

NOTICE OF MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23 OF THE GAS ACT 1986

1. National Grid Gas plc ("NGG") holds a gas transporter licence (the "licence") in respect of its National Transmission System ("NTS") granted or treated as granted pursuant to section 7 of the Gas Act 1986 (the "Act").
2. In accordance with section 23(3) and (4) of the Act, the Gas and Electricity Markets Authority (the "Authority") gives notice that it proposes to modify the Special Conditions of the licence in accordance with Schedule 1 to this Notice. Marked changes are set out in Schedule 2 to this Notice.
3. The effect of the proposed licence modification is:
 - (i) to clarify the ability of the Authority to suspend the application of the prices specified in Special Condition C3 of the licence for the provision of Operating Margins services and/or the supply of LNG services to any DN Operator whose transportation system includes independent systems which are operated using LNG. This proposed licence modification would enable the Authority to suspend the prices in some cases and not in others. The proposed licence modification does not itself suspend the application of the prices.
 - (ii) to remove the references to Dynevor Arms from Special Condition C3 following the closure of this facility.
4. The reasons why the Authority proposes to make the licence modification referred to in paragraph 3(i) above were published by the Authority in the following Open Letter: "Operating Margins (OM) Contestability", Ofgem, 21 December 2009.
5. Ofgem received three written responses and one verbal response to its Open Letter. Of the written responses, one was supportive of the proposed licence modification as it considered that the current licence was not explicitly clear on this issue. The second respondent did not support the proposed licence modification as it considered that it would be inappropriate to suspend any of the C3 prices at this point in time and therefore did not consider that the licence modification was necessary. The third respondent did not provide a specific view on the proposed licence modification. The party who provided verbal comments noted its broad support for the Authority's proposed approach to amending the licence, noting that this seemed a broadly logical approach.
6. The Open Letter and written responses are available from the Ofgem website at www.ofgem.gov.uk.
7. Any representations or objections to the proposed licence modification may be made by **16 February 2010** and sent to:

Ian Marlee
Partner, Trading Arrangements
Ofgem
9 Millbank
London, SW1P 3GE
or by e-mail to gbmarkets@ofgem.gov.uk.

Ian Marlee
Partner, Trading Arrangements
Duly authorised on behalf of the Gas and Electricity Markets Authority
19 January 2010

SCHEDULE 1

(b) For Special Condition C3 (Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services) substitute:

Special Condition C3

Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services

1. (a) The licensee shall ensure that the charges made by the licensee for:
 - (i) the provision of Operating Margins; and
 - (ii) the supply of LNG storage services to any DN Operator whose transportation system includes independent systems which are operated using LNG

for the relevant year commencing on 1 May 2008 and each subsequent relevant year are the charges set out in Tables 1 and 2 below.

(b) The Authority may direct in writing that the requirement set out in paragraph 1(a) shall be suspended for such period of time as the Authority may specify in respect of (i) the provision of Operating Margins and/or (ii) the supply of LNG storage services to any DN Operator whose transportation system includes independent systems which are operated using LNG. Such a direction may be made in respect of one or more LNG storage facility and/or in respect of one or more Operating Margins requirements. For the purposes of this condition only, "Operating Margins requirements" means:

- Supply Loss & forecast demand change
- Compressor failure & pipeline failure, which is further subdivided into:
 - o Locational – South
 - o Locational – West
 - o Locational – Wales
 - o Locational – Scotland
 - o Locational – North
 - o Non-locational
- Orderly Rundown

or such other requirements as may be necessary having regard to the licensee's obligations under the Uniform Network Code and its Safety Case.

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	D	0.349 * LNGSPIT _t	0.015 * LNGSPIT _t
Avonmouth	B	E	0.238 * LNGSPIT _t	0.024 * LNGSPIT _t
Partington	C	F	0.323 * LNGSPIT _t	0.021 * LNGSPIT _t

Special Condition C3

Where:

- A equals a price in pence per kWh per annum which is the higher of $1.706 * LNGSPIT_t$ or $0.85 * WAHGPSS_t$.
- B equals a price in pence per kWh per annum which is the higher of $1.463 * LNGSPIT_t$ or $0.85 * WAHAPSS_t$.
- C equals a price in pence per kWh per annum which is the higher of $1.086 * LNGSPIT_t$ or $0.85 * WAHPPSS_t$
- D equals a price in pence per peak day kWh per annum which is the higher of $1.233 * LNGSPIT_t$ or $0.15 * WAHGPSS_t$
- E equals a price in pence per peak day kWh per annum which is the higher of $1.345 * LNGSPIT_t$ or $0.15 * WAHAPSS_t$
- F equals a price in pence per peak day kWh per annum which is the higher of $0.994 * LNGSPIT_t$ or $0.15 * WAHPPSS_t$

