



CALOR

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Nienke Hendricks
Senior Manager, Gas Transmission
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Calor Gas Limited
Athena House
Athena Drive
Tachbrook Park
Warwick
CV34 6RL

Telephone: 01926 330088
www.calor.co.uk

Dear Ms Hendricks,

Ofgem Consultation Document “Gas Transmission – new NTS Entry Points, reserve prices in auctions and unit cost allowances (UCAs)”

We have carefully reviewed the above Ofgem Consultation Document, issued May 2005 and we comment as follows: -

The technique used by Transco to establish incremental costs to reinforce the NTS, which allow the entry charges to be set at each of the entry points, has been used for some years now. Most shippers believe it is a reasonable method of setting entry charges, which avoids cross subsidies between the different terminals.

As the northerly terminals require more reinforcement to move gas south, the entry charge has historically been higher, reflecting the higher costs for Transco to reinforce the NTS. Shippers accepted that the further north they beach their gas, the more it will cost Transco to reinforce the NTS and the more they have to pay in entry charges. Shippers have, so far, generally been satisfied that the shippers beaching gas further north were meeting the full cost of reinforcement (through higher entry charges) and there was no cross subsidy.

In the Consultation Document, we note that St Fergus, Barrow and Teesside have revised entry charges set to zero. We understand Ofgem have produced assumptions that seem to confirm that where the projected peak day flow, or demand for capacity at a terminal, is below the available baseline capacity, then the entry charge should be set at zero. This is a forward-looking assumption that completely ignores the substantial investment made since the NTS was established.



Ofgem seem to be trying to give signals to shippers that new gas should be beached at a terminal that has spare capacity, if the shipper wishes to avoid high entry charges. But it does seem unreasonable that previous investment to provide capacity at a terminal is discounted in setting those terminals baseline entry charges.

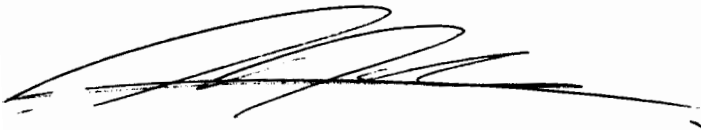
This must mean that Ofgem's assumptions result in a cross subsidy as Transco still expect the same total income from entry charges, so if some terminals have zero entry charge, the other terminals must be paying more!

For shippers who have already booked long-term entry capacity through the auction process, there may be an issue, as presumably they cannot change these charges. If shippers can obtain additional long-term capacity rights at zero charge at St Fergus, Barrow and Teesside, then there surely is a discriminatory issue.

We think that Ofgem's assumptions may distort the market and lead to a general lack of shipper confidence in booking long-term entry capacity!

We strongly support a much fuller discussion with shippers on the changes being proposed and to allow adequate consultation, the changes should not be made until the start of the new formula (2007).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Howard Kerr', with a long horizontal flourish extending to the right.

Howard Kerr

Managing Director.