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26 February 2008

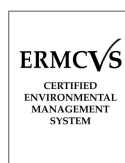
Dear Andrew,

Re: Summary Report and Discussion Document on Entry Capacity Substitution

As a major importer of natural gas into the UK, STUK is interested in the maintenance of a stable, efficient and economic entry capacity regime. We have concerns regarding the level of changes to the entry capacity regime currently being proposed. At present changes to Gas Entry baselines, Transfers and Trades, Entry Capacity charging (with respect to identifying spare capacity and Entry Capacity reserve price discounts), changes to the long-term auction dates and possibly additional medium term-auctions (required to take account of changes to the baselines) are all areas being considered. The sheer number of changes running concurrent with one another makes it difficult to assess the impact of any individual development.

Given the above, STUK believe that the 10% of baseline quantity to be held back for new market entrants is insufficient, and that a return to the previous level of 20% is necessary. Whilst the change from 20% of baseline in the previous control to the current level of 10% was intended to encourage greater long term capacity booking and strengthen the user commitment required to trigger the release of incremental capacity, the introduction of substitution could increase the likelihood of the 10% level being reached.

New marginal upstream developments are reliant upon existing infrastructure to be economic. It is possible that such developments cannot get to market as capacity at declining ASEPs is not available, due to it having been substituted away, having an adverse impact of security of supply. This along with the potential for constantly shifting baselines which could lead to volatility in capacity prices year on year creates uncertainties, translating into increased risks, which would ultimately be borne by consumers.



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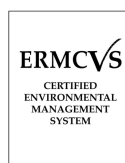
STUK fully support a delay to the implementation of the proposed Substitution regime for 1yr as demonstrated in the time table shown in Annex 7 of this discussion document, to allow for a holistic consideration of the Entry Capacity regime and its interactions, which cannot fully be understood unless considered as a whole. There remain significant uncertainties in fundamental areas of the proposed substitution regime which need time to be sufficiently developed, an implementation date of 2 June 2008 will not allow for this and could lead to the implementation of a regime which has unintended adverse implications on the stability of the Entry Capacity arrangements and security of supply.

STUK support the development of specialist working groups to deal with issues associated with the proposed Entry Capacity Substitution Methodology, such as exchange rates, availability of capacity for substitution and the application of the NPV test to ensure that the impacts of the substitution regime are fully and carefully considered and that if implemented the Entry Capacity Substitution regime is robust and fit for purpose.

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 sincerely,

Shelley Rouse
Statoil (UK) Ltd



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