



All LNG facility users and operators, gas shippers, suppliers and other interested parties.

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Dear Colleague

### **Anti-hoarding arrangements at the Isle of Grain LNG importation facility**

I am writing to you in relation to the arrangements for secondary access to phase 1 of the Isle of Grain LNG terminal (the "terminal" or "Grain 1"), to remind you of Ofgem's role with regard to those arrangements and to request your feedback based on your experience as a potential third party user of the terminal.

On 31 August 2007 the Joint Shipper (BP/Sonatrach) published revised arrangements to access secondary capacity at the terminal in the event that the Joint Shipper is not utilising capacity acquired on a primary basis (the "arrangements")<sup>1</sup>. We understand the arrangements have been fully operational since 3 October 2007.

It is important that any spare capacity at the terminal is made available to third parties through a transparent, non-discriminatory, market based mechanism, so as to allow maximum use of the terminal according to market conditions. An order exempting the terminal operator Grain LNG (GLNG) from the requirement to provide regulated Third Party Access at the terminal was granted on this basis.

Ofgem, with assistance from GLNG and the Joint Shipper, has an understanding of how these arrangements are intended to facilitate effective third party access to spare capacity at the terminal. However, it may be the case that some elements of the arrangements could reduce their effectiveness, by limiting the ability or the incentives of third parties to use secondary capacity. Potential issues with the arrangements include transparency, the timelines of the auction process (including notification of available capacity) and the payments to be made by potential or actual secondary shippers at any stage of the application and auction processes.

Since the current arrangements became fully operational at the beginning of October 2007, four scheduled berthing slots have been unused at the terminal<sup>2</sup>, implying a significant degree of underutilisation of Grain 1. Whilst this could possibly be explained by a number of circumstances (including current demand and supply conditions in global markets for LNG), it is also true that winter gas prices in GB make this a potentially attractive destination for available LNG cargoes, a situation which will likely remain true for the coming months. In

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<sup>1</sup> Information on the arrangements can be found on the Joint Shipper website <http://www.lngga.com>. On 18 September 2007 we published an open letter welcoming the arrangements and stating that we intended to monitor their effectiveness. This follows previous letters published during 2006 on earlier versions of the arrangements. These can be obtained on our website <http://www.ofgem.gov.uk>.

<sup>2</sup> 13 October 2007, 20 October 2007, 2 November 2007 and 22 November 2007 (the latter having been released to the terminal operator at the time of publication of this letter).

this context, some market participants have expressed with Ofgem their concerns that the lack of adequate secondary access arrangements at Grain 1 could be adding real pressure to gas prices in GB.

We believe that any issues with the arrangements at Grain 1 need to be identified and addressed as a matter of urgency. At present, Grain 1 is the only LNG importation terminal in operation in GB. New terminals are expected to become operational in 2008 although the exact commissioning dates remain uncertain. The lack of alternative routes for landing LNG in GB makes the effective operation of proper anti-hoarding arrangements at the Isle of Grain even more important.

Should you have any specific concerns in relation to the operation of the new arrangements, I would invite you to submit them to Ofgem without delay and by 10 December 2007 where possible. Any such concerns should be substantiated with details on how specific parts of the arrangements have prevented or may prevent you from applying for secondary capacity at the terminal under transparent, non discriminatory, market based conditions. We are particularly interested in gathering the views of those who have taken some steps to purchase spare capacity at the terminal since the current arrangements were published by the Joint Shipper. These may include initial attempts to obtain the necessary information from the Joint Shipper or attempts to qualify as a bidder under the arrangements.

Respondents to this letter may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. Respondents who wish their responses to remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in appendices to their responses.

Should any information received provide a sufficiently strong indication that the arrangements are not allowing for effective access to unused capacity at the terminal on a transparent and non discriminatory basis, we will consider starting a review of the exemption order which may lead to the revocation or amendment of the exemption order in accordance with its terms and conditions.

Should you wish to discuss further the content of this letter or your concerns with the arrangements, please do not hesitate to contact me or Carlos Martinez on 020 7901 7070 to arrange for a meeting.

Yours sincerely



Steve Smith  
**Managing Director, Markets**