

To: The Company Secretary
National Grid Gas plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

**MODIFICATION OF THE GAS TRANSPORTER LICENCE UNDER SECTION 23(1)(a)
OF THE GAS ACT 1986**

Whereas:

1. National Grid Gas plc ("the NTS Licensee") is the holder of a gas transporter (GT) licence in respect of its National Transmission System (NTS) ("the NTS Licence") treated as granted under section 7 of the Gas Act 1986 ("the Act").
2. Pursuant to section 23(3) and (4) of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice on 19 January 2010 ("the Notice") that it proposed to modify Special Condition C3 of the NTS Licence.
3. Pursuant to section 23(4)(b) of the Act, the Authority gave notice of its intention to modify the NTS Licence to the Secretary of State and has not received a direction from the Secretary of State not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received two written responses. One respondent did not support the proposed modification as it did not consider there to be effective competition in the Operating Margins (OM) market at this time. This respondent considered that there were other, more significant issues that needed to be addressed to allow competition in OM to emerge. While we acknowledge this response, we consider that the proposed amendments to the NTS Licence as described in the Notice are consistent with the operation of a competitive procurement framework and are therefore a necessary step toward achieving effective competition in the provision of OM services.

In the other response, the NTS Licensee gave its written consent to the proposed modification of the NTS Licence. Its consent was conditional on several non-material changes to the Notice which it considered would help the clarity, consistency and user friendliness of the drafting. The Authority agrees that these are non-material changes and improve the drafting without affecting the objectives served by Special Condition C3. The modification reflects these changes.

These responses have been placed in the Ofgem library and are available on the Ofgem website.

5. The Authority has carefully considered all representations made in relation to the proposed modification of the NTS Licence and not withdrawn.
6. In accordance with section 38A of the Act, the reasons for making this decision to modify the NTS Licence are set out in the following document:

"Operating Margins (OM) Contestability", Ofgem, 21 December 2009.

This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at (www.ofgem.gov.uk).

NOW THEREFORE

Pursuant to the powers contained in section 23(1)(a) of the Act, and with effect from 18 February 2010, the Authority hereby modifies the NTS Licence by substituting the provisions of Special Condition C3: Restriction of Prices for LNG Storage Services with the provisions set out in the Schedule to this Notice.

The official seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of

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

17 February 2010

SCHEDULE

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 the Operating Margins procured by the licensee for:

- Supply loss and forecast demand change;
- Compressor failure and pipeline failure, which is further subdivided into:
 - Locational – South;
 - Locational – West;
 - Locational – Wales;
 - Locational – Scotland; and
 - Locational – North
- Non-locational; and
- Orderly rundown

or such other requirements as may be necessary having regard to the licensee's obligations under the licensee's 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

Where:

- A equals a price in pence per kWh per annum which is the higher of $1.706 * \text{LNGSPIT}_t$ or $0.85 * \text{WAHG PSS}_t$.
- B equals a price in pence per kWh per annum which is the higher of $1.463 * \text{LNGSPIT}_t$ or $0.85 * \text{WAHAPSS}_t$.
- C equals a price in pence per kWh per annum which is the higher of $1.086 * \text{LNGSPIT}_t$ or $0.85 * \text{WAHPPSS}_t$
- D equals a price in pence per peak day kWh per annum which is the higher of $1.233 * \text{LNGSPIT}_t$ or $0.15 * \text{WAHG PSS}_t$
- E equals a price in pence per peak day kWh per annum which is the higher of $1.345 * \text{LNGSPIT}_t$ or $0.15 * \text{WAHAPSS}_t$
- F equals a price in pence per peak day kWh per annum which is the higher of $0.994 * \text{LNGSPIT}_t$ or $0.15 * \text{WAHPPSS}_t$

WAHG PSS_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	$£3437.50 * \text{LNGSPIT}_t$ per annum
Glenmavis tanker filling charge	$£250 * \text{LNGSPIT}_t$ per tanker filled or partially filled

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

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

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.
6. In this condition "Safety Case" means the safety case prepared by the licensee pursuant to the Gas Safety (Management) Regulations 1996.

