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REF: Gas Security of Supply Significant Code Review - Draft Policy Decision

Statoil (UK) Limited (STUK) welcomes the initiative to review security of supply in the UK as a prudent measure to ensure that the existing regime is fit for purpose. The stakeholder events launched by Ofgem have also proved to be a valuable tool to promote discussion and understanding in this complex area. However, it is evident from these meetings that further work is needed as discussion has begun to expose unintended consequences and flaws in the proposals. We trust Ofgem will reflect the comments made in these meetings and in response to this consultation, in any future security of supply initiatives.

In light of recent discussion, it is STUK's view that the current UK market regime is sufficiently robust and, therefore, fundamental change would not be proportionate to the perceived issues, which need to be addressed.

Building complex rules into the current regulatory regime, potentially for marginal / additional volumes of gas risks jeopardising certainty and stability in the regime, which has thus far served to consistently supply the UK with sufficient gas to meet its needs. Moreover, supply diversity in the UK has increased year on year, with a consequential positive impact on competition and security of supply. STUK is concerned that Ofgem appears to have lost faith in the capability of the current market arrangements to deliver secure gas supplies over the longer term, in light of the proven success of the UK regime, to date.

Regulatory and policy certainty and stability is paramount to incentivising investment. The proposals in this consultation, in particular with respect to VoLL, serve to increase risk and uncertainty for network users as setting VoLL at £20/therm will act as a target, rather than a limit and significantly increase the risk of insolvency for market players, the cost of which will ultimately be borne by consumers. Furthermore, it introduces increased risk for network users participating in the UK market, which acts as a barrier to entry.

The risk of VoLL would not incentivise investment as it is by definition, only set to cover a 1-in-20 or 1-in-50 event. It would be financially infeasible for market participants to invest in infrastructure to meet requirements for a statistically rare event. The role LNG can play in an emergency is also limited to the extent that LNG ships may not be in a position to change their course within the timescales needed to avert a gas emergency and the LNG may be subject to existing contracts.

STUK does, however, recognise Ofgem's concern with the current arrangements, where in the event of a gas emergency occurring with little or no notice to the market, the System Average Price (SAP) may be frozen at an artificially low price, which does not reflect the value of that gas in the market. Where a gas emergency has occurred progressively and the market has had time to respond, SAP should be sufficiently high to attract gas to the market, should the market be in a position to respond. Price signals cannot, however, be relied upon to incentivise additional gas to flow to the UK, in the event of a gas emergency.

The volume of gas, which can realistically be increased to the UK in a gas emergency, given that importers will not renege on existing contracts or commitments, may be limited in regards to responding to price signals alone. Furthermore, in the event that the market is in a position to respond, there may be limited available infrastructure or information to respond and market participants may struggle to secure sufficient credit to underwrite trades.

Given the complexity of the issues at stake and the significant impact the proposals will have on the UK gas market, STUK would strongly urge that in the very least, the full SCR process is followed, as per Route 2 in the consultation, to facilitate more comprehensive industry consultation and to enable market participants and consumers to fully understand the proposals and unintended consequences. Greater consideration and analysis is also required to aid understanding of the further interventions and the interaction with the current proposals.

It is important to note that the gas emergency arrangements should first and foremost ensure the safety and integrity of the gas transmission system. It is vital that any commercial rules applicable during a gas emergency do not overshadow this primary objective.

STUK looks forward to further debate in this area and should be happy to meet Ofgem to further discuss the extent of the problem which may need to be addressed and alternative solutions should they be required, to ensure supplies to the UK remain secure.

Yours sincerely

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