

**Mr Andrew MacFaul**  
**Head of Better Regulation**  
**Office of the Gas and Electricity Markets**  
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## **Ofgem's Five Year Strategy 2010-2015.**

Dear Mr MacFaul,

Thank you for the opportunity to respond to the above consultation. Statoil (UK) Ltd is a wholly owned subsidiary of StatoilHydro ASA, responsible for marketing the supplies of its parent company's Norwegian equity gas and the Norwegian State's equity gas in the UK market, and as such would like to make the following comments.

**Defend liberalised markets.** Ofgem's principal remit is to protect the interests of current and future customers through the promotion of effective competition, and regulating effectively the monopoly companies which run the gas pipes and the electricity wires. Statoil UK would argue that it is now time for the regulator to allow the liberalised markets, that it has successfully helped to create, to function. This can only be done by only seeking change where absolutely necessary and where the consequences would be detrimental to consumers. Ofgem's expanded role, represented by the creation of the Ofgem E-Serve platform is a good example. The overarching principle seems to have become that sustainable development and security of supply are not correctly addressed by market mechanisms, hence the need for public intervention. However, this goes against both the idea that security of supply is catered for by markets, and that the only efficient way to promote sustainability is to create a business case (such as in the successful example of the carbon market). Statoil UK would welcome some further work on where the role of markets is no longer an efficient means to bring about the desired outcomes.

**Plan a *transition*, not a *revolution*.** The role of Ofgem in security of supply and sustainable development, if any, should be that of reminding society about the need for a market-oriented perspective: a revolution making the UK self-sufficient, or a revolution making the UK a no-carbon economy, would be neither feasible nor efficient, in that it would not provide the right incentives for markets to develop according to low carbon standards. The best solution is a low carbon transition, achievable through the maximization of UKCS gas production as well as the import of the additional gas in order to match domestic demand. As hydrocarbons slowly decline, markets will adapt and the right incentives will be in place for the energy industry to invest in the production of alternative sources.

**Code Governance Regimes and the Major Policy Review principle.** Statoil UK welcomes the work currently being undertaken in reviewing the Code Governance Regimes and supports an element of self governance being introduced into the codes. By embracing a lighter touch to regulation, Ofgem can improve its effectiveness, reducing costs and focusing its resources on regulating the monopoly business and not applying valuable resources to other areas of the regime which are already subject to competition. In this light, Statoil UK does not support the introduction of the Major Policy Review principle into the Codes governance process, believing that without the appropriate checks and balances being in place there is a risk of Ofgem unjustifiably increasing the regulatory burden on the industry with Ofgem being fixed on the implementation of a particular solution and failing to give thorough consideration to contrary views.

**RPI-X@20.** The outcome of the RPI-X@20 review is key to shaping the regulatory regimes of the future. Its aim is to consider whether the current regulatory framework is fit for purpose and to identify those areas where alternatives are likely to provide clear benefits. It promotes a greater focus on ensuring that there is an increased level of clarity on what the networks are expected to deliver and what the regulatory framework needs to look like to ensure outcomes are delivered. The outputs of this review alongside the results of Ofgem's project discovery work will be vital inputs into the development of regulatory regimes that help to ensure future security of supply and allow markets to deliver the smooth transition to a Low Carbon regime.

**Understand the importance of natural gas in electricity generation.** The UK Government's Low Carbon Transition Plan proposed a number of measures that will also have a bearing on Ofgem's role. On the one hand, the 30% target in electricity generation from renewables by 2020 (as opposed to the 5.5% level of 2008) will have profound implications in this sense, as it will change the relationship between gas and electricity. On the other hand, natural gas will continue to be important in the UK energy mix, both now and in 2020; in addition to that, gas fired flexible plants will supplement the intermittent nature of most current renewable technologies. It is important for Ofgem to understand what the implications of the Low Carbon Transition Plan will be, and act accordingly in order to guarantee a level playing field for all sources contributing to the electricity generation mix.

**Implement the EU's Third Package on the liberalisation of gas and electricity markets.** The UK has traditionally be at the forefront of the energy liberalisation process and is unlikely to see many changes as a result of the implementation of the Third Package. Moreover, there is a close and natural link between the good functioning of the EU internal market in natural gas and securing enough energy supply for the UK, in that market liquidity in the former would greatly benefit the latter. Therefore any security of supply measure should be targeted to ensure smooth market functioning and restore it quickly in case of shocks. Market players should be left with the appropriate flexibility to source and deliver gas, according to their commitments and at market conditions.

In line with these overall principles, Ofgem should frame its role along its well-established liberalisation pattern; support all necessary investments in new infrastructure with appropriate market-based incentives rather than binding strategic targets. In addition it should avoid measures that could act as a deterrent to investors such as the introduction of NTS Entry Capacity Substitution, which by reducing the certainty associated with the availability of Entry Capacity to the NTS, could over time lead to investment decisions which might pose a challenge to the security of supply to the UK.

Ofgem should also continue to take an active role in the wider development of the European energy market especially in this critical time with the national implementation of the third package and the creation of the Agency and the two ENTSO's.

Statoil UK recognises the importance of maintaining a relevant and focused strategy in a dynamic market and we welcome the opportunity to comment on Ofgem's proposals. We trust our comments will be given due consideration. Should you wish to discuss any aspect of this letter further, please contact me at the email address below.

Yours sincerely,

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