

Supply Increase/Offtake Reduction Operating Margins Contract
Term Summary
(Subject to Contract)

Buyer: National Grid Gas plc
Seller: UK Shipper to NTS-Connected Supply/Demand (or Lead Shipper where site has multiple Shippers)
Product: Physical delivery of gas to the NTS, either by supply increase, offtake reduction, or a combination of both.
Contract Parameters: The Product comprises:

1. A rate of supply increase or offtake reduction as seen at NTS level, defined by a Minimum Delivery Rate (minimum 0.5 GWh/hour – can be aggregated) and a Maximum Delivery Rate. The provider must specify whether the Delivery Rate can be partially instructed, and whether it will be permissible (where available) to nominate delivery greater than the tendered Maximum Delivery Rate.
2. Provision of such Delivery Rate within a specified lead-time (the Response Time, maximum 2 hours)
3. A minimum duration (in hours) per instruction (the Minimum Delivery Duration – e.g. 1-2 hours)
4. A maximum duration (in hours) per instruction (the Maximum Delivery Duration – Buyer preference for 12 hours or 24 hours) – NB it may be possible to split one continuous utilisation into two nominations where that utilisation spans the transition between Gas Days
5. A maximum number of utilisations per month (the Monthly Utilisation Limit, as tendered [value subject to assessment])
6. A maximum number of utilisations per year (the Annual Utilisation Limit, as tendered [value subject to assessment])
7. A recovery time after each utilisation (the Recovery Period, as tendered [value subject to assessment])

An indication of ramp rates will need to be provided – the delivery envelope will include ramping energy (the principle of utilisation costs covering the impact of the utilisation will require this to be the case).

A 'locational' supply increase/offtake reduction service could be provided within a portfolio if it were possible to guarantee that any 'equal and opposite' action would be locationally remote from the service delivery (e.g. in a different OM zone) – ref. defined zones in second OM consultation document¹

Period: Annual
Maximum Exercise Volume: Defined by Seller's offer – maximum delivery multiplied by duration. Tenders will be invited for 12 hour and 24 hour duration.
Utilisation Price: Defined by Seller's offer (e.g. could be fixed price mechanism or market based price mechanism depending on downstream impact – e.g. possible link to gas electricity market, subject to appropriate liability cap)
Determination of Utilisation Volume: Utilisation volume determined by reference to most recent Delivery Flow Notice or Offtake Profile Notice.
Availability Price: Annual Fee

¹ http://www.nationalgrid.com/NR/rdonlyres/23D2E577-CE65-4199-B51E-3B65ED830200/28007/OM_Conclusions_Incentives_Issue_1.pdf

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Latest exercise time:	4am
Notice Period:	Not more than 2 hours
Point of Delivery:	Metered NTS Entry/Exit Point(s)
Means of Delivery:	Seller increases/reduces nomination and flow at contracted location(s) by the requested amount. Need to ensure physical increase in volume of gas in NTS.
Availability:	Site(s) only able to provide service if sufficient margin between prevailing supply/offtake position to enable contracted deliverability (with suitable tolerance) at time of exercise (to provide rate change) [or if OPNs indicate imminent turn-up which could be delayed/prevented]. Subject to maintenance periods or periods where certain offtake levels are required (e.g. for testing) – to be agreed in advance and not exceeding [45] days. [Monthly monitoring of availability with mechanism to reduce payments in line with under-achievement of tendered availability level]
Utilisation Trigger:	Contracts would be used for Operating Margins purposes only.
Testing:	<p>The Buyer will require the right to undertake an initial test of the service at maximum deliverability for a minimum of [1] hour (a Proving Test).</p> <p>The Proving Test will require the Seller to demonstrate a physical flow change (at NTS level), demonstrate suitable metering and that they are achieving any agreed audit and information requirements.</p> <p>The Seller shall pay all costs other than any gas disposal fee which shall be capped at the SAP on the gas day in question. Should the test fail then on any subsequent retests the Seller shall pay all costs other than any gas disposal fee which shall be capped at the SAP on the gas day in question.</p> <p>Once the service has commenced, the Buyer shall have the right, not more than once per annum, to test the service at maximum deliverability for up to 1 hour (an Annual Deliverability Test). The Buyer shall pay the utilisation cost of the test.</p> <p>Should the test fail (or following a failure to deliver against an Operating Margin Nomination) then on any subsequent tests the Seller shall pay all costs other than any gas disposal fee which shall be capped at the SAP on the gas day in question.</p>
Utilisation:	The Buyer will notify the Seller of exercise before the offered latest exercise time [via nomination and potentially subsequent re-nomination as required]. Delivery required within two hours of the hour bar following notification. Shipper must confirm to the Buyer when it has notified the site(s) and again when the site(s) has reduced its gas demand to the contracted level or by the contracted amount.

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Liability:	<p>Principles:</p> <p>Failure to deliver the Operating Margins service, where such failure is not excused by Force Majeure, shall be a Default.</p> <p>To the extent that on any Day the Provider is in Default, Liquidated Damages shall apply (and shall be the Buyer's sole remedy in respect of any Default). The Liquidated Damages due shall be the amount of the under-delivery multiplied by a Default Price, which will be linked to an appropriate index.</p> <p>The maximum aggregate liability of the Provider over the term of the agreement in respect of Default shall be capped at [the value of the contract].</p>
Re-instatement:	<p>Buyer may reinstate site after issuing an exercise notification. It would give a minimum of [2] hours notice.</p>
Settlement:	<p>Premium – monthly in arrears, proportional amount of contract active in applicable month Exercise – monthly in arrears following exercise, applied to exercise volume</p>
User ceases to supply site:	<p>Seller must assign contract to incoming shipper during term of agreement (unless otherwise agreed with the Buyer)</p>
Information Provision:	<p>After a Tender, Buyer would publish: Max and min accepted price Volume accepted Number of successful and unsuccessful bidders</p> <p>[Actual published information subject to review]</p>