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Gas Division**

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Andrew Fox
National Grid House
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28 August 2007

Dear Andrew

Re: The Entry Capacity Transfer and Trade Methodology Statement

Statoil (UK) Ltd (STUK) supports the principle of maximising the amount of available capacity on the system, however, we are unable to support the proposed changes.

STUK does not consider that this methodology and the associated proposals will necessarily maximise the amount of capacity available on the system this winter, although this remains unclear, given the urgent process the proposals have been pushed through.

Whilst we understand that, owing to the revised baselines in the Final Transmission Price Control consultation, a number of shippers have expressed concern that their ability to flow capacity at certain entry points has been reduced and, as such, a mechanism needs to be put in place for this winter to alleviate the problem, without a full impact assessment, the changes proposed could result in greater detriment to the system than a 'do nothing' approach.

STUK's primary concern, with respect to this Methodology is the risk of increasing the likelihood of buy-back requirements. The methodology states that, when undertaking the TBE Base Case Analysis for winter 07/08 'a simplifying assumption may be used, i.e. that an incremental forecast system failure...would result in a material increase in costs'. This 'assumption' is not detailed anywhere in the Methodology statement. This fails to give market participants an appropriate level of confidence that a pre-defined model is to be used, that it is transparent and that it would prevent increasing the risk of buy-backs and potentially Terminal Flow Advices (TFAs) at a 'recipient' ASEP. Without this, there is the potential for those Users, which have already booked their long-term capacity requirements to be curtailed, owing to gas being transferred to that ASEP, which cannot physically be accommodated.



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A further risk is that reducing available capacity at ASEPs within a zone to a Maximum Permitted Flow Level (MPFL), to provide additional units at a 'recipient' ASEP will reduce the capacity available in future short term auctions, thereby reducing market participants' ability to optimise their position in the short term, and as a result, reducing the flexibility in the short-term market and the ability to respond to increases in demand.

A specific example of this is gas in store. Storage facilities risk losing the much needed flexibility to respond to price spikes mid winter if the capacity is unavailable in the short-term market. The only way to mitigate such risk would be to book long-term capacity, which may fail to reflect a User's actual requirements and, therefore, lead to inefficient operation of the system and increase costs. A further unintended consequence might be where gas is transferred to Teesside, for example, reducing the MPFL at St Fergus. Market factors may lead to the LNG gas being shipped outside of the UK and yet the gas, which would otherwise have been available in the short-term auctions, becomes stranded at Teesside.

To refer to our response to previous 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. This uncertainty remains an issue, with this methodology statement. Given that there are several Modification Proposals still under consideration, one would expect that this methodology may need to be amended, depending on which proposal is implemented. Moreover, the licence changes have not yet been finalised and so this methodology statement remains subject to further changes.

STUK acknowledges the importance of ensuring flows to the UK are maximised this winter, however, pushing through urgent proposals, so close to the winter and next long-term auctions could have detrimental affects, which far exceed any perceived benefit.

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.



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