

**Representation For. 0037**  
"Limitation on offering for sale unsold capacity"  
Version 1.0

**Date of Communication:** 25/07/2005  
**External Contact:** Robert Cross (Statoil (U.K) Ltd.)  
**Slant:** Against  
**Strictly Confidential:** No

**Abstract**

Julian Majdanski  
Modification Panel Secretary  
Joint Office of Gas Transporters  
Ground Floor Red  
51 Homer Road  
Solihull  
West Midlands  
B91 3QJ

25th July 2005

Dear Julian,

Urgent Modification Proposal 0037: "Limitation on offering for sale unsold capacity"

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

When the long term auctions were established in 2002 the concept of baseline capacity was created to establish the level of capacity that Transco would be required to make available up to the gas day. As such knowing that this capacity level had to be made available and ensuring further rules established that 20% of the SO Baseline capacity level should be reserved for short term release with any unsold baseline from the long term rolling into the short term auction. A mechanism was therefore established which allowed a shipper to choose between a long term product or a short term product making an assessment of the level of competition it was likely to face in each type of auction and their view of risk. In the subsequent auctions of Jan 03, Sept 03, Sept 04 shippers have chosen to participate in the long term auction based on the assumptions set out above.

While the regime cannot be expected to remain static STUK believe that this proposal will undermine the auction process and fundamentally change the nature of the base line product made available by Transco. It has always been clear that the baseline levels of capacity should be made available and that Transco should manage delivering against this capacity through the buyback market. If Transco needs to invest to meet this capacity level it has a choice to invest or buy back the capacity either on the day or through forwards and options contracts. Therefore Transco already has a number of mechanisms in place to manage its exposure to baseline capacity provision.

The addition of these two elements for avoiding the release of unsold capacity will undermine the capacity product as it bases the availability of the remaining unsold capacity on an assessment by Transco that it cannot physically deliver such capacity. No information is given as to what such an assessment would be or any criteria to objectively test if this is the case. This will not better facilitate the economic and efficient operation of the NTS pipeline system as it could lead to increases in the cost of short term capacity auctions or on the secondary market as Transco limit the level of capacity available to the market (potentially creating the prospect of over recoveries as seen when Transco limited the level of capacity available based on demand levels). Such increases would inevitably be passed on to consumers.

Furthermore STUK do not feel that this modification warranted urgent status, while the approval of the modification would directly affect the forthcoming capacity auctions it relates to much wider issues which are still under review and will be subject to further review through the NTS price control. This modification should be considered over a longer time frame than the current timetable allows and should therefore not be implemented at such short notice.

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

Robert Cross  
Regulatory Affairs Manager