

Pamela Taylor
Associate Partner, European Strategy
Ofgem
9 Millbank
London
SW1P 3GE

Phil Carter
Head of Commercial, UK LNG
phil.carter@nationalgrid.com
Direct tel +44 (0)1926 65 5430
Direct fax +44 (0)1926 65 3787
Mobile +44 (0)7768 104281

www.nationalgrid.com

4th January 2013

By email

Dear Pamela,

National Grid Grain LNG's application for exemption from regulated third party access for Isle of Grain Phase 4 – consultation response

Grain LNG welcomes Ofgem's publication of its initial views and consultation, and thanks Ofgem for the opportunity to respond. Grain LNG fully supports Ofgem's initial view that it is appropriate to grant an exemption to the proposed Phase 4 development. That initial view is, in our opinion, fully justified by the data provided in Grain LNG's application.

It appears that the Energy Bill 2013 is predicated on gas having a significant role in electricity generation, rather than being merely a back-up for intermittent wind power. With North Sea gas production inevitably falling year on year, increasing demand for LNG (National Grid Gas's Slow Progression scenario) will reduce flexibility of import terminals unless additional capacity is constructed. Therefore, should the market interest be sufficient to allow it to proceed, we believe Grain 4 will be good for competition and security of supply.

That said the UK market is unattractive on price compared to other markets for LNG and the incentives to invest in new gas and power infrastructure remain uncertain. The main commercial deals signed in recent years, and certainly since the March 2011 Japanese earthquake, have been characterised by multi-billion pound upstream investments underpinned by multi-year post construction contracts to dedicated import terminals to secure energy supplies. Asian end customers and their authorities have successfully concluded contracts with Australian, Qatari and US upstream supplies. Therefore, to appeal to new customers and ensure ready supplies of LNG in the future, UK and EU terminals need to be as attractive as possible in a global market which is currently heavily focused on more lucrative Asian markets. Overly burdensome regulation is neither necessary nor desirable in a highly competitive LNG importation environment and an rTPA exemption, acceptable to Grain LNG and its potential Phase 4 customers, is essential in order to provide the certainty against which this large and long term investment will take place.

This view leads to a number of concerns with the consultation document and the way in which the exemption order has been drafted compared to the approach used in previous phases of Grain LNG. Grain LNG believes that a number of revisions would assist in making the arrangements more favourable to new customers and, in light of the difficult market conditions noted above, make the process of contracting with them more certain and less complicated and therefore more likely to succeed. Given the competitive nature of the UK market, and the expectation that the existing terminal capacity in the UK will become regulated as current exemptions expire, such changes should not, we believe, give rise to any cause for concern.

Key areas of concern:

A) Duration and Payback

We are deeply concerned by Ofgem's proposal to limit the exemption to 24 years and urge that the requested term of 27 years be restored. The proposed exemption term of 24 years will reduce the likelihood of the Grain 4 development moving forward, for the following reasons:

- Grain LNG applied for an exemption with duration of 27 years in order to match prospective customers' requirements for different start dates and contractually-secure downstream positions of up to 25 years, as an essential component of a much larger investment in the LNG supply chain. Given potential customers will be seeking a match between upstream and downstream arrangements for the full term of any upstream development contracts and on terms they are confident with relative to the upstream investment, any mis-match may lead them to look to alternative destinations, especially in light of the greater attractiveness of markets in the Pacific basin. The proposed reduction to 24 years will create such a mis-match making Grain LNG less attractive to at least one of those customers and this may fatally undermine the overall business case for the Phase 4 expansion.
- The scenario in which Ofgem identifies the payback period as 24 years is the most favourable of those submitted by Grain LNG in its application. In this scenario, if the exemption duration is set to equal the payback period then the net present value (NPV) of the investment will be zero, i.e., Grain LNG will only recover its investment on a risk-adjusted basis. If any of the assumptions or risks used in this scenario outturn less favourably than assumed then this implies a negative NPV for the project. A base-case zero NPV provides no incentive for Grain LNG's shareholder, National Grid, to invest in this project in preference to other projects of a similar risk profile which have positive NPVs. In an environment where there are significant constraints and uncertainties, the return at 27 years is at best modest and there is no certainty that this will be the outcome as other scenarios do not payback within this period.
- The scenarios included in the application do not make explicit provision for a range of risks which are difficult to quantify over the long time period, such as increased taxes, environmental and/or safety compliance costs. As a result we consider Ofgem should reconsider their initial view and accept the 27 year term for the exemption as requested.
- We recognise that the regulatory framework provides for long term contracts. In the event that Ofgem were only minded to grant a 24 year exemption then it is not clear to us how Ofgem would regard a long term contract extending beyond the exemption by, say, three years. We would therefore welcome guidance regarding Ofgem's approach towards honouring contract terms during any period beyond the exemption duration so that we and our customers can take this into account in developing capacity contracts.

