

Ms Lesley Nugent
Ofgem
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Dear Ms Nugent,

Re: Request for derogation from standard condition C14 (Grid Code) ('SLC C14') of the electricity transmission licence of National Grid Electricity Transmission plc ('NGET') – 167/08

I write in response to Mr Stuart Cook's letter of 18 December 2008 on the above subject.

Firstly we are grateful that Ofgem granted the time-limited derogation sought by National Grid Electricity Transmission ('NGET'), thereby avoiding any potential constraint on the supply of power to the expansion phase of the National Grid Grain LNG ('Grain LNG') terminal and enabling it to commence full commercial operation. This decision has been borne out in relation to the benefits to UK plc of significant send-out during the winter period to date.

Secondly, in response to the questions posed by Ofgem in their consultation Grain LNG would like to make the following points.

Equipment has not currently been installed at the Grain LNG installation to enable automatic low frequency demand disconnection ('LFDD') on the basis that disconnection at 60% of Peak Demand would render the terminal inoperable and stop our ability to import LNG and export gas at levels which in future could potentially equate to 20% of the UK's gas demand. Under the scenario whereby LFDD has been triggered by problems with generation, and given Grain LNG's close proximity to several current and future gas fired power stations, the resulting loss of gas to the system could significantly worsen the generation situation. Consequently, and as a result of an oversight in relation to the contract with NGET, Grain LNG felt it prudent not to install such equipment and remains of the view that a derogation from the requirement to install LFDD could be the most sensible course of action going forward. However, as Grain LNG is not a license holder there is no straightforward means for it to apply for such a derogation.

Given the temporary nature of the derogation sought and the potential importance of the Grain LNG facility to UK plc during the winter period we consider that the NGET treatment was entirely sensible and this has been borne out in what has been a period of high demand and gas prices driven by cold weather and the Russia-Ukraine dispute.


It was never Grain LNG's intention to gain any commercial advantage from this situation and the take-or-pay (as opposed to throughput based) nature of the contractual arrangements with our customers and pass through of utility related costs, are such that no benefit will be derived.

While in the long term it may be possible for Grain LNG to find a suitably licensed entity to apply for a permanent derogation on its behalf, there is currently no certainty that the temporary derogation will be maintained or be capable of being extended. Consequently, to avoid risk of disconnection it is Grain LNG's intention to install LFDD equipment prior to the expiry of temporary derogation period.

Connections such as gas importation terminals may not have been taken into account when the rules on LFDD were initially drawn up. We would urge Ofgem and the industry to consider and if appropriate support permanent derogations for a class of infrastructure such as Grain LNG, which could be critical to support both the gas and electricity systems, and whose disconnection could exacerbate the very problem which LFDD is seeking to alleviate.

Grain LNG reserves its position in relation to whether to subsequently seek a permanent derogation for these same reasons.

Yours sincerely,



Dr Phil Carter
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