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Dear Julian,

Re: Modification Proposal 0129 Delay to the 2007 AMSEC Auction

Thank you for the opportunity to comment on this Modification Proposal.

National Grid LNG are opposed to the implementation of this Modification Proposal 0129.

While National Grid LNG Storage understand the reasons why National Grid NTS have raised this modification, and recognise the principle of aligning the Gas Transporter's Licence with the UNC thus harmonizing funding and obligations, we consider that a delay to the AMSEC auction could have implications for security of supply and for National Grid LNG in offering Storage Capacity in its Annual Storage invitation (ASI).

The introduction of this delay, in tandem with other changes within Ofgem's Final Proposals for the Transmission Price Control, could produce the situation whereby Storage Users may not know the level of entry capacity that they hold, or that may be available, at the relevant Storage facility at the time they are required to purchase the Storage service. This could result in a Storage User purchasing Storage Capacity but being unable to use that service because entry capacity is not available at the associated entry point or deciding not to purchase the service during the ASI.

The ASI is held during March and offers Storage Capacity from May until April of the following year. Historically, Storage Users have purchased the required Storage Service with an understanding that the baseline level of capacity will continue to be available at the facility up until and within the Gas Day. Due to the nature of the usage of an LNG facility, the purchase of entry capacity on a daily basis has continued to be the most economic and efficient way for a LNG Storage User to operate.

The introduction of revised baselines, which, with regards to certain LNG facilities are actually below the sites flows that have been seen in 2006 and do not appear to reflect physical capability, and the expected introduction of the capability to transfer entry capacity between Entry points means that a Storage User may not have capacity available on the day to meet their requirements. This could require them to incur an overrun charge to deliver their gas or result in the gas remaining in Store.

The combined affect of these changes is to require the Storage User to purchase entry capacity far earlier than has been done historically, or to otherwise face the risk of either not being able to use the service or to incur additional cost in delivering the gas.

Whilst National Grid LNG Storage is not in favour of the proposed new baselines or the introduction of a transfer mechanism we believe that the delay to the AMSEC auction will exacerbate this situation because the ASI will be completed prior to the proposed time for the AMSEC.

National Grid LNG would be unable to move the ASI to accommodate any delay in AMSEC as any delay to the completion of the auction would reduce the period of time over which Storage Users could inject into store. This in turn could result in reduced levels of gas in store for next winter, dependent on the level of withdrawals seen this winter.

Therefore a delayed AMSEC auction will result in Storage Users purchasing their Storage Service without the previous certainty that the required level of entry capacity will be available on the days required. They will either have to bid to secure monthly blocks of capacity – an inefficient and uneconomic use of entry capacity for an LNG facility – or rely on the capacity not being transferred away during the AMSEC. Therefore the delay in this years AMSEC auction will introduce uncertainty into the ASI process and will ask Storage Users to take risks, or incur additional costs, in order to secure certainty regarding their Entry Capacity.

This uncertainty could deter users from purchasing a Storage Service this year which would then impact the level of gas held in store, including the constrained Storage facilities, and potentially impact on security of supply.

Please contact me if you require any further information.

Yours Sincerely

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