

Sam Wither
Account Manager

Sam.Wither@uk.ngrid.com
Direct tel 01926 656492
Direct fax 01926 656613

www.nationalgrid.com

23rd December 2008

Dear Colleague,

OPERATING MARGINS (“OM”) – INVITATION TO TENDER

At its last Transmission Price Control Review, National Grid Gas accepted NTS Special Licence Condition C25, which requires it to “...use reasonable endeavours to promote competition in the provision of Operating Margins (“OM”) services...”. A significant amount of work has been done over the last 12 to 18 months in this regard, including successful engagement with the industry via two consultations, a workshop, a UNC modification proposal and a range of bilateral meetings, all with the aim of ensuring, as far as possible, that barriers to participation were removed and that interested parties were able to participate in the development of proposals, thereby giving them the best chance of success.

This Invitation to Tender represents National Grid Gas’ first OM procurement exercise issued in light of the work to promote competition in service provision.

The OM Requirement

Tenders are invited from Storage, LNG Importation with Storage, Supply Increase and/or Offtake Reduction to meet forecast OM requirement for 2009/10; and to contribute towards meeting forecast requirement for 2010/11 and 2011/12. The forecast requirement is as follows:

<i>Year</i>	<i>Volume (GWh)</i>
2009/10	1349
2010/11	1385
2011/12	1386

The locational part of the forecast OM requirement, for all three periods, is as follows:

<i>NTS Zone¹</i>	<i>Volume (GWh)</i>
Scotland	81
North	15
Wales	0
West	99
South	94

¹ See Appendix 1

National Grid Gas requests tenders for up to three years, for services starting on 1st May 2009. Please note, however, that anyone wishing to offer a multi-year tender commencing on 1st May 2009 **must** also provide a one-year tender covering the period 1st May 2009 to 1st May 2010 (a 'First Year' tender).

Pricing Background

Last year, National Grid Gas procured approximately half its OM requirement on a commercial basis, with the remainder being procured from its four price-regulated LNG storage facilities (Glenmavis, Partington, Avonmouth and Dynevor Arms). These facilities are owned and operated by National Grid LNG Storage, which is a separate business entity from National Grid NTS. The prices at which National Grid LNG Storage is obliged to provide Operating Margins services to National Grid NTS are regulated and are set out explicitly in Special Condition C3 of National Grid's Gas Transporter Licence in respect of the NTS. National Grid Gas expects these facilities to participate in this tender.

National Grid Gas has written to Ofgem asking it to consider clarifying, in relation to participation in this competitive OM tender process, whether or not market participants should assume that regulated prices will apply to the National Grid LNG storage facilities. National Grid Gas will communicate any guidance it receives to market participants.

Tender Documentation

Documentation relating to this Tender is now available on both National Grid's website and that of the Joint Office of Gas Transporters:

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

The following documents have been published:

1. Explanation and Tender Guidance Document
2. Operating Margins Tender Packs 1 to 4
3. Operating Margins Gas Storage Agreement
4. Supply Increase/Offtake Reduction Operating Margins Contract Term Summary

The key dates for this Tender Round are as follows:

- Market Day 17:00 hours on Friday 30th January 2009
- Tender Opening Monday 2nd February 2009
- Tenderers notified of results by Friday 20th February 2009
- Service commencement 06:00 hours on 01st May 2009

Market Day is the latest that tenders can be accepted by National Grid Gas - all tenders must be received by post (or be delivered by hand) no later than 17:00 hours on Friday 30th January 2009 to the address below. Envelopes should be clearly marked "**OM Tender**".

Sam Wither
Network Operations
National Grid Gas plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Should tenderers wish to deliver their tender by hand, then this intention must be notified to National Grid Gas in advance (see above for my contact details).

Further Information

For further information and a more detailed explanation of the tender process please, refer to the OM Explanation and Tender Guidance Document within the ITT documentation.

Alternatively please contact either myself or Juliana Urdal (Juliana.Urdal@uk.ngrid.com or 01926 656195) should you have any queries.

Yours sincerely,

(By e-mail so unsigned)

Sam Wither
Account Manager
National Grid Gas
Sam.Wither@uk.ngrid.com

APPENDIX 1: NTS Zones

(The Wales and West zones are combined on the diagram below)

