

Notice under section 23 (3) of the Gas Act 1986

The Gas and Electricity Markets Authority (the “**Authority**”) hereby gives notice pursuant to section 23(3) of the Gas Act 1986 (the “**Act**”) as follows:

1. The Authority proposes to modify the conditions of the gas transporter licence treated as granted to National Grid Gas plc (“**NGG**”) in respect of its National Transmission System (“**NTS**”) under section 7 of the Act by: removing special condition C3: *Restriction of Prices for LNG Storage Services* and replacing this condition with the condition set out in Annex 1 of this Notice.
2. The Authority proposes to make these licence modifications for the reasons set out in several documents including:
 - (i) Transmission Price Control Review: Final Proposals, Decision Document, 4 December 2006, Ref 206/06;
 - (ii) National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2007: Initial proposals consultation, 5 December 2006, Ref 208/06;
 - (iii) National Grid System Operator Incentives from 1st April 2007: final proposals and statutory licence consultation, 21 March 2007, Ref 43/07; and
 - (iv) Open Letter: Treatment of National Grid LNG Storage Services, 30 March 2007 (“**Open Letter**”).

with effect from 1st May 2007. These documents are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at www.ofgem.gov.uk.

3. In summary the effect of these proposed licence modifications are to increase the price caps on the licensee in relation to the provision of certain LNG storage services provided to those gas distribution network operators whose networks include independent systems which are operated using LNG and by the licensee for the provision of Operating Margins.

Further details of these licence modification proposals are set out in the Open Letter published alongside this Notice.

4. Any representations or objections to these proposed licence modifications may be made before 27 April 2007 and sent to:

Robert Hull
Director-Transmission
Office of Gas and Electricity Markets
9 Millbank

London
SW1P 3GE

Or by email to Robert.Hull@ofgem.gov.uk

All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their responses as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the website.

A handwritten signature in black ink, appearing to read 'R Hull', written in a cursive style.

Robert Hull
Director -Transmission
Duly authorised on behalf of the Gas and Electricity Markets
Authority 30 March 2007

ANNEX 1

Special Condition C3: Restriction of Prices for LNG Storage Services

1. The licensee shall ensure that the charges made by the licensee for the:
- a) provision of Operating Margins; and
 - b) supply of LNG storage services to any DN Operator whose transportation system includes independent systems which are operated using LNG
- in the period of 12 months commencing on 1 May 2007 and finishing on 30 April 2008 are the charges set out in Tables 1 and 2 below.

TABLE 1

LNG storage facility	Reserved space (pence per kWh per annum)	Reserved deliverability (pence per peak day kWh per annum)	Storage injection (pence per kWh)	Storage withdrawal (pence per kWh)
Glenmavis	A	E	0.349	0.015
Dynevor Arms	B	F	0.248	0.021
Avonmouth	C	G	0.238	0.024
Partington	D	H	0.323	0.021

Where:

- A Equals a price in pence per kWh per annum which is the higher of 1.706 or $0.85 * WAHGPPSt$.
- B Equals a price in pence per kWh per annum which is the higher of 2.840 or $0.85 * WAHDAPSSSt$.
- C Equals a price in pence per kWh per annum which is the higher of 1.463 or $0.85 * WAHAPSSSt$.

- D Equals a price in pence per kWh per annum which is the higher of 1.086 or $0.85 * WAHPPSSt$.
- E Equals a price in pence per kWh per annum which is the higher of 1.233 or $0.15 * WAHGPSSt$.
- F Equals a price in pence per kWh per annum which is the higher of 1.815 or $0.15 * WAHDAPSSSt$.
- G Equals a price in pence per kWh per annum which is the higher of 1.345 or $0.15 * WAHAPSSSt$.
- H Equals a price in pence per kWh per annum which is the higher of 0.994 or $0.15 * WAHPPSSt$.

WAHGPSSt Equals, in respect of the amounts payable by shippers to the licensee in respect of Storage Capacity as part of the supply of LNG storage services provided to shippers by the licensee at the licensee's LNG storage facility at Glenmavis, the average price (weighted by volume) payable by shippers in respect of that ten percent of all such Storage Capacity purchased for which the highest prices were payable by any shipper purchasing such Storage Capacity for the period of 12 months commencing on 1 May 2007 and finishing on 30 April 2008

WAHDAPSSSt Equals, in respect of the amounts payable by shippers to the licensee in respect of Storage Capacity as part of the supply of LNG storage services provided to shippers by the licensee at the licensee's LNG storage facility at Dynevor Arms, the average price (weighted by volume) payable by shippers in respect of that ten percent of all such Storage Capacity purchased for which the highest prices were payable by any shipper purchasing such Storage Capacity for the Period of 12 months commencing on 1 May 2007 and finishing on 30 April 2008.

WAHAPSSSt Equals, in respect of the amounts payable by shippers to the licensee in respect of Storage Capacity as part of the supply of LNG storage services provided to shippers by the licensee at the licensee's LNG storage facility at Avonmouth, the average price (weighted by volume) payable by shippers in respect of that ten percent of all such

Storage Capacity purchased for which the highest prices were payable by any shipper purchasing such Storage Capacity for the Period of 12 months commencing on 1 May 2007 and finishing on 30 April 2008.

WAHDPPSSt Equals, in respect of the amounts payable by shippers to the licensee in respect of Storage Capacity as part of the supply of LNG storage services provided to shippers by the licensee at the licensee's LNG storage facility at Partington, the average price (weighted by volume) payable by shippers in respect of that ten percent of all such Storage Capacity purchased for which the highest prices were payable by any shipper purchasing such Storage Capacity for the Period of 12 months commencing on 1 May 2007 and finishing on 30 April 2008.

TABLE 2

TANKER CHARGES	
Glenmavis tanker filling slots	£ 3437.50 per annum
Glenmavis tanker filling charge	£ 250 per tanker filled or partially filled

- 2 For each formula year for which, and to the extent to which, the licensee charges for the supply of LNG storage services in accordance with paragraph 1 of this condition the licensee, so far as concerns LNG storage arrangements, shall be deemed to have complied for that formula year with the provisions of Standard Special Conditions A4 (Charging - General) and A5 (Obligations as Regard Charging Methodology).
- 3 The licensee shall provide a report in writing to the Authority stating the volume and price of all Storage Capacity sold in respect of the period of 12 months commencing on 1st May 2007 and finishing on 30th April 2008. This report shall be provided to the Authority as soon as

reasonably practicable and in all circumstances by no later than 31st August 2008.

- 4 In this condition Operating Margins and Storage Capacity shall bear the meaning given to those terms in the licensee's network code as at 16 March 2007.