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Dear Customer

### **LNG STORAGE SERVICES FOR 2009/10**

I am pleased to enclose details of our 2009 Annual Storage Invitation covering National Grid LNG Storage's services for the 2009/10 Storage Year. This cover note provides an overview of our services, discusses our view of the market context for the coming year and identifies where we believe there may be opportunities for you to derive value from the services we provide.

#### **Overview of services for 2009/10**

For 2009/10 we are providing access to storage services at our facilities located in Glenmavis in West Scotland, Avonmouth in the South West of England and Partington in the North West of England. As we announced last November, we are currently seeking to sell our LNG storage facility located at Dynevor Arms in South Wales and therefore do not propose to offer capacity at that facility beyond the end of the current Storage Year.

As we also announced last November, for Storage Year 2009/10 and beyond we will be reducing the amount of capacity made available for sale at our Partington facility. This is due to the need to carry out essential maintenance in relation to two out of the four tanks at the facility and our desire to continue to provide a resilient service to our customers by reducing the duty placed on the liquefaction plant which is reaching the end of its life. We do however propose to run an "open season" process in 2009 to establish customers' requirements for long-term capacity at our three remaining facilities in order to determine the right investments required to deliver a reliable service for the coming decades.

Notwithstanding the changes described above, through our 2009 Annual Storage Invitation we are providing the opportunity for you to secure approximately 119 mcm of storage space in facilities that have the capability to provide an aggregate level of deliverability of up to 36 mcm per day, which equates to around 7% of forecast peak day demand.

## **The market context**

The current winter has been the coldest since 1996, although it is still only considered to be moderately cold when viewed in the context of longer-term historical data. GB gas demand has exceeded 400 mcm on a number of occasions and overall has averaged around 340 mcm (excluding exports). Demand approached the Gas Balancing Alert trigger level on a number of occasions (and the trigger level was revised downward during the period due, in part, to the high level of exports seen from LNG storage) but, despite this, prices remained relatively stable throughout the winter period.

We have reliably exported a significant volume of LNG from our facilities on 18 separate days throughout the winter period. These withdrawals have largely coincided with the days of higher gas demand and disruption to supplies to Europe and to GB.

For 2009/10, the market conditions remain far from certain. In addition to the strain on gas supplies occasioned by cold weather it is still not clear whether imported supplies will deliver to GB if there are more attractive prices in other markets, and there continue to be risks associated with shorter-term disruptions to supply.

## **Opportunities for you**

National Grid's LNG storage facilities, with their rapid and reliable delivery capability, can play a critical role in ensuring that you will be able to meet the needs of your customers on days of peak demand and thereby avoid high imbalance charges under the Uniform Network Code. They also provide a proven and effective means to enable you to derive value from increased gas prices.

For our existing customers, there may be an opportunity to retain gas in store thereby avoiding the cost of injecting gas over the summer period. This option can provide a further opportunity to gain value from the LNG storage service during the forthcoming winter.

For any prospective new customers, there may be the opportunity to purchase the gas currently held in store, which could reduce your injection costs and reduce any requirement to physically inject the gas over the summer period.

## **Auction Structure**

For 2009/10 we will continue to invite applications for storage capacity at our three LNG storage facilities by way of a two stage, pay-as-bid auction process. In line with arrangements introduced last year, seventy five per cent of the available storage capacity will be offered for sale in stage one with the remaining twenty five per cent being made available in stage two. Stages one and two of the auction process will be held on the 1<sup>st</sup> and 6<sup>th</sup> April 2009 respectively.

## **Prices**

In developing the 2009 Annual Storage Invitation we have revised the level of charges for Injection, Withdrawal, Short Standby and Tankering to better reflect the costs of providing these service elements. Full details of all related LNG storage charges are set out in the Annual Storage Invitation document.

### **Filling periods for 2009/10**

In light of the level of withdrawals seen so far this year, the current stock level is 61% based on the total amount of capacity being made available in the 2009/10 Storage Year. As such, we would expect to be able to achieve the following fill periods (although this may change depending on the level of withdrawals that occur during March):

	Avonmouth	Partington	Glenmavis
Forecast fill periods as at 27 <sup>th</sup> February 2009 (days)	150	68	70

Customers are able to access higher injection rates via injection overruns or a transfer of capacity on the secondary market.

### **Next steps**

If you have any questions in relation to the 2009 Annual Storage Invitation or if you would like someone to visit you to discuss the services we can provide in more detail, then please contact either myself on 01926 655583 or Dave Adlam on 01926 653490 (david.adlam@uk.ngrid.com).

We would also be happy to discuss any longer term requirement you may have for LNG storage services ahead of the long term capacity "open season" process we intend to run later this year. Details of the process will be published in due course.

Yours sincerely

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**Sales and Marketing Manager**  
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Enclosures: 2009/10 Annual Storage Invitation