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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

7 August 2007

Dear Julian,

Re: 0163 Offering capacity at Donor ASEP in Trades 7 Transfers Process

Statoil (UK) Ltd (STUK) does not support this Modification Proposal.

STUK continues to support the principle of transferring and trading capacity to facilitate efficient allocation of capacity, however, as we have noted in our responses to the raft of previous urgent modification 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.

As was the case with proposals 0156 / 0156A, we do not have sufficient information to make an informed response to this proposal. Whilst we accept that an Entry Capacity Transfer and Trade Methodology Statement is now being consulted on, this statement cannot take into account the changes proposed, under Proposal 0163, given the timing and the lack of clarity of this proposal.

STUK understands what the Proposer is trying to achieve, with respect to the potential for incentivising perverse bidding behaviour, however, It is unclear how this proposal would work, in practice. For instance, the proposal states that the reserve price would be based on the price paid at auction; it is not clear which auction this refers to. If this refers to the Trade and Transfers auctions, it is not clear which auction of those proposed under 0156A, this would apply to. Nor does the proposal state when or how this capacity would be offered, for example, would it be through a further auction round? This level of information must be provided through the Modification Proposal, to give industry participants sufficient confidence that they know what, specifically they are responding to and to enable legal text to be written, which accurately reflects the intent of the proposal.

We accept that there was a degree of uncertainty, owing to the Trade and Transfer mechanisms proposed, prior to the last AMSEC auction, however, we believe that Users

were still given sufficient notice to bid for capacity they required at a given ASEP, through the AMSEC auction. Modification Proposal 0163 effectively gives Users a second chance, to purchase capacity at an ASEP, where they have failed to purchase that capacity, through the AMSEC auction. STUK has not seen sufficient justification to warrant a further release of capacity at a given ASEP, outside of the Trade and Transfer process, or the already established auction processes. Under current UNC arrangements, a User is able to transfer all or part of its NTS Entry Capacity holding to another User at the same ASEP for any Gas Flow Day or consecutive number of Gas Days. We consider this is an appropriate mechanism to facilitate the transfer of capacity at the same ASEP.

Whilst we do not support the trade and transfer process, as detailed under the current proposals 0156 / 0156A, for the reasons we have stated in response to those proposals, 0163 introduces a further distortion in the competitive market for trades and transfers, through giving preferential treatment to one ASEP, over another.

The lack of clarity surrounding this proposal seems to make it unworkable, with respect to implementation, from either governance or from a practical perspective. For the above reasons, STUK is unable to support the proposal

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.