B) Capacity that becomes un-contracted should be subject to rTPA arrangements

In Grain LNG's view, it is vital that Condition 3 in the Draft Exemption Order be re-drafted for the following reasons: 1) any Phase 4 customer sharing tank space and send-out rights with another customer whose capacity contract expires, will face uncertainty around how the un-contracted capacity will be re-allocated under an rTPA regime and therefore how their own capacity rights and value may be adversely impacted; 2) capacity contracts may terminate unexpectedly leaving Grain LNG exposed if it cannot re-market that capacity readily.

The former will make customers less inclined to contract with Grain 4 as they will want certainty that any new counter-party(s) will be introduced on effectively the same terms as the departing sharing Shipper and in a manner which ensures that the incumbent's commercial information and arrangements remain confidential. Otherwise the incumbent faces the risk of

significant commercial harm or incurring material additional transaction costs. It is therefore highly desirable that an exemption granted for the full term of the incumbent's capacity should provide them with long term certainty and the only means by which this can be achieved is to grant the exemption for all of the shared capacity over the same time period. There should be no concerns that capacity that becomes available following the expiry of the original contracts will not be offered to the market as the requirement for effective anti-hoarding measures in the exemption order ensures it will be and in addition Grain LNG will be fully incentivised to sell the capacity.

In relation to the latter, as currently drafted Condition 3 could have unintended and undesirable consequences if one of the original Phase 4 customers' contracts had to be terminated early, for example due to default or bankruptcy. This capacity would then be uncontracted within the intended term of the exemption. Grain LNG would wish to re-market the remaining term of the contract on the same terms as those currently offered in the open season. This will be particularly important as the elements of terminal capacity (storage and re-gasification) are shared. Given that Grain LNG would be in the position of "distressed seller" in this scenario, it is essential that it is able to minimise the loss of the terminated Shipper's capacity by re-selling it without first having to go through a process of agreeing rTPA terms with Ofgem. It would also ensure that the capacity sharing arrangements remain within Grain LNG's control, allowing it to minimize the impact of the other party's default on the remaining sharing Shipper.

This approach also allows for the eventuality that relevant legislation is changed before the Phase 4 capacity contracts expire. Legislative changes could, for example, allow terminal operators to apply for further exemption for existing capacity against specified criteria, or could impose some other regulatory regime. Condition 3 as currently drafted could be in conflict with such amended legislation.

To address these shortcomings, Grain LNG favours a block exemption covering 8.4bcm/yr for the full 27 years (the same form as granted by Ofgem for the earlier phases of Grain LNG), with the terminal operator having the ability to re-market shared capacity on a basis consistent with the various counter-parties sharing arrangements (while maintaining the principles of fair, non-discriminatory and transparent offering of capacity) and therefore providing the greatest scope and flexibility for Grain LNG to attract investment in the GB market.

Under the current legislative framework, it is anticipated that capacity will become subject to rTPA arrangements at the end of any exemption period and consequently as significant amounts of regulated GB capacity will be marketed around the time that any shorter term Grain 4 contracts expire, it is hard to see how Ofgem would have any particular concerns regarding a small amount of shared Phase 4 capacity¹ remaining exempt.

That said, where Phase 4 capacity is not shared, and is sold to existing customers holding capacity in other phases (which it is anticipated will be remarketed under an rTPA regime once the exemptions for those phases expire), Grain LNG accepts that it may be more appropriate for that capacity to revert to rTPA at the end of its Phase 4 contract term. In other words a block exemption with a carve-out, whereby any capacity which is not shared and reaches its full term is re-marketed on an rTPA basis, would be workable.

C) Ex-Ante Approval and Periodic Review of Anti-Hoarding Mechanisms

We regard the indication that Ofgem is prepared to provide positive, ex ante approval of anti-hoarding arrangements as a very constructive step. We are however extremely concerned

¹ Phase 4 capacity is ~8bcm/y compared to Phase 1 to 3 which provide ~20bcm/y. If other UK terminals are included the Grain Phase 4 capacity is ~8bcm/y compared to ~50bcm/y, albeit it is proposed that only the shared element of this 8bcm/y remains exempt for the full 27 years (as above).

that the draft Condition which would give effect to this will be impractical and could introduce discriminatory obligations within or between individual terminals or groups of capacity holders, by imposing conditions on Phase 4 capacity holders which would not apply to those in other Grain phases, or in other UK terminals.

