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Dear Steve

I am writing in response to your letter dated 22<sup>nd</sup> November 2007 that was addressed to all LNG facility users, operators, gas shippers, suppliers and other interested parties. I would like to correct a factual inaccuracy in the letter, since we consider that the last sentence in paragraph 6 of your letter is likely to mislead respondents. This is because it does not reflect the fact that another direct route exists for LNG to be delivered to Great Britain ("GB") and to our knowledge this route remains almost totally unused.

Since February 2007, it has been possible for re-gasified LNG to be injected directly into the NTS at the Teesside entry point from LNG cargoes delivered to the "energy bridge" facility operated by Excelerate Energy Ltd. The delivery capability of this facility is similar to that of Grain LNG phase 1, both representing circa 2 - 3% of peak GB demand. In this light, it appears that any lack of use of this facility at Teesside would, by its very nature, have the same or a very similar impact on GB prices as any such under-use of the Grain LNG facility. To our knowledge, the facility at Teesside has only ever been used once and not at all during the current gas year. Despite this, we note, however, that Ofgem has not raised publicly any concerns over the lack of use of this facility at Teesside.

One reason why Ofgem may not have raised such concerns is that any lack of use of the facility at Teesside is attributable to the UK market being insufficiently attractive, at the prices presently prevailing, for LNG cargoes to be diverted to it from other, more profitable, destinations.

In addition, to the above LNG can be delivered to the European mainland, most locally to the Zeebrugge LNG terminal and imported into Great Britain at the Bacton NTS entry point via the Interconnector (UK).

It is clear, given the nature of the market for LNG supplies, that the same market forces applicable to the facility at Teesside (or via I(UK)) will also be applicable to the import of LNG into the Grain LNG facility and, as such, any lack of use of the Grain LNG facility cannot in any way be linked to the effectiveness of any of the anti-hoarding arrangements put in place at the Isle of Grain facility by Grain LNG Ltd or its primary capacity holder BP/Sonatrach.

You have clearly decided to highlight to potential respondents particular areas of concern in which you consider potential issues may exist that could reduce the effectiveness of the revised arrangements put in place by the primary shipper on 31<sup>st</sup> August 2007, and that such alleged lack of effectiveness could be adding real pressure to gas prices in GB. However, we would like to point out again that the secondary capacity access product put in place by the primary shipper is not the only mechanism through which LNG shippers may deliver gas to market via the Grain LNG facility. The secondary access arrangements and the Use It Or Lose It (UIOLI) product offered by Grain LNG supplement, rather than replace, the hierarchy of well-developed and robust over-the-counter trading arrangements that exist upstream in the LNG market. Under normal circumstances, where a shipper had no equity LNG of its own to import, LNG shippers/traders would seek to utilise such bi-lateral OTC deals (e.g.,

cargoes sold free on board at the loading port or on an ex-ship basis at the terminal) in preference to the secondary capacity access arrangements or UIOLI because these OTC arrangements are more standard, familiar and provide greater certainty. Such arrangements have been used at Grain on several occasions in the past and would be the standard way for an LNG cargo to gain access to the GB market should capacity not be being utilised directly by the primary shipper, either at Grain or at the Teesside gas port. This is the same as the means by which many LNG cargoes enter other markets around the World. We have highlighted this hierarchy of trading measures (with the secondary capacity access arrangement and UIOLI as the final clearing mechanisms should all other trading mechanisms fail) to Ofgem previously and this was a feature of the arrangements set out in the exemption applications for Grain 1 & 2 and 3.

Despite being disappointed by Ofgem's approach to this matter, we welcome the fact that any complaints submitted to Ofgem will need to be duly substantiated. Such substantiation could only be provided by a market participant with a cargo (which, for some reason, had not been placed into the GB market via the normal trading mechanisms) who found that there was a spare berthing slot at the Grain LNG facility which it wished to utilise but was unable to do so despite having attempted to use the secondary capacity access mechanism. To help Grain LNG understand the nature of the issues concerned and the context in which Ofgem felt it necessary to publish its letter we would be grateful if Ofgem could share any substantiated concerns in a constructive and collaborative manner as no such concerns have been raised with Grain LNG directly to date.

Yours sincerely,



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Copy to            Philip Davies  
                         Peter Boreham