



Our date
2009-11-25

Administrative officer
Shelley Rouse

Your reference
122/09

Attn.: Ian Marlee
Partner, Trading Arrangements
Ofgem
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Dear Ian,

Project Discovery Energy Market Scenarios

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

Statoil are a major importer of gas to the UK, with shared ownership of the Aldbrough gas storage facility and the Sherringham Shoal Wind farm. We welcome the timely work being undertaken by Ofgem, to consider the challenges faced by Great Britain over the next two decades with regard to ensuring secure and sustainable energy supplies.

Statoil recognise that the four scenarios, used as the foundation of Project Discovery, provide a basis for discussion. We do have some concerns over the key assumptions used and offer some suggestions for further development.

A scenario considering the impacts of full EU liberalisation should also be considered. In a world with fluid cross border trading, and no barriers to entry across all markets could change not only the deliveries of gas to the UK but the levels of investment in infrastructure. In a truly liberalised market investment in for example LNG regasification terminals or gas storage could happen in the most financially attractive markets, with confidence that supply obligations to other countries could be met.

A key observation that can be made when looking at the results of analysis included in the consultation is that real consideration needs to be given to the requirement for network flexibility. The hugely uncertain range of gas demand seen between the four scenarios and the change in the generation mix suggest that the network is going to be required to be more flexible.

Additional flexibility could be provided from a number of sources including gas storage and pipeline gas. We note that Ofgem have stated their belief that LNG will be the main provider of flexibility and swing to the UK, a view which Statoil do not support.

LNG can indeed be considered as a seasonal swing supply source but due to the nature of deliveries and the potential for cargoes to be redirected, cannot be relied upon to respond to short term swings in gas demand. Likewise, LNG stock levels cannot operate in the same way as conventional storage due to the high costs involved.

Statoil believe that an increase in the amount of gas storage in the UK (particular medium range fast cycle and short range) will be one of the more important factors in maintaining

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security of supply and achieving sustainability goals. Natural Gas held in store at strategically placed locations will be the only supply source which will be able to respond fast enough on the days when the wind does not blow. This gas will be used to allow (the increased number of) CCGTs to fill the generation gap.

The availability of Gas storage will also have an impact on the attractiveness of the UK as a destination for sources of imported gas. LNG importers would also look to storage as a way of optimising their portfolios and mitigating risk by enabling continued stable deliveries across the year.

Another area for consideration which Statoil do not believe has been fully explored that could impact the supply of gas the UK is misalignment of the UK Gas Quality specifications with the rest of Europe. As the sources of supply to mainland Europe becoming richer (increased LNG and supplies from richer Russian fields), the over all specifications of the gas in Europe are increasing to a level which although within European standards, is in breach of the UK GS(M)R levels.

There is a very real threat, as demonstrated by Fluxys at a presentation given in London on the 18th November 2009, that there will be occasions on which gas supplies to the UK via the Interconnector will not be able to be delivered as they do not meet the necessary specifications.

Statoil believe that the potential impacts of this should be considered as a stress test, and not in isolation. Indeed it is entirely plausible that any number of the stress tests used in the consultation could occur simultaneously. We would therefore suggest that combinations of stress tests are applied to the scenarios, e.g. an outage at Bacton and no wind output, to assess the impacts on the system.

Statoil believe that it is vital that outcomes of Project Discovery recognise the importance of Natural Gas in all scenarios and stress that the use of this relatively low carbon fossil fuel should not be underestimated. As the next stage of this process is to consider the regulatory framework of the UK energy regime and the potential policy changes required to facilitate sustainable and secure energy supplies, care should be taken that the message given is not one suggesting that a high reliance on gas equals a high cost both financially and in terms of the UK environmental targets.

Gas and gas storage has a large part to play in the energy future of GB and can help the UK to meet its environmental targets as well as ensure security of supply.

Kind regards

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