

**SOUTH EAST OPERATING MARGINS
EXPLANATION AND TENDER GUIDANCE
DOCUMENT**

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Important - Please Read

Introduction

This Explanation and Tender Guidance Document is to be read in conjunction with the following documentation which is available on National Grid's website via <http://www.nationalgrid.com/uk/Gas/Data/News/>

- Tender Sheets
- OM Services Agreement
- South East Operating Margin Service Presentation

together with this Explanation and Tender Guidance Document referred to as "the Documentation".

Disclaimer and Tenderer's Responsibility

This Explanation and Tender Guidance Document is not intended to be legally binding or to form any offer capable of acceptance. Nothing herein shall be deemed to create a legal relationship between national grid and any other person.

Tenderers for South East Operating Margin Service shall satisfy themselves of the accuracy and completeness of any information they may use in preparing their tenders whether such information is provided by National Grid or comes from any other source. National Grid, its advisors and any other person responsible for production of any information to a tenderer do not accept any duty of care to the tenderer. It is the duty and responsibility of a tenderer to ensure that it takes into account all considerations relating to the tender for and entering into of an agreement for South East Operating Margin Service.

National Grid reserves the right not to proceed with any tenders or proposals made in response to the Documentation.

Terminology and Interpretation

The Documentation makes reference to various technical and industry-related terms and phrases. Save where otherwise expressly defined, these shall have the meanings set out in the South East Operating Margin Services Agreement: issued September 2007 ("OM Services Agreement"). In the event of any conflict between the OM Services Agreement and any other information supplied with, contained in or referred to in the Documentation (and any other information supplied at any time by National Grid with respect to South East Operating Margin Service), tenderers and prospective tenderers should rely solely on the terms and conditions set out or referred to in the OM Services Agreement. The information contained in this Explanation and Tender Guidance Document is, to the best of National Grid's belief, accurate and has been given in good faith. However, no warranty or representation or other obligation or commitment of any kind is given by National Grid, its employees or advisers as to the accuracy and completeness of any information contained in this Explanation and Tender Guidance Document, or that there are not other matters material to the matters referred to herein other than is contained or referred to in such information. Neither National Grid nor its employees or advisers shall be under any liability for any error, misstatement or

omission in this Explanation and Tender Guidance Document and none of such information shall constitute a contract or part of a contract.

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1. OVERVIEW OF TENDER AND CONTRACTING PROCESS

South East Operating Margins Tender:

All South East Operating Margins Tenders must be submitted not later than 17:00 hours on **Friday 16th November 2007** (“the Market Day”).

The detailed requirements and guidance in respect of the completion and submission of South East Operating Margins Tenders can be found in Sections 3, 4 and 5 of this Explanation and Tender Guidance Document.

Acceptance and Rejection of South East Operating Margins Tenders:

After Market Day, National Grid will assess all South East Operating Margins Tenders which it receives, applying the assessment principles set out in the Tender Assessment Principles document. National Grid may either accept or reject a South East Operating Margins Tender by issuing a South East Operating Margins Tender Acceptance or South East Operating Margins Tender Rejection. Where a tenderer permits National Grid to accept only some of the quantity tendered in a South East Operating Margins Tender then National Grid may issue a South East Operating Margins Tender Acceptance in respect of the successful quantity and a South East Operating Margins Tender Rejection in respect of the quantity which National Grid rejects.

National Grid will issue South East Operating Margins Tender Acceptances and Rejections in respect of this tender round by **Friday 7th December 2007**.

