

**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: christiane.sykes@statoil.com
Direct Line: 020 7410 6173
Direct Fax: 020 7410 6107

Mr. Julian Majdanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ
enquiries@gasgovernance.com

6 December 2006

Dear Julian

Re: Modification Proposals 0116V/0116VD/0116A/0116BV/0116CV: “Reform of the NTS Offtake Arrangements”

- Statoil UK Ltd (STUK) does not support the implementation of this Modification Proposal 0116V
- STUK does not support the implementation of this Modification Proposal 0116VD
- STUK supports the implementation of this Modification Proposal 0116A
- STUK does not support implementation of this Modification Proposal 0116BV
- STUK does not support the implementation of this Modification Proposal 0116CV

Amongst these proposals, we would rank our support for them in the following order: (most supported first): 0116A, 0116CV, 0116BV, 0116VD, 0116V

Our comments are as follows:

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

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(a) the efficient and economic operation of the pipe-line system to which this licence relates;

NTS Exit (Flat) Capacity

All of the above modification proposals, with the exception of 116A, are detrimental to the efficient and economic operation of the pipeline system. Firstly, the effective introduction of universal firm NTS Exit Capacity may lead to a gold plated system, ultimately, to the expense of consumers.

The incentives on Users to install back-up facilities would be impeded, given the fact that previous benefits offered, to remain interruptible are removed. Users may not, therefore, offer buy back to NG NTS, at times of system stress. NG NTS would be required to invest, without the cushion of identified interruptible contracts, to meet their licence obligations to plan and develop its pipeline system to enable it to meet the peak aggregate daily demand for the conveyance of gas for supply to premises which is likely to be exceeded (whether on one or more days) only in 1 year out of 20 years. Despite the fact that interruption may be required on only one or two days a year, NG NTS would still be required to invest to meet its licence obligations. This concern has been recognised in previous Enduring Offtake Working Group (EOWG) meetings, where certain sites in the South West quadrant were identified as sites, which may need to remain interruptible, to avoid inefficient investment. This is inconsistent and with the arguments for undue discrimination and illustrates the issues with removing long-term interruptible contracts.

Where a User wishes to increase its prevailing rights, the requirement to book four years ahead, with a further commitment of four years is also likely to result in misleading investment signals. Users can not know their Capacity requirements, with any certainty, so far in advance. Either Users will not enter into any long term arrangements, giving no investment signal, or they will enter into arrangements, based on uncertain information and therefore provide inaccurate investment signals, which NG NTS will be unable to rely on.

NTS Exit (Flexibility) Capacity

It will be even harder for Users to know their flexibility requirements, in advance and as NG NTS would not invest on the system for flexibility, we fail to understand why it is necessary.

The introduction of a flexibility product may create scarcity, where it does not physically exist, through the DN requirement to book enough flexibility to meet their licence obligation, with regards to a 1-in-20 winter. Whilst we accept the principle that NG NTS would release any unsold flexibility, we have seen through NG NTS presentations to the EOWG, that it will be very difficult for NG NTS to assess the availability of any flex capacity. This may result in imposing unnecessary costs on Users, through overrun charges, and may lead to a 'constraint day' being declared, which may disproportionately push up the price of gas.

(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;



NG NTS have stated on numerous occasions that the introduction of a flexibility product is required to prevent the DNs from taking flexibility from the NTS, rather than investing in their own systems. We have seen no evidence to support this, however, and this is not considered to be an issue for other Users, directly connected to the NTS.

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

The associated increase in cost and complexity of these proposals, with the exception of 116A, creates a barrier to entry, thereby decreasing competition between shippers.

The proposals also discriminate between different types of shipper as different shippers impact the NTS in different ways, for example, Storage Operators may actually provide a benefit for the system, at times of system stress, which is not recognised in the proposals.

(ii) between relevant suppliers; and/or

The same issues of cost and complexity, as stated above, apply to suppliers.

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

We do not accept that common NTS Exit Capacity services should be made available to all Users (shippers and DNOs) to avoid the scope for undue discrimination. It may even be considered discriminatory to treat different classes of Users the same, where they impose different costs on the System. The DNs are regulated monopolies and have considerably greater flexibility to enable them to manage their flexibility usage, compared to Users operating in a competitive market. Applying the same arrangements for such different classes of User will impede effective competition between those Users.

Furthermore, bi-directional sites would not have their specific usage and impact on the system properly recognised in the charges they would face.

(e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and

We would question whether the implied safety, provided by the Safety Monitors would be impacted, through these proposals. As more complex and costly arrangements are imposed on Storage Facilities, the incentives to build such facilities will be thwarted and this



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could have a knock on affect on domestic security of supply. Moreover, the operation of Storage Facilities may be restricted, owing to the constraints brought about by the flexibility product, which may result in less gas being offered to the System, at times of system stress, again, potentially affecting domestic security of supply.

(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

The increase in complexity may impede the efficiency in the implementation and administration of the network code and/or the uniform network code

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

A key concern, with the exception of 116A, which may result if Modification Proposal 116 and its alternatives are implemented, is the affect it would have on the stages of a gas emergency. With the loss of interruptible customers, the stages of an emergency could immediately progress to Stage 3, firm load shedding. This would also mean early suspension of the OCM, preventing the market from providing a solution, early on.

A further concern is that should a 'constraint day' be declared, Users would only have 60 minutes notice to enter into an auction for flexibility. If there was a genuine constraint on the System, Users would be much more appropriately employed in bringing gas onto the system, rather than using valuable time participating in flexibility auctions. The introduction of further complex commercial arrangements at times of system stress serve only to exasperate the problem.

The potential reduction in investment in storage, resulting from an increase in cost and complexity, arising from implementation of Modification Proposal 116V and it's alternatives, in particular, when considered alongside other industry changes may lead t o a reduction in investment in storage, ultimately affecting security of supply.

The removal of a long-term interruptible product may lead to a decrease in the installation of back-up facilities, leading to a reduction in demand side response being offered at times of system stress, which may lead to more rapid progression to a gas emergency.

The inefficient investment signals, which may result, if these proposals are implements, may also impact security of supply in the long-term.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

b) development and capital cost and operating cost implications:



c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

d) analysis of the consequences (if any) this proposal would have on price regulation:

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

We have identified the following advantages:

We have not identified any advantages with Proposal 116V or 116VD, however, we consider that, relative to these proposals, 116BV mitigates some of the risk and worst aspects of 116. Whilst we do not support Modification Proposal 116CV as a stand alone modification, this proposal goes the furthest towards a more sensible approach with respect to the flexibility product, through monitoring the situation to assess whether a problem exists. This is infinitely more sensible than enforcing complex and costly arrangements, which are not backed up with any concrete justification, through monitoring and analysis.

We have identified the following disadvantages:

STUK agrees with the following disadvantages, set out in the Workstream Report:

- More complex systems and processes are required to manage NTS Exit Capacity arrangements.”
- May have a knock-on effect on electricity balancing since CCGTs may be discouraged from operating flexibly
- Potentially conflicts with EU Regulations
- Has a disproportionate impact on bi-directional sites
- Potentially damages security of supply



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- Discourages competition among Shippers
- Imposes significant complexity and industry costs

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

* Due to electronic transfer this letter has not been signed



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