supply/demand data could lead to delays in a demand side response and therefore speed the onset of an emergency.

STUK agree that for the proposed validity period of this incentive (winter'06), the Option 1, upside only incentive is the most appropriate, but should only be focused on the timeliness of data publication rather than site availability, as this would achieve both objectives as it could be argued that if the site is unavailable the publication of the data is late and it is difficult to see the benefit of the site if it is available but the data displayed is out of date.

The accuracy of National Grid Demand Forecasts is an area which STUK sees as a risk to security of supply for the coming winter, this information is commercially critical to all industry participants and as such errors in these forecasts have significant implications on market price and stability. As the Ofgem consultation demonstrates the 14.00 D-1 forecasts last winter were over forecast on 53% of days (typically on days of system stress) with swings of maximum over forecast of 55mcm to a max under forecast of 38mcm, which STUK understand by consulting its users could have led to high costs.

The 13th march and the issuing of the GBA, is an example of how the accuracy of short term forecasts can have a huge effect on price, in this case we saw prices reaching 250ppthm, as the market tried to cope with demand levels increasing rapidly from a significant under forecast.

STUK believe that improvements to the quality of demand forecasts would have commercial benefits for all industry participants by not only giving stability to the market and helping to reduce price spikes but by also increasing the efficiency of SO balancing actions creating a commercial benefit for customers.

As System Operator National Grid has an obligation to operate the system efficiently, so STUK do have concern that an incentive to provide accurate demand forecasts is in conflict with this obligation and that there is potential for rewarding NG additional funding (potentially up to £4.6m under the preferred option1) to perform their recognised function.

The current licence condition imposed on National Grid relating to demand forecasts relates to the publication of the data rather than the accuracy of the forecast itself, whilst STUK recognise that by its very nature a forecast can never be 100% accurate a change to this licence condition to include data accuracy could encourage a review of the processes and models used to create forecasts and be of more benefit to the industry long term.



However, should an incentive be seen as preferable for this winter STUK is in agreement with Ofgem that the Option 1, upside only approach will be of most benefit allowing NG payments for improvements of 5%. These improvements in accuracy will give stability to the market, help to prevent prices spikes and the unnecessary use of emergency arrangements.

In conclusion STUK do not see that an incentive for the availability of the NG information page is necessary given that work already done by National Grid to improve the robustness of the site and that an incentive focusing on the timeliness of the data published will be of more benefit to the industry, giving users up to date data and allowing a level playing field for all market participants. STUK believe that whilst it is not possible for a forecast by its nature to be 100% accurate, more could be done with regard to National Grids licence obligations to encourage more accurate demand forecasting but, understand that for this winter an incentive may be more appropriate. For both proposed incentives STUK agree with the Ofgem position that an Option 1, upside only approach, in place for the period of 1 October 2006 to 31 March 2007, will offer most benefit, and agree that a revised ongoing incentive would be needed after this date.

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,

Shelley Rouse
Regulatory Affairs Advisor

* Please note that due to electronic transfer this letter has not been signed