Formation of a South East Operating Margins Contract:

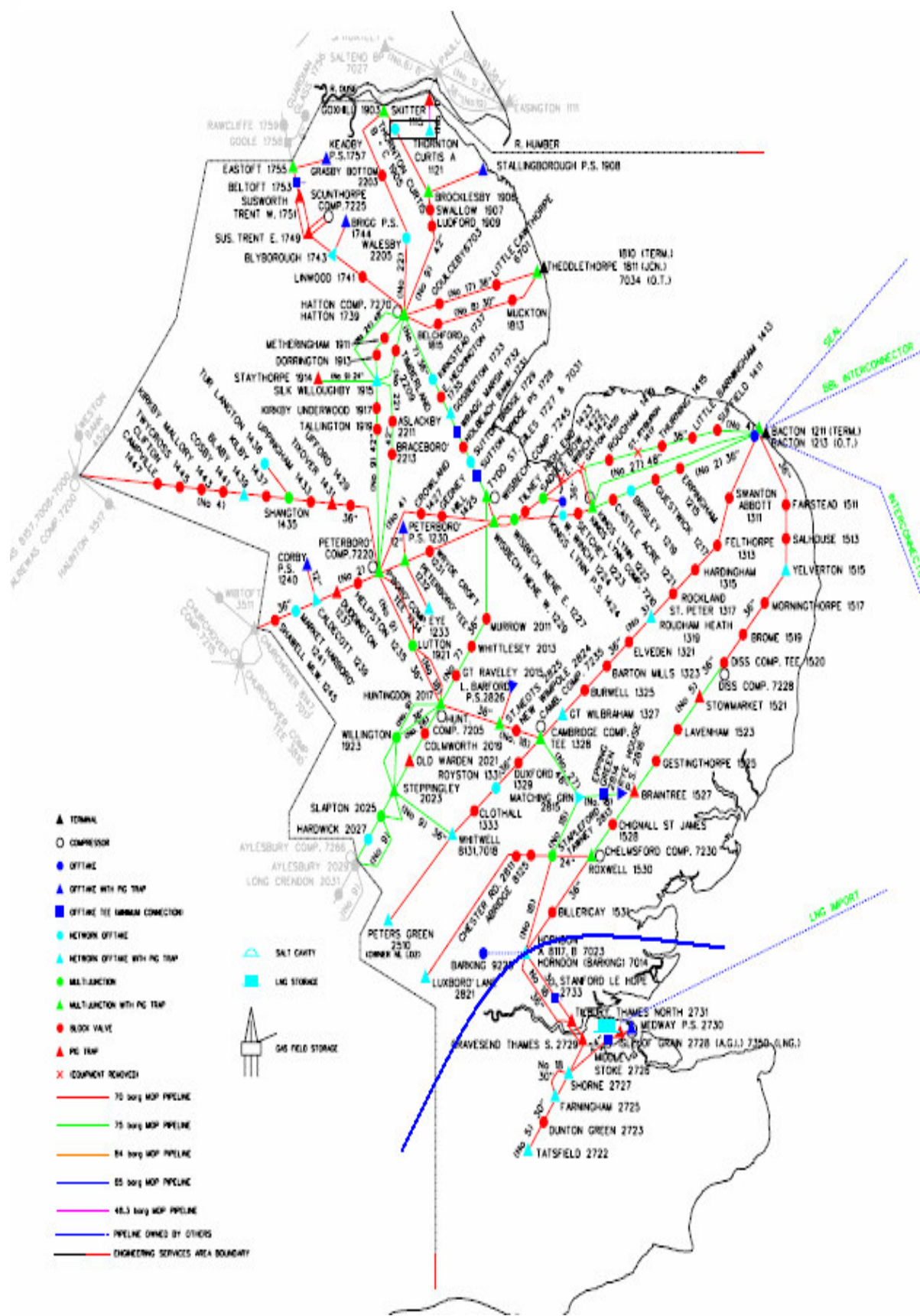
Where National Grid accepts a Tender in relation to which the Tenderer has submitted their tender with the OM Services Agreement published by National Grid without amendment and which accurately reflects the terms of the Tender, this acceptance will be subject to contract dependant upon agreement of the OM Services Agreement including Schedule 1 & 2. Then the tenderer and National Grid shall use reasonable endeavours to agree the terms and conditions and in any case no later three months prior to the service commencement date.

