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19 June 2006

Dear Julian,

Re: Modification Proposal 0086: "Introduction of Gas Demand Management Reserve Arrangements"

Thank you for the opportunity to comment on the above modification proposal. Statoil (UK) Ltd (STUK) is not in support of this modification and would like to make the following comments.

STUK has, in conjunction with other industry parties, fully participated in the Ofgem chaired Demand Side and Gas Reserve working Groups. During last winter the groups worked hard to successfully introduce measures that could encourage Demand Side participation at times of system stress. These initiatives (GBA, Multi day trades) have yet to be given time to fully develop or for their use to be included into customer contracts. From being an active participant in these industry meetings STUK is of the opinion that the current arrangements should be maintained and allowed to work.

With the view of the supply/demand balance for this winter becoming tighter, shippers (including STUK) have been working hard to introduce demand side arrangements into their enduser contracts and working with their customers to maximise the options available to them for the coming winter. STUK believe that there is the risk that the implementation of modification 0086, would undermine any contracts that are now in place and the work that has been done by shippers to prepare their portfolios for the coming winter.

STUK believe that it is unclear what additional demand side response can be bought to the market with implementation of this modification. Shippers and large consumers on daily priced contracts are already strongly incentivised to offer a demand side response, through their exposure to high prices (which was demonstrated during winter 05/06). These customers do not have title to forward volumes of gas and would be unable to offer volumes of gas to National Grid in a Gas Reserve contract. Those customers that have fixed volumes in advance of the winter are incentivised to enter into demand side participation agreements with their shippers by the risk of being switched off with little or no compensation should we enter into an emergency. Customers are more aware than ever of the risk associated with



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winter thanks to the ongoing work of Ofgem and shippers, and so it is not clear what additional benefit 0086 will bring.

STUK believe that this proposal creates significant risks to the shippers involved. Firstly the adverse effect on the System Marginal Buy Price on peak days created by this proposal will have an effect on the cash out exposure of shippers and the possibility of delays in the real time calculation of SMP buy will distort the way shippers will react to price. Secondly if a gas reserve contract is entered into by a shipper on behalf of a user who then subsequently changes supplier during the life of the reserve contract, (which is likely as the recognised annual contract renewal date is 1st October), the shipper will be forced to find these volumes in the market in the event that the reserve volumes are required by National Grid, exposing shippers to high prices. This could also create additional demand on an already stressed system.

STUK have a real concern with the suggestion that NG could contract forward with multi day Gas Reserve option. It is acknowledged that the forecast data used for future days is based on many variables making the data more unreliable the further away from the gas day. NG taking actions on this information will distort the market, leading to increased volatility.

STUK also have a concern that the nature of this enabling modification allows NG significant discretion in areas that are of great importance and a high number of unknowns remain including the volumes required, the utilisation periods and price, the trigger for the calling of reserve or the workings of the tender process.

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporters Licence Standard Special Condition A11.1

(a) *“The efficient and economic operation of the pipe-line system”;*

STUK do not believe that the implementation of this proposal would better facilitate the efficient and economic operation of the pipeline system.

STUK do not believe that NG requires an additional tool to perform its role of residual balancer. NG should remain in the role of residual balancer to reduce the risk of diluting the shipper’s primary balancing objective.

(d) *“Securing of effective competition between relevant shippers and suppliers”;*

STUK believe that the implementation of a Gas Reserve market will undermine any contractual arrangements and innovations already put in place by shippers and suppliers. It is unclear what additional demand side volumes would be made available as a result of the implementation of this proposal as customers that are on daily priced gas supply contracts will still not have title to the gas to sell back to NG if called upon to do so, and those customers which have fixed volumes are already incentivised to enter into demand side arrangements with their shippers by the risk of being switched of with no compensation should we enter into an emergency.



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In conclusion STUK is not in support of this modification and would like to see the initiatives discussed and implemented by the work of the Demand side and Gas Reserve working groups and the rest of the industry at the end of last winter being allowed time to work.

STUK trust that our comments will be given due consideration and should you wish to discuss any aspect of this response further please contact me on the above number.

Yours faithfully

Shelley Rouse
Statoil (UK) Ltd



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