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Date: 30 June 2004

Dear Andrew,

Transco's Consultation Report on PC78 – NTS TO Commodity Charge (NTS TO Revenue Under-Recovery)

Under the terms of the Gas Transporter Licence Condition 4A 2, Transco is required to provide the Authority with its charging methodology conclusion report following consultation on such charging methodology with shippers. The Authority shall have 28 days to consider this report, during which time the Authority may direct Transco to not implement the proposed modification to its transportation charging methodology.

The report on Pricing Consultation PC78 is provided to the Authority under cover of this letter.

The report sets out the methodology and process by which an NTS TO commodity charge may be levied by Transco. It is Transco's aim to levy the TO commodity charge on entry flows only to address any forecast under-recovery of TO revenue arising from entry capacity auctions, and primarily following the outcome of the Annual Monthly System Entry Capacity auction held in February of each year. The charges to apply in respect of a 12 month period from October will be confirmed by Transco by 1st August of each year, unless exceptional circumstances dictate otherwise and as discussed within the report.

It would be Transco's intention to apply a materiality threshold of £5m below which it would not anticipate levying a TO commodity charge for any forecast under-recovery of TO revenue. Naturally, this threshold would be reviewed over time as appropriate and Transco would continue to liaise with Ofgem over the operation of its transportation charging methodology.

If you have any questions relating to any of the above, please do not hesitate to contact me 01926 656213.

Yours sincerely,



Stuart Easterbrook
Transmission Charging Development Manager