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Dear Hannah

**Response to Impact Assessment: Modification Proposal 104 “Storage Information at LNG Importation Facilities”**

National Grid Gas NTS welcomes the opportunity to respond to this Impact Assessment. National Grid Gas NTS is broadly neutral in relation to the implementation of Modification Proposal 104. Whilst we recognise the importance that disclosure of information has in the market, we do not believe that the benefits of this proposal have yet been clearly proven to be sufficient to offset the adverse implications identified by various industry parties.

**Response to specific questions**

**Question :** Do you agree that, on the basis of observations this winter, the Isle of Grain LNG importation facility generally operates as a baseload source of gas supply?

The information presented in Chart 2.2 Isle of Grain Output vs SAP would seem to initially indicate that the Isle of Grain facility maybe performing like a baseload supply source. However, considerations other than the relative price of gas at the NBP may need to be taken into account before justifying diverting LNG ships. These considerations may include things such as the availability of berthing slots and the practicalities of unloading, capacity, and the cost of having an LNG tanker at sea for longer, eg<sup>1</sup> it may be more economical to deliver eight shipments per month to the UK at 25p/therm than it is to deliver five shipments to the US at say 30p/therm.

**Question :** Do you agree with the assumption that LNG importation facilities will operate similarly to storage following a diversion of LNG imports away from GB?

National Grid Gas NTS does not agree with this assumption as there are key differences in how LNG importation facilities and storage operate. These differences include different boil off rates and the different rates at which individual facilities fill up and accept deliveries. For example, an LNG importation facility may need to send out a volume of gas at a relatively low price in order to prepare itself for a new delivery. An LNG importation facility might also need to keep an amount of gas in store to cover predicted boil off levels in order to retain

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<sup>1</sup> The numbers in this example are purely indicative and are not the result of any analysis.

flexibility over when to make deliveries into the UK market. Therefore flows from an LNG importation facility are likely to be influenced not only by UK NBP prices but also future prices of market prices such as those at the Henry Hub in the US. Whereas a storage facility will not be directly affected by prices in otherwise unconnected geographic markets; their behaviour would therefore only reflect responses to the UK NBP price.

**Question :** Do you agree that the provision of stock information regarding LNG importation facilities would allow market participants to make more informed forecasts of when LNG facilities would flow following a diversion of LNG imports away from GB, and that parties could then factor this into expectations of market price?

The market would know at what prices LNG stopped/started flowing and, if implemented, stock levels, however, LNG may not be flowing as a direct response to GB market price. LNG may flow on days when the market price is perceived not to be high in preparation of a delivery of LNG for example and may also not necessarily flow in response to sudden unexpected high prices given the knock on effects this may have on preferred future delivery schedule.

**Question :** Do you think that the estimated benefits obtained from our quantitative analysis are reasonable?

The assessment suggests that the benefits to customers associated to the LNG Importation stock levels are in the region of £1.6 million to £20 million over a 15 year period. Given that this benefit is spread across all consumers and realised over such a long time frame, National Grid Gas NTS considers this to be of limited materiality. The high case equates to a benefit of about £0.06 per household per year.

**Question :** Do you agree that the proposal would improve the economic and efficient operation of the market?

National Grid Gas NTS is neutral in respect to whether this proposal would improve the economic and efficient operation of the market but recognises the importance of the disclosure of information to the market.

**Question:** Do you think that if the proposal were implemented prior to more than one LNG importation facility being operational this would be inconsistent with the intent of the proposal to publish aggregate stock information?

National Grid Gas NTS welcomes Ofgem's suggestion in the IA that the proposal should not be implemented until more than one LNG importation facility becomes operational since implementation before this time may expose confidential data relating to the shippers at the Isle of Grain facility. As the intention of the Modification Proposal is to publish aggregate stock information, National Grid Gas NTS would seek to formalise the process, suggested by Ofgem, so that when any LNG importation facility does not provide stock information then an indication that the stock levels are unknown would be published rather than publishing incomplete data. To this end, if the modification proposal 0104 is approved then National Grid Gas NTS are minded to raise a separate proposal that will clarify the actions to take in the event that only incomplete information is available.

At the current time National Grid Gas NTS has no agreements with any LNG importation facility operator, other than Isle of Grain, that oblige provision of information relating to the

quantity of gas held at the facility and unless such agreements are reached, National Grid Gas NTS would be reliant on facility operators providing the information on a voluntary basis.

If you have any questions in relation to this response please contact me.

Yours sincerely

Chris Logue