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Dear David

National Grid LNG Storage's decision to proceed with the early closure of the Avonmouth liquefaction facility

Thank you for the opportunity to respond to National Grid LNG Storage's (LNGS) announcement that you intend to close your Avonmouth liquefaction facility in May 2016.

While I appreciate this decision is currently subject to a consultation process being undertaken by LNGS, the purpose of this letter is to record our concern with the proposed early closure of the Avonmouth facility, and the security of supply issues this will create for customers who are