

Mr. Julian Majdanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ
enquiries@gasgovernance.com

**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: srouse@statoil.com
Direct Line: 020 7410 6071
Direct Fax: 020 7410 6108

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Dear Julian,

Re: Modification Proposal 0119: Amendment to the Entry Overrun Charge

Thank you for the opportunity to comment on the above modification proposal. Statoil (UK) Ltd (STUK) is not in support of this modification and would like to make the following comments.

In UNC modification proposal 0119, the proposer suggests that there is currently a perverse incentive on shippers to take up an overrun position for commercial gain. The proposer suggests that if the overrun price is negative shippers could overrun their positions bringing gas to the market at a zero overrun price, or if the Entry overrun price was less than the Entry capacity buyback price offered, shippers could sell back their capacity to NG NTS and overrun their booked Entry capacity positions, bringing gas onto the system for a commercial gain.

There is no evidence that shippers have or would behave in the way suggested. Although the licence conditions currently placed on shippers would prevent such behaviours occurring.

Standard condition 3.3 of the Gas Shipper Licence states that:

'The licensee shall not knowingly or recklessly act in a manner likely to give a false impression to a relevant transporter as to the amount of gas to be delivered by the licensee on a particular day to that transporters pipe-line system or as to the amount of gas to be comprised in its offtakes therefrom on that day'.

STUK believe that this condition and the obligations for shippers to act in a prudent and reasonable manner prevents shippers from behaving in the manner suggested by the proposer. No prudent shipper would use the potential to breach licence conditions as a way of making commercial gain. The threat of a breach of licence and an Ofgem investigation is a strong deterrent for shippers to not flow volumes in a way which has not been signalled to the transporter or which may jeopardise the safe operation of the system.

The proposal suggests changing the formulation of the Entry Overrun Charge from one based on either:



- 8* the highest price paid by NG NTS in relation to any capacity bid accepted in respect of the day
- 1.1* the highest of 25% of accepted offers, forward or exercise prices

To either:

- 8* the highest bid price paid by NG NTS in relation to any capacity bid accepted in respect of the Day or gas year in which the day falls
- 1.1* the highest accepted offer, forward or exercise price in respect of the gas day
- 8* the highest reserve price under any invitation for the day or gas year in which the gas day falls.

This change could potentially result in a very penal Entry Overrun price being set. that the potential exists for the Entry Overrun price to be set based on low volume high price offers that are in no way reflective of the market conditions at the time. A non-reflective and penal Entry Overrun price would result in increased and unnecessary cost to the industry.

STUK do not agree with the proposer that the introduction of a marginal price for the calculation of the Entry Overrun price would better facilitate the relevant objectives by improving the efficient and economic operation of the pipeline system. It is not clear that the level of constraint actions and costs would be reduced by the introduction of a penal overrun price, as there is no evidence that Entry Overrun price perversely influences shipper behaviours. The current Gas Shipper Licence standard conditions, provide strong and clear obligations for shippers to act in a prudent and reasonable manner, to prevent them delivering gas on to the system in a way which they have not signalled to the Transporter. This acts as a sufficient incentive to deter the behaviours suggested in the proposal.

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,

Shelley Rouse
Statoil (UK) Ltd

