



Ian Davis
Director – Grain LNG

*Promoting choice and
value to customers*

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Dear Ian,

Use it or lose it (UIOLI) arrangements at Grain LNG

Thank you for attending the meeting at our offices on 11 November to discuss the Grain LNG facility. At that meeting we discussed with you our potential concerns surrounding both the transparency to the market of operations at Grain LNG and also the operation of the UIOLI arrangements at Grain. It was agreed at the meeting that we would hold a further meeting to discuss your thoughts on these issues as expediently as possible.

Having had the opportunity to consider these issues further, I am writing to you to formally set out our concerns in both of these areas and to invite you to attend a further meeting which I have asked my PA, Janet Bevan, to arrange with you.

Firstly, in relation to transparency we have two principle concerns. We have received a number of informal complaints from customers that it is not possible to understand the status of the Grain LNG facility. In particular, customers wish to understand the potential deliverability from Grain LNG. The only information available to customers is what it is reported in the trade press which they have no way of verifying. We are also concerned that there is no effective information available to the market regarding any capacity that might be available to third parties through the UIOLI arrangements. The information that is available in respect of UIOLI on Grain LNG's website is often out of date and does not enable market participants to make informed decisions. We are also concerned that as a result of the limited information that is available, market participants are making their own assessments regarding the status of Grain LNG. For example, as the Grain LNG website is currently showing that no UIOLI is available, market expectations are that BP and/or Sonatrach are likely to shortly land LNG at Grain.

The second issue relates to the UIOLI arrangements themselves. From the description of the arrangements that you gave at the meeting, it was apparent that there was a 'use it' incentive on the relevant shippers. This incentive is created through the parties being required to pay Grain LNG for the capacity that they have booked. As we explained at the meeting, we are however

concerned that there are no effective arrangements for 'losing capacity' and making this unused capacity available to the market. In order for any such arrangements to be effective they would necessarily have to provide sufficient time to enable market participants to respond to utilise the capacity made available. We understand from speaking to a number of parties within the market that any time less than one week would create real logistical difficulties and is unlikely to provide sufficient time to permit market participants to make use of the capacity.

As you will appreciate, given the overall situation with respect to the availability of gas supplies for this winter, it is vital that Grain LNG plays its role in enabling market participants to import LNG into Great Britain. It is therefore exceptionally important that this meeting takes place in order that you can alleviate our concerns with respect to arrangements at Grain LNG. As we have stated previously, the objective is to ensure that capacity is not hoarded and that unused capacity can be obtained in a transparent market-based manner by third parties so as to maximise the use of the Grain LNG import facility.

At this stage I would like to remind you that the exemption that you currently enjoy from needing RTPA arrangements was granted on the basis that Grain LNG would implement effective anti-hoarding measures and publish sufficient relevant information in order to ensure that capacity is not hoarded and that unused capacity can be obtained in a transparent market-based manner by third parties. A failure to adequately address our concerns in these areas may result in formal notice being given that we intend to review the exemption, which could lead to the withdrawal of the exemption order.

Given that these issues will not only affect Grain LNG but also potentially impact on both BP and Sonatrach we are happy for you to share this letter with those parties. This is particularly relevant as the exemption order may be revoked as a result of a detrimental impact on competition caused by the behaviour of the throughputters.

If you have any questions or wish to discuss these issues prior to the meeting please do not hesitate to contact me on the above number. Alternatively please speak to Lisa Martin on 020 7901 7123 who will be happy to help.

Yours sincerely,



Sonia Brown
Director, Markets

Cc Angela Pearce, DTI