Under the draft Conditions, the exemption would effectively be qualified and subject to Ofgem's approval of anti-hoarding arrangements (AHAs) after the exemption is notionally granted. This seems to us to fundamentally undermine the purpose of the exemption, which is to provide sufficient certainty for both infrastructure investor and prospective customers such that the investment can take place. While we fully accept that Ofgem's role includes approving AHAs, it should be kept in mind that until these are concluded it would not be prudent for the counter-parties to finalise contracts and proceed to FID. Given the time limit applied to commencement and completion of construction (Article 36.9 of the Directive refers) and the duration of the construction process itself, we clearly do not want to find that the exemption has been granted but we cannot commence construction because the AHAs have yet to be approved. It is therefore essential that any process for approving the AHAs is both timely and coordinated closely with completion of contractual arrangements.

Similarly, the proposal that the AHAs should be subject to periodic review has the effect of making the exemption perpetually uncertain. Given that certain changes could significantly undermine the value of the primary capacity to our customers this introduces risk which may encourage some customers to seek alternative markets for their LNG.

We recognise the importance of having anti-hoarding arrangements in place, and clearly there needs to be a mechanism whereby changes to anti-hoarding arrangements can be made where necessary, in response to changing market conditions, EU law, or legally binding EU network codes changes. Such changes should apply to all market participants equally, and should not be applied in a way that affects one group of customers or one terminal in a discriminatory manner which might distort competition. We therefore believe that it is essential that AHA obligations for Grain LNG's Phase 4 customers should be consistent (in effect, if not necessarily in form) with those applying to other facilities operating in the same market (i.e. in the UK and arguably across North West Europe). This would obviously include the UK's South Hook and Dragon LNG importation terminals and should in our view also be aligned with AHAs at the exempt Gate and Dunkerque terminals. This would ensure that the UK's AHAs are non-discriminatory both within the UK market and vis-à-vis competing terminals in NW Europe. Otherwise there is a risk that regulatory oversight itself risks distorting competition and working to the disadvantage of the UK in securing LNG supplies at a time of global shortage and un-attractiveness of the EU as a destination more generally.

It is not clear what right of appeal the affected customer or terminal owner would have in relation to a proposed change to AHAs which impacted them adversely compared to their competitors. It would not be particularly satisfactory if the only option available to an LNG terminal or its customers is an application for judicial review.

In its initial views document Ofgem states that to date no concerns have been raised with the existing AHAs for Grain 1, 2 or 3. It is difficult to see why the obligations on Phase 4 capacity holders should differ from those currently in operation at the terminal. Any difference could potentially be discriminatory and distort the market, unless they were in response to some specific differences between Phase 4 capacity holders and other Grain LNG or UK LNG market players. As we are not aware of any such differences we would expect AHAs on Phase 4 to closely reflect those already in use for Phases 1 to 3.

Therefore, in Grain LNG's view, Ofgem should grant the exemption on the basis that consistent AHAs to those in Phases 1-3 will be put in place for Phase 4. Should, in the future, Ofgem see a need to modify AHAs it should develop a framework to ensure that AHAs across all GB terminals are operated in a consistent manner which meets the requirements of

the wider LNG market and is in accordance with the relevant EU and domestic regulations while giving the terminals the freedom to go further than the basic requirements should they wish to do so. The framework should form the basis of Ofgem's assessment of the AHAs at all GB terminals.

D) Proposal to review the decision following the conclusion of the open season

We understand the requirement for Ofgem to ensure that the contractual terms agreed are consistent with the basis of the original exemption request. However there is a balance to be struck here in relation to materiality.

If Ofgem were to re-open the exemption and change the terms on which negotiations were based then this will naturally lead to a re-opening of the commercial negotiations and the potential for a very protracted iterative process (and most likely failure of the process altogether).

Furthermore, the decision to grant an exemption must be based on the five criteria set out in legislation. In the case of the Grain 4 application, none of these criteria are likely to be materially adversely affected by the open season's outcome:

- **Security of supply**

The exemption application sets out that the addition of the Grain 4 infrastructure will contribute to UK security of gas supply, and Ofgem's initial views accepts this position. As the physical presence of the capacity is the determinative factor in this assessment, the outcome of the open season is irrelevant except to the extent that it provides the investment signal which allows Grain LNG to invest in the infrastructure. Phase 4 will only proceed through the introduction of new customer(s) and while this may lead to greater diversity of supply, the open season does not dictate where they ultimately source their LNG from at any time during the term of their contracts. Consequently provided Phase 4 proceeds, the benefits to security of supply will accrue irrespective of the identity of the new customers.

