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For the Attention of Steve Smith –
Managing Director, Markets

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Our Ref.
Your Ref.
31 January 2005

Dear Steve,

RE: Application by Dragon LNG Ltd. under section 19C of the Gas Act 1986 for an exemption from section 19D of the Gas Act 1986

Thank you for the opportunity to comment on the above referenced application and the Ofgem initial views.

Centrica supports the development of new infrastructure that increases the options for new gas to reach the GB market. As such we welcome the development by Dragon LNG (and its sponsors) of the LNG import facility at Milford Haven. However, there are a number of issues with this application that merit comment.

Our specific points are as follows:

- a) Applicability of request to Phases 1 & 2 – we have previously raised concerns with the way that the exemption period has been reflected in the draft exemption order. We also note Ofgem's response to our concerns as articulated in the Ofgem Final Views Document relating to the South Hook proposed development. As such we are content that a consistent approach is being applied to the issue.
- b) Levying of Charges on Users – we have previously supported the original Ofgem position that tariffs levied on Users of the infrastructure should be published. We note that Ofgem has now revised its opinion and will not now require publication (see South Hook Final Views). Whilst we are disappointed that Ofgem's view has changed, as long as these (and any other charges applied by Dragon to users of the facility) are provided to Ofgem such that any dispute or challenge can be resolved by Ofgem and all exemptions are granted are on a common basis, we are content with this position.
- c) Anti-hoarding measures – we welcome the "open season" approach that Dragon has adopted for the project for initial capacity allocation. In respect of future capacity utilisation we welcome the information provided by Dragon on their proposals for UIOLI and look forward to seeing further details. We would note that Ofgem are not intending to approve any measures at this stage.

We have considered carefully the twin objectives underpinning the case for the exemption, namely, enhancing security of supply and whether there would be any detriment to competition. We believe that the more competing sources of wholesale gas entering the UK gas market via different entry

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routes the more security of supply will be enhanced. Furthermore, the more sources available from an increased range of independent suppliers of wholesale gas, the greater the pressure that can be brought to bear on wholesale gas prices in the market generally.

Finally, we note that there are four applications for formal exemption in the pipeline (either with Ofgem or the Commission), namely, Isle of Grain, South Hook, Dragon and BBL. In each case the applicant has had a competition analysis carried out by independent consultants. As before, we believe that Ofgem should be undertaking its own competition analysis of the market and submitting its own independent view as part of Ofgem's final conclusions and in the formal submissions to the Commission for their approval.

In conclusion, when considering this application against the criteria identified for an exemption to be granted, we agree with the Ofgem view that this project is likely overall to meet them all.

Should you wish to discuss this response further please do not hesitate to contact me.

Yours sincerely,

Simon Goldring
Transportation Manager

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