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10 November 2006

Dear Julian,

Re: Modification Proposal 0090: Revised DN Interruption 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.

Statoil (UK) Ltd (STUK), was involved in the initial discussions relating to the reform of the DN interruption arrangements as a result of the network sale and has continued to play a key part in industry developments.

Following our experiences as a supplier with a majority interruptible portfolio, STUK agree that there is currently a lack of flexibility in the DN interruption regime and a review of the provision of these services is welcomed.

STUK understand that the main area for concern with the current regime is the lack of flexibility in the interruption services available. Currently users are only able to take advantage of 45 day interruption contracts after giving the DN one years notice. STUK believe that there is significant scope for changes to be made to the types of product available within the structure of the current regime.

Allowing users to book interruptible capacity for periods of less than 45 days will enable the DNs to receive improved investment signals, although longer term arrangements do need to consider the ease of transfer for customers who have contracted for interruption for periods longer than their gas supply contracts with their shippers. Care also needs to be taken to



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ensure that the implementation and system costs of the revisions to the regime do not outweigh the perceived benefits.

The DN strawman model described in UNC Mod 0090 and discussed at the work streams, suggests that all users (including Network Sensitive Loads) become firm from 2010 unless interruptible contracts are entered. There is no indication from the DNs of the expected Interruptible volumes required from 2010 and the extent to which those customers that are currently interruptible will have their tenders accepted. If currently interruptible customers are made to go firm should the DNs not be interested in accepting a tender, there is a very real risk that the dual fuel capability invested into by the sites will become unutilised and ultimately removed. STUK believe that given the concerns over security of supply for the coming winters, and the discussions held at the demand side working groups and renewed concern over emergency arrangements, it seems sensible to not discourage the investment into alternative fuels at sites or allow any existing capability to become uneconomical

There is also a concern that implementation of the new regime will be so complex that currently interruptible customers will not have the resource to manage an interruption tender process, or if the charging methodologies or administered pricing will provide sufficient incentives (we have yet to see any proposed methodologies or proposed administered prices from the DNs) that customers may decide to not enter into the tender process and decide to go firm. There is the potential for huge investment by the DNs to make available the necessary firm capacity, to meet their licence obligations; this may not be completed in the 3 year lead time and will impose large costs on the industry and lead to a gold plated system, where it might have been more economic and efficient to interrupt a customer, which may only be required to switch off or turned down, on a limited number of days in a year. Moreover, if market response is limited, the value of interruption may not be revealed,

The interactions between DN interruption reform and the reforms as part of the TPCR will mean that customers will be faced with large and complex changes in the way that they manage their businesses which could lead to confusion and incorrect investment signals being received for Exit capacity and interruptible volumes. STUK believe that the interruption reform element of the changes should be kept simple to allow users to concentrate on making the correct decisions at the right time. Many sites will not have the time or resource to manage a complex regime.

STUK also has concern over the impacts a potential decrease in the number of interruptible sites on the system will have on the emergency arrangements. Currently, during stage 1 of an emergency, the NEC can call off those sites with interruptible status in order to help to balance the system. If the number of sites available to the NEC during an emergency is reduced it could be argued that the speed at which stage 3 of an emergency and firm load shedding is reached will be increased. It has been unclear during the discussions at the 0090 workstreams whether the HSE is agreeable to these changes and whether the possible implications have been considered but the submission of a letter to the Joint Office from the NEC highlighting concerns stresses the importance for more consideration of this issue.

STUKs experiences have shown that the current arrangements are simple and easy for users to understand. They are clear how the regime operates and under what circumstances their sites could be called to interrupt which given is essential to ensure that there is sufficient demand side response on days of system stress.. The pricing of the



interruption contract is clear and defined and not subject to DN methodologies which could potentially differ depending on their location on the network, leading to fragmentation in the industry.

STUK would like to see an increase in the flexibility of the interruption products available but not to the detriment of a simple regime with clear pricing and the security of the system. STUK is in support of a workable least cost option that allows DNs to see benefits of improved investment signals and a reduction in the need for investment in capacity and we are not convinced that mod 0090 provides an effective solution. Security of supply is paramount and STUK believe that a high number of interruptible customers will help to alleviate fears.

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 sincerely,

Shelley Rouse
UK Regulatory Affairs Advisor
Statoil (UK) Ltd

* Due to electronic transfer this letter has not been signed



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