

Draft Modification Report
Disposal of Dynevor Arms Storage Facility
Modification Reference Number 0237
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

On 4th November 2008 National Grid Gas (“NGG”) announced its intention to dispose of the National Grid LNG Storage Facility located at Dynevor Arms in South Wales (“the Dynevor Arms facility”).

This Modification Proposal seeks to amend the UNC to facilitate the orderly disposal of the Dynevor Arms facility and provide clarity to Users with regards to the amount of Storage Capacity that National Grid NTS acting as operator of the National Grid LNG Storage Facilities (National Grid LNG Storage) proposes to make available for sale at the Dynevor Arms facility for the 2009/10 Storage Year and beyond.

Background

The Dynevor Arms facility currently provides Operating Margins services to National Grid NTS, in its role as the gas transmission system operator, and commercial storage services and tanker filling arrangements to Shipper Users and other parties. Furthermore, the Dynevor Arms facility is currently identified as a Constrained Storage Facility within Section R, paragraph 4.1.1 of the Transportation Principle Document (TPD), although it should be noted that National Grid NTS has only specified a minimum inventory level for the Dynevor Arms facility in one out of the last nine Storage Years (this was the 2003/04 Storage Year when a minimum inventory level of 4% was specified for the start of the relevant winter period).

Based on information set out in its “Gas Operating Margins: October 2008 Statement” published on 31st October 2008, National Grid NTS has confirmed that it does not now forecast any future requirement for locational Operating Margins services to be provided by the Dynevor Arms facility. National Grid NTS has also confirmed to National Grid LNG Storage that it does not forecast any future need for a constrained storage service at the Dynevor Arms facility.

In light of the confirmation from National Grid NTS that it does not require either an Operating Margins service or a constrained storage service from the Dynevor Arms facility, NGG is proposing to offer the facility for sale. The disposal of the Dynevor Arms facility will require the consent of the Gas and Electricity Markets Authority (GEMA) pursuant to Standard Special Condition A27 (Disposal of Assets) (“SSC A27”) of NGG’s gas transporter licence in respect of the NTS.

National Grid LNG Storage intends to complete any disposal of the facility as quickly as possible with a view to enabling any purchaser to provide commercial storage services in the 2009/10 Storage Year. For the avoidance of doubt, National Grid LNG Storage does not intend to provide storage services from the Dynevor Arms facility with effect from the end of the current Storage

Year (i.e. after 30 April 2009).

Proposed Modification

Part I

National Grid LNG Storage is required to invite applications for Storage Capacity in each National Grid LNG Storage Facility for Storage Year Y by not later than 1st March in the Storage Year Y-1. Among other things, National Grid LNG Storage's invitation (the "Annual Storage Invitation") must set out the Maximum Storage Capacity (as at the date of the Annual Storage Invitation) that is to be made available for sale at each National Grid LNG Storage Facility. The Maximum Storage Capacity is determined in accordance with Section Z, paragraph 2.1.6 of the TPD.

As previously stated, it is NGG's intention to seek to dispose of the Dynevor Arms facility as quickly as reasonably practicable. However, in order to avoid a situation in which National Grid LNG Storage is required to sell Storage Capacity at the Dynevor Arms facility for the 2009/10 Storage Year (while, potentially, the disposal process is ongoing), thereby preventing any potential purchaser from offering alternative, competing storage services for the same period, National Grid LNG Storage proposes that the UNC be amended to set the Maximum Storage Capacity in respect of the Dynevor Arms facility to zero for the 2009/10 Storage Year and each subsequent Storage Year.

In light of the confirmation from National Grid NTS that it does not forecast a need for a constrained storage service from the Dynevor Arms facility, National Grid LNG Storage also proposes that the reference to Dynevor Arms as a Constrained Storage Facility within Section R, paragraph 4.1.1 of the TPD be removed at the same time.

Part II

National Grid LNG Storage also proposes that the reference to the Dynevor Arms facility be removed from the definition of National Grid LNG Storage Facilities set out in Section R, paragraph 1.7.1(b) of the TPD with effect from the date on which National Grid LNG Storage ceases to operate the facility on its own behalf following a transfer of ownership of the facility to a third party (which, as highlighted above, will be subject *inter alia* to NGG receiving consent from GEMA pursuant to SSC A27 of its gas transporter licence in respect of the NTS).

This would allow National Grid LNG Storage to continue to undertake the physical operations it needs to carry out at the facility (e.g. manage boil-off gas) in the period between the end of the current Storage Year and the date of transfer of ownership.

