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Sonia Brown
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National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2007 (Ref 179/06)

Dear Ms Brown

I refer to the above Consultation paper and reply on behalf of Canatxx Gas Storage Limited and Canatxx LNG Limited. This response is not Confidential.

In relation to NGG SO cost and volume forecasts, we are supportive of the approach taken by Ofgem as set out in Section 4, with comments below in response to a number of the specific questions.

Q1. Given the uncertainty at this time in relation to flows from St Fergus in the 2007/08 year, it would seem appropriate to set the own use target in March 2007 so that it takes into account the coming winter. It can be argued that the St Fergus flow-rate is itself an Income Adjusting Event.

Q2. NGG's forecasts for own use gas look high, but this reflects the uncertainty described in the response to Q1 above.

Q3. As above, the own use gas volumes are hard to forecast due to the shift from St Fergus to Easington, though the market can clearly see this happening now as a result of the near real time flow data, with St Fergus flows around 40% below baseline.

Q6. We note in the Transmission Price Control Review: Updated Proposals (Ref 170/06), Para 7.23, that Ofgem will consult after the Final Proposals are published in December in relation to forecasting, network planning and flow margins etc. We do not understand the difference between Flow Margins and Operating Margins and so it will be helpful if that consultation explains this. Ahead of that, we are unable to comment in relation to the gas reserve volume.

Further comments:

We have a number of comments in relation to the SO service:

1. At the Transmission Charging Methodology Forum and in Mod 118, National Grid have broken down the historic SO Commodity charge into its component parts. We request that a forecast for 2006/7 is provided together with forecasts for 2007/8 based on the NG submission and the Ofgem initial proposals.

2. We would like to understand how the 'load related capex' set out in the September 2006 TCPR updated proposals feeds into the SO incentive. Specifically, does the investment and revenue associated with such capex feed into the SO Commodity charge? If so, please can Ofgem set out the level of such costs that are forecast in the period 2007/8 – 2011/12. As a Storage Operator, we want to understand if the proposed SO Commodity charge applied to storage, would storage pick up any such charges and if so on what basis.

3. We would like to understand the relationship between the own use gas volumes (ie compressor fuel) and the proposed reform of the NTS Exit regime in relation to flexibility. If NGG incurs additional costs by running more compressor stations, who pays for this?

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