

**Statoil (U.K.) Limited
Gas Division**

Statoil House
11a Regent Street
London SW1Y 4ST

Switchboard: 020 7410 6000
Central Fax: 020 7410 6100
Website: www.statoil.co.uk
Email: CSYK@statoil.com

Direct Line: 020 7410 6173
Direct Fax: 020 7410 6108

Emma King
Office of Gas and Electricity Markets
GB Markets
9 Millbank
London
SW1P 3GE

14 June 2007

Dear Emma

Re: Statoil UK Ltd's application for an exemption from section 19B of the Gas Act 1986

Statoil UK Ltd (STUK) welcomes Ofgem's preliminary decision, set out in this consultation document, that under all scenarios, STUK's share of the relevant market(s) is sufficiently low to conclude that third party access to STUK's share of the Aldbrough facility is not necessary for the operation of an economic and efficient gas market.

As we noted in our letter, requesting an exemption, it is stated in the House of Lords Security of Supply report¹, that the UK has a very low level of Storage capability as a proportion of demand in comparison to other European member states. It is, therefore, clearly an improvement to UK security of supply if further storage facilities are built.

When assessed against the definition of the appropriate market for flexibility, as set out in the Competition Commissions report on Centrica's acquisition of Rough Storage, the proportion of flexibility that is provided by the STUK share of the Aldbrough facility is not significant and therefore the use of this one third share by other persons is not necessary for the operation of an economically efficient gas market. It is clear that the market for flexibility is already highly competitive and would therefore not be impacted by an exemption being granted to STUK.

Furthermore, the size of the STUK share of the Aldbrough facility is similar to that of the Caythorpe Gas Storage facility, in respect of which Ofgem granted an exemption in July 2005. STUK believes that as the Aldbrough project will increase the level of storage capacity and flexibility in the UK, therefore, it is reasonable to assume that the level of economic efficiency of the market will not be reduced by the addition of this facility.

¹Gas: Liberalised Markets and Security of Supply; Report by European Union Committee Internal Markets (Sub-committee B), 24 June 2004



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Question 1: Do you consider that our market definition is appropriate?

STUK agrees with Ofgem's definition of the market, to the extent that it is in agreement with the definition applied in our request, as used in the Competition Commission Rough Storage enquiry.

Question 2: In particular, do you consider the flexible gas market remains the appropriate market definition for considering the effect on competition of the development of a new medium range storage facility?

STUK believes that the flexible gas market remains an appropriate market definition; this ensures that requests for exemptions are considered on an equal basis and accurately reflects the sources of flexibility open to market participants, to meet fluctuations in supply and demand.

Question 3: What is your experience of the functioning of Third Party Access (TPA) regulation in the GB market?

Our experience is positive, with respect to TPA regulation in the GB market, where it applies to market participants, which hold a significant share of a defined market and would allow that participant to exert market power, as a direct result of their share of that market.

Question 4: Should ownership of TPA facilities be included in the market share used in this assessment?

Whilst it would not affect our share of the relevant market, which is below 5%, STUK agrees with Ofgem that facilities subject to TPA should not be included in the market share analysis as the provisions of TPA remedies are, as Ofgem state, specifically designed to prevent the exercise of market power

Question 5: Do you agree with our overall assessment that the proposed exemption should be granted?

Yes. Please refer to our letter for a request for an exemption for our detailed reasoning.

To conclude, STUK is applying for an exemption on the grounds that the use of its share of the facility by other persons is not necessary for the operation of an economically efficient gas market. STUK's preference is for an exemption to be granted indefinitely.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

Christiane Sykes
UK Regulatory Affairs Manager
Statoil (UK) Ltd

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



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