

**Statoil (U.K.) Limited
Gas Division**

Statoil House
11a Regent Street
London SW1Y 4ST

Switchboard: 020 7410 6000
Central Fax: 020 7410 6100
Website: www.statoil.co.uk
Email: CSYK@statoil.com
Direct Line: 020 7410 6173
Direct Fax: 020 7410 6108

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

29 May 2007

Dear Julian,

Re: Code Modification Proposals 0150 / 015A Transitional Arrangements for Entry Capacity Transfers to Sold Out ASEPs and 0151 and 0151A Transfer of Sold Capacity between ASEPs

Statoil (UK) Ltd (STUK) supports the principle of these proposals to maximise the amount of available capacity on the system, however, we are unable to support the proposed modifications, at this stage.

Regulatory certainty is key to establishing a stable environment, which encourages investment and allows existing Users to operate effectively. We do not believe that proposed modifications 0150 and 0151 and their respective alternatives can achieve this, given the urgent process they are driven by and the ambiguity surrounding the, as yet unimplemented, licence changes.

We have not offered views on the specific proposals as we believe that the key issues, set out below, are broadly relevant to all of the modification proposals:

- Potential to limit the amount of available capacity in the short term auctions

Introducing the ability to trade or transfer capacity between entry points would remove the flexibility 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.



- Risk of stranded gas

In NGG's letter, dated 4 May 2007, 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 gas may be stranded where it might otherwise have been available to meet winter demand.

- Regulatory uncertainty

Pushing through a set of proposals on an urgent basis will always cause Users problems, with respect to fully understanding the implications of implementation of those proposals. This is particularly the case here, given the complexity of the proposed modifications. Moreover, the proposals have been drafted on the basis of uncertain and yet to be implemented, licence drafting, further creating uncertainty and instability.

Users' existing capacity bookings may be affected as a direct result of these proposals as Users may have historically booked more of their requirements in the short term, where there was a lack of competition at that ASEP and yet under these proposed arrangements, that capacity may be transferred to another entry point. We acknowledge NGG's attempt to clarify arrangements, prior to the AMSEC auctions, through arranging an extraordinary Transmission Workstream, however, Users would not have been in a position to alter their bidding behaviour, at such an early stage, when it is unclear whether these proposals will be implemented and whilst the licence drafting remains open to consultation.

These proposals are also likely to have a significant impact on future bidding behaviour, which cannot be fully understood, at this stage.

Further uncertainty arises from other changes, affecting the entry regime, currently under consideration. This includes the changes to the entry charging regime and the potential removal or reduction in the discounts for purchasing short-term entry capacity and potential revisions to the interruptible regime.

Given all of the above, we would strongly urge for an Regulatory Impact Assessment to be undertaken, to give Users greater opportunity to fully understand the implications of these proposals.

- Timing

STUK shares NGG's concerns, with respect to the practicality and the timing of the introduction of the proposed revised regime and the ability for market participants to assess their requirements in light of this.

As noted above, pushing through these proposals as urgent gives Users insufficient time to fully understand the impact of the proposed changes, particularly when set against a number of other proposed changes to the entry regime. This will also make it very difficult, when assessing the benefits or otherwise of all of the proposed changes to the entry regime, to identify which proposal has resulted in what outcome and so inefficient changes may continue to exist where the impact continues to be unknown.



A further issue, with respect to timing, relates to the necessary system changes required to facilitate the transfer of capacity. NGG has stated that there is insufficient time to implement system changes to adequately facilitate the transfer or trading of capacity. This has resulted in the proposal of inadequate system solutions. Allocating bids on a first come first served basis, through the use of fax is hugely inefficient and we would urge that lessons be learnt from the failings in the electricity market, with respect booking long term capacity in this manner.

The timescales for development of the system changes to facilitate transfers, such as changes to the Gemini system and UK Link System, are still unknown and NGG has stated that any analysis will be undertaken after the proposal is completed. This results in further uncertainty, with respect to both the timing of when these changes can be implemented and with respect to the associated costs. Users systems may also need to be updated and yet all of this remains unknown.

A further concern with respect to timing, relates to charging. Whether an application fee is applied to recover costs, or whether the costs are recovered by NGG NTS, a change to the Transportation Charging Methodology will be required and it has been identified that the usual notice required to change the Methodology would not be applied. This does not give Users sufficient time to make any potential necessary changes to accommodate these modifications.

- 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, which remain uncertain and which may have a significant affect on the effectiveness of the entry regime may have long-term implications, which create considerably greater risk to Users in the long-term.

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.

