



Our date
2009-11-27

Our reference

Administrative officer
Shelley Rouse

Your date

Your reference
136/09

Internal

Statoil (UK) Ltd

Attn.: Bogdan Kowalewicz,
Ofgem
Gas Transmission Policy
9 Millbank
London
SW1P 3GE

gas.transmissionresponse@ofgem.gov.uk

Dear Bogdan

RE: Gas Entry Capacity Substitution – Initial Impact Assessment

Thank you for the opportunity to comment on the above consultation.

As a major importer of natural gas to the UK, Statoil (UK) Ltd (STUK) is interested in the maintenance of a stable, efficient and economic entry capacity regime. STUK have participated in the long term entry capacity reservation process since its inception and have played an integral part in the development of the regime, booking capacity at both new and existing terminals. We have expressed our commitment to the UK by purchasing long term entry capacity until 2020; with a view to potentially committing even further in the longer term should the regulatory conditions remain favourable.

Although not in support of NTS entry capacity substitution, STUK have been active members in discussion and working groups related to the development of an acceptable methodology, for two years. We along with the majority of the industry are strong advocates of the mechanical approach, believing that it offers the best level of compromise between allowing NG to maximise the use of the existing transmission system and giving shippers some assurance that the capacity they require for long term investment projects will remain available. We note that no quantitative and qualitative analysis has been performed to assess the validity of Ofgem's concerns over the appropriateness of this approach.

STUK are also disappointed to note that the impact assessment undertaken by Ofgem does little to consider the impact of entry capacity substitution on both entry capacity and wholesale gas prices. Both of these issues were raised as concerns by the industry throughout the development of the substitution methodology. The impact assessment recognises that the impact of substitution on wholesale gas prices is a 'real concern' but considers that no quantitative evidence to support the statement has been made available. STUK would consider that Ofgem as the independent regulator, are one of the only bodies that would be able to perform such qualitative analysis, with shippers able to provide confidential information to them on request.

STUK also believe that further analysis of the interactions between Entry capacity Substitution and Project discovery should be considered. The scenarios discussed in the Project Discovery work highlight the increased need for flexibility on the system. Both the 'green scenarios', which demonstrate a change in the generation mix with an increased focus on renewables, and those which show an increased reliance on imported gas, would require additional infrastructure in the form of both LNG and pipeline gas (from both and gas storage. It would have been useful for the

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Impact Assessment to consider the potential requirement for entry capacity to meet the Project Discovery scenarios and the impacts of substitution on this.

With the increased emphasis on maintaining secure and sustainable sources of supply, STUK believe that the implementation of the substitution obligation and the retainer approach creates unnecessary and unacceptable levels of uncertainty in the UK. There is a very real risk that Entry Capacity Substitution will prevent volumes being delivered to the UK, which could lead to an increase in wholesale prices which will ultimately be passed to consumers.

If you have any questions, please contact me on the below number.

Kind regards

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