- **Investment, Ownership and Charging**

Ownership and Charging relate to Grain LNG's business model and are entirely unaffected by the outcome of the open season. While construction costs and the amount customers are willing to pay may change through final negotiations and this may impact Grain LNG's forecast returns, these changes will be within the level of uncertainty associated with Grain LNG's ongoing operational risks and are therefore not material.

- **Competition**

Frontier's analysis was based on "worst case scenarios" in each of the markets considered. The analysis showed that there are no scenarios where the addition of Grain 4 would adversely affect competition in any of these markets such that the exemption should not be granted. Consequently there can be no justification for reviewing the exemption decision, regardless of the outcome of the open season.

In light of the above, Grain LNG is of the view that Ofgem should only re-examine the exemption decision if it believes criteria a) or e) have been materially affected by the outcome of the open season and then conduct the review in a four month period, in line with the exemption order granted for Grain 3.

E) Capacity Limitation

Part B of the schedule of the draft exemption limits the exemption to the capacity contracted at the facility from the date it commences commercial operation, rather than the ~8bcm/yr of capacity applied for (albeit the footnote states that "The facility has a total capacity of 8.4" bcm/yr). This means that capacity contracts with all the Phase 4 customers will need to be entered into at broadly the same time, which may not be practicable under current market conditions if, for example, some customers are waiting for certainty regarding an upstream

FID. Grain LNG may need to proceed, at its own risk, without all the capacity being underwritten by capacity contracts and may not build all the capacity from day 1 on the assumption that additional capacity can be sold, and built, at a later date. Clearly if this flexibility is not granted in the exemption it forces a situation of needing to wait for the last customer to fall into line, creating a more complex and less likely outcome.

To afford the greatest chance of the project proceeding, while not limiting the ability of customers to sign up for capacity, Grain LNG proposes that Ofgem grant the exemption for the full 8.4bcm/yr, (as it did for the earlier phases of capacity) allowing Grain LNG the flexibility to close contracts and construct the capacity up to that limit as and when feasible. While this should be acceptable to the regulatory bodies given that it provides the greatest opportunity for the GB market to benefit (in terms of security of supply and competition) from at least the initial capacity contracted and leaves Grain LNG exposed to the risk associated with finalising contracts for any remaining Phase 4 capacity, we recognise Ofgem might be concerned by such an open ended arrangement. We therefore propose that it be time limited to 3 years from the date when the first element of Phase 4 capacity commences commercial operations. As described in section D above the exact allocation and timing between customers should not be a cause for concern.

F) Revocation

Part E of the schedule of the draft exemption states that Ofgem must revoke the exemption if construction is not started within 2 years, or if operations have not commenced within 5 years, from the date the exemption is granted. This is consistent with legislation but, as noted previously, the conditionality applied to the grant of an exemption does have the potential to “start the clock ticking” while delaying deal closure and the start of construction. The timetable for construction is already tight and while Grain LNG can understand why Ofgem may wish to avoid “hoarding” of exemption rights which may prevent investment elsewhere we feel that the practicalities of aligning the regulatory, commercial, and construction aspect of the project need to be kept in mind if unacceptable risk to Grain LNG and its new customers is to be avoided. Grain LNG notes that the 5 year deadline in relation to the exemption is unhelpful given that National Grid Gas is suggesting that entry capacity reinforcement could take as long as 7 years to build, depending as it does on planning consent.

As the revocation condition is currently drafted, a final investment decision taken shortly before the two year deadline for construction to start would inevitably lead to the exemption being revoked before the expansion can be brought into service. In Grain LNG’s view, to reflect the risks involved in the construction process, the condition should give the authority the option to revoke the exemption after two years if construction has not commenced and the option, but not the obligation, to revoke the exemption 7 years after the start of construction, to be consistent with the timescales of the transmission system to which Grain LNG is connected and which Ofgem regulates.

Response to specific questions raised:

1. Do you agree that the requested exemption should be granted subject to the conditions set out in this letter? Please explain your reasons.

