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Jan Gascoigne,
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Dear Ms Gascoigne,

I refer to Consultation Document NTS GCM01: Alternative Methodologies for Determination of NTS Entry and Exit Capacity Prices dated 2nd November 2006 and reply on behalf of Canatxx Gas Storage Limited and Canatxx LNG Limited.

Whilst the TCMF has been useful in engaging the industry in relation to NTS charging and TCMF PR01 represents a fair position paper, we are concerned that the current wave of charging and exit reform consultations makes it difficult for shippers to fully appreciate the consequences of the proposed changes. In particular, Canatxx is concerned in relation to the fundamental relationship between entry capacity payments made in order to pass the entry NPV test to secure a new system entry point and the TO Commodity charge.

We understand that the total recovery from the TO Commodity charge is around £95 Million this year out of a total 'entry' income of around £230 Million and that this number could rise significantly in the next year if the trend is maintained. When this charge was introduced it was never intended that it would be so great and have such adverse consequences.

The entry regime is such that a number of shippers have made long term commitments to pay entry capacity charges, whether in respect of new entry points like ourselves and at Milford Haven or to secure capacity at terminals that were constrained, as in the case of St Fergus shippers. It is wholly unreasonable for such shippers to pay twice for capacity, first through the entry charge and second through the TO Commodity charge. As such, we believe that the major imperfection in the entry charging regime that has to be addressed relates to the discounts for short term entry capacity and the free interruptible service which is becoming increasingly attractive as the probability of interruption declines with UKCS production.

The presentation given at the 16th November TCMF illustrated the impact of such a high TO Commodity charge on the costs of NTS entry. In addition to the unfairness of paying twice, the TO Commodity gives rise to very large swings in the cost of entering the NTS which is a barrier to the liquidity that is needed to ensure a vibrant and competitive NBP based traded market.

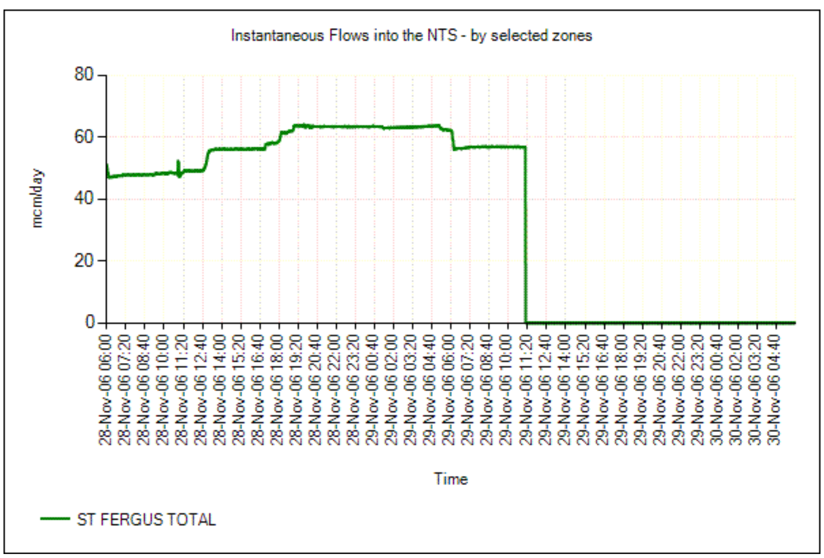
Whilst we understand that National Grid intends to issue a consultation in respect to these discounts, in the absence of such a consultation, our comments on GCM 01 have to be limited to the high level points, as follows:

Transcost or Transportation Model

- We support the Transportation Model Option 2 as it reflects the costs associated with moving gas more than Transcost. To move St Fergus and Teesside gas to sources of demand requires the use of assets that were built in the last 10 years which will be in the regulated asset base of National Grid for a further 40 years or so and hence have an ongoing cost that quite properly should be focused on the users of such terminals.
- We support Option 2b as we do believe that the decline in UKCS gas production means that flows will land at the nearest NTS entry point based on offshore infrastructure and distance rather than because of any differences in NTS entry charges. The SO Commodity charge is not focused on any entry point at present but a significant proportion of such costs are related to compressor fuel use. If Option 2a is chosen, there would be an incentive to land gas at St Fergus which would therefore increase the use of compressor fuel and hence increase overall system costs. This is inefficient.

Spare capacity

- In relation to the treatment of spare transmission capacity, we believe that shippers at a terminal with spare capacity already receive a significant benefit in relation to their ability to 'catch up' later in the day after system failures, thus avoiding imbalance and scheduling charges.
- By way of illustration, the graph below shows flows through the TOM terminal at St Fergus on 28th November 2006. If there was no spare capacity at St Fergus it may be that the TOM shippers would have had a significant shortfall at the end of the day.
- As a result of this significant benefit, we do not believe there is any requirement to modify the Transportation Model approach which would have to be subjective and could appear to be arbitrary.



Timing

Given that the key issue of discounted reserve prices remains unresolved (with any necessary Licence amendments) and discussions are continuing in relation to the Exit reforms and the SO Commodity charge (and its application to storage users), we believe that it may be appropriate to delay the introduction of the new charging until 1 October 2007. This will allow National Grid, Ofgem, shippers and all stakeholders to fully appreciate the entirety of the changes proposed.

Yours sincerely,

Graeme Thorne