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Robert Hull
Director, Transmission
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24 July 2006

Dear Robert,

Transmission Price Control Review – Initial Proposals

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. It should be highlighted that as we only utilise the gas network of National Grid, STUK have restricted our comments to the relevant parts of the Ofgem consultation.

As an active member of the gas forum STUK has been involved in the development of the financial issues response provided by the forum and is in support of the views expressed in the document. Please accept the gas forum paper as STUK view on the financial areas of this initial proposals document.

Ofgem have advised in the initial proposals document that it is their intention to not include the £75m of NG NTS investment to increase entry capacity at St Fergus in to the opening RAV. It has been deemed that the investment is inefficient as not accompanied by long term signals from the auctions.

It is difficult to assess the implication of Ofgem's proposals on this matter as there is little information given in the consultation document. STUK would like to have further information on the period which the investment relates to and the auction signals available to National Grid at the time. If National Grid did make investments that were not indicated through auctions at the time it may be appropriate to exclude this from the asset base. However, STUK would like further explanation of the consequences of doing so and how any additional capacity that this investment relates to could be made available should it be required in future if it were required.



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Entry Capacity and substitution

As stated in its responses to the first three consultation documents STUK are in support of retaining the status quo arrangements at entry. When the long term entry capacity auctions were introduced at the last price control it was understood that the regime would be of an enduring nature and be allowed time to fully develop. The current arrangements allow users to book entry capacity up to 15 years ahead, creating stability and encouraging security of supply. A change to the regime would undermine buying decisions already made, effecting investment decisions and the value of capacity already purchased. STUK therefore welcome and support the Ofgem proposal to reintroduce baseline levels of capacity (in response to views expressed to the third consultation document) at entry points to maintain stability in the regime.

The baseline levels demonstrated in the initial proposals document are, by Ofgems own admission based on data that has yet to be fully audited and STUK would therefore wait for the September document and the publication of the 07/08 figures before commenting.

STUK are in support of the proposal to allow some reallocation of entry capacity unsold in the long term auctions up to the baselines. However, much is still unknown about how the regime will operate the cost of substitution or the amount of capacity that would be available to 'reasonably substitute'. The proposal suggests that NGG NTS will be responsible for facilitating the trading between entry points at an auction designed for this purpose. Participants in the substitution auctions will be required to notify NGG NTS of their intention to substitute prior to bidding and then, when the auction is complete, be obligated to substitute.

NGG NTS are responsible for defining a methodology for identifying and proposing appropriate substitution ratios and costs, which will be subject to Ofgem approval. Whilst STUK welcomes Ofgems involvement in this process, it believes that the methodology should be made an ancillary document to the code to allow the existing governance arrangements to be applied. Once volumes are successfully substituted, STUK agree that the baselines should be amended to consider the changes in volume available at the relevant entry points to give clear signals for investment and to aid in understanding of availability of volumes for future auctions.

A substitution obligation on the NTS for offtake that operates in a similar way to the reallocation proposal for entry would enable NGG NTS to substitute volumes to nodes signalled during the long term capacity allocation methods currently being discussed for offtake – expected to be a long term booking process. As for the proposal at entry STUK supports the obligation in theory but would like to see the methodology and ratios proposed by NGG NTS before giving a full and qualified response.

STUK welcome the inclusion of the proposed extension of the substitution obligation to oblige NGG NTS to increase exit baselines in the event that exit capacity is generated as a result of entry investments undertaken and vice versa. It is important that the interactions between entry and exit are recognised for the planning and use of the entire system to ensure security of supply and efficient investment.

Revenue drivers

The decision to allow revenue to accrue from the date of contracted delivery rather than physical delivery in both the entry and offtake regimes is should incentivise NGG NTS to



make efficient trade offs and consider other means of contractual delivery other than investment.

The form of the transitional baselines (nodal product calculated on the practical maximum physical capacity) demonstrated in the third consultation and their continued use for the enduring arrangements would seem appropriate. As no baselines are to be set for interruptible capacity STUK welcome the proposal for the interruptible sites on the NTS in the South West to be allowed their SOQ to become the baseline in the enduring regime, in response to views expressed in the third consultation. STUK do, however, have a concern over the definition of the flexible capacity product and the use of baselines. Whilst it is in agreement with the suggestion that baselines should not be set for flexible capacity in the transitional regime as they are not meant to trigger investment, there are still issues with the enduring regime. It would seem that the requirements for the GDNs to meet their flexibility requirements could raise the need for investment in to the NTS. It is difficult to determine how investment, purely for flexibility purposes, could happen and how the cost of investment would be efficiently remunerated. The efficiency of the whole investment would be very difficult to measure.

In summary STUK welcome the retention of the baselines at entry to and the proposal to create a substitution obligation for both entry and exit capacity. However, STUK would wait to see the proposals developed further before commenting in full. With regard to baselines STUK are happy with the initial proposals for entry capacity baselines but are aware that there are subject to change given that Ofgem have yet to have the opportunity to audit the modelling undertaken by NGG NTS, and that they are subject to change and would wait for the information published in the September document and the 07/08 numbers before commenting. There still appears to be significant work to be done on Exit arrangements (particularly flexibility arrangements) before a clear indication of the enduring regime can be given.

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 and Strategy Manager



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