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Our reference
ERREG on development plan

Administrative officer
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StatoilHydro

Your date
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Your reference
StatoilHydro position

Internal

ERREG

Attn.: Mrs. Fay Geitona

1000 Brussels
Belgium

Consultation on ERREG's recommendation on the 10 year network development plan

Dear Mrs. Geitona,

StatoilHydro welcomes the opportunity to participate to consultation on ERREG's recommendation on the 10 year network development plan.

Attached to this letter you will find our response to ERREG's questionnaire while here we would like to highlight our most important remarks.

In our view the 10 year network development plan should be built with clear reference to its mandated goals as defined in the Third Liberalisation Package. In particular, the plan should:

- Promote investment and give market players some degree of predictability on market development and increase transparency about prospect business opportunities;
- Facilitate coordination of investment activity at the European level, with due consideration for all existing and to be developed entry and exit point to the European grid, in order to eliminate bottlenecks, avoid congestion and ensure sufficient resilience of the network.

The best way to achieve such results is that all stakeholders are sufficiently involved in the process of drafting the plan. The Madrid Forum could be the appropriate *lieu* to continue the discussions and ensure that all voices are taken into account.

It is also important that:

- The plan maintains its flexibility to adjust over time to trends in European gas supply and demand;
- Its non-binding nature is well reflected, for instance by recognising the difference between projects that have reached a final investment decision and other projects, which should nonetheless be part of the picture for information purpose only;

Should you require any further information or should you need clarification on any of the points we make, please contact us.

Kind regards
StatoilHydro ASA

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What would be for you the benefit of the 10-year gas network development plan?

- To promote investment and give market players some degree of predictability on market development and increase transparency about prospect business opportunities.
- To coordinate investment activity at the European level in order to eliminate bottlenecks, avoid congestion and ensure sufficient and efficient resilience of the network.

What is the most important information you expect from the 10-year gas network development plan?

The 10-year network development plans will be useful tools where they will be based upon as good as possible estimation of capacity needs and projection of gas demand levels.

It shall follow the letter of the Regulation on access to natural gas networks and hence include modelling of the integrated network, scenario development, a supply adequacy outlook and an assessment of the resilience of the system and in particular the plan should include:

- An aggregated overview of both planned and proposed projects and opportunities;
- An aggregated overview of network bottlenecks, limits to access sources of flexibility, and investment gaps;
- A review of investment barriers arising from different approval procedures and investment cost recovery practises;
- An overview of the present and potential resilience of the European gas system and of its ability to cope with supply disruptions;
- A justification for the exclusion of projects listed in previous plans.

Do you consider that the 10-year gas network development plan, as proposed by ERGEG, will be beneficial to security of supply?

Security of supply is not a static or an absolute concept and it has to be seen in context and with due consideration for the costs it entails. Europe can choose to be more or less secure and this will depend on its readability to pay for it.

The 10-year network development plan can contribute to the assessment of these costs but, in order to avoid distortion and inefficiency, it will have to be the market to send the signals that will lead to investment in new infrastructure.

Indicators of supply and demand balance and crisis management capability as well as simulations of disruption of major supply sources may well be part of the plan and they may well be the ground upon which justifying the development of more capacity than strictly needed for trading purposes, but ultimately it will have to be the market to put a price to given security of supply levels.

With regard to information on the future supply picture it should be the Agency's role to engage the relevant ministries of Member States to ensure that officially endorsed aggregated production information is provided as an input to the development plan.

Do you consider that the scope proposed by ERGEG is appropriate? Should it be enlarged?

Although ERGEG proposal does refer to the impact on the architecture of the network played by the creation of new entry points in the gas system, we believe that making sure that the internal market

network development is well and timely aligned with the development of new LNG facilities, storage facilities and import pipelines and/or the enhancement of the existing ones should be better emphasised.

