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Dear Joanna,

Re: Gas Distribution Price Control Review Third Consultation Document

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

Incentives

STUK welcomes the full review of the incentive arrangements and would encourage the continued development of the enduring incentive regimes in this way to prevent any negative interactions between regimes.

STUK does have concern however, with setting complex incentives now, considering that the regime may potentially undergo a period of extreme change with the possible implementation of major reform of the Exit arrangements and reform of the DN interruption regime. These regime changes are due to be implemented midway through the price control period and it will therefore, be difficult to ensure that the incentives would remain suitable post reform.

Although the document expressed three options for the setting of the incentives and discusses the pros and cons of each, STUK is of the belief that there is still too much uncertainty surrounding the shape of the new regime and the potential for the DNs to make tradeoffs between investment and the purchasing of NTS capacity or interruption to make an accurate quantification as to which set of incentives would be most appropriate.

The uncertainty surrounding the proposed regime changes and the potential negative impacts of incorrectly targeted incentives would encourage STUK to support the implementation of a simple incentive regime (with possibly a zero price) which in the first instance could be used to collect data on the performance of the GDNs and then at a later date, when the new regimes have been fully implemented, be used to facilitate the introduction of a set of enduring incentives.



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The proposal to introduce a short term, one year regime for the implementation of the DN interruptions reform is not supported by STUK. In its response to mod 0090, and the Ofgem consultation 'Reform of the Interruption Arrangements on Gas Distribution Networks' STUK highlighted its concerns over the implementation of changes to the interruption regime and the perverse incentives the regime itself could have on consumers and their ability to maintain dual fuel capability. STUK believes that there is a real risk of implementation of DN interruption reform leading to a gold plated system, ultimately at a cost to consumers. In the event that no customers are willing to enter into a tender process for interruption, DNs may instead need to invest in the system, where a customer might, otherwise, for example, have only been required to interrupt one day in a year.

As there is still little known about the way interruption will be priced and what will be required of consumers in this process it is difficult to target and justify an incentive on the DNs to efficiently purchase interruptible capacity and to attempt to trade off these purchasing decisions against network investment. Stability in the arrangements is key and STUK believes that implementation of a one year regime could lead to large fluctuations in price and create uncertainty for shippers and customers. If a one year regime is preferred, however, STUK would like to see the introduction of a progress reporting scheme to identify potential over/under recovery ahead of the end of the incentive period to allow shippers to adjust for this in their price forecasts.

In its response to modification 0116V and associated modifications STUK expressed its concern over the introduction of flexible capacity product. The introduction of a flexibility product may create scarcity where it does not physically exist, through the DN requirement to book enough flexibility to meet their licence obligation with regards to a 1 in 20 winter. Given this STUK does not support the implementation of incentives relating to the booking and use of a flexible capacity product and would prefer the requirement for and use of flexible capacity to be monitored for a number of years before judgements on the requirement for flexible capacity incentives are made.

Funding of xoserve

STUK has played an active part of the xoserve services working group, looking at the funding of xoserve and the possibility of introducing User pays services. STUK welcomes the constructive engagement approach taken by Ofgem in the discussion of this topic and believe that it has been helpful in gaining full industry participation on the subject.

STUK believes that whilst there is some scope for the introduction of User pays services to the funding of xoserve, there is a strong argument for the existing xoserve service to remain as a core product and therefore funded by the transporters through price control allowances. The definition of core services and User pays is always going to be complex with Users valuing services in different ways. There is also the concern that regulated assets will be used to achieve User pays services and result in duplicate funding. STUK would argue that the services provided by xoserve as currently defined in the ASA should be core services, with additional enhancements being classified as User pays. This would lead to simple and clear implementation of the new funding regime and prevent confusion over services being moved to User pays during a price control period when a revenue allowance has already been made. The difficulty with a User pays concept, however, is where a User requests an additional service, complex and potentially costly systems may need to be put in place to



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assess and monitor which other Users might use that additional service, to insure against 'free riders'.

For major changes, however, STUK believes that allowances could reasonably be made within the price control, for example, a contingency change pot, which will fund significant developments. Otherwise, there is a risk that disagreement on funding could stifle industry developments. As Ofgem have stated that price re-openers are not welcome, consideration needs to be given to how the funding of major industry changes might be handled. There is also concern that the £70m allowance planned for the UK link replacement project although for a like for like replacement will not be sufficient. STUK is concerned that an opportunity for development and improvement of the system is being missed by limiting the development to a like for like change at this time, especially with the knowledge of proposed regime changes such as the introduction of AMR and the potential increase in data this would bring.

STUK believes that if existing services become User pays, it would result in very unstable pricing as many of the suggested User pays flows (query management, enquiries) would be priced based on volume of data flows, with a reduction of flows equalling an increase in price. There are questions as to how pricing would be revised and how any over/under recovery would be treated.

Should User pays services be introduced STUK believes that there be need for the introduction of a method for reimbursing Users an element of the cost of new developments should other Users begin to use the additional services at a date later than implementation. If services are to become User pays, standards of service and quality measures would need to be put in place to ensure that users were not paying for inaccurate data or low quality services.

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

