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## **Re: Consultation on “The Entry Capacity Substitution Methodology Statement”**

As a major importer of natural gas to the UK, Statoil (UK) Ltd, STUK is interested in the maintenance of a stable, efficient and economic entry capacity regime. STUK have participated in the long term entry capacity reservation process since its inception and have played an integral part in the development of the regime, booking capacity at both new and existing terminals. We have expressed our commitment to the UK market by purchasing long term entry capacity until 2022; with a view to potentially committing even further in the longer term should the regulatory conditions remain favourable.

### **General comments:**

STUK would like to take this opportunity to express its disappointment that following many months of discussion and consultation the approach favoured by the industry to facilitate the implementation of NTS Entry Capacity Substitution, the mechanical approach, was not able to be developed further and will not form part of any impact assessment to be performed by Ofgem. Although not in support of NTS Entry Capacity Substitution, STUK have been active members in discussions and working groups related to the development of an acceptable methodology for entry capacity substitution for two years and have been advocates of the Mechanical Approach believing that it offers the best level of compromise between allowing NG to maximise the use of the existing transmission system and giving shippers some assurance that the capacity they require for long term investment projects will remain available.

It is unfortunate that the publication of a letter from Ofgem giving guidance on what it believed was an appropriate methodology for rationing the volumes of unsold capacity that may be used for substitution arrived so late in the process (after 8 meetings), giving the industry little option than to develop the ‘Retainer’ approach in order for National Grid to fulfil its licence obligations.

### **The Entry Capacity Substitution Methodology Statement:**

NGs Entry Capacity Substitution Methodology Statement describes the Retainer approach, allowing Users to pay a retention fee to protect the capacity at an ASEP from substitution for 12 months. STUK believe that this option will be of little use to those wishing to invest in the UK and as the retainer offers no rights to the capacity and will give little confidence to shippers that capacity will be available to them in the long-term. As discussed during review group 0221, the current 42 month investment lead-time associated with the release of long-term NTS Entry capacity is already a high hurdle for some developers to meet with investment decisions and project certainty difficult to assess this early in the process. If a shipper was able to take the decision on the volume of capacity and at which ASEP to purchase a retainer, it is likely that they would be in the position to participate in the QSEC auctions making the retainer unnecessary.

STUK would also question the limiting of the ability to triggering a retainer refund, to the 12 months following the capacity release date. This would mean that a shipper that books long term entry capacity

from Y+6 to Y+16 would not qualify for a refund on its retainer purchase whilst those purchasing a single quarter in Y+4 would. It would seem more appropriate for a refund to be triggered during the entire period to which the retainer applies (16 years); this would also encourage those shippers that are able to signal their long term requirements to do so.

STUK supports the use of an exchange rate cap to avoid excessive capacity destruction on the system. The issue of system flexibility is currently under review by NG and the industry therefore the true impact of creating of a 'tighter' system which could cause disruptions to supply and demand, is not yet fully understood. With this in mind STUK believe that the proposed arbitrary exchange rate of 3:1 does little to minimise the risk of capacity destruction and STUK would support the use of a 1:1 to best avoid shrinking the system to a level where it is unable to adapt to short term changes in supply and demand patterns or until the use of and requirement for system flexibility is better understood.

As the UK moves towards a Low Carbon economy the emphasis on gas imports has again come into focus with gas seen as the natural bridging fuel for renewable electricity generation. The recently published 'Wickes report' suggests that to ensure security of supply the need for *"Our regulatory structures to be stable to enable partners to make strategic commitments to the UK market"*, STUK believes that the implementation of the substitution obligation and the retainer methodology creates unnecessary and unacceptable levels of uncertainty in the UK entry capacity regime which could have a detrimental effect on security of supply.

Should you wish to discuss any aspect of this letter further please contact me on the number below.

Yours sincerely

\*

Shelley Rouse  
UK Regulatory Affairs Advisor  
StatoilHydro (UK) Limited

\*Please note that due to electronic transfer this letter has not been signed