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Dear Andy

RE: Avonmouth Liquefied Natural Gas facility C3 price review

Thank you for your letter dated 25th September and the opportunity to comment on Ofgem's proposed review of C3 prices. This response outlines National Grid LNG's views and strategy for Avonmouth and why regulated prices should fully recover ongoing costs given the industry has elected to rely on our services beyond 2013.

LNG storage sites were commissioned during the 1970s and 80s to provide physical support at the extremities of the then National Transmission System. In addition, the Glen Mavis facility located in Scotland, enabled liquefied gas to be transported by road tanker to remote towns served by independent distribution networks.

Since then the topography of the NTS and the diversity and flexibility of gas supplies into the UK have developed considerably, with a significant change in transmission requirements as supplies reduce from the UKCS and are replaced by interconnectors and LNG importers, and a collapse of demand and income for commercial storage services to shippers as a means of hedging peak demands and commodity prices.

Against this backdrop the LNG sites' key assets are at the end of their technical life and require significant capital reinvestment to maintain resilience, and, or return to full operational capability.

Our current income from regulated services is determined by the prevailing C3 prices which although allowed recovery of previous operating losses, excluded reinvestment in the sites critical assets. In accepting the price control, and in absence of any material levels of commercial income, we closed 4 of the original 5 LNG sites including Glen Mavis.

We continued operations from Avonmouth, including road tanker refuelling services for Scottish customers, pending more economic and efficient solutions being implemented by gas transporters. Throughout the process we engaged all stakeholders, making clear we were unable to provide assurances of operational resilience from the site beyond 2013.

Alongside regulated services we continued to offer commercial services to shippers and LNG distributors supplying LNG as road fuel and for 'off- grid' customers. Whilst this is a market with growth potential, there are economic and environmental competitive advantages of using imported LNG at source rather than through re-liquefaction of gas from the NTS, indicating a loss of future volumes and, or further reductions in the value of Avonmouth's services. Income from these services has been small, valued significantly less than the regulated price with overall revenues falling significantly below the cost of operating the site on an enduring basis.

In absence of any forthcoming information from SGN, our strategy beyond 2013 was to remove reliance on the element most at risk of failure, the annual liquefaction process, and provide a Transmission Support Service from existing stocks until 2018 when the proposed NTS pipeline is scheduled for operation.

After publication of the RIIO-GD1 business plans, and as a result of dialogue with SGN, it is apparent their enduring solution for Scottish Independent customers remains under development. In relying on Avonmouth to continue to provide LNG beyond 2013 this mandates an annual liquefaction programme and use of the assets most at risk of unplanned failure, for an as yet unknown number of years.

This has the effect of significantly increasing the capital and operating costs necessary for interim operation of a top tier COMAH site which remains a single point of failure in the overall supply chain.

Until receipt of your letter we had understood from Ofgem that LNG storage costs would be considered as part of the main RIIO-T1 price controlled revenue. We were therefore surprised that Ofgem are now considering a continuation of regulated C3 prices.

Whilst we are supportive of the revised approach and review of prevailing C3 prices, we believe that future allowances should adequately capture the fixed and variable costs associated with providing an interim service for the entire duration on which transporters elect to use the service, and allow for the site to be closed and decommissioned at the earliest opportunity.

We are concerned that in adopting C3 prices, volume uncertainty arising from regulated customers needs to be addressed. We would expect allowances for critical investment to underpin short term operational resilience. We would also expect allowances for the unrecovered costs of closing and demolishing previous sites and Avonmouth within the RIIO-T1 period.

In response to Ofgem's recent requests, we have provided information in support of your current review and welcome ongoing dialogue between ourselves to address our concerns.

Yours sincerely



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Director UK LNG and Metering

[cc Chris Train, Director Network Operations - NGG, SGN & HSE]