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Dear Mr. Buffey

CAYTHORPE GAS STORAGE PROJECT

**APPLICATION FOR EXEMPTION FROM THIRD PARTY ACCESS
REGULATIONS**

Caythorpe Gas Storage Limited (CGSL), a wholly owned subsidiary of Warwick Energy Limited (WEL), hereby requests exemption from negotiated Third Party Access under Section 19A of the Gas Act 1986 as amended by the Gas (Third Party Access) Regulations 2004 for its proposed gas storage scheme at Caythorpe, East Yorkshire.

The details of the Application are attached.

Please do not hesitate to call if you would like to discuss any aspect of the project or this Application.

Yours sincerely

Mark Petterson
Director



CAYTHORPE ONSHORE GAS STORAGE PROJECT

APPLICATION FOR EXEMPTION FROM THIRD PARTY ACCESS RIGHTS

(under Section 19 of Gas Act 1986 as amended by the Gas (Third Party Access) Regulations 2004)

Introduction

Caythorpe Gas Storage Limited (CGSL), a wholly owned subsidiary of Warwick Energy Limited, wishes to apply for exemption from negotiated Third Party Access (TPA) under Section 19A of the Gas Act 1986 for its proposed gas storage scheme utilising the Caythorpe gas field. This application is intended to demonstrate that the "use of the facility by other persons is not necessary for the operation of an economically efficient gas market".

Background

Warwick Energy Limited, through subsidiary companies, owns and operates the Caythorpe Gas Field near Bridlington in East Yorkshire, England. The field, which produces gas from conventional porous strata, was put on production in 1992 and will be nearly fully depleted by 2007 under its current operating regime. It is hoped that the field can be converted to a gas storage facility.

Initial technical studies on the possible conversion are complete and work is proceeding on planning and regulatory issues as well as more detailed engineering studies. A long term contract structure is being discussed with a major Gas Trader which would involve them obtaining exclusive rights to use the storage facility for 10 years. This contract would provide sufficient financial security for funds to be raised to develop this project but only if exemption from TPA regulations is obtained.

It is hoped that all technical, commercial, legal and regulatory issues surrounding this project will be resolved during 2005 allowing commencement of gas storage operations in mid-2007.

CGSL has also made an application to Ofgem for a Gas Transporter's Licence to provide the company with the right to transport and store the gas in a porous media.

Project Description

The ultimate capacity of the project is a function of the reservoir size, the number of wells drilled and the size of the compression facilities. Reservoir, well and compressor modelling studies are currently indicating the optimum scheme would comprise a usable storage volume of 2250 GWh with peak deliverability from the field of 90 GWh/d and peak injectivity of up to 90 GWh/d. Cycle time to either empty or fill the reservoir will be 45 days.

Even if the ongoing studies do increase the size of the project, the maximum capacity of the scheme will not exceed 3000 GWh of working volume, 120 GWh peak deliverability and 90 GWh peak injectivity. To cover all future eventualities these higher figures should ideally be used in any exemption order granted.

Use of the Facility

The facility will be built, owned and operated by Caythorpe Gas Storage Limited whose registered office is Wellesbourne House, Wellesbourne, Warwick, CV35 9JB (Company number 5283117).

It is intended that CGSL will have a single customer who will commit to paying capacity fees to CGSL on a long term basis in return for rights to store gas in the facility. It is anticipated that the company's customer will use the storage facility at Caythorpe to optimise their daily and weekly balancing position as well as providing a seasonal store for natural gas.

Justification for an Exemption from TPA Legislation

Caythorpe Gas Storage Limited is applying for exemption from negotiated Third Party Access under Section 19A of the Gas Act 1986 on the grounds that the "use of the facility by other persons is not necessary for the operation of an economically efficient gas market".

Even under the maximum possible scenario the facilities at Caythorpe would not represent more than 5% of the storage capacities in the UK gas market and are thus de minimus in the context of the market as a whole.

The Caythorpe project would have similar capacities to the development underway at Humbly Grove which has successfully been awarded exemption from TPA regulation for reasons similar to those outlined in this application.

The anticipated long term user of the facilities, whilst being a significant gas trader in the UK market, is not a dominant player in gas storage in the UK. The identity of the proposed Customer is not currently in the public domain but is outlined on a confidential basis, for Ofgem use only, in Annex A.

This project will introduce a new storage owner into the market creating additional diversity in this sector. Should this project be successful Warwick may look to convert other onshore fields under its control to gas storage projects adding further to the operation of the UK gas market.

Summary

Caythorpe Gas Storage Limited requests exemption from negotiated Third Party Access under section 19A of the Gas Act 1986 as the use of the facility by other persons is not necessary for the operation of an economically efficient gas market because;

- the size of the facility is de minimus compared to the gas storage market
- another facility of a similar size has already been granted an exemption
- the anticipated user of the facility is not a dominant player in this market
- the project will help expand diversity and competition in this sector