Grain LNG agrees that the exemption should be granted but believes strongly that, as discussed elsewhere in this response, some of the draft Conditions should be amended. Specifically:

- Limiting the duration to 24 years would mean that, on the current financial analysis, the value of Grain LNG’s multi-£100m investment in the development is zero on a risk-adjusted basis and under certain scenarios would be negative. This gives National Grid, as Grain LNG’s investor and sole shareholder, very little incentive to invest. It may also inhibit the ability of prospective customers to link upstream

contracts and investments fully to regasification capacity. Therefore the duration of the exemption should be increased to 27 years, so as not inhibit upstream investment by potential counter-parties and to give Grain LNG the prospect of extracting appropriate risk-adjusted value from the project;

- The exemption should be drafted in a more flexible way to more pragmatically reflect the requirements of the incoming Shippers and the process by which contracts are negotiated, as discussed elsewhere in this response;
- The treatment of shared Grain 4 capacity becoming un-contracted during the term of the exemption should be revised such that it remains exempt for the entire duration of the exemption. This is discussed in more detail under section B above.
- Ex ante approval of the AHAs should not be a condition and any new form of AHAs should be developed subsequently (if required) via a framework applicable to all GB LNG terminals and developed with explicit reference to similar obligations imposed in neighbouring jurisdictions. As in previous exemptions, similar arrangements to those in place currently at Grain LNG or other GB terminals should be sufficient and would be non-discriminatory, compared to making Grain 4 customers face an as-yet-unknown higher hurdle.
- Automatic revocation of the exemption after construction has started and before the facility has been commissioned significantly increases the risk to the developer and the potential customers and is highly undesirable. A timescale for the latter should be consistent with the potential time-scales for reinforcement of the transmission system to which the terminal is connected.

2. Do you consider that the capacity that becomes un-contracted upon expiry of the initial contracts should be subject to rTPA arrangements? Please explain your reasons.

Please refer to section B above.

3. What are your views on the analysis undertaken by Frontier? In particular, do you consider that they have sufficiently extended the analysis into the future to support the conclusion that that no competition concerns from the Grain 4 exemption would arise?

Ofgem's initial views and consultation letter rightly recognizes (at p24) the difficulty of extending any analysis meaningfully beyond the limit set by Frontier. Key data sources, such as National Grid's 10 Year Statement and ENTSOG's Ten Year Network Development Plan, provide information only for a 10 year planning horizon. Any projections further into the future would be conjecture and of little or no real value.

The results of Frontier's analysis are consistent with slow progression from the current market situation with continuing need for gas - the most likely scenario in which a Phase 4 is required. In Grain LNG's view, therefore, it is impractical to seek to extend the competition analysis beyond the horizon examined by Frontier.

We note that the regulator has the ability to require LNG terminals to amend their AHAs in response to developing market conditions, and we believe this, while introducing a level of uncertainty for Grain LNG and its customers, should be sufficient for the regulator.

We note also that Grain LNG's existing exemptions will expire in 2025, 2029 and 2033, Dragon LNG's capacity is expected to come under the RTPA regime in 2030 and South Hook's from 2034. There is therefore a relatively small window of a few years beyond Frontier's analysis before increasing amounts of LNG importation capacity are expected to become subject to regulated access regimes. It seems unlikely that the relevant UK and European markets will change so significantly in that window as to justify a

requirement for further analysis, using increasingly uncertain baseline data, before an exemption can be granted.

As it is anticipated that there will be regulated capacity at Grain, South Hook and Dragon towards the end of the Grain 4 exemption period, with the regulator having the opportunity to manage access into the UK via those regulatory arrangements, it is hard to see how a small amount of exempt Phase 4 capacity could influence the market, especially as the regulator retains the powers to review the AHAs associated with that capacity if necessary.

4. Do you consider the three levels of anti-hoarding arrangements which would apply to Grain 4 are sufficient to ensure that any unused capacity will be offered to third parties? What improvements (if any) would you like to see GLNG to make?

Grain LNG believes that the anti-hoarding arrangements in place for Phases 1-3 are, at the very least, consistent with those offered by other terminals in UK and EU. In practice, with six primary capacity holders active within Grain LNG and two more expected through Phase 4, there is and will continue to be significant internal competition. It is hard to see how any one capacity holder could benefit from restricting access to unused capacity.

Grain LNG further notes that it has recently amended its website to incorporate the GLE Transparency Template, developed in conjunction with EU regulatory bodies and LNG importation terminal operators, and therefore representing precisely the consistent multi-jurisdictional approach which Grain LNG supports.

Consequently, Grain LNG's view is that the existing arrangements should be more than adequate for Phase 4.