Where National Grid accepts a Tender in relation to which the Tenderer has submitted their tender accompanied with amended or alternative terms and conditions proposed and the tender is accepted. Then the tenderer and National Grid shall use reasonable endeavours to agree the terms and conditions and in any case no later than three months prior to the service commencement date.

2. MANDATORY REQUIREMENTS OF THE TENDER PROCESS

- 2.1 Each South East Operating Margins (SEOM) Tender must be in respect of one Facility that is listed as such in the tenderer's SEOM Tender Sheet 1 and is within the geographic area this service relates.
- 2.2 Each SEOM Tender must be in respect of a quantity of at least 25 GWh in respect of the winter requirement.
- 2.3 It is a requirement that the service proposed in any Tender Offer must feature high levels of reliability and deliverability, the deliverability available from the relevant facility shall be such that the cumulative Operating Margins gas held in store can be delivered over an interval of not more than 24 hours.
- 2.4 Tenderers must complete all mandatory fields on the tender sheets, and must enter only 1 item of data per field;
- 2.5 Only one set of tender sheets may be submitted in respect of each Facility for each respective service year.
- 2.6 Tenderers may offer the service in either 2009 or 2010 or for both years.
- 2.7 Each SEOM Tender must be accompanied by either an OM services Agreement or specify alternative terms and conditions to be considered applicable to the service.
- 2.8 For the purposes of this Tender, the geographical area is defined by the area highlighted in the map in Figure 1.

Figure 1: SEOM = South East Geographical boundaries for OM requirement



3. COMPLETION AND SUBMISSION OF SEOM TENDERS

- 3.1 Tenderers must submit a SEOM Tender which is:-
- 3.1.1 Fully compliant with the mandatory requirements of South East Operating Margin set out in Section 2 of this Explanation and Tender Guidance Document;
 - 3.1.2 Set out on the relevant tender sheets contained in the document entitled “**SOUTH EAST OPERATING MARGIN TENDER SHEETS**” in accordance with Section 4 of this Explanation and Tender Guidance Document;
 - 3.1.3 Returned by post or by hand (not facsimile or email) to:

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

To be received not later than 17:00 hours on Friday 16th November 2007.

Envelopes containing SEOM Tenders must be clearly marked on the top left hand corner ‘SEOM TR’.

- 3.2 If, in the sole judgement of National Grid, a tenderer has failed to submit a compliant SEOM Tender, National Grid reserves the right to:-
- 3.2.1 accept the SEOM Tender in question; or
 - 3.2.2 disqualify the SEOM Tender in question; and/or
 - 3.2.3 take any other action it deems appropriate in the circumstances including requesting the tenderer to amend any parameters other than prices or resubmit a non-compliant SEOM Tender, so that it is made compliant.

National Grid’s decision as to whether or not a SEOM Tender is compliant shall be final, and the tenderer concerned may be notified of such decision without prior consultation or explanation.

- 3.3 No costs or expenses incurred in the course of preparing and/or submitting a SEOM Tender will be paid for by National Grid.
- 3.4 If any further information is required to assist with the preparation of a SEOM Tender, the tenderer should request this information from National Grid. National Grid may consider it necessary to copy any further information given in response

to specific enquiries to all other tenderers. No further information will be issued by National Grid after Friday 9th November 2007.

- 3.5 SEOM Tenders will be opened by an evaluation panel no earlier than 09:00 hours on Monday 19th November 2007.

4. GUIDANCE NOTES FOR COMPLETION OF THE TENDER SHEETS

The document entitled “**SOUTH EAST OPERATING MARGIN TENDER SHEETS (for South East Operating Margin Agreements)**” comprises:

- Tender Sheet 1 – Tenderer Information, Tenderers Proposed terms
- Tender Sheet 2 – Facility, Quantities, Delivery Capacity, Delivery Charges, Service fees, Anticipated Boil Off (if applicable).
- Tender Sheet 3 – Tenderer’s Signature and Acknowledgment

Tender Sheets 1, 2 and 3 must be completed by **all** Tenderers

Tender Sheet 2 must be submitted for each Facility being tendered in Year 1 (2009) and/or Year 2 (2010).

