

soincentives@uk.ngrid.com

28 August 2009

Re: National Grid (NTS) System Operator Incentives for 1 April 2010

Thank you for the opportunity to respond to the above consultation. Statoil (UK) Ltd (STUK) is a wholly owned subsidiary of StatoilHydro ASA, and is responsible for the marketing of supplies of its parent company's Norwegian equity gas and the Norwegian State's equity gas in the UK market and as such would like to make the following comments.

Section 2:

STUK are in support of retaining the current unbundled structure of the SO incentive Performance Measures. The use of unbundled schemes allows flexibility in the regime enabling the individual schemes to be set to focus National Grid on particular areas of industry concern. The current level of unbundling of the scheme allows transparency over the performance delivered in each area which is of greater benefit to the industry and outweighs the perceived complexity. However, any further unbundling of the scheme would increase complexity and have the potential to create competing objectives.

Section 3:

STUK are in agreement with National Grid, that a review of the residual balancing incentive is not required at this time. The scheme in its current form has only been in place since April 2009, and as such has been allowed little time to bed in and the impact of the refinements to the parameters made in the last review are not yet fully known or understood. However, STUK do not believe that the incentive should be set for longer than 12 months, it is vital that with the incentives are continuously reviewed to ensure that they remain appropriate.

Section 4:

When the Demand Forecasting Incentive was created in 2005/6, it was determined that the 13.00 D-1 forecast was the one which market participants used to put in place their energy strategy for the following gas day and as such an incentive should be considered to improve its accuracy. STUK recognise that the incentivising of this forecast has allowed NG to invest in systems, processes and resources to continually seek improvements to the accuracy of the forecast.

Whilst STUK believe that the D-1 13.00 forecast incentive should remain, we believe that changes to the supply and demand mix since the creation of the incentive have changed the focus of some Users. STUK would encourage consideration of applying a forecast accuracy incentive to the D-1 16.00 forecast, more particularly the LDZ element of the forecast, especially over the winter months. The step change between the D-1 13.00 and D-1 16.00 forecasts can have a large impact on a Users ability to develop a reliable energy strategy for the following gas day. By improving the accuracy of the 16.00 forecast, Users will be allowed the ability to reflect changes in demand in their energy strategies and when combined with supply information available at this time better manage their portfolios.

Section 5:

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STUK as an Industrial and Commercial gas supplier supports the continued publication of the data items for the benefit of its customers. However, as the improvements in the publication of this data have been made and are established STUK question the appropriateness of an incentive on NG for something which is now routinely part of their role.

STUK do not support the rolling over of this incentive as do not believe that there is value to be gained from further incentivising the publication of the existing data items.

Section 6:

Although STUK are aware that there have been some concerns expressed with the maintenance planning process, it is not clear that the creation of a financial incentive to address the perceived issues is required. We are not willing to support the creation of further incentives until we have a clear understanding of what behaviours an incentive could seek to address.

Currently STUK believes that the co-ordinated approach to maintenance planning process works reasonably well, with Users having the opportunity to advise NG of the most appropriate days on which an outage could take place. Although STUK accepts that there are instances where the requirements of some Users cannot be met, it is not clear how often this is the case and the impact that this has. It may be that the most appropriate action could be a change to the process, potentially via the UNC which requires NG to record, monitor and publish the number of maintenance days requested by NG and the number of change requests received from both Users and NG. This would allow Users that have previously had no insight into the maintenance process to formulate their own opinion of the effectiveness of the process and the requirement for an incentive.

Section 7:

STUK welcomes the publication of incentive performance data on the National Grid website. The data provides a useful tool to industry allowing Users to monitor and assess NG performance against its incentives over the incentive year. STUK supports the views expressed during industry meetings that the quarterly report should be retained and agrees that a consolidated summary report would be helpful. The publication of past and current incentive performance would also be useful allowing shippers to compare performance and assess the success of the schemes and assist in the formulation of change proposals at future reviews.

STUK would be in support of the publication of information on the link between the incentive revenues and the SO commodity charge. Although the incentive revenue makes up only a relatively small percentage of the SO commodity charge, the publication of this information would add transparency to the charging regime allowing shippers to assess the potential impact of incentive performance on the SO commodity charge and the extent to which the charge may change.

Should you wish to discuss any aspect of this letter further please contact me on the number below.

Yours sincerely

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StatoilHydro (UK) Limited