

**Statoil (U.K.) Limited
Gas Division**

Statoil House
11a Regent Street
London SW1Y 4ST

Switchboard: 020 7410 6000
Central Fax: 020 7410 6100
Website: www.statoil.co.uk
Email: rob.cross@statoil.com
Direct Line: 020 7410 6i57
Direct Fax: 020 7410 6108

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

12th August 2005

Dear Julian,

Urgent Modification Proposal 0043: 'Limitation on offering for sale unsold capacity'

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

As stated in our response to 0037, 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. 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. The withholding of unsold capacity will create barriers to new entrants into the market as well as to those participants who made the decision to not take part in the long term auctions.

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. This modification seeks to shift the balance of risk between Transco and shipper without suitable justification.



ISO 14001 Certificate 156



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The addition the 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. As with 0037, there is no clarity as to what such an assessment would be or what criteria would be used to objectively test if this is the case. The suggestion that written permission would be sought from the authority to not release unsold capacity offers little comfort despite assurance from that permission would only be given in extreme circumstances. It fails to recognise that this fundamentally changes the basis of the products being sold.

This modification 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.

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