Please note: National Grid will supply electronic copies of tender sheets via email, on request. Alternatively, tenderers may submit SEOM Tenders on copies of the relevant tender sheets taken from National Grid’s web site.

Examples of possible combinations in respect of each tenderer:

- If you are tendering for one Facility for only one Year (2009 or 2010), please fill in Tender Sheets 1, 2 and 3 (leaving the year you do not wish to tender for blank on tender sheet 2)*
- If you are tendering for one Facility for both Years 2009 and 2010, please fill in Tender Sheets 1, 2 and 3.*
- If you wish to tender for both 2009 & 2010 separately, please indicate via Part VII of the tender sheets.*

TENDER SHEET 1 - Tenderer Information

Tender Sheet 1 must be completed by all tenderers, in respect of each tendered Facility.

Notes

- 1 Please insert the Tenderer's company name in the space provided.
- 2 Please insert the Registered Company No. in respect of the facility in the space provided
- 3 Please insert the Registered Address in respect of the facility in the space provided
- 4 For the purposes of receiving Tender Acceptance Notices the Tendering User shall specify the representative for whose attention Tender Acceptance Notices are to be marked
- 5 For the purposes of receiving Tender queries the Tendering User shall specify the representative's telephone number in the space provided.
- 6 For the purposes of receiving Tender Acceptance Notices the Tendering User shall specify the representative's facsimile number in the space provided.
- 7 For the purposes of receiving communications the Tendering User shall specify the representative's email address in the space provided.

TENDER SHEET 1 – Tenderer Submission

- 8 If the Tenderer wishes to complete the tender sheets and agrees to the OM Services Agreement please indicate this by ticking this option.
- 9 If the Tenderer wishes to complete the tender sheets, however wishes to propose amendments to the terms of the OM Services Agreement. Please indicate this by ticking this option and supplying an amended OM Services Agreement for consideration as part of this tender process.
- 10 If the Tenderer wishes to complete the tender sheets, however finds the terms of the OM Services Agreement incompatible with the facility they wish to tender under the SEOM requirement. Please indicate this by ticking this option and supplying alternative terms for consideration as part of this tender process.

TENDER SHEET 2 - Tenderer Information

Tender Sheet 2 must be submitted for each Storage Facility being tendered for Year 2009 and/or 2010.

Part I Facility Parameters

- | | | |
|----|-----------------------------|---------------------------------|
| 11 | Facility Name | Name of facility |
| 12 | Location of Facility | Full address including postcode |

Part II Quantities

- | | | |
|----|---|---|
| 13 | Summer (06.00 hrs 1st April to 05.59 1st October) NGG Service Quantity being offered | The NGG Service Quantity in GWh that can be offered during the summer months (06.00 hrs 1 st April to 05.59 1 st October). The maximum requirement is 38 GWh and therefore is maximum figure that may be entered. |
| 14 | Winter (06.00 hrs 1st January to 05.59 1st April, 06.00 hrs 1st October to 05.59 hrs 1st January) NGG Service Quantity being offered | The NGG Service Quantity in GWh that can be offered during the winter months (06.00 hrs 1 st January to 05.59 1 st April, 06.00 hrs 1 st October to 05.59 hrs 1 st January). The maximum requirement is 94 GWh and therefore is maximum figure that may be entered. |
| 15 | Periods of unavailability | Please state any days and hours when the service will be unavailable during 2009 and/or 2010. |

Part III Delivery Capacity

- | | | |
|----|----------------------------------|---|
| 16 | Initial Delivery Capacity | The Delivery Capacity initially allocated to the Contracting Shipper pursuant to the Contracting Shipper's Shipper GLNG Contract (GWh/Day). National Grid has a requirement to be able to flow the NGG Service Quantity up to 12 hours and therefore for example if a tenderer is offering a winter NGG Service Quantity of 94 GWh they may wish to offer 188 GWh/d here. Please note clauses 6.8 and 6.9 of Operating Margins Services Agreement when completing this. |
|----|----------------------------------|---|

