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Dear Stuart,

National Grid Liquefied Natural Gas facilities price control

Thank you for your letter dated 17th August 2010 regarding C3 prices for NG LNG facilities at Avonmouth, Glenmavis and Partington. In your letter you refer to concerns expressed by NG LNG that regulated prices set out in NTS' Special Licence Condition C3 are no longer reflective of current cost and your intention to review the C3 prices with a view to finalising proposals by late December 2010, in time for the Operating Margins (OM) tender in February 2010.

Whilst SGN recognises the need to ensure NG LNG is able to recover reasonable costs incurred in providing regulated services and ensuring facilities remain commercially viable, we have a number of concerns regarding the scope and timetable of the review and implications for services other than OM.

Glenmavis currently provides essential services to SGN in relation to Scottish Independent Undertakings. The prices set out in NTS' Special Licence Condition C3 are also applicable to these services. There are no alternatives available. However as things currently stand SGN's allowed revenue is currently fixed until 2013. SGN would be exposed to any increase in C3 prices as a result of the review. This would clearly be inappropriate.

SGN is also concerned about the proposed timetable for the review. There are wider issues regarding asset life and long term viability of these facilities and SGN has had a number of discussions with NG LNG regarding possible options for the immediate and longer term. We are concerned that the timescale set to develop final proposals by late December 2010 does not provide sufficient time for the level of analysis required.

Ofgem has suggested that wider issues could be considered as part of the Transmission Price Control Review. We believe this would be an appropriate point to consider all issues and cost implications. This would also provide an opportunity to review arrangements in relation to Scottish Independent Undertakings and ensure appropriate cost recovery

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mechanisms are implemented under the Distribution Price Control Review. If Ofgem does decide to go ahead with the review under the proposed timescales then it will be necessary to indemnify the DNs from any change in C3 prices. This would mean re-opening GDPCR1.

In summary whilst SGN is sympathetic to the concerns raised by NG LNG and supports a review, we do not support the timetable proposed by Ofgem. We do not believe it is appropriate for SGN to be exposed to price risk as a result of changes to NG LNG C3 prices now. Our preference is for the review to be delayed until the Transmission Price Control Review. If this is not possible then DNs must be indemnified from any changes to C3 prices.

Should you wish to discuss any aspect further please contact me at the above address.

Malcolm J. Burns
Regulation Manager