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16 January 2007

Dear Sonia

**Re: NGET and NGG SO incentives from 1 April 2007**

Thank you for the opportunity to comment on the above consultation. Statoil (UK) Ltd, (STUK) would like to make the following comments

**System Reserve and residual gas balancing incentives**

STUK are supportive of Ofgem seeking to consider the impact of increased shipper responsiveness to major events in the light of realtime information and improvements in the reliability of gas supplies, in the calculation of the required Gas reserve volumes for 2007/08, particularly when giving consideration to the comments made by the DTI ( regarding taking a comprehensive approach to security of supply arrangements) in its Gas Security of supply consultation. STUK therefore consider that the reduction of NGGs 2007/08 gas reserve forecast to 1,550Gwh is appropriate as the revised figure does include adjustments to NGGs central case giving consideration to the elements mentioned above.

STUK support the view of Ofgem that a more fundamental review of the SO incentives should be taken in 2007 including those relating to Gas Reserve volume, pricing and sharing factors. Given the volume and scope of regulatory change currently being undertaken in the UK, much of which is yet to be finalised, STUK are in support of the current incentives remaining relatively unchanged. This will help to ensure that a stable regulatory regime is maintained and that full consideration can be given to the proposed changes by the industry enabling the most appropriate incentives to be considered when the new regimes are in place.

STUK welcomes the proposed review of the C3 price caps currently in place for Gas Reserve pricing and agree that the prices should reflect an efficient and forward looking cost of the provision of LNG services. A linking of the C3 prices to a suitable reference market price for storage services provided commercially to shippers seems a sensible suggestion



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but STUK would wait for the publication of the February document and Ofgems view on the appropriate level of a potential increase in price before commenting fully.

The DTI consultation on Security of Supply contains a number of elements relating to Gas Reserve Arrangements including a number of suggestions regarding contracting for gas reserve which relate to Ofgems proposed introduction, as part of the TPCR, of a licence condition on NG NTS to develop the necessary arrangements to create conditions for a gas reserve market in the next two years. STUK believe that it is important that a holistic approach is taken to the review of the Gas Reserve arrangements to ensure as much regulatory certainty and transparency as possible and would hope that a full review in 2007 will enable this to happen.

### **Gas Quality of Information incentive**

In its consultation 'Potential new System Operator quality of information incentive schemes for National Grid Gas', Ofgem consulted on the appropriateness of the introduction of quality of information incentives for the period of winter 2006. STUK were mostly supportive of the suggestions in the consultation, considering the relatively short period for which the Quality of Information incentives were to be in place before it was suggested a review should take place. The consultation stated that the incentives would be in place for the winter 2006 period, (1 October 2006 to 31 March 2007), with the opportunity to review the arrangements for the following year. However, the consultation on NGG SO Incentives states that Ofgems initial proposal is for the quality of information incentives in their current form to be maintained for 2007/08, pending monitoring of NGGs performance over winter 2006. STUK welcome the use of monitoring of NGG performance before setting the revised incentives but believe that the fact that the current incentives received support from the industry on the provision that they would be in place only for winter 2006 should be taken into account before agreement is given for them rollover to 2007/08. STUK do note however, that Ofgem is to comment on the appropriateness of revising the incentives in the February document and will wait for the publication of this before commenting further.

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\*  
UK Regulatory Affairs Advisor

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



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