Part IV Delivery Charge

- 17 Fixed Delivery Charge** Fixed Delivery Charge Payable. This will use Clause 5.2(a) of Schedule 1 of the OM Services Agreement. If a figure is entered here please leave Indexed Delivery Charge Cap blank.
- 18 Indexed Delivery Charge Cap** Highest Delivery Charge Payable based on Indexed Price. This will use clause 5.2 (b) (i) of Schedule 1 of the OM Services Agreement. If a figure is entered here please leave Fixed Delivery Charge blank.

Part V Service Fee

- 19 Service Fee** The annual service fee in £s required to provide the service in 2009 and/or 2010.

Part VI Anticipated Boil-off from Start Date (LNG Facilities only)

- 20 Anticipated Boil-off** The estimated average Minimum Delivery of the Contracting Shipper and each Deriving Shipper for each Day in respect of the period from the Start Date until the first Day of the next occurring month. Please refer to the OM Services Agreement Clause 5.1 and Schedule 1 Clause 2.

Part VII Acceptance of individual years

- 21 National Grid may accept individual years where capacity is being offered for calendar years 2009 and 2010** Please only tick if you are tendering to offer delivery in 2009 and 2010 and will allow National Grid to accept only one of the years.

TENDER SHEET 3 - Tenderer's Signature and Acknowledgment

Tender Sheet 3 must be completed by all tenderers.

This tender sheet must be completed, signed and dated by an authorised signatory on behalf of the prospective Operating Margin Provider. Failure to complete this tender sheet will invalidate the SEOM Tender.

5. ASSESSMENT OF SEOM TENDERS AND SELECTION FACTORS

- 5.1 After the SEOM Tender submission deadline (“Market Day”), all SEOM Tenders received will be opened, examined for completeness, and logged by an evaluation panel.
- 5.2 National Grid reserves the right to deal with late submissions in a manner which it feels most appropriate taking account of any particular circumstances. In general, any late submissions will not be accepted.
- 5.3 Any submission that is regarded as non-compliant or unclear may be referred by National Grid back to the tenderer for clarification. If necessary, technical parameters may be adjusted by a tenderer to ensure compliance, but price information may not be changed.
- 5.4 Tender Offers will be assessed on the criteria set out in section 5.5 and 5.6, applicable terms and conditions and compliance with the requirements of this notice.
- 5.5 Site Requirements
- 5.5.1 High levels of reliability and deliverability, the deliverability available from the relevant facility shall be such that the cumulative Operating Margins gas can be delivered to the NTS over an interval of not more than 24 hours.
- 5.5.2 Provide a maximum response time of 2 hours
- 5.5.3 Located in the area defined in the attached map in **Section 2 Figure 1**.
- 5.5.4 Periods of unavailability.
- 5.6 In assessing the benefit of acceptance of a SEOM tender, the value and costs of that tender is considered.
- The forecast cost of an accepted SEOM tender will be made up of:
- 5.6.1 The Annual Service fee
- 5.6.2 The Service Quantity (in GWh) offered for each month
- 5.6.3 The Delivery Capacity (in GWh/d) offered
- 5.6.4 Delivery Charge for Usage
- 5.7 Under no circumstances will National Grid Gas be legally bound to accept any (or the lowest) Tender Offer made by any party, nor to reimburse any cost or expenditure whatsoever or howsoever incurred by any party in responding to this notice or in negotiating the provision of any service.

6. FURTHER INFORMATION

Any communications with National Grid associated with the Documentation or the tender process should be addressed to:

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National Grid House

Warwick Technology Park

Gallows Hill

Warwick

CV34 6DA

Tel: 01926 656492

Fax: 01926 656613

Email: sam.wither@uk.ngrid.com