BOC RESPONSE TO TRANSMISSION PRICE CONTROL REVIEW: INITIAL PROPOSALS, JUNE 2006

Introduction:

Electricity and the Industrial gases business

BOC is a member of The BOC Group plc. The BOC Group is one of the major producers of industrial gases in the world. It products include the atmospheric gases (nitrogen, oxygen and argon) produced by air separation plants. These gases are supplied to a wide range of industry including the Steel, Chemicals, Refinery, Food and Electronics industries.

In the UK BOC operates large air separation plants. BOC regard electricity as the raw material used to drive the air separation process. In a year BOC uses approaching 2 TWh hours of electricity making us one of the very largest industrial electricity consumers in the country.

These plants are capital intensive costing tens of £ million, and are usually located near to a large customer or number of customers who take large amounts of gas supplied by connecting pipeline systems.

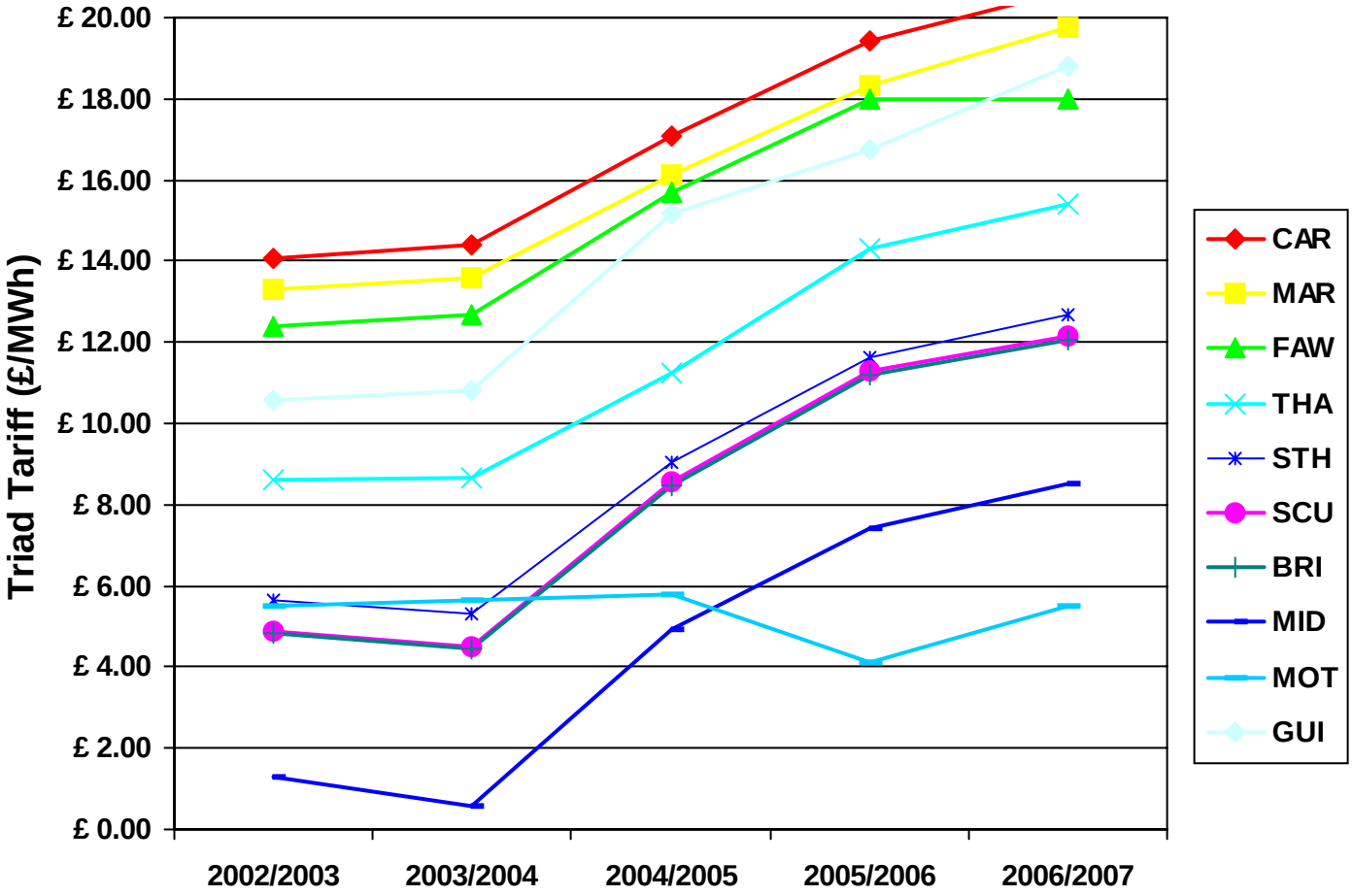
BOC has the price it pays for electricity has increased 2.5 times over the last 3 years, the amount of the increase cost being £xx millions each year.

