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Date: 21 December 2012

Dear Andrew,

Avonmouth Liquefied Natural Gas facility C3 price review – initial proposals

Scotia Gas Networks welcomes the opportunity to comment on the Initial Proposals (IP) for C3 prices for the Avonmouth liquefied natural gas (LNG) facility. Following the closure of Glenmavis, the Avonmouth LNG facility is the only liquefaction and storage facility able to provide LNG to the Scottish Independent Undertakings (SIUs); one of National Grid LNG's two regulatory services. This is an essential regulatory service that ensures the security of supply to our remote mainland SIUs at Oban, Campbeltown, Wick & Thurso. It is therefore vital that National Grid commits to provision of this service for the full period of the price control.

As you are aware, the failure and subsequent closure of the Glenmavis LNG facility led to a significant increase in the costs for the provision of this essential regulatory service. It also significantly increased the risk of non-delivery of LNG to the SIUs over the winter months. We have no control over the former; but have been proactive in seeking to ensure security of supply to the SIUs since the failure of Glenmavis' liquefaction plant; and since Glenmavis' closure we have invested in additional road tankers and developed LNG storage facilities at our site in Provan, Glasgow.

We welcome Ofgem's proposal for a five-year price control and the continuation of a C3 price cap. We will continue to rely on the Avonmouth LNG facility up until April 2018 and, as noted above, it is essential that National Grid provides a clear commitment to operate and maintain the facility up until that time. In committing to provide a regulatory service for a specified period of time, the onus should then be on National Grid to ensure that service is available or an alternative source of supply provided (at no additional cost to us) if this is not the case.

We note that the regulatory share will increase from 42% to 44% and that it will be remunerated based upon the economic life of the asset rather than the design life. We agree that this should be revisited if Avonmouth does not close in 2018.

We agree that consumers should not bear the decommissioning and closure costs for Avonmouth, this is consistent with the closure of previous LNG facilities at Dynevor Arms, Partington, Isle of Grain & Glenmavis.

We agree that it is appropriate to include commercial revenues foregone in the consideration of the C3 price cap; we agree that National Grid's shareholders should bear the costs of revenue falls at Avonmouth rather than consumers as they will benefit from increased commercial revenues from the Isle of Grain.

With regard to Appendix 4 of the IP, we welcome the ongoing efficiency implicit in the reducing opex costs and the overall 11% reduction in C3 prices. However, we would suggest that the central costs should also be subject to ongoing efficiencies.

We note Ofgem's view that this review should be limited to the C3 prices and that the issue of how we recover the costs we incur for the SIUs will be addressed as part of the RIIO-GD1 & T1 price control reviews. Whilst we welcome this commitment, it is essential that there is a holistic view of the SIU requirements and hence all the price controls need to be aligned in their treatment of these important assets.

We must stress the importance of ensuring that the Avonmouth LNG facility is appropriately funded to ensure a safe and reliable service in the provision of LNG; so that we can fulfil our obligations of supplying our four remote networks in Scotland. As noted above, we are now solely reliant on this facility, as the three other facilities have closed and there are no other alternatives to fall back in the country. This is a significant issue for us, and whilst we are actively exploring an enduring solution to mitigate this risk in the meantime Avonmouth must be operational and delivering a reliable service.

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