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Dear Lewis

Re: Reform of interruption arrangements on gas distribution networks

Thank you for the opportunity to comment on the above consultation. Statoil (UK) Ltd (STUK) has been 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 an active member of the Mod 0090 working group. As such STUK would like to make the following comments.

Following our experiences as an I&C 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. However, as stated in our responses to both Mod 0090 and Ofgems 'Initial thoughts on DN Interruption Reform' Consultation in June this year, STUK is not in support of the current proposals for DN interruption reform.

STUK understand the concerns expressed over the flexibility of the current regime but believe that the concerns relating to security of supply and a continued lack of clarity over the new regime are of a greater concern.

The consultation paper states that the estimated implementation cost of DN interruption reform is £15m for shippers and DNs. As the final arrangements have yet to be decided (administered or tendered approach) this figure is difficult to quantify. There is no detailed information available as to the form which the process will take and it should be assumed that should a complex, highly administrative process be preferred these cost estimates will increase.

The paper also high lights the lack of information provided by consumers with regard to their costs. Given discussions with our consumers, it is clear that stability and certainty in arrangements is key and consumers feel they are unable to efficiently calculate their costs as there is still too much uncertainty surrounding the final form that the arrangements may take. It is not yet clearly understood what will be expected of them with regard to choosing an administered price or actively calculating the value of their interruption for a tender based approach, this will also be likely to affect the number of days that they are prepared to offer for interruption. If a complex regime is chosen the majority of commercial consumers do not have the resource available to actively participate in an interruption tender. This could lead to high cost and administrative burden to consumers and the real risk that they may chose to opt out of the interruptible regime all together and stay as a firm consumer

STUK is not in agreement with the benefits identified for the reform of the interruption arrangements and believes that there are a number of disadvantages that may out way any perceived benefits. There is little evidence that the current regime does not operate in an effective manner and STUK has real concern that security of supply could be detrimentally affected by the proposed changes to the regime.

Although there will be more certainty of the amount of interruption available (those sites that are interruptible need to be aware that they will be interrupted more often) STUK would argue that there will be less interruption on the system as the DNs are likely to offer less than is currently available (although no indications on the amounts in each DN have yet to be issued). This will mean that there will be less interruption to be called during an emergency situation and will lead to earlier than previously necessary Firm Load shedding. There is also the likelihood that customers that currently maintain dual fuel capability are unlikely to do so if they are not granted interruptible status, leading to fewer sites with the ability to interrupt. STUK believe that given the current concerns over security of supply, arrangements that potentially make dual fuel capability uneconomical should not be encouraged.

STUK are in support of the move from setting prices from October to April to align them with the setting of revenue allowances in the price control. As previously stated it is stability and certainty that are of key importance to our consumers and STUK agree with the proposer that changing the setting of the pricing from October to April will provide greater stability in the charges and make them more predictable. This can also be said for the proposed introduction of the new arrangements for the customer charge. As stated in its response to consultation DNPC01 STUK expressed its support for the introduction of the customer charge and the proposed 1 April implementation, agreeing with the proposer that it would lead to more stable, predictable and cost reflective charges.

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,
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Shelley Rouse
Regulatory Affairs Advisor

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