

**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: rstreet@statoil.com  
**Direct Line: 020 7410 6071**  
**Direct Fax: 020 7410 6108**

Eddie Blackburn  
Regulatory Frameworks  
National Grid  
National Grid House  
Gallows Hill  
Warwick  
CV34 6DA

[Box.transmissioncapacityandcharging@uk.ngrid.com](mailto:Box.transmissioncapacityandcharging@uk.ngrid.com)

Friday, 22 June 2007

Dear Eddie,

Re: Revisions to NTS Capacity Reserve Price Discount

Thank you for the opportunity to comment on the above modification proposal. Statoil (UK) Ltd (STUK) would like to make the following comments.

As a major importer of gas to the UK market STUK is concerned that appropriate allocation of entry capacity prices occurs. It is with interest therefore that Statoil considers the comments of National Grid that the use of discounted reserve prices in short-term auctions has generated effects that might be considered undesirable. STUK would wish to ensure that there are not inequalities in entry capacity charges which create a cross subsidisation between parties.

The discussion paper makes a number of observations and assumptions which STUK believe warrant further investigation by National Grid. However in the current environment of significant change in the entry capacity regime it is important that the materiality of these issues is confirmed prior to the definition of any program of work. In the event that National Grid can demonstrate that significant inequalities and cross subsidisation is occurring between entry points then STUK believes it is important that this is addressed as a priority. In the case that National Grid show that the significance of any inequalities and cross subsidisation is low then STUK believes that it may be better to consider this issue once the effects of the current changes to the entry capacity regime can be demonstrated.



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In the absence of a clear understanding of the nature and level of any distortion of the entry capacity regime STUK find it difficult to answer many of the specific questions raised in the paper. Clearly many of the assumptions made in the paper are open to challenge without clear evidence to support them. An example of this is the potential cross substitution between users who buy firm products and those who purchase interruptible products. The paper only considers the value of the discount given to users who buy the interruptible product without providing information relating to levels of the risk of interruption and the value of having the interruption available.

The paper also makes the assertion that variation in entry capacity prices seen when capacity is scarce is partly due to zero/discounted reserve prices. STUK struggled to find the logic in this statement. It would seem more logical that as with any product, scarcity will usually cause increased prices in relation to the products relative elasticity.

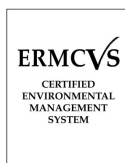
National Grid has also proposed a number of options in this paper for changing the Charging Methodology. While welcoming National Grid's thoughts on potential changes STUK would seek to understand the nature of the issues prior to supporting or limiting the industry to one of three solutions presented.

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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