$WAHGPSS_t$ 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 relevant year

$WAHAPSS_t$ 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 relevant year

$WAHPPSS_t$ 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 relevant year

TABLE 2

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

$LNGSPIT_t$ is the price indexation adjustment term, which shall be calculated using the following formula:

$$LNGSPIT_t = \left(1 + \frac{RPI_t}{100}\right) \times LNGSPIT_{t-1}$$

Special Condition C3

where LNGSPIT shall take the value 1 in respect of the relevant year commencing 1 May 2007 only and RPI_t shall be as follows:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail prices index published or determined with respect to each of the six months from July to December (both inclusive) in relevant year t-1 and the arithmetic average of the retail prices index numbers published or determined with respect to the same months in relevant year t-2

2. For each relevant 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 relevant 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 each relevant year. This report shall be provided to the Authority as soon as reasonably practicable and in all circumstances by no later than 31 August following the end of the relevant year to which it relates.
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.
5. For the purposes of this condition only "relevant year" means a period of twelve months commencing on 1 May at 06:00 hours.

SCHEDULE 2**Special Condition C3****Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services**

1. (a) The licensee shall ensure that the charges made by the licensee for:
- (ii) the provision of Operating Margins; and
 - (ii) the supply of LNG storage services to any DN Operator whose transportation system includes independent systems which are operated using LNG

for the relevant year commencing on 1 May 2008 and each subsequent relevant year are the charges set out in Tables 1 and 2 below.

- (b) The Authority may direct in writing that the requirement set out in paragraph 1(a) shall be suspended for such period of time as the Authority may specify in respect of (i) the provision of Operating Margins and/or (ii) the supply of LNG storage services to any DN Operator whose transportation system includes independent systems which are operated using LNG. [Such a direction may be made in respect of one or more LNG storage facility and/or in respect of one or more Operating Margins requirements. For the purposes of this condition only, "Operating Margins requirements" means:](#)

- [Supply Loss & forecast demand change](#)
- [Compressor failure & pipeline failure, which is further subdivided into:](#)
 - o [Locational – South](#)
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[or such other requirements as may be necessary having regard to the licensee's obligations under the Uniform Network Code and its Safety Case.](#)

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-D	0.349 * LNGSPIT _t	0.015 * LNGSPIT _t
Dynevor Arms	B	F	0.248 * LNGSPIT_t	0.021 * LNGSPIT_t
Avonmouth	C-B	G-E	0.238 * LNGSPIT _t	0.024 * LNGSPIT _t
Partington	D-C	H-F	0.323 * LNGSPIT _t	0.021 * LNGSPIT _t

Where:

- A equals a price in pence per kWh per annum which is the higher of 1.706 * LNGSPIT_t or 0.85 * WAHG PSS_t.

~~B~~ equals a price in pence per kWh per annum which is the higher of ~~2.840 * LNGSPIT_t or 0.85 * WAHDAPSS_t.~~

EB equals a price in pence per kWh per annum which is the higher of 1.463 * LNGSPIT_t or 0.85 * WAHAPSS_t.

DC equals a price in pence per kWh per annum which is the higher of 1.086 * LNGSPIT_t or 0.85 * WAHPPSS_t

ED equals a price in pence per peak day kWh per annum which is the higher of 1.233 * LNGSPIT_t or 0.15*WAHGPSS_t

~~F~~ equals a price in pence per peak day kWh per annum which is the higher of ~~1.815 * LNGSPIT_t or 0.15 * WAHDAPSS_t.~~

GE equals a price in pence per peak day kWh per annum which is the higher of 1.345 * LNGSPIT_t or 0.15 * WAHAPSS_t

HE equals a price in pence per peak day kWh per annum which is the higher of 0.994 * LNGSPIT_t or 0.15 * WAHPPSS_t

WAHGPSS_t 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 relevant year

~~WAHDAPSS_t 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 relevant year~~

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WAHPPSS_t 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 relevant year

TABLE 2

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Glenmavis tanker filling slots	£3437.50 * LNGSPIT _t per annum

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LNGSPIT_t is the price indexation adjustment term, which shall be calculated using the following formula:

$$LNGSPIT_t = \left(1 + \frac{RPI_t}{100}\right) \times LNGSPIT_{t-1}$$

where LNGSPIT shall take the value 1 in respect of the relevant year commencing 1 May 2007 only and RPI_t shall be as follows:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail prices index published or determined with respect to each of the six months from July to December (both inclusive) in relevant year t-1 and the arithmetic average of the retail prices index numbers published or determined with respect to the same months in relevant year t-2

2. For each relevant 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 relevant 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 each relevant year. This report shall be provided to the Authority as soon as reasonably practicable and in all circumstances by no later than 31 August following the end of the relevant year to which it relates.
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.
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