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Dear Natasha

Avonmouth LNGS C3 Price Review: Initial Proposals

National Grid welcomes the opportunity to respond to Ofgem's Initial Proposals, which were published on 26th November 2012. This response is on behalf of National Grid Gas in its capacity as the System Operator for the National Transmission System (NGG NTS). It is not confidential and NGG NTS has no objection to it being published.

Background

Operating Margins (OM) is a service required by the System Operator to manage / arrest significant pressure step changes and associated volume flow rates of gas as a consequence of unplanned high impact, low probability events (e.g. pipe breaks / compressor trips). In these circumstances, if timely response from market actions is insufficient, OM can reduce the risk of an emergency on the gas National Transmission System (NTS), or in the event of an emergency, ensure the safety of users on the system. The availability of adequate volumes and deliverability of OM forms part of the NGG Gas Transporters Safety Case under the Gas Safety (Management) Regulations (GSMR). In addition to the OM requirement, there is also a need for Transmission Support Services (TSS), which is defined in our Safety Case as a substitute for pipeline capacity at high demands to support a 1 in 20 peak day. One form of TSS is obtained from Constrained LNG (CLNG) held at Avonmouth.

NGG NTS set out its views regarding the future requirement of OM services and TSS in its submissions as part of RII0-T1 price control (pp 94-105 of our detailed response). Our South West locational requirement has not altered since the submission and we continue to identify the need to procure around 100GWh of OM annually.

This requirement has been met to date through a combination of commercial contracts and regulated (C3) gas at Avonmouth Liquefied Natural Gas Facility. The regulated component has been necessary due to the limited number of providers in the region that can meet OM requirements on a commercial basis. We have undertaken two competitive tender rounds in 2012 in order to identify potential commercial service providers, inviting tenders for either single or multiple year service provision. The total tendered volumes in each of these, was substantially lower than the identified South West requirement.

Ofgem's initial proposals

The results of the recent tender rounds illustrate that we will need to continue to rely on the Avonmouth Liquefied Natural Gas Facility for the bulk of the OM / CLNG requirements to meet our safety case in the South West. The only viable alternative to this service is an infrastructure solution which would take several years to implement. This solution was recognised within Ofgem's Final Proposals. During the interim period it is paramount that Avonmouth have sufficient funding to provide a safe and reliable service that allows NGG NTS to maintain the integrity of the network under an emergency.

The recently announced RIIO-T1 gas SO incentives final proposals place a reputational incentive on NGG NTS to promote competition in the procurement of OM services. Any successful action that enhances commercial participation is likely to reduce the requirement for regulated bookings and associated revenue at Avonmouth LNG storage facility. The regulated prices therefore need to be sufficient and flexible enough for Avonmouth to maintain a reliable service if the regulated volume requirement reduces. We find it challenging to see how the funding mechanism outlined in the initial proposals would meet the need for the continuation of a reliable service, whilst aligning with Avonmouth's business model requirements.

We also note that final proposals are due in February 2013 and that the competitive OM tender assessment process for the 2013/14 storage year is also required to take place during February. The process of undertaking an economic assessment can only be completed effectively in the event that regulated prices have been set prior to the tender assessment period, which is due to begin on 4th February 2013.

I hope you find these comments helpful. Should you wish to discuss any of the points raised, then please do not hesitate to contact David Wildash (david.wildash@nationalgrid.com 01926 65 4946) in the first instance.

Yours sincerely



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Cc Paul Whittaker