

To: The Company Secretary
National Grid Gas plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Direction issued to National Grid Gas plc by the Gas and Electricity Markets Authority pursuant to paragraph 1(b) of Special Condition 11E of National Grid Gas plc's gas transporter licence

Whereas

This Direction is issued to National Grid Gas plc ("the Licensee") by the Gas and Electricity Markets Authority ("the Authority") pursuant to paragraph 1(b) of Special Condition 11E (Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services) ("SC 11E") of the Licensee's gas transporter licence in respect of its National Transmission System (NTS) ("the NTS Licence") treated as granted under section 7 of the Gas Act 1986 ("the Act").

Paragraph 1(a) of SC 11E provides that the charges made by the Licensee for (i) the provision of Operating Margins and (ii) the supply of LNG storage services to any DNO Operator whose transportation system includes independent systems which are operated using LNG are the charges set out in tables 1 and 2 of SC 11E ("11E prices").

Paragraph 1(b) of SC 11E provides that the Authority may direct that the requirement set out in paragraph 1(a) shall be suspended for such period of time as the Authority may specify in respect of (i) the provision of Operating Margins and/ or (ii) the supply of LNG storage services to any DNO Operator whose transportation system includes independent systems which are operated using LNG. Such a direction may be made in respect of one or more LNG storage facility and/or in respect of one or more "Operating Margins requirements" as set out in SC 11E.

In February 2014 the Licensee undertook a tender for the procurement of Operating Margins (OM) gas. As set out in our February 2011 decision¹, our key criterion for assessing the effectiveness of competition is whether NGG NTS could purchase the complete volume of each of the OM requirements from providers other than NG LNG. The decision also set out that in cases where only a small number of non NG LNG tenders are received we shall also need to consider factors beyond our key criterion, for example the range of tenders received and the level of prices offered.

In the light of our key criterion, the Authority has considered the results of the Licensee's tender, the range of tenders and the volumes tendered by non-NG LNG providers against each of the OM requirements. These indicate that, when the offers from NG LNG are excluded, the complete volume of the Non-locational OM requirements can be met. Therefore, the Authority considers that competition is effective for the provision of the Non-locational OM requirements.

Now, the Authority hereby directs pursuant to paragraph 1(b) of the Condition that the 11E prices shall be suspended in respect of:

¹<http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/LNGPriceControl/Documents1/OM%20decision.pdf>

Avonmouth for:
Non-locational

This Direction shall have effect from the start of the Gas Day on 1 May 2014 and shall expire at the start of the Gas Day on 1 May 2015.

Further details of the Authority's reasons for making this Direction are set out in the following documents:

"Operating Margins (OM) Contestability", Ofgem, 25 February 2014.

This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at (www.ofgem.gov.uk).

Philippa Pickford

Associate Partner, Wholesale Markets Performance

Duly authorised on behalf of the Gas and Electricity Markets Authority

25 February 2014