



Andrew Burgess, Associate Partner
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Scotia Gas Networks
St. Lawrence House
Station Approach
Horley, Surrey
RH6 9HJ

Telephone: 07816 222761

email:
malcolm.burns@sgn.co.uk

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Dear Andrew,

Avonmouth Liquefied Natural Gas facility C3 price review

Scotia Gas Networks welcome the opportunity to comment on the proposed review of C3 prices for the Avonmouth liquefied natural gas (LNG) facility.

Currently, Avonmouth LNG is the only source of gas available to meet our Scottish Independent Undertaking (SIU) commitments at Oban, Campbeltown, Wick and Thurso. Contrary to Ofgem's letter of 25 September, LNG from Avonmouth will continue to be required as the sole source of gas for these SIUs in the medium term. However, whilst LNG remains the main supply source for two out of three of our current enduring solution options, we are working on the assumption that the October 2018 date from National Grid (NG) Gas is the backstop for supply of LNG from Avonmouth.

Given the experience at the Glenmavis LNG facility and the significant increase in C3 costs for provision of services to the SIUs, we are very firmly of the view that a rigorous assessment of NG LNG's ability to continue to provide this service needs to form part of the review process; it is essential that the facility can continue to operate efficiently through to October 2018. In addition, the Glenmavis experience has clearly shown that the C3 prices must be treated as a cost pass-through.

The failure and subsequent closure of the Glenmavis site significantly increased the cost of providing LNG to the SIUs; all of which were completely outside of our control. At the time, Ofgem modified the NGG special licence condition C26 to ensure that these increased costs could be recovered from all GB customers, rather than on SGN's shareholders. As part of the C3 prices review, we believe it is essential to ensure any changes in such prices between April 2013 and April 2018 are able to be passed through to all GB customers. C26 should therefore be reviewed as well as C3.

The continued availability of LNG from Avonmouth is essential to ensure security of supply to the SIUs. Whilst we are looking at alternative solutions to ensure the long-term security of supply to these remote networks, we will continue to rely on Avonmouth LNG for the medium term. We therefore welcome the proposed C3 price review and look forward to the Initial Proposals document in November 2012.

I am copying this letter to James Grayburn, Head of RIIO-GD1 for information.

Yours sincerely,

Malcolm J. Burns
Senior Regulation Manager

Cc: James Grayburn, Head of RIIO-GD1