Any mismatch between the needs of TSOs and the schedule of investors other than TSOs working on developing new infrastructure could indeed cause undue delay and increased costs and eventually jeopardise the ability of network to be kept in balance. A way to make sure that different parties can agree on appropriate and shared schedules is by establishing consultation mechanisms between parties leading to appropriate commitment on the side of TSOs. The development plans could benefit from such coordination exercises.

Do you agree with the combined bottom-up/ top-down methodology proposed in the document? What would it be the most efficient process to achieve the top down approach?

We support the principle outlined by ERGEG although the sequencing of the two flows as well as their complementarities remain unclear. Aligning the structure and the principles of EU wide network development plans and national ones may well not be sufficient to ensure coherence.

ENTSOg – for its nature and its composition – should be able to receive constant information from national TSOs. Such information flow should be the ground upon which ENTSOg drafts its proposal for the EU-wide plan. On the other hand as the EU is already endowed with infrastructure development coordination tools, i.e. Guidelines for Trans-European Energy Networks, such tools should work as input for the development of the 10 year plan.

Would you agree with putting an obligation on market participants to communicate all the relevant information about their future project?

As a matter of principle any disclosure of information about future decisions of market participants has to be made with due consideration for what is regarded as confidential information. This is so not only to protect strategic need of players but also to avoid value destruction due to false or anticipated expectations.

The expressed goal of the development plan is to provide an as accurate as possible picture of the current and of the future gas infrastructure network and all market participants should be encouraged to provide the information required to achieve such accuracy.

What would be the best way for ENTSOg – including its members – to collect data from stakeholders? Should that be carried out at a national, regional or European level?

TSOs will be collecting data necessary for their 10-year network development plan at the national level. A repetition of this procedure would bring little value. ENTSOg should rather carry out its own data collection at the European level and independently from the process held by national TSOs focusing exclusively on cross-border and EU-wide projects.

Are the scenarios mentioned appropriate? Would you have other proposals?

More clarity would be necessary in the definition of the business as usual scenario and, for that matter, of alternative ones. A consistent set of assumptions should be agreed upon upfront between the Agency and ENTSOg, and as well in consultation with all stakeholders.

Existing and consolidated data set, e.g. IEA data, should be taken in due consideration when scenarios are formulated.

What are your views on the proposed EU network modelling and simulation of supply disruption?

In principle the modelling could add to the transparency level on the use of infrastructure and enhance the predictability of the impact that new investment will have on the European grid.

This said such modelling could result being extremely expensive and more clarity on its added value should be given. Where costs result being too high, modelling should concentrate on checking that all upstream gas from sources or routes that are not disrupted is still able to enter the EU network, as well as on projects for which a FID has already been taken.

Do you consider the drafting methodology and content relevant? In your view should ERGEG be more or less prescriptive?

Overall the principles and the elements included in ERGEG proposal seem reasonable and appropriate although two aspects require more attention:

- Due consideration for confidentiality;
- Appropriate involvement of all market participants, i.e. through the Madrid Forum.

Do you consider it important to have a monitoring report assessing and explaining deviation from previous plan?

We believe that such monitoring and deviation explanation exercise would add the credibility of the development plan. The fact that the plan is a non-binding one should not mean that it has to be emptied of its value otherwise it would fail to achieve one of its aims which is to help making investment decision in a timely and a coordinated manner across Europe. The explanation of deviation should make special reference to adjusted scenarios and any other major change, e.g. a new project reaching a FID.

Is the consultation procedure for the EU-wide 10-year gas network development plan proposed in section 3.5 appropriate?

ERGEG refers to a questionnaire that ENTSOG will be preparing and using to collect data required for the development plan and suggests that it should include information of planned investment by all market participants, although emphasis is put on regulated investment. Any comment in this respect is valueless without the possibility to refer to such questionnaire and without clear guidelines on how the information provided will be used.

Data gathering and consultations will have to take place at the same level of the relevant development plan, being it national, regional or EU-wide.