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Thursday, 14 June 2007

Dear Jan,

Re: Entry Capacity Substitution Methodology Statement

Thank you for the opportunity to comment on the above consultation. Statoil (UK) Ltd (STUK) does not support the methodology statement and would like to make the following comments.

STUK agrees with the principles contained in chapter 1 of the methodology statement. The methodology should ensure that where there is a need for incremental capacity then existing capacity is utilised first and where not possible then investment in the network is done as efficiently as possible. STUK has concerns that while the methodology suggested may achieve this initially in the longer term it could lead to inefficient investment within the network.

There are a number of areas where the proposed methodology fails. Firstly it does not address the issue of sterilisation of capacity caused by moving capacity from one location to another. In this scenario, capacity may be moved from one donor ASEP (ASEP-A) where market signals suggest capacity is available for transfer to another recipient ASEP (ASEP-B) where the market signals suggest capacity is required. The methodology mandates that this capacity be moved even if the capacity donated is more than that received. The baselines would be altered to reflect the movement. In the following QSEC auction more capacity may be requested at ASEP-A. Rather than transfer back capacity from ASEP-B and provide the investment there, the methodology dictates that the investment must be made at ASEP-A, despite the fact that this is likely to be a higher investment cost.



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The second issue STUK would raise with this methodology is that it does not take into account the impact that the sterilisation of capacity has on the short-term markets. It is possible that reduction of capacity available to the short-term markets could effect the both the revenue collected though the sale of short-term capacity and impact on prices in the commodity markets. The impact on markets is likely to be most acute at times of high demand or system shortage. STUK would suggest that the benefit gained from the transfer of capacity needs to be balanced against the impact on the short-term markets in some manner.

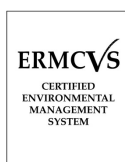
Further concerns were raised at the Transmission workstream that the methodology could lead to Shippers using the QSEC auctions to remove the possibility that capacity is donated from an ASEP they may wish to use. This could be achieved by buying capacity for an ASEP up to the level of the baseline for a single month. This would ensure that that ASEP would not qualify as a donor and that capacity would remain available at the level of the baseline within the short-term process. Clearly this behaviour would further subvert this methodology.

STUK trust that our comments will be given due consideration and should you wish to discuss any aspect of this response further please contact me on the above number.

Yours faithfully

Richard Street*
Statoil (UK) Ltd

**Please note as this letter has been delivered electronically this letter is unsigned*



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