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Gas Division**

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Julian Majdanski
Secretary, Modification Panel
Office of Joint Transporters
Ground Floor Red
51 Homer Road
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B91 3QJ

20 July 2007

Dear Julian,

Re: 0156 / 0156A Transfer and Trading of Capacity between ASEPs

- Statoil (UK) Ltd (STUK) does not support Modification Proposal 0156.
- STUK does not support Modification Proposal 0156A

STUK believes that because the structure of Modification Proposal 0156A allows for more than one auction (one for the October period and one for the remainder of the winter) it has less inherent risk than Modification Proposal 156. Having two auctions allows Shippers the opportunity to observe bidding behaviour prior to the auctioning of the majority of the winter capacity. STUK believes that knowledge will make it is less likely the auction will produce extreme results. STUK does not support either modification proposal however for the following reasons:

Understanding the Impact

As we have noted in our response to the previous proposals to facilitate the trade and transfer of Entry Capacity, proposing urgent modifications to the UK Entry Regime, without giving the industry sufficient time to fully consider the impacts of those proposals, risks creating uncertainty and instability in the market, ahead of this winter, which could ultimately prove detrimental to security of supply.

Moreover, industry participants have been asked to respond to this proposal, without all the information required to reasonably make a balanced considered decision. For example, the method for the calculation of transfer rates and the merit order, within the auction process,



ISO 14001 Certificate 156



ISO 9002 Certificate No. 34477

shall all be detailed in the Methodology Statement which at the time of writing this response has not yet been provided. Without both of these it is impossible to calculate or estimate the likely effect these proposals will have on the daily capacity markets and the potential costs this imposed constraint will have via increased daily capacity charges and via the wholesale commodity markets.

STUK believe this issue is of sufficient importance to the industry and to consumers to require visibility of both the benefits and the costs of implementation of these proposals prior to any decision being made.

Barrier to entry

The ability to trade and transfer capacity will limit the amount of capacity available, in the short term auctions. As the Proposer has stated in the disadvantages of the Proposal, the Proposal 'would reduce the unsold level of Firm Capacity available at certain ASEP(s) in the within year Entry Capacity Auctions and may result in other gas not being able to flow on a Firm basis'. We consider this to be of concern and may lead gas being unable to enter at certain ASEPs.

It is clear therefore that these proposals have the potential to limit the amount of capacity available in the short term auctions creating scarcity at certain ASEPs. What is not clear is the effect this scarcity will have on the short term capacity market and by association the wholesale markets.

It is also unclear from the proposals how after the auctions Shippers will determine how much capacity has been moved, from where and at what exchange rate. This lack of transparency will make it extremely difficult for Shippers and their associated Producers to understand how much capacity remains for the short-term markets. This information is key in planning strategies to bring gas to the UK via the short term capacity markets.

Risk of stranded gas

STUK has previously commented on NGG's letter, dated 4 May 2007, where NGG identified the risk of capacity from Theddlethorpe being transferred to Teesside, which may ultimately decide not to flow, thereby leaving the gas at Theddlethorpe as effectively stranded for this winter. This poses a significant risk on security of supply as it would also remove the opportunity for these producers to respond to price signals as their gas would be stranded where it might otherwise have been available to meet winter demand.

As yet the cost of this restriction on the market is unknown. It is clear however that transferring capacity between entry points would potentially remove the ability for Users to book a proportion of their requirements short-term and, therefore, reduce the amount of flexibility and liquidity in the short-term market. We strongly urge therefore for a Regulatory Impact Assessment to be undertaken, to give Users greater opportunity to fully understand the costs and implications of these proposals.

Increased risk of buy back action and TFA's



It is still not clear to STUK the effect these changes will have on the risk of buy back action and/or the issuing of Terminal Flow Advice (TFA's) to Shippers. In the cases of buy back actions much of the costs of these will be passed directly to the Shipping community. In the case of TFA's the impact is on the Shippers active at the associated ASEP.

Evidence shows that when NGG takes a buy back action or issues a TFA there is also an impact within the daily commodity market. It should be noted therefore that both of these actions are highly likely to result in significantly higher market prices in the short-term. STUK would like to further understand the level of risk and the costs involved including those in the wholesale markets prior to any decision being made.

Conclusion

STUK recognises that the significant changes to the baselines, identified in the consultation on the Final Transmission Price Control Review has created the situation where Users are concerned that capacity at certain entry points will not be available to the extent previously anticipated. However, attempting to resolve this problem through implementing urgent proposals with unknown consequences, which may have a significant affect on the effectiveness of the entry regime and the wholesale markets, may have implications which create considerably greater risk to Users. STUK believe therefore it is important any decision is made with a full assessment of the effects either of these proposals may have.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

Christiane Sykes
UK Regulatory Affairs Manager
Statoil (UK) Ltd

*Please note that due to electronic transfer this letter has not been signed.