Suggested Text

UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

SECTION R - STORAGE

Amend paragraph 1.7.1(b) to read as follows:

- (b) "**National Grid LNG Storage Facilities**" means the LNG Facilities which are from time to time operated by National Grid NTS and are located at Glenmavis, Partington and Avonmouth.

Amend paragraph 4.1.1 to read as follows:

- 4.1.1 The National Grid LNG Storage Facility at Avonmouth is a "**Constrained Storage Facility**" in relation to a Storage Year for the purposes of this paragraph 4.

UNIFORM NETWORK CODE - TRANSITION DOCUMENT

PART IIC – TRANSITIONAL RULES

Amend paragraph 1.4.3 to read as follows:

- 1.4.3 TPD Section R1.7.1

For the duration of Storage Year 2004/5 relating to the National Grid LNG Isle of Grain Storage Facility, the National Grid LNG Isle of Grain Storage Facility shall be a 'National Grid LNG Storage Facility'.

The LNG Facility at Dynevor Arms shall be a 'National Grid LNG Storage Facility' until the date on which National Grid LNG Storage ceases to operate the facility on its own behalf.

Add new paragraph 1.8 to read as follows:

1.8 TPD Section Z: National Grid LNG Storage Facilities

- 1.8.1 TPD Section Z2.1.6

For the purposes of TPD Section Z2.1.6, in respect of Storage Year 2009/10 and each subsequent Storage Year until the time at which the LNG Facility at Dynevor Arms ceases to be a National Grid LNG Storage Facility pursuant to paragraph 1.4.3, the Maximum Storage Space, Maximum Storage Deliverability and Maximum Storage Injectability for the National Grid LNG Storage Facility at Dynevor Arms shall each be zero.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of

- (i) *the combined pipe-line system, and/ or*
- (ii) *the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would facilitate market testing to determine the most economic outcome for the future of the Dynevor Arms facility.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

- (i) *between relevant shippers;*
- (ii) *between relevant suppliers; and/or*
- (iii) *between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Implementation would facilitate the disposal of the Dynevor Arms facility to a third party storage operator which, if successful, would increase the extent of competition in the GB gas storage market thereby facilitating competition between shippers.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would not be expected to better facilitate this relevant objective.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

In light of the confirmation by National Grid NTS that it does not now forecast any requirement for locational Operating Margins services, or the need for a constrained storage service, at the Dynevor Arms facility in the future, it is not considered that implementation would not have an impact on the operation of

the Total System or security of supply.

In view of the fact that there are already a number of third-party storage operators, National Grid LNG Storage does not believe that the Modification Proposal, if implemented, would have a material impact on industry fragmentation.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

National Grid LNG Storage believes that the operation of the System would not be adversely affected by the implementation of this Modification Proposal.

b) Development and capital cost and operating cost implications:

National Grid LNG Storage does not believe that the sale of the Dynevor Arms facility will have any development, capital or operating cost implications for any transporters other than National Grid NTS acting as operator of the National Grid LNG Storage Facilities.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

In line with the funding principles established by Ofgem for the NGG's LNG storage activities (as set out in the "LNG Storage price control – Final proposals" document published by Ofgem on 19 December 2007), any costs incurred by National Grid LNG Storage in connection with the disposal of the Dynevor Arms facility will be for the account of NGG and its shareholders.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences have been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence has been identified.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

Not applicable.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No impact has been identified.

Development and capital cost and operating cost implications

Implementation could facilitate the extension of storage asset ownership to an existing Storage Operator or to a new Storage Operator. Either of these outcomes would be expected to improve competition in the gas storage market which, in turn, would tend to drive down the cost of storage services so reducing Users' operating costs.

Consequence for the level of contractual risk of Users

No consequences on the level of contractual risk have been identified.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Implementation could facilitate the extension of storage asset ownership to an existing Storage Operator or to a new Storage Operator. Either outcome would be expected to improve competition in the gas storage market.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No impact has been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- It would facilitate the orderly disposal of the Dynevor Arms facility to a third party; and
- It would provide clarity to Users on the level of Storage Capacity to be made available by National Grid LNG Storage at the Dynevor Arms facility ahead of the 2009/10 Storage Year.

Disadvantages

None identified.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Written Representations are now sought in respect of this Draft Report.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

Proposal could be implemented with immediate effect following direction from Ofgem.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters