

2009 Gas Operating Margins Tender

Questions and Answers

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PLEASE NOTE :

This document should be read in conjunction with the document entitled “Operating Margins Explanation and Tender Guidance Document” which can be found at:

<http://www.nationalgrid.com/uk/Gas/OperationalInfo/GasOperatingMargins/>

This Questions and Answers Document is designed to highlight all queries received from the industry in relation to the Gas Operating Margin tender documentation and our responses given. If you have any queries, please refer them to the nominated National Grid Gas contact – contact details are set out in the Invitation to tender document.

Terms and phrases used in this document have the meanings set out or referred to in the Operating Margins Tender Guidance Document.

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1. General Tender Questions (ITT)

a. Is this year's process different to any other? If so why?

In short yes – this year the tender sheet structure is different as we seek to remove barriers in the provision of the Operating Margins service whilst also facilitating different types of service provision ranging from typical gas storage sites through to users that can offer OM through NTS supply increase, NTS offtake reduction or a combination of the two. A more detailed response to this question can be found on our website by following the link below;

http://www.nationalgrid.com/NR/ronlyres/090DDB33-D2B8-4A11-88E5-33ECA0E652B8/29290/Ofgem_OM_Statement_31Oct08_Issue1.pdf

b. Are supply side, demand side, Capacity holders and LNG Storage Facilities/LNG importation Terminals able to participate in this tender?

Yes, this year's tender process is designed to enable tender submissions for various types of site, both to offer a service that fulfils our Operating Margins requirements and to allow us to investigate the extent to which non-storage services can be used to contribute to our OM requirement.

c. Do you have any further information on previous Operating Margins procurement?

We published our booking locations and volumes with deliverability for the 2008/09 period in our Operating Margins Statement - this is published on our website under the following link;

http://www.nationalgrid.com/NR/ronlyres/71467C90-891E-4A30-8316-32AC2D644F8B/24100/Operating_Margins_Statement_2008_09.pdf

Additionally this link may prove useful –

<http://www.nationalgrid.com/uk/Gas/soincentives/AnalystArea/>

Also attached, for info, are links to previous Procurement Guidelines reports, within which you will find details regarding quantities of OM space we have historically procured;

http://www.nationalgrid.com/NR/ronlyres/B59372E1-043A-4E74-ADA0-1158996D3E7A/25291/ProcurementGuidelinesReport2008v1_0.pdf

<http://www.nationalgrid.com/NR/ronlyres/2FE8DBF1-6C2D-4A8C-AFF6-8FEC5392E7D8/17490/ProcurementGuidelinesReport2007v11.pdf>

http://www.nationalgrid.com/NR/ronlyres/CC47443B-D21C-4123-9C57-56CFD0360879/7518/ProcurementGuidelinesReport2006v12_June06.pdf

http://www.nationalgrid.com/NR/ronlyres/CB869017-595B-447D-BE08-1BDBF9538437/4218/ProcurementGuidelinesReport2005v1_0.pdf

d. How will LNG Storage be treated in this years Operating Margins tender?

Please refer to the following letter published recently by Ofgem in relation to treatment of LNG Storage in this year's Operating Margins tender;

http://www.nationalgrid.com/NR/rdonlyres/BC1AFEA4-7CF0-4B65-966B-B8DF5CF0A723/31259/OM_Contestability_IMarlee.pdf

2. Explanation and Tender Guidance Document including Capacity and Deliverability tender sheet questions

a. If a shipper held storage capacity in Rough or Hornsea, how would the injection rights work under contract?

We would need to deal appropriately with injection rights, given that, once we have put our gas in store, we shouldn't need them again unless we had an option to refill following a utilisation (in the rare event). As part of the tender framework all providers are able to stipulate how injection rights are treated and priced as part of the terms offered with the tender submission.

b. Is it correct that we can only submit three separate tenders (section 8 of the guidance document)?

The Guidance and Explanation Document stipulates the following under section 8 – 'Guidance notes for completion of tender sheets';

"Tenderers offering either Capacity or Gas Delivery tenders may submit up to three separate tenders. The tender to which individual Tender Packs refer should be marked in the appropriate place on the tender sheets."

For clarity this is based on 3 tenders per facility offering the Operating Margins service. Should a tenderer have several facilities they wish to offer the Operating Margins service from they can submit 3 tender sheets for each facility.

c. Do National Grid Gas publish any information in relation to Indexation?

National Grid have published a 'Indexation Principles Document' – this is mainly applied to electricity Balancing Services contracts but serves the same purpose to give an idea of the principles of indexation methodologies that providers can formulate for the purposes of tender submission.

We enclose the link to our Indexation Principles document – this may provide more guidance on the formulation of a methodology.

http://www.nationalgrid.com/NR/rdonlyres/4EE80022-544B-40C3-AD74-A716F15F933E/30838/Indexation_Principles_Final.pdf

- d. In the tender, it says that you will only accept up to a storage sites' maximum deliverability, as you need to be able to access all your OM gas in 12 or 24 hours. However, at the LNG storage sites you always seem to have bought significantly more than their deliverability – e.g. at Dynevor Arms, 116GWh booked in 2007/8 but the site's deliverability is only 49.2GWh/d. How is this? Should it not be the same rule for all sites?

