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30<sup>th</sup> June 2005

Office of Gas and Electricity Markets  
9 Millbank  
London  
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Attention: Nienke Hendriks – Senior Manager, Gas Transmission

Dear Ms Hendriks,

Consultation Document – New NTS Entry Points, Reserve Prices and UCAG's

As a general principle, Marathon is supportive of measures designed to improve the cost reflectivity of the capacity booking regime and in particular the more accurate targeting of costs to the parties incurring them.

It is clear that the effects of raw material cost inflation and new storage sites and LNG terminals at entry points close to the market will have a significant effect on Transco's costs. It is our view that UCAG's, both new and existing, need to reflect these changes as accurately as possible to ensure proper cost targeting.

We are therefore supportive of Option 1, i.e. calculating new and existing UCAG's based on the methodology described in chapter 3. Further, we see no benefit in deferring the initial revision until after the September 2005 LTSEC auction, unless the relatively short time scale makes it impossible to implement

Looking to the future, we believe the gas flows into the NTS may well fluctuate between entry points more than in the past. LNG in particular has the ability to be switched with relative ease between markets in response to price signals. We are of the view that to counter this Ofgem should be prepared to review UCAG's more frequently, perhaps on an annual basis.

On the setting of UCAG's, we have no real objections to the current process. However given the likelihood of more frequent UCAG revisions, we think it would

probably be more efficient if in future Transco were given responsibility to model and set UCAG's. Ofgem's role would be to approve any changes in the underlying methodology. The key issue would be transparency so that all parties can satisfy themselves that an agreed and understood process was being followed

Yours Sincerely,

M J Ash  
Manager Energy Sales and Trading

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