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Dear Julian,

Re: Modification Proposal 0120: Introduction of an SO Commodity Charge for NTS Storage Exit Flows

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

STUK does not believe that there is any justification for the introduction of a SO Commodity charge for NTS Storage exit flows, for the reasons detailed, below.

With the current strong focus on security of supply in the UK, as it becomes increasingly reliant on imported supplies of Natural Gas, the investment into and use of Storage Facilities is becoming ever more important. By introducing a SO Commodity charge to storage exit flows and, in effect, increasing the costs of using gas in store, investment into new facilities and the improvement of existing facilities may be deterred. This could lead to insufficient storage for the future requirements of the UK and could prove detrimental to the security of supply and the efficient and economic operation of the System, as a whole.

The key principle of cost-reflective charging is to ensure that parties face the costs they impose on the system. Cost-reflective charges, where they can be sensibly implemented, contribute to the efficient use of the network, to the ultimate benefit of consumers. The introduction of a SO Commodity charge to storage exit flows would not only fail to be cost reflective but may also serve to impede the service that Storage Operators provide to the System, often at key times of system stress.

The proposal states that the SO commodity charge will be applied to both UDQI and UDQO flows. This does not take into account netting off of flows (injection and withdrawal), which may result in no physical flow of gas. Storage Facilities, therefore, may impose zero costs on the system and yet are faced with a charge. By introducing an additional cost to storage users there is also the probability that there will be less storage cycling as the spread needed to make injection and withdrawal economically viable will be widened, also by increasing the cost of gas in store, the merit order of gas used on a peak day will likely change as higher market prices will need to be reached before withdrawal is an option for many shippers. Furthermore, Storage Facilities may actually reduce the costs imposed on the System, through withdrawing gas from store when the System is ‘tight’ and, thereby, serving to maintain the balance of the System.

STUK do not believe that the introduction of the SO Commodity charge for Storage Exit flows will result in the economic and efficient operation of the pipeline system. By increasing the cost of storage use (costs which will ultimately be passed onto end consumers), there is the potential for limiting storage cycling, reducing the amount of gas in store on the peak day posing a threat to security of supply. The introduction of an SO commodity charge at exit and the proposal to charge on both UDQI and UDQO flows could arguably be classed as discriminatory, as storage users will be paying for a service that they do not use. The overall detrimental impact to Storage Facilities may discourage investment in storage, which could ultimately prove detrimental to security of supply.

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