

Attn.: Ian Marlee  
Partner, Trading Arrangements  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Ian,

Project Discovery: Options for Delivering Secure and Sustainable Energy Supplies

As an importer of Natural Gas to the UK and a significant investor in UK gas storage and renewable energy, Statoil ASA have a great interest in UK Government policy and the regulatory arrangements governing not only its current UK interests but also shaping the investment environment for future developments.

Natural Gas is a vital part of the UK energy mix.

Statoil have been active participants in the Project Discovery process taking part in industry discussions as well as meeting with Ofgem on a number of occasions. In our response to the initial 'Energy Market Scenarios' consultation we expressed our concern that the role of Natural gas as a fuel for the future was underplayed in the analysis and continue to believe that this is the case.

Supplies of Natural Gas on a global scale are plentiful (particularly with the growth of unconventional gas in the US) and with the lowest carbon content of the fossil fuels gas will have a major role to play in providing secure and sustainable energy supplies over the next 10-15 years.

Security of supply and the delivery of reliable volumes of gas will be continued by the creation and maintenance of transparent and enduring regulatory arrangements. A stable and clear regime will encourage continued investment in the UK, allowing the increased delivery of both pipeline gas and LNG volumes.

Natural Gas also has a significant role to play in aiding the UK in achieving its renewable generation targets. Natural Gas, and commercial gas storage is the natural partner to Wind Generation, providing the flexibility needed on the days when the wind does not blow.

As a known technology that is relatively easy and fast to build gas fired 'CCGT' generation is the obvious choice to create the necessary 'bridge' between the generation 'cliff edge' and the increased use of renewable generation.

#### An unstable regulatory environment will damage investor confidence

Project Discovery highlights the need for investment decisions on essential infrastructure projects to be made in 2012-13 to ensure timely delivery.

As investors, regulatory stability and predictability is key to making timely investments. Changes to the energy policy and the support system for renewable energy needs to be made with care.

We are concerned about the wide approach for the Policy Package proposals in the latest Project Discovery Document, especially policy proposals that would mean radical changes to the present policy. Uncertainty regarding the future energy policy would harm investor confidence, meaning that increased investment will not be forthcoming and a number of projects may be delayed.

As an investor in both gas storage and offshore wind, the potential for major changes to elements of the regime such as wide scale support for strategic storage with the potential to undermine the case for commercial storage and the potential removal of the Renewable Obligations and the uncertainty it will introduce for both developers and the supply industry, are a cause for great concern.

There are elements of the proposed Policy Packages that could be considered for further adjustment of the energy policy and support systems, those issues which focus on small adjustments to the existing regime are most likely to encourage the required investment. The more dramatic shifts of policy can only undermine confidence of investors.

#### Market arrangements in Gas are working

The UK gas market is the most liquid market in Europe and it is this liquidity that allows Shippers, Statoil included, to deliver volumes of gas above their booked commitments to the UK on a daily basis.

During the periods of tight supply seen this winter, the UK gas market delivered encouraging storage withdrawal, pipeline gas deliveries, demandside response and LNG even when system demand reached record levels.

The current UK Gas market arrangements have delivered a range of infrastructure projects in recent years including Gas Storage facilities (Aldbrough), importation pipelines (Langeled) and LNG import and regas terminals. Ofgem itself stated at the Energy Markets Seminar held 16 March 2010, that around 30% of the UKs demand on this winters peak day (8<sup>th</sup> January 2010) was met by infrastructure built after 2006. This has been achieved by the maintenance of a relatively stable and 'light touch' regulatory regime which has allowed investors certainty.

Increased market intervention, or a move away from the principle as suggested in the 'Central Energy Buyer' package will reduce the attractiveness of the UK as a destination for supplies of Natural Gas both in terms of additional daily deliveries and improved long term arrangements.

## Right Policy and Regulatory Framework for Grid are key to promoting investments in offshore wind

We would also point out that the right policy and regulatory framework for further development of onshore and offshore grid is key to ensure that investments are made in offshore wind. A timely development of the onshore grid is important and must be aligned with the investment decision of offshore wind projects. In addition the regime for offshore grid needs to be sufficiently flexible. It is important that developers are given the option under the enduring regime to plan, build and commission the offshore transmission assets before transferring to an OFTO. Without this option there is a danger that projects will be delayed due to the OFTO appointment process, and that projects may face higher cost and risk.

### Summary

Regulatory stability in the energy regimes is the key investment driver. It is the creation and maintenance of transparent and enduring regimes and the timely development and agreement of regimes to support new technologies that will encourage investment, enhance security of supply and allow the UK to meet its sustainability objectives.

The continued and increased use of Natural Gas is essential to ensure that the UK achieves its desired carbon reduction objectives both as a bridging fuel for renewable generation and as an energy source in its own right.

Kind regards

\*

Rob Cross  
Head of EU and Regulatory Affairs  
Statoil (UK) Ltd

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