

Our date
15.02.10

Our reference
STUK response GCD08

Administrative officer
Shelley Rouse

Your date
15.02.10

Your reference
NTS GCD 08

Attn.: Eddie Blackburn / Debra Hawkin
National Grid
NG House, Gallows Hill
Warwick
CV34 6DA

15 February 2010

Dear Debra / Eddie,

Re: NTS GCD 08: NTS Entry Charging Review

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 by purchasing long term entry capacity until 2020; with a view to potentially committing even further in the longer term should the regulatory conditions remain favourable.

STUK believe that the current Entry Capacity charging arrangements create perverse incentives for the booking of capacity, by effectively disincentivising long term commitments in favour of purchasing capacity at discounted rates in the shorter term auctions. Those shippers that choose to purchase long term capacity at existing ASEPs and so provide the long term investment signals needed by National Grid to enable them to effectively plan and manage the system, cross subsidise those players who choose to purchase capacity only in the short term auctions.

As the steadily increasing TO commodity charge, used to collect revenue under recovered at the auctions, is applied to the volumes of gas flowed, those shippers that have purchased long term capacity and are then subject to the TO commodity charge are in effect paying twice for NTS Entry capacity.

STUK have been active members of the Entry Capacity Review Group and as such support the objectives of the review believing that they are appropriate and correctly target the identified issue of auction over recovery and its impact on the TO commodity charge.

As the Entry capacity process is already complex, STUK are in support of a phased approach to changes in the charging elements. The changes proposed in Phase 1 should be given time to be fully considered to enable the effects of the change to be fully assessed and to help preserve the stability of the regime.

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The proposed 'phase 1' change, the removal of the entry capacity discounts received wide support at the review group and is seen as a sensible first step in encouraging long term entry capacity bookings. This combined with a limit placed on the release of interruptible capacity should go some way to decrease auction under recovery and inform the need for further changes that are to be developed in the future phases.

STUK believe that it is important for the phase 1 changes to be implemented by 01 October 2010 to allow full consideration and assessment by companies when making their purchasing strategy decisions for the February AMSEC and March QSEC auctions and agrees that a licence change will be required to allow implementation of this change. STUK welcome Ofgems suggestion that a derogation of the relevant clause could be given to allow Implementation for October 2010 provided a UNC modification is raised within the appropriate timescales.

At a time when system investment is high on the agenda, care needs to be taken that the regulatory regime does not create barriers to entry and remains as stable as possible.

Kind regards

Shelley Rouse
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