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Dominic Harrison
Regulatory Frameworks
National Grid
NG House
Gallows Hill
Warwick
CV34 6DA

20 November 2006

Dear Dominic,

Re: NTS GCM 03, Introduction of an SO Commodity Charge for NTS Storage Facilities

Statoil (UK) Ltd, (STUK) is not in support of UNC modification 0120, and therefore not supportive of the pricing proposals made in the above charging consultation.

As stated in our response to UNC modification 0120, STUK believes that there is little justification for the introduction of an SO Commodity Charge to NTS Storage exit flows. A lack of detailed analysis in the consultation does not enable the user to see how the proposed charge is determined and if it is indeed appropriate.

The proposed methodology for the charge suggests that SO costs that result from the provision and use of NTS storage facilities should be applied to Storage exit flows from 1 April 2007. It is difficult to make comment on the suitability of the proposals as the state of the regime as of 1 April 2007 is still unknown. If Enduring Exit reform is implemented the regime will look very different to now and elements of the proposed charge will nolonger be appropriate.

For example it is suggested that Exit Capacity TO costs are deemed to be included in the SO commodity for storage exit charge. NG NTS state that 'since all storage sites are interruptible, it would seem appropriate that this cost element is included', it is suggested that these charges be levied from 1 April 2007 at the same time the reform of the Exit arrangements will come into place. If Exit reform is implemented, interruptible status will be removed, with interruptible capacity only available on a daily basis, this includes storage sites. This element of the charge would therefore no-longer be applicable, but if Enduring Exit reform is not implemented the charge could be included.

Other elements of the proposed charge are unclear and without clarity over the nature of the regime to which the charge will be applicable, it is also difficult for STUK to determine whether the level of the proposed charge is accurate and whether the cost apportionment is correct as no figures are included in the consultation.

It can also be argued that the implementation of the SO commodity charge for storage exit flows will not be cost reflective due to the nature of the proposed arrangements. It is proposed that the charge be levied on both UDQI and UDQO flows, with no netting off taking place. This could mean that a storage sites nominates to withdraw 100 units and also inject 100 units creating a net flow of zero, but would be charged for 200 units even though no gas had flowed. This would likely lead to over recover by the NTS and cannot be seen to promote the efficient operation of the pipeline system.

The introduction of an SO Commodity Charge for storage exit flows could prove detrimental to security of supply in the UK. As the UK becomes increasingly reliant on imported sources of Natural gas the need for investment into Storage facilities and active use of them will be of great importance. The proposed charge represents an increase in the cost of using storage and us such could be seen to discourage storage use. It will almost certainly lead to a reducing of storage cycling. This could in turn lead to a lack of investment in new storage facilities and result in a threat to future UK security of supply.

Storage sites have long been seen to provide a benefit to the system as, as price and demand response often flow gas into the system at times of stress in effect offering a free balancing tool to the transporters and helping to reduce their compression costs. STUK believe that it would be beneficial for the value of this currently free service to be considered before an additional cost is applied to storage sites.

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

Shelley Rouse
Statoil (UK) Ltd