

**Statoil (U.K.) Limited
Gas Division**

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Robert Hull
Director, Transmission
Ofgem
9 Millbank
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31 October 2007

Dear Robert

Re: October 2007 TPCR - gas entry baseline re-consultation document

Statoil (UK) Ltd (STUK) would like to offer the following general comments, in response to this consultation.

Any approach for setting baselines five years ahead will, to a greater or lesser degree, be open to an element of inaccuracy and arbitrariness, given the dynamic nature of the network; however, the principle objective of calculating baselines to reflect the physical capability of the network seems appropriate. It is imperative, however, that any changes to baselines are considered in light of the consequential impact on buy-back risk. Moreover, any changes to the entry regime must also be considered holistically as changes to a single element of the regime will inevitably impact the effectiveness of changes elsewhere.

An external audit, commissioned by Ofgem, would give the industry a greater degree of confidence that the proposed baselines represent an appropriate reflection of the capability of the system and the sensitivities surrounding that, such as buy-back risk. Without such an audit it is very difficult for stakeholders to ascertain which approach to setting baselines is the most appropriate.

One might also expect that, as part of an external audit, the aggregate baseline is also reviewed to ensure that the final number is correct as this is clearly paramount, before we discuss how to allocate that capacity between entry points.

We would also like to have a better understanding of how changing the baselines will affect revenues from capacity sales. This will help stakeholders ascertain how increased revenue, for example, may be balanced against increased costs from buy back.



Owing to the ongoing consultation on substitution and trades and transfers, it would now seem appropriate to increase the amount of capacity held back from the long term auctions, up to at least 20 per cent. Where there is a risk that capacity might be substituted away from an entry point, it would be prudent to ensure that an element of flexibility remains at that entry point, to allow for new entrants and to avoid stranding capacity, where the nature of some imported gas renders it unfeasible to book long-term. Whilst a trade and transfer process may go some way to alleviating this risk, this is dependent on the capacity being surrendered or available as unsold.

STUK shares concerns with one respondent to the TPCR Initial Proposals, to the extent that the current regime has only been in place for a single price control period. Whilst we accept that the dynamics of the system are changing, more analysis needs to be undertaken to clearly identify the need for fundamental changes to the regime. In order to continue to encourage investment in the UK system, extreme caution must be exercised before introducing complex and costly systems, potentially at the cost of reducing certainty and stability.

Please do not hesitate to contact me if you wish to discuss any of the above further.

Yours sincerely

Christiane Sykes
UK Regulatory Affairs Manager
Statoil (UK) Ltd

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

