

CODE MODIFICATION PROPOSAL No xxxx
<Disposal of Dynevor Arms LNG Storage Facility>
Version x.x

Date: 04/11/2008

Proposed Implementation Date: [1/2/2009]

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

On 4th November 2008 National Grid Gas (NGG) announced its intention to dispose of its liquefied natural gas (LNG) storage facility located at Dynevor Arms in South Wales.

This Modification Proposal seeks to amend the UNC to facilitate the orderly disposal of the facility as a going concern and provide clarity to Users with regards to the amount of 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 LNG storage 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 gas shippers 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 National Grid NTS has only specified a minimum inventory level for the 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 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.

NGG 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 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.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

[Urgent procedures are not requested]

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

[National Grid LNG Storage has discussed this issue at the Transmission Workstream and has looked to take industry views into account.]

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

National Grid LNG Storage considers that this Modification Proposal would, if implemented, better facilitate the following Relevant Objectives:

- In relation to Standard Special Condition A11.1(d)(i), the securing of effective competition between relevant shippers, the Modification Proposal would facilitate the disposal of the Dynevor Arms facility to a third party which, if successful, would increase the extent of competition in the GB gas storage market thereby facilitating competition between shippers.
- In relation to Standard Special Condition A11.1(a), the efficient and economic operation of the pipeline system, the Modification Proposal would facilitate market testing to determine the most economic outcome for the future of the Dynevor Arms facility.

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

If the Dynevor Arms facility is sold as a going concern, there would be no impact on security of supply.

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, National Grid LNG Storage considers that this Modification Proposal, if implemented, would not have an impact on the operation of the Total System.

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 this Modification Proposal, including:

a) The implications for operation of the System:

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

b) The development and capital cost and operating cost implications:

Any development, capital or operating costs directly associated with the sale of the Dynevor Arms facility would be for the account of NGG and its shareholders.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Not applicable.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No such consequence has been identified

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

Not applicable.

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Not applicable.

b) The development and capital cost and operating cost implications

Not applicable.

- c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

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

- 8 **The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

The sale of the facility to a third party would improve competition in the gas storage market.

- 9 **Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

None identified.

- 10 **Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

Advantages

If implemented, the Modification Proposal would:

- facilitate the orderly disposal of the Dynevor Arms facility to a third party; and
- 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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

- 12 **Detail of all other representations received and considered by the Proposer**

- 13 **Any other matter the Proposer considers needs to be addressed**

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

Proposal discussed at Transmission Workstream	06/11/2008
Proposal submitted to Mod panel	[20/11/2008]
Proposal issued for consultation (subject to Panel approval)	[21/11/2008]
Closeout for representations (? Days)	[9/1/2009]
Modification Panel decide upon recommendation	[22/01/2009]
FMR submitted to Ofgem	[23/01/2009]
Proposed implementation date	[01/02/2009]

15 Comments on Suggested Text

16 Suggested Text

TPD Section R

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.

Transition Document Part IIC

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.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) R and Z

Proposer's Representative

Matt Golding

(National Grid NTS acting as operator of the National Grid LNG Storage Facilities)

Proposer

National Grid NTS