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17th October 2016

Dear Colleague,

OPERATING MARGINS (“OM”) – INDUSTRY CONSULTATION

This Industry Consultation is made in respect of National Grid Gas’s OM service.

Background

Under the Transmission Licence, National Grid Gas has an obligation to procure OM requirements in an economic and efficient manner and promote competition in the provision of OM, which it has been doing since its inception.

We have been working hard ahead of the launch of the 2017/18 Gas OM tender round in December, to develop the OM agreements to ensure they facilitate varying provider types whilst being better aligned.

The key changes are:

- Ensure consistency and alignment, wherever possible, between the different OM agreements.
- Incorporate feedback received from service providers, including through the recent tenders.
- Reduce the number of agreements from 5 to 3, one for each of the different types of OM service:
(i) Gas Storage; (ii) LNG Importation; and (ii) Demand Reduction and/or Supply Increase.

Consultation

As part of the development of the new template agreements, we have decided to engage with existing and potential providers, and encourage you to review the agreements and provide feedback.

We welcome your views, whether you have tendered previously, chosen not to tender, or would consider tendering in the future. OM represents a revenue opportunity for parties to either contract for a ‘capacity’ or a ‘delivery’ service, subject to a successful tender. This can include the different Service Provider types:

- Gas Storage Facility Operators
- Primary Capacity Holders at Gas Storage Facilities



- LNG Importation Facility Operators
- Primary Capacity Holders at LNG Importation Facilities
- NTS Connected CCGT plants or Firm Industrials
- NTS Connected Supply

Feedback

Please follow the below link to National Grid's Gas Operating Margins website, this contains details of the template agreements titled:

"TEMPLATE Gas Capacity Agreement (Storage) 2016"

"TEMPLATE Gas Delivery Agreement (LNG Storage) 2016"

"TEMPLATE Gas Delivery Agreement (Demand Reduction_Supply Increase) 2016"

Whilst we receive your responses, we will be developing the supporting tender documentation. You can find the new template agreements and last year's documentation on the website here:

<http://www2.nationalgrid.com/uk/industry-information/gas-transmission-system-operations/balancing/operating-margins/>

We request that all feedback is submitted by Friday 11th November to:

tahir.mahmood@nationalgrid.com

Please note that consideration will be given to comments received, but this consultation does not guarantee any drafting amendments. National Grid Gas reserves the right to amend the template agreements at its absolute discretion.

Further Information

Should any party wish to arrange further discussions directly with National Grid Gas, please request a meeting at your earliest convenience. Alternatively please contact me should you have any queries.

Yours Sincerely,

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