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28 June 2006

Dear Lewis

Re: Initial thoughts on the reform of interruption arrangements on gas distribution networks

Thank you for the opportunity to comment on the above consultation.

Statoil (UK) Ltd (STUK), was involved in the initial discussions relating to the reform of the DN interruption arrangements as a result of the network sale and has continued to play a key part in industry developments. As such would like to make the following comments.

Following our experiences as a supplier with a majority interruptible portfolio, STUK agree that there is currently a lack of flexibility in the DN interruption regime and a review of the provision of these services is welcomed.

STUK understand that the main area for concern with the current regime is the lack of flexibility in the interruption services available. Currently users are only able to take advantage of 45 day interruption contracts after giving the DN one years notice. STUK believe that there is significant scope for changes to be made to the types of product available within the structure of the current regime.

Allowing users to book interruptible capacity for periods of less than 45 days and for durations longer than 1year, will enable the DNs to receive improved investment signals, although longer term arrangements do need to consider the ease of transfer for customers who have contracted for interruption for periods longer than their gas supply contracts with their shippers. Care also needs to be taken to ensure that the implementation and system costs of the revisions to the regime do not outweigh the benefits.



ISO 14001 Certificate 156



ISO 9002 Certificate No. 34477

The DN strawman model described in the consultation paper suggests that all users (including Network Sensitive Loads) become firm from 2010 unless interruptible contracts are entered. If customers decide to go firm there is the potential for huge investment by the DNs to make available the necessary firm capacity. For customers that lose their interruptible status, if the DN is not interested into entering to a contract with them, they would have invested in dual fuel capability to originally enable them to achieve interruptible status for their site and run the risk of being unable to recover these costs.

STUK believe that given the concerns over security of supply for the coming winters, the innovations suggested for gas reserve arrangements under modification 0086, the work being done by the demand side working group, it seems sensible to not discourage the investment into alternative fuels at sites or allow any existing capability to become uneconomical.

The interactions between DN interruption reform and the reforms as part of the TPCR will mean that customers will be faced with large and complex changes in the way that they manage their businesses in April 2007 which could lead to confusion and incorrect investment signals being received for both Entry and Exit capacity as well as for interruptible volumes. STUK believe that the interruption reform element of the changes should be kept simple to allow users to concentrate on making the correct decisions at the right time. Many sites will not have the time or resource to manage a complex regime.

STUKs experiences have shown that the current arrangements are simple and easy for users to understand. They are clear how the regime operates and under what circumstances their sites could be called to interrupt which given the current supply/demand climate is essential. The pricing of the interruption contract is clear and defined and not subject to DN methodologies which could potentially differ depending on their location on the network.

STUK would like to see an increase in the flexibility of the interruption products available but not at the detriment of a simple regime with clear pricing. STUK are in support of a workable least cost option that allows DNs to see benefits of improved investment signals and a reduction in the need for investment in capacity. Comparisons have to be drawn between the reform of the offtake arrangements and the NTS interruption reform, uniformity in these arrangements is vital to create a consistent regime. Security of supply is a big issue for the industry over the next few years and STUK believe that a high number of interruptible customers will help to alleviate fears.

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.

