

28 April 2006

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

Dear Mr Hull

I refer to the third TPCR 2002-2012 Consultation paper dated 30 March 2006 and reply on behalf of Canatxx Gas Storage Limited and Canatxx LNG Limited. This response is not Confidential.

Our aim in responding to the consultation is to focus on areas that are important to the creation of an environment for the UK that is able to attract LNG to the UK and also supportive of the development of new gas storage capacity that is important for security of supply as the UKCS declines. To that end, our comments are as follows:

CHAPTER 4: Gas entry incentives

Q4.1: Do you agree with our plans to change the nature of NGG NTS's licence obligations to release entry capacity? What particular measures are needed to ensure that the regime is transparent, and ensure against capacity being held back unnecessarily?

R4.1 We agree with this development to the regime, subject to there being satisfactory incentives on NGG NTS to ensure they make investment for necessary capacity and there is sufficient information available in the market place for participants to understand what the capability of the network is under different scenarios. The 'flow margin' (Q6.3 below) is an example of a significant capacity factor that has not been understood by the market and there should be no similar surprises in the future.

Q4.2: Do you agree with our plans to refine how the revenue drivers work in cases where NGG NTS provides extra entry capacity, where it is requested by network users?

R4.2 The Ofgem proposals are reasonable and will improve the operation of the regime for all players.

Q4.3: Do you agree that changes are needed to the arrangements for buying back capacity rights, in particular to ensure a different sharing of risk between shippers, NGG NTS and consumers in respect of capacity which is dependent on large investment projects?

R4.3 First, we believe that the connecting pipeline should not be built by NGG as this is a contestable activity and should be built, funded, operated by others. In relation to reinforcement, we believe that new arrangements are necessary to properly and fairly share the risk and the proposals in 4.25 represent a reasonable starting point. The key is for iterative dialogue with NGG to ensure that ‘fast track’ projects such as the ones in relation to Milford Haven are avoided.

In addition, we would support additional funding being made available to NGG to ensure they have the necessary resources to carry out the network analysis that is required in a dynamic gas market and even to fund feasibility and conceptual studies where NGG believes capacity expansion projects may be required but there are no clearly identifiable parties who can make the necessary user commitment to underwrite the cost of the design work. This applies to projects in the Midlands – Bacton area which are important for all players in the UK market but it is not practical for the costs of this to be pinned to Milford Haven or Bacton or Easington.

CHAPTER 6: Expenditure analysis: Capital expenditure

Q6.3: Should some adjustment be made to network flexibility margins, particularly for the NTS 5% planning flow margin?

R6.3 It is not possible to comment fully on the flexibility margins without understanding their purpose and how this is different from Operating Margins. However, given the fundamental changes that have taken place in the gas market, and the considerable CCGT based demand side response that has been shown to be available, it does appear that the 5% margin may no longer be required.

At the very least, it may be that there remains a requirement for a margin in certain areas of the NTS but not in others. The release of an additional 5% capacity may provide significant benefit to consumers with no real downside to NGG.

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