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31<sup>st</sup> March 2004

Dear Nick,

**Final Proposals Document: Gas Retail Governance**

Thank you for the opportunity to comment on the above document. Statoil (UK) Ltd. (STUK) would like to make the following comments.

STUK's response will address the questions which Ofgem have set in their document on the Final Proposals for Gas Retail Governance, including some general comments that we believe to be important towards discussions regarding membership of I&C suppliers to SPAA.

STUK have been active in many industry forums involved with increasing the level of competition within the downstream gas retail market. We have submitted resource to the development of RGMA and are committed to establishing a working metering regime.

STUK agree with Ofgem's concern that there should be 'sufficient incentives for all I&C suppliers to accede on a voluntary basis' to the SPAA agreement. STUK question the strength of the incentives for I&C only Shippers/Suppliers with a relatively small number of sites with high throughput and value under the current proposals.

The voting mechanism as currently envisaged for the SPAA mechanism significantly advantages Shippers with high numbers of low throughput sites. Despite two voting constituencies the mechanism gives virtually no voice to those Shippers/Suppliers with small numbers of high value sites.

I&C only suppliers unanimously commented in their responses to the consultation that the effectiveness of the I&C constituency would be severely effected by the current voting mechanism. In response Ofgem states that, 'given that there are more I&C suppliers than Domestic supplier and that a mandatory change requires acceptance by both 65% of



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MPRN's and 65% of parties to proceed, the best means of ensuring robust and equitable decision making would be for all parties to be actively engaged in the process'. This suggests that the governance regime can be considered to be effective because I&C suppliers have the ability to influence the current mechanism by stopping changes becoming mandatory. STUK do not believe this constitutes effective governance.

STUK believe that the large I&C market is of significant importance both to the UK gas industry and to the wider interests of the UK as a whole. As such it is vital that Shippers/Suppliers to the large I&C market have a strong voice in all governance arrangements which impact on the supply of gas to those sites. That voice should be able to both influence and reject change where necessary. It is not appropriate that the only role of the large I&C market is vetoing changes from becoming mandatory.

It is likely that the lack of an effective voting mechanism that provides large I&C Suppliers with a significant voice would result in a number of I&C Suppliers not signing up to the SPAA agreement. Given the suggestion in the sale of gas Distribution Networks proposals that the SPAA could provide governance for the Agency arrangements it seems unworkable to have significant Suppliers outside of those governance arrangements.

It is therefore STUK's opinion that the SPAA arrangements should be altered to provide a voting mechanism that gives large I&C only suppliers a significant voice. This could be done for example by the vote in the I&C sector being weighted by throughput or by the creation of an I&C only supplier constituency.

STUK trust our comments will be given due consideration and would welcome the opportunity to meet with Ofgem to discuss the issues concerning gas retail governance in more detail. Should you wish to discuss this response further please contact me on the number above.

Yours sincerely,

Richard Street