The cost of electricity in the UK to industrial gas manufacturers is significantly higher than in other countries in Europe for example the annual wholesale price for the England Wales and Scotland is about 30% higher than France or Germany. Our UK customers are disadvantaged versus their European competitors as a large proportion of the industrial gas production cost is electricity.

BOC's electricity demand profile is such that energy charges are the dominant factor in its electricity bill nevertheless transmission charges are very significant.

The NG Electricity TNUoS (triad) pricing in £/KW has risen alarming over the last five years, this as can be seen from the chart below. This has had a consequential effect on BOC's bills which has been most unhelpful and in BOC's view this type of price rise, or anything like it should not be allowed in the forthcoming price control period.

A Chart showing Triad Tariff Price changes affecting different BOC plants over last 5 years



General points

Users requirements from the transmission price control

BOC as a large and intensive energy customers wishes to see a transmission price control which ensures that the transmission operators provide a service which fulfils their needs.

BOC believes that transmission operators should provide the following:

- Reliability of operation
- A system free of major transmission constraints
- A level of charges consistent with the operation of a efficient and well run system
- A level of charges consistent with an efficient and appropriate levels of capital and operating expenditure
- Charges which reflect the low risk of a monopoly business

In general BOC prefers transmission operators to err on the side of over investment in transmission capacity where this avoids transmission constraints on the system which may have the effect of increasing the commodity energy prices, particularly gas.

Customers should not pay for new renewable generation deep connection charge costs

BOC does not believe that increased transmission costs resulting from the connection of some renewable generation to the transmission system should be borne by large and intensive customers or indeed any customers.

BOC believes that a deep connection charge/TUNoS methodology for new generator investment should be implemented in order to provide the correct economic and locational signals.

BOC feels that paying for the costs of deep reinforcement transmission for the connection of large quantities of wind generation far from the centres of significant demand is unreasonable. BOC believes that such schemes do not contribute to security of supply.

Customers are already subsidising renewable generation through the Renewable Obligation. If further subsidy is required then this should come from direct government taxation.

SHETL's request for £626m of large investment schemes to accommodate forecast wind schemes is an example of this.

Responses to specific questions

Question 7.2, Approach to future input price changes and 1.5% annual efficiency saving

It seems sensible to provide for a mechanism for adjusting transmission companies' revenue in line with the need to expand their networks in response to additional connections to the system. This system is preferred to one setting a revenue level at the beginning of the review period which if too high may over reward or if set too low may result in under-investment which may put reliability at risk.

It is important to ensure that monopoly transmission operators are encouraged to reduce costs by improving the efficiency of their business operations. This is especially so during a period when the operators are predicting large increases in capital investment (Ofgem's allowance of £4.25bn over the 5 year period or possibility rising to £5bn, a 95% increase over the previous control period).

It is understood that Ofgem have had the benefit of expert evaluations of the transmission companies cost submissions for the period. If Ofgem is convinced that a level of 1.5% is achievable then customers is happy to support this.

Hugh Mortimer, 24 July 2006