

MODIFICATION OF THE GAS TRANSPORTER LICENCE UNDER SECTION 23 OF THE GAS ACT 1986

NOTICE OF REASONS FOR DECISION TO MODIFY THE SPECIAL CONDITIONS OF THE GAS TRANSPORTER LICENCE UNDER SECTION 38A OF THE GAS ACT 1986

Whereas:

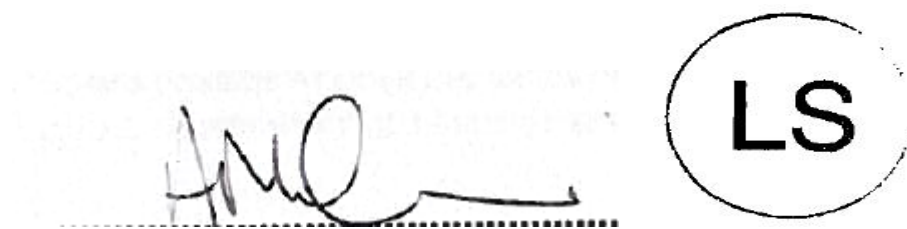
1. National Grid Gas plc, ("the NTS Licensee") is the holder of a gas transporter (GT) licence in respect of its National Transmission System (NTS) ("the NTS Licence") treated as granted under section 7 of the Gas Act 1986 ("the Act").
2. Pursuant to section 23(3) of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice on 2 March 2011 ("the Notice") that it proposed to modify a Special Condition of the NTS Licence.
3. The Authority received one representation (which was confidential) in relation to the proposed licence modification before the relevant time specified in the Notice. No responses were withdrawn.
4. The Authority has carefully considered the representation made in relation to the proposed licence modification and considers that no further amendment is necessary to the Notice in relation to the responses received.
5. 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.
6. On 31 March 2011 the licensee gave its written consent to the licence modification proposed in the Schedule to the Notice.
7. In accordance with section 38A of the Act, the reasons for making this decision to modify the NTS Licence are set out in several documents including:
 - (a) National Grid Liquefied Natural Gas facilities price control, Initial Thoughts, 17 August 2010, Ref 111/10;
 - (b) LNG Storage price control – Initial Proposals, Consultation Document, 22 November 2010, Ref 143/10;
 - (c) National Grid Liquefied Natural Gas facilities price control, Open Letter, 24 January 2011;
 - (d) National Grid Liquefied Natural Gas (LNG) facilities price control - Final Proposals, Decision Document, 21 February 2011, Ref 18/11; and
 - (e) Notice under Section 23 of the Gas Act 1986 – LNG Price Control, 2 March 2011, Ref 24/11

8. Copies of these documents are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE (020 7901 7003) or the Ofgem website (www.ofgem.gov.uk).

Pursuant to the powers contained in section 23(1)(a) of the Act, and with effect from 1 May 2011, the Authority hereby modifies the NTS Licence by removing Special Condition C3: *Restriction of Prices for LNG Storage Services* and replacing this condition with the condition set out in the Schedule to this Notice.

This document constitutes a notice of reasons for the decision to modify the special conditions of the licence under section 38A of the Act.

The official seal of the Gas and Electricity Markets Authority is affixed to this decision and is authenticated by

The image shows a handwritten signature in black ink, which appears to be 'Mark Cox', written over a dotted line. To the right of the signature is a circular stamp with the letters 'LS' inside.

Mark Cox
Associate Partner, Industry Codes and Licensing
Duly authorised on behalf of the Gas and Electricity Markets Authority

07 April 2011

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 2011 and each subsequent relevant year are the charges set out in Tables 1 and 2 below.

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

(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.

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.