

Mulberry Capital Limited

Mulberry House
St Mary Bourne
Nr Andover
Hants
SP11 6EF

Robert Hull Esq
Director, Transmission
Office of Gas and Electricity Markets (Ofgem)
9 Millbank
London
SW1P 3BE

30 January 2006

Tele/Fax : 01264 738104

Dear Mr Hull

I refer to the second Consultation paper dated December 2005 and reply on behalf of Canatxx Gas Storage Limited and Canatxx LNG Limited. This response is made from the general perspective of projects seeking entry and exit capacity from the NTS and is not Confidential. We have written separately and in confidence to Ofgem in relation to the specifics of our project.

Section 6.5 of the Consultation sets out Ofgem's view of the objectives of the Price Control and invites comments. We comment as follows:

Ofgem Objective	Canatxx Comment
Compliance with applicable legal requirements	We agree. Given the global nature of gas markets, the European dimension is important
Efficient network development and system operation.	We believe that storage projects provide both capacity and flexibility and are necessary for efficient operations of the NTS
Preventing undue discrimination.	We believe that UCAGs established in 2006 for any project must be on the same basis to those established for Milford Haven and Isle of Grain
Promotion of competition.	Ofgem should ensure that the benefits from new projects bringing new sources of gas to the UK are recognized in the TPCR
Appropriate allocation of risk.	Agreed
Preservation of security of supply.	Agreed. Given the lessons of the last few months in relation to imports via the Interconnector, utilisation at Isle of Grain and in relation to Ukraine, this is a critical

	issue. The TCPR must recognize the value to UK plc of ensuring that National Grid is appropriately incentivised to provide capacity to accommodate new sources of gas and new storage facilities.
Simplicity and transparency.	Agreed. Canatxx believes that the present regime is clear to all participants and simple in concept. Complexity has been added to it to make it more precise, this is not always necessary.
Stability	Agreed. New storage and importation projects take a long time to be developed and have a long pay-back period, any changes to the regime need to take this into account.

In addition, Canatxx responds specifically to the areas were Ofgem has asked in particular for views on (Section 6.19):

◆ Whether respondents agree that Ofgem’s focus on ‘user commitment’ options is appropriate, or whether they consider that there are other traditional price control options (or de-regulated revenue options) that might better meet Ofgem’s objectives for the TCPR, particularly in the context of the Authority’s statutory and other legal duties?

Canatxx believes that the TCPR process must not unreasonably interfere with the schedules of projects that are to be approved in 2006, Doing so risks adverse impact in relation to Competition, Security of Supply and may well be represent undue discrimination. As a result, we support the existing UCAG process

◆ What is the appropriate allocation of investment risk between network users (both generally and at specific locations), transmission companies, and consumers, during the different phases of investment development, e.g. planning and design, construction, and operation?

Canatxx believes that the present regime is fair, with 50% of the capex for a new System Entry Point underwritten by gas shippers at that point and the remainder borne by the entire shipper community via the return on the asset investment by National Grid. However, Canatxx would support a reduction in the necessary shipper commitment in relation to projects that offer significant benefit and flexibility to the operations of the NTS.

As a result of changes in supply sourcing and high gas prices, there may be an increase in “new projects” being developed. However, not all these projects will come to fruition and therefore we believe Ofgem should give added weight (in relation to system planning/enhancement and future scenarios) to projects that have already made significant capital investment and have reached defined milestones, such as Planning Permission for pipelines and storage facilities. A clear example of the effect of not considering this was the results of the bidding under NFFO 4. A “will secure” test would have led to a far better allocation of capacity to entities who had the capabilities to deliver projects.

◆ Whether it is appropriate to seek to separate, both formally and operationally, the issue of how charging and reserve prices are set at gas entry from the issue of how incremental revenues are determined under the price control?

Canatxx believes the key determinant of this should be non discrimination between projects seeking UCASs in 2006 and ones approved in 2004 and 2005, together with simplicity, transparency and stability.

I trust the above is helpful, if however you wish to discuss any of the above points please do not hesitate to contact me.

Yours sincerely

Graeme A J Thorne
Managing Director