5. Is there any information currently not provided by GLNG that would facilitate the trading of unused capacity through any of the three mechanisms available? Please provide details of the information that you would like GLNG to make available.

As the information provided by Grain LNG and its customers is consistent with the GLE Transparency Template, we do not believe it is appropriate that additional, potentially discriminatory provisions should be imposed on Grain 4 and/or its customers.

6. Do you consider that GLNG and primary capacity holders at Grain need to provide more information on secondary capacity products or do you consider that contact details of primary capacity holders are sufficient?

A considerable amount of information is already available on the Grain LNG website, which implements the GLE Transparency Template (developed in conjunction with EU regulatory bodies and LNG importation terminal operators) and on the National Grid Gas website in terms of activity levels and stored energy.

- Further information can be obtained from customers directly - the normal means by which secondary trading of cargoes and capacity normally takes place within the global LNG market.
- Grain LNG has never been contacted by an LNG market participant expressing concern that they are unable to initiate commercial discussions with a Grain LNG Shipper due to a shortage of published information on any Shipper's capacity trading arrangements. In the absence of demand from the wider market, we do not believe it is appropriate for Grain LNG or its customers to be required to incur additional expense to provide information or facilities which are of no value to the wider market. Such obligations would in effect distort the market, since they would burden Grain LNG or its customers unfairly in comparison with parties active in other terminals or other jurisdictions.

- If Ofgem believes that additional information should be provided by Grain LNG (over and above that provided by other UK terminals and those in neighbouring jurisdictions) then the reasoning for this should be clearly set out.

7. Do you consider that anti-hoarding arrangements at the Isle of Grain terminal might need to be improved to reflect the increasing importance of LNG as a route to market in the future? Should they be subject to initial regulatory approval and periodic review?

As noted previously, in the scenario where LNG increases in importance as a route to market so more and more capacity is expected to become regulated as exemptions expire and it is not clear that changes to AHAs are required, particularly in relation to the relatively small amount of Phase 4 capacity in question. However, should Ofgem or market participants view that changes are necessary then Grain LNG believes that Ofgem should develop a clear framework to do so.

The framework under which AHAs are established and/or amended throughout Ofgem's jurisdiction should be based on principles which have the support of market participants.

- In our view, any regulatory review of anti-hoarding arrangements should have as its starting point the aim of ensuring that these arrangements are consistent (or at a minimum have consistent effect) across the three existing UK terminals. The regulator has existing powers to review the arrangements at each terminal (exempt or, in future, regulated).
- Any changes to anti-hoarding arrangements at any or all of the UK's LNG terminals should have the explicit aims of introducing arrangements which are supported by LNG market participants globally and in the UK as being necessary and effective. The number of players in these markets we understand to be relatively small and participants regularly communicate with each other, trading cargoes and seeking opportunities through normal commercial discussions. To the best of our knowledge, no market participant has ever made a well-founded complaint about the AHAs at Grain LNG (or other UK terminals) and, in the absence of a well-founded complaint, there is no justification for imposing additional obligations.
- **Periodic review** As stated above, Grain LNG would welcome ex ante approval of AHAs based on a clear framework. If Ofgem decides not to consult on and implement such a framework for AHAs, an explicit obligation on the regulator to undertake a review of anti-hoarding arrangements at specified intervals seems to us to be unnecessary. The high level obligation on Grain LNG and other terminal operators to ensure effective anti-hoarding measures are in place gives Ofgem a right to review these measures on an *ad hoc* basis in the light of changing circumstances. If Ofgem has satisfied itself that a particular set of arrangements are satisfactory, there is no value in Ofgem being required to review those arrangements after a set period of time. Any review should be triggered by a change in the relevant market or markets.

8. Do you consider that there should be any further conditions attached to the proposed exemption? If so, which specific conditions do you suggest?

Grain LNG and its prospective Phase 4 customers intend (subject to the exemption being granted and contractual discussions being resolved satisfactorily) to commit to very significant investments in the terminal and related upstream projects. In Grain LNG's view, and as set out above, several of the draft Conditions, should be deleted or amended. Clarity, consistency and certainty will be enhanced by minimal conditioning of the exemption and by minimizing the prospect of subsequent amendments being

imposed, particularly where these are not consistent with conditions and obligations imposed on other terminal operators.

9. Do you consider that the exemption should have an expiry date within which the proposed expansion should be operational? If yes, do you agree with the proposed 5 years?

Please refer to section F above.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Phil Carter', is centered within a light gray rectangular box.

Phil Carter
Head of Commercial, UK LNG