Our Tender guidance Document sets out the following -

6.1.4 The ability to accept Offer(s) such that the Operating Margins gas held in store from the relevant facility could be physically delivered (as per 4 above) over an interval of not more than 24 hours assuming other users at the facility are not utilising their deliverability (i.e. National Grid Gas must be able to accept Offer(s) such that total space held for OM is not greater than the daily physical deliverability of the facility);

Under this tender this is the same for all sites. We book on the basis of physical, topological and economic drivers. Historically there has sometimes been on occasion a requirement to book capacity for more gas than could be delivered in 24hrs, where the facility is being used to meet more than one type of OM requirement (Cat 1/Cat 2 and Cat 3 OM calls). This is a rarity and subject to a number of considerations – hence why this may have been the case in the past. If you wish to offer more than based on 24hrs the ability to do so is in the tender sheets by adding additional tranches. These will be assessed against all other tenders.

- e. Can you clarify guidance on the 2 hour lead time in relation to the instruction and response time of the OM service? Our concern is that if offering services from some storage facilities then this time cannot be guaranteed for certain periods during the winter as per the Standard Contract Terms?

Response times are as per standardised terms from existing facilities. In short the answer is yes we are willing to accept tenders based on the standard response times at facilities such as Rough and Hornsea.

For your tender submission parameter in the tender sheet for response time please just enter “as per [facilities] Standard Contract Terms”. The current contracted position for the forthcoming winter period at Rough states that 3 hours is the maximum withdrawal time from when the nomination is made from the hour bar. This is factored into the tender assessment but will be the same parameter for all parties offering services from facilities with standardised terms and conditions – additionally there is the provision to introduce a standby arrangement – with associated costs to bring a facility or site into an acceptable response time.

- f. I note that the Operating Margins Capacity Service features a ‘standby’ element whereby, upon notification, providers can undertake additional processes to enable the two hour response time to be met. Reference to this is made under section 8, Tender Sheet 2, point 16 of the Guidance Document; however this seems only to be a feature under Tender Packs 1 & 2. Do similar provisions apply to Gas Delivery Tenders (Tender Packs 3 & 4)?

Yes you can submit a longer response time with standby arrangements to achieve the required two hour response time – whilst the Gas Delivery tender sheets do not have this specific parameter, you can submit this as part of your tender by enclosing details either in the proposed terms submitted with the tender sheets or in a covering letter for your tender.

g. If a tender is successful, does the tenderer pay at the price at which they bid or at the marginal price which fills in the tender?

The price paid is the price as per the tendered bid.

h. If a tenderer is to deliver gas to NBP through a portfolio or swing contract, they can enter the price as a formula such as SAP indexed?

Yes – please see the answer to question ‘c’ in this section. Part 4 of the deliverability tender sheets provides the option to submit either a fixed price or an index formula. If a tenderer opts for the indexed formula it should be noted that National Grid is unlikely to be able to sign on to an uncapped liability and would either be looking for the provider to set a liability cap (the ‘indexed delivery charge liability cap’) or for the provider to suggest (and thus for the provider and National Grid to work together to develop) an alternative means by which the risk could be managed.

i. Is it only possible to enter a fixed price for storage (injection and space)?

Yes – indexation is only an option in the deliverability arrangements rather than the storage capacity tender where fixed prices should be offered.

j. Have NGG experience of capacity holders tendering for OM in the past, or is it normally just the facility operators that tender – in which case, how did it operate in those cases?

Yes, we have experience of storage capacity holders tendering for OM. Storage capacity was transferred to NGG and NGG signed up to the standard storage terms for the relevant facility. We would also accept capacity agreements (see generic terms section for details) or deliverability tenders from capacity holders at storage facilities.

3. Operating Margins Generic Terms

a. Are there any examples of terms that NGG would operate under?

For those offering capacity, the OM Gas Storage Agreement is an example of the terms that we would be able to operate under with capacity contracts. We are happy to consider alternative terms – this is a good basis to understand how the capacity contract works. Please see the link to our Generic terms below;

http://www.nationalgrid.com/NR/ronlyres/F8C8C0B9-2415-4650-A273-AD60B46C2233/30812/OM_Gas_Storage_Agreement_2008.pdf

Additionally we ran a South East Operating Margins (SEOM) tender in late 2007. The Terms proposed were designed specifically for a LNG importation terminal for shippers to offer deliverability contracts. This is a good reference for the terms we would use as a basis for discussions for

deliverability arrangements (Ignoring treatment of shipping and boil off – as specific to LNG importation terminals and LNG Storage facilities);

http://www.gasgovernance.com/NR/ronlyres/3AD99A34-7F80-4D50-906B-324F8AA3EE11/20268/OMServicesAgreement_SEOM_.pdf

4. Supply Increase/Offtake Reduction Term Sheet

- a. For demand reduction associated with a power station, can a service be offered based on just a proportion of the capacity? If so there is an eventuality that dependant upon the SEL of the plant, even a partial service reduction could mean taking the whole plant off, whereas we would only get paid for what NGG instructed.

The tendering party should use the allowed tender dynamic parameters to set out restrictions on this eventuality.

b. Can LDZ connected sites offer demand reduction?

We cannot accept units that are not directly connected to the NTS – Our requirement is to manage the NTS directly. Therefore any units that are connected on the LDZ should approach the DNO to discuss potential services.