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Julian Majdanski
Secretary, Modification Panel
Office of Joint Transporters
Ground Floor Red
51 Homer Road
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8 February 2008

Dear Julian

Re: Code Modification Proposal 0187 / 0187A: Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity between ASEPs

Statoil U.K. Ltd (STUK) offers comments, with respect to both modification proposals 0187 and 0187A.

General points on both proposals 0187 and 0187A

STUK agrees with NGG NTS that linking the Trade and Transfer process to the RMSEC auctions, gives Users an opportunity to confirm their requirements at specific ASEPs prior to its potential allocation elsewhere.

Holding the Transfer and Trades auction on a monthly basis improves on the interim process as Users become more certain of their requirements, placing them in a stronger position to surrender capacity no longer required. The further ahead the auction, the less certainty Users will have, to enable them to surrender capacity. Moreover, if capacity is transferred too far in advance, this may risk stranding capacity at the donor ASEP.

STUK is, however, concerned that holding the RMSEC auction at the beginning of the month will lead to inefficient bidding behaviour in the RMSEC auction, given the lack of certainty for Users, compared to holding the auction at the end of the month. It is not clear how much experience might be gained, from the RMSEC auctions held outside of the winter period as one would not expect much capacity to be transferred in the summer months, before moving the RMSEC date further towards the end of the month.



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Both proposals add complexity to what is proving to be an increasingly complex entry regime. Such added complexity increases costs and may deter investment in the UK system, thus hindering competition and at worst, affecting longer term security of supply.

An upper limit on the exchange rate is appropriate to avoid excessive capacity destruction but it would be useful to see some figures to substantiate what an appropriate limit should be.

Both Proposers state that implementation of their proposal has the potential to affect the operation of the System by increasing physical constraints, which may require commercial actions. NGG NTS goes on to state that operational buy-back costs may increase and that whilst the methodology to determine Exchange Rates should avoid 'material increases in costs', this cannot be guaranteed if actual gas supplies differ from that assumed. STUK has grave concerns that such considerable risk remains with either proposal as it could far outweigh any potential benefits.

STUK is unconvinced that the potential and, as yet, unclear, benefits associated with these proposals sufficiently outweigh the additional cost and complexity and, in particular, the potential unintended consequence of increasing constraints on the system. As we have seen in the past, constraints on the system can lead to significant increases in prices, ultimately to the cost of the consumer. Whilst the likelihood of causing such constraints may prove to be rare, the consequences could be severe. Implementation of either proposal must, therefore, be made with sufficient conviction that these risks are minimal.

A significant element of both proposals remains uncertain. STUK fully supports Ofgem's commitment to overseeing an external audit of the interim process, to better inform all stakeholders of the most efficient and economic route for taking transfers and trades forward, without comprising existing capacity rights and the integrity of the system.

Whilst we accept the constrained timelines, with regards to responding to the associated proposals, the purpose of such an audit is not to delay implementation but to better inform the regulator when making their decision and to furnish stakeholders with sufficient confidence that the decision to implement or reject these proposals is based on more concrete evidence.

Specific points, relating to 0187

Offering surrendered capacity, before unsold capacity is a sensible principle, given that it should ensure that more capacity is available for the daily auctions.

Specific comments on 0187A

We acknowledge the principle behind allowing Users to set a reserve price of their choosing on any capacity that they surrender, however, this risks incentivising perverse bidding behaviour, through the unintended consequence of allowing Users to potentially book capacity, which does not reflect their actual requirements, with the sole intention of trading that capacity to another ASEP for a higher price. This would serve to arbitrarily increase the price of capacity and undermine competition and cost-reflectivity within the auction regime.



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Offering surrendered and unsold capacity at the same time may limit capacity available for the daily auctions, thus impeding short term flexibility.

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.



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