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Dear Bob,

**Response to Ofgem's Transmission Price Control Review – Initial Proposals
June 2006**

Centrica Storage Ltd (CSL) welcomes the opportunity to comment on the fourth stage of your consultation on the Transmission Price Control Review for 2007- 2012 and is happy for this non confidential response to be published on Ofgem's web site.

You will be aware that the focus of our response to this consultation has centred on financial matters and our views have been incorporated in a joint shippers' response titled 'Measuring Risk and Accounting for Tax'. However, in addition to this, CSL offers the following views on the proposals for gas entry.

Firstly, CSL supports Ofgem's decision to revert back to arrangements which oblige NGG to release specific volumes of entry capacity, as practiced in the current control, and agree that a mechanism to enable unsold capacity to be permanently reallocated to be essential if the current inflexibility, that currently limits entry capacity release, is to be removed. To that end, we look forward to contributing to the development of such a mechanism which we hope will achieve a balance between complexity and transparency. Our initial thoughts are that a zonal approach would be preferable to a national model primarily due to the complexities of establishing accurate exchange rates. If substitution is limited to zones this complexity will reduce.

Secondly, we also believe that, consistent with the existing control, 20% of capacity should be held back; firstly to ensure that the market is not foreclosed to new entrants and secondly to maintain regulatory consistency.

Finally, we are pleased to see in Ofgem's Table 11.6 Initial proposals for gas entry baselines (2008/09) that the baselines appear to have been determined in line with current projected requirements. In particular we are encouraged that Easington's capacity has been set to 136 mscmd. Although we do not have access to Ofgem's model for calculating this figure, the 136 mscmd appears to be more in line with our own understanding of available capacity given Easington's location on the network

in relation to downstream compressor stations and the decline in utilisation of Theddlethorpe.

With regards to the operational buyback incentive we understand that Ofgem proposes to increase the downside sharing factor to 50% to make the incentive symmetrical and also that the cap and collar should be increased to £36m. We agree with these proposals and note that increased protection should compensate for any perceived increase in risk resulting from the revision of capacity baselines.

In conclusion, CSL supports Ofgem's proposals set out in its fourth consultation document and in particular the assessment of baseline capacity that NGG will be obliged to release. As you will be aware, CSL has a particular interest in the Easington ASEP and would welcome an opportunity to meet with you to discuss our thoughts regarding this site. To that end I will get in touch with your office towards the end of this week to arrange a suitable date.

Yours sincerely

Sonia Youd
Commercial Director