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LNG Storage Consultation – Ceasing Operational Activities at Avonmouth LNG

Dear David

Thank you for the advanced notice and opportunity to respond to your consultation on the proposal to cease operational activities at Avonmouth LNG Storage site from 30th April 2016. We also welcome the advanced notice that you will communicate your final decision to stakeholders in March 2015. This response is made on behalf of National Grid Gas's Transmission business ("NG NTS").

Our role as the owner and operator of the GB Gas Transmission System is to ensure the safe, economic and efficient development, operation and maintenance of the National Transmission System ("NTS")¹. In this capacity we have historically bought services from Avonmouth LNG at regulated prices to meet both forecast peak South West demand (Transmission Support Services: "TSS")² and to maintain system pressures in the immediate period following a number of defined national and locational system stress conditions (Operating Margins Gas: "OM")³ e.g. Major supply loss, compressor failure or pipe break. As of the 1st January 2015 we are currently holding 210GWh of gas in-store at Avonmouth to meet our 14/15 OM requirement and have not designated the site as 'constrained' as forecast peak SW demand can be met without needing to secure this localised supply.

On the 18th December 2014 we published our Gas Ten Year Statement⁴ which sets out our assessment of how the future energy demand and supply position drives the development of the Gas Transmission Network. Within this year's document we discuss the results of analysis we have undertaken to understand the need case for localised investment on the NTS in response to the anticipated closure of Avonmouth LNG in 2018.

In summary, we have determined that there is no immediate need to start construction of new pipelines in the South West to mitigate the loss of services from Avonmouth LNG. The current cost of investment in new pipelines is disproportionate compared to the incremental risk on the system without Avonmouth. We will continue to monitor activity in the South West in particular around

¹ In addition *Special Condition 8C.2 of the National Grid Gas plc (NGG)'s Gas Transporter Licence in respect of its National Transmission System (NTS) (the NTS Licence)* specifically requires NGG to use reasonable endeavours to procure its Operating Margins (OM) requirements in an economic and efficient manner and promote competition in the provision of OM, for each year from 1 April 2013 to 31 March 2021.

² Annually published through the 'Constrained Storage Statement' Appendix 8 of National Grid LNG Storage Annual Storage Invitation: <http://www2.nationalgrid.com/UK/Services/LNG-Storage/Capacity-Auctions/>

³ Further booking detail available through the annual "Operating Margins Market Report": <http://www.gasgovernance.co.uk/OpsMargin>

⁴ Gas Ten Year Statement: <http://www2.nationalgrid.com/UK/Industry-information/Future-of-Energy/Gas-Ten-Year-Statement/>

customer demand such as Distribution Network exit capacity requirements and other demand triggers such as local power station developments. The OM requirement in the South West following the closure of Avonmouth LNG remains unchanged and we will continue discussions with stakeholders to agree the most economic and efficient approach to meet this loss of service in light of current and future network requirements.

As indicated however, we are also able use the Avonmouth LNG storage facility to meet non-location specific Operating Margins requirements. In our 2014/15 tender round for example, we saw a small deficit of market offers received against our major supply loss category despite the potential market availability being well in excess of the overall requirement. As we are currently able to exercise UNC pre-emption rights at Avonmouth this formed part of our assessment to secure both the physical shortfall and in the economic appraisal when comparing the Avonmouth regulated price against the tendered market offers.

We will continue to look to encourage a competitive response to our annual OM tender process and have already made changes for the 2015/16 invitation to tender⁵ to extend our potential contractual horizon to three years to help mitigate any potential price risk to this current 'single shot' process. Although we recognise that the acceleration of your timescale to close the site does not in itself represent an increase to this pricing risk, we would however request further market clarity as to the extent of the services available in 15/16 together with associated proposed rundown arrangements.

Similarly, while not detailed in your consultation, we would welcome more information on when you are able to set out a plan following your final decision for the site to include a timetable and outline for any UNC modifications you intend to propose.

We welcome the advanced notice you have provided with regards your proposal to cease operational activities at Avonmouth on 30 April 2016. As we have mentioned above we will continue discussions with stakeholders to agree the most economic and efficient approach to meet the loss of services provided by Avonmouth LNG in light of current and future network requirements. As you state in your consultation, an early official notification of closure in March 2015 is important to ensure all stakeholders including ourselves have sufficient notice of your final decision so alternative arrangements can be implemented and we would welcome discussions with you around this time. We would request that any delay or deviation from the March 2015 date be communicated as early as possible.

While the consultation did not request any specific information from stakeholders, should you wish to discuss any of the points raised in this response, or seek further detail from us, please contact Craig Dyke (Gas Network Development Manager) at craig.dyke@nationalgrid.com (01926 653397).

Yours sincerely



Mike Calviou
Director, Transmission Network Service

⁵ Invitation to Tender Documentation: <http://www.gasgovernance.co.uk/OpsMargin>