StatoilHydro

Statoil (U.K.) Limited
Gas Division

Email: srouse@statoilhydro.com

Direct Line: 020 7410 6071
Direct Fax: 020 7410 6108

John Bradley
Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
31 Homer Road
Solihull
West Midlands
B91 3QJ

08 May 2009

Dear John

Modification proposals:
0246, 0246A and 0246B: Quarterly NTS Entry Capacity User Commitment

Thank you for the opportunity to comment on the above modification proposals.
Statoil (UK) Ltd (STUK) are not in support of UNC modification proposal 0246 or its alternates and do not believe that any of the proposals strike the appropriate balance between capturing an effective User commitment and mitigating the risk of shipper default on the community.

As a member of the 0221 review group, STUK has been involved in the discussions and developments relating to the issue of Entry Capacity User Commitment. Review group 0221 identified two key issues with the current regime, one which could easily be addressed with a change to the UNC and another more complex concern.

The first issue identified was the ability for a User, under the current code requirements, to be able to defer the provision of a financial commitment for capacity for a rolling 12 month period. It was agreed that this issue could be easily resolved by removing the ability for a User to defer the provision of the security requirement specified in the code and therefore for the Users registered capacity to lapse. STUK is supportive of this change and although included as part of UNC modification 0246 and its alternates would only be in support of a UNC modification addressing this point alone.

The main area of concern identified by the group was the risk to the industry of User default or if a project is delayed. Should either of these events occur, the allowed revenues associated with the Users capacity commitment are recovered through an increase in regular NTS transportation charge.

During the 0221 review group discussions it was highlighted on a number of occasions and by a number of participants, that the most effective way of removing this risk to the industry was a change to National Grids Gas Transporters licence. Currently the licence mandates that National Grids allowed revenue is increased from the point at which capacity is allocated following the completion of the QSEC auction, which in most cases 42 months prior to delivery, and is allocated regardless of whether system investment is needed. A change in the licence to adjust the point at which allowed revenue is increased could remove the risk of a pass through of National Grids revenue recovery to shippers and ultimately to the end consumers.

A change to the licence was not within the remit of the review group and as such a consensus decision was not reached on the best way to mitigate the identified risks and proposal 0246 did not receive review group support.

Review group discussions (and 0246) considered that the value to be secured is £119m (10% of allocated long term capacity value). A conservative estimate (range of 1-7%) of the cost to the industry of providing a letter of credit for this amount is stated in 0246 as £4m. It should be recognised however that in some cases, especially for new projects run by independents the cost of credit will be 100%. This could be the difference between projects going ahead or being delayed or cancelled. STUK do however recognise that both 0246A and 0246B expand on 0246 by increasing the type of acceptable security tools available from a Letter of Credit or deposit deed, to the security tools that are already recognised in the UNC, this may help to reduce industry costs for established shippers as it considers a companies credit rating (the inclusion of which was recommended by the review group for proposal 0246 but removed at a late stage) but is of little help to smaller independent players who would need to secure their capacity with cash.

0246 and 0246A consider that Users will be 'required to put in place and subsequently keep in place, sufficient security to underpin their existing QSEC holdings'. STUK do not support the retrospective element of the proposals believing that the costs associated with providing security for this amount of capacity will far out weigh the benefits and that any retrospective changes undermine the investment decisions already taken by shippers.

All three proposals are to be funded 100% by User Pays. The final system development costs are not yet known as the Detailed Cost Assessment was not requested at the time of the modification proposals being raised. The Rough Order of Magnitude costs of the project are in the region of £250-£500k, which again will be recovered from the industry increasing costs in an already difficult economic climate.

Although not in support of the basic principle behind all three proposals, STUK do see some merit in proposal 0246B, and believe it to be the 'least worse' option. 0246B does not contain the retrospective element seen in 0246 and 0246A and also expands on the acceptable security tools to include those currently recognised in the UNC, which does help to reduce the impact of such a change on the Shipper community.

At a time when there is a strong focus on ensuring security of supply as well as on the economic climate, modifications which have the potential to increase the cost burden of operating in the UK gas market are not helpful and care should be taken to ensure that the UK remains an attractive destination for future gas supplies and infrastructure developments.

Yours sincerely
Shelley Rouse.
UK Regulatory Affairs Advisor
Statoil (UK) Ltd