

Julian Majdanski  
Modification Panel Secretary  
Joint Office of Gas Transporters  
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09 June 2009

Dear Julian

**Re: 0216: Introduction of an Additional Discretionary Release Mechanism for NTS Entry Capacity**  
**0216A: Introduction Additional Pay-as-Bid Auction for NTS Entry Capacity**

Statoil (UK) Ltd **does not support** implementation of UNC modification 0216

Statoil (UK) Ltd **supports** implementation of UNC modification 0216A

Entry Capacity baselines are intended to reflect the maximum physical capability of the pipeline system. Stability and certainty over obligated levels of baseline Entry Capacity to the UK are vital for shippers, to assist them in making long term planning decisions and enabling them to take part in the long term entry capacity auctions. Any changes to the Entry regime need to be viewed with the knowledge that the concept of entry capacity baselines and the current auction mechanisms have been in place since 2002 and during this time shippers have been able to purchase entry capacity long term, up to 16 years in advance. Care should be taken that any changes to the regime do not undermine existing purchasing decisions.

Whilst Statoil (UK) Ltd (STUK), welcomes the intent of modification 0216, to enable National Grid to release additional non-obligated NTS Entry Capacity to the market, outside of the existing auction mechanisms, it believes that allowing NGG NTS unrestricted discretion when deciding how, when and how much additional capacity to release would undermine the value of Entry Capacity already bought and sold in the established auctions.

The release of previously unexpected volumes of Entry Capacity to the market could weaken the value of the Entry Capacity baselines and create market instability. In the latest Price Control, it was agreed by the majority of shippers and the Regulator that baselines should be set in advance, to ensure market certainty and stability; proposals 0216/0216A diminish some of that certainty, though releasing additional non-obligated capacity on an ad-hoc basis. Whilst we accept that if additional capacity can be made available, it should be released to the market but we must stress that this should only be in exceptional circumstances, to mitigate the risk of undermining the certainty and stability, afforded by pre-defined baselines.

Proposal 0216, in particular, could have the unintended consequence of undermining the Transporters' Standard Special Licence Condition A11.1 (d) (i) the securing of effective competition between relevant shippers, through giving preferential treatment to certain types of shipper. For example, where a shipper has approached the Transporter, with a view to securing non-obligated capacity, that shipper will have advanced knowledge of an impending auction, ahead of other shippers, who then may only have 7 days notice for the new auction, which in many cases, is insufficient to assess bidding strategies. NGG NTS has argued that shippers only have 7 days notice for the RMSEC auction and, therefore, that their proposal 0216 is no different. The RMSEC process is an established mechanism, occurring at regular intervals, where all shippers have equal knowledge of when the auction is likely to take place. This is not the case with 0216 or 0126A, however, 0126A does equal the footing, in that shippers are given sufficient notice of the auction, to determine their bidding strategies on a more level playing field.

Moreover 0126A removes some of NGG NTS' unlimited discretion in the type of auction mechanism and the minimum quantity of capacity to be released, reducing uncertainty in the auction process, thereby, better informing bidding strategies and facilitating achievement of the relevant objective A11.1 (f) the promotion of efficiency in the implementation and administration of the network code.

By placing a time limit on the discretionary rights to release capacity, ending 30 September 2009, Modification 0216A will allow the industry sufficient time to evaluate the impacts of this proposal and will incentivise a more robust review of the process, to better inform future amendments.

STUK trusts 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.  
UK Regulatory Affairs Advisor  
Statoil (UK) Ltd