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all gas and electricity customers*

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Date: 2 March 2011

To all interested parties

Notice under Section 23 of the Gas Act 1986 – LNG Price Control

On 21 February 2011, we issued a notice¹ under Section 23 of the Gas Act 1986, in respect of Special Condition C3 of National Grid Gas' National Transmission System (NTS) licence. The purpose of this was to give notice of our proposal to modify Special Condition C3 in order to enact our Final Proposals for the price control of National Grid Liquefied Natural Gas (NG LNG) storage facilities².

Subsequently, NG LNG notified us of a slight error in our RAB calculations for Final Proposals. This error means that our Final Proposals underestimate the necessary increase in C3 prices. The corrected calculations imply increases of 118% and 279% at Avonmouth and Partington respectively; rather than increases of 115% and 270%, as in our Final Proposals document.

As a consequence, we have amended our proposed modification to Special Condition C3, and are publishing alongside this letter a new Notice under Section 23 of the Gas Act 1986 to reflect these corrections.

If you have any comments on this letter, please contact Paul O'Donovan (020 7901 7414; paul.odonovan@ofgem.gov.uk) in the first instance.

Yours faithfully

Mark Cox
Associate Partner, Industry Codes and Licensing

¹ 'Notice under Section 23 of the Gas Act 1986 – Liquefied Natural Gas (LNG) Price Control' (ref: 19/11), 21/02/2011, <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=47&refer=Networks/Trans/GasTransPolicy/LNGPriceControl>

² 'National Grid Liquefied Natural Gas (LNG) facilities price control - Final Proposals' (ref: 18/11), 21/02/2011, <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=46&refer=Networks/Trans/GasTransPolicy/LNGPriceControl>

NOTICE UNDER SECTION 23 OF THE GAS ACT 1986

The Gas and Electricity Markets Authority (the "**Authority**") hereby gives notice pursuant to section 23(3) of the Gas Act 1986 (the "**Act**") as follows:

1. The Authority proposes to modify the gas transporters licence treated as granted to National Grid Gas plc ("**the licensee**") in respect of its National Transmission System under section 7 of the Act by removing Special Condition C3: *Restriction of Prices for LNG Storage Services* and replacing this condition with the condition set out in Appendix 1 to this Notice.

2. The reasons why the Authority proposes to make these licence modifications are set out in the following documents:

- a. National Grid Liquefied Natural Gas facilities price control - Initial Thoughts, Ofgem 17 August 2010, Ref 111/10;
- b. LNG Storage price control - Initial Proposals, Ofgem, 22 November 2010, Ref 143/10;
- c. National Grid Liquefied Natural Gas facilities price control - Open Letter, Ofgem 24 January 2011; and
- d. LNG Storage price control - Final Proposals, Decision Document, 21 February 2011, 18/11

all available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE (telephone 0207 901 7003) or on the Ofgem website (www.ofgem.gov.uk).

3. In summary, the licence modifications are being proposed because the licensee remains a monopoly provider of some LNG storage services and it is in the interests of consumers that provision is made for the continued restriction of prices for such services until 1 May 2013. We initially published this notice on 21 February 2011. Subsequently, National Grid LNG have identified a slight error in our calculations, and so we are publishing an updated licence modification proposal to correct this.

4. The effect of the proposed modifications is to increase the minimum price the licensee is able to charge in relation to:

- a. the provision of certain LNG Storage services to those gas distribution network operators whose networks include independent systems which are operated using LNG; and
- b. the provision of Operating Margins to the transmission system operator.

5. Following the end of this statutory consultation, consideration of any representations received and the licensee providing its written consent to the modifications, if the Authority decides having regard to all the facts to make any modifications, it shall modify the licence with effect on and from 1 May 2011.

6. Any representations or objections to the proposed licence modifications must be made in writing (preferably in electronic form) on or before 30 March 2011, to:

Mark Cox,
Office of Gas and Electricity Markets,
9 Millbank,
London,
SW1P 3GE

or by email to gas.transmissionresponse@ofgem.gov.uk

7. All responses will normally be published on Ofgem's website and retained in the Ofgem Research and Information Centre. However, if respondents do not wish their responses to be made public then they should clearly mark their response as not for publication.

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Mark Cox
Associate Partner, Industry Codes and Licensing

Duly authorised on behalf of the Gas and Electricity Markets Authority
2 March 2011

Appendix 1

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 2011 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)
Avonmouth	W	Y	0.519 * LNGSPIT _t	0.052 * LNGSPIT _t
Partington	X	Z	1.224 * LNGSPIT _t	0.080 * LNGSPIT _t

Where:

W equals a price in pence per kWh per annum which is the higher of 3.189 * LNGSPIT_t or 0.85 * WAHAPSS_t.

X equals a price in pence per kWh per annum which is the higher of 4.116 * LNGSPIT_t or 0.85 * WAHPPSS_t

Y equals a price in pence per peak day kWh per annum which is the higher of 2.932 * LNGSPIT_t or 0.15 * WAHAPSS_t

Z equals a price in pence per peak day kWh per annum which is the higher of 3.767 * LNGSPIT_t or 0.15 * WAHPPSS_t

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	
Tanker filling slots	£7493.75 * LNGSPIT _t per annum
Tanker filling charge	£545.00 * 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 the start of the Day (as defined in the Uniform Network Code).
6. In this condition "Safety Case" means the safety case prepared by the licensee pursuant to the Gas Safety (Management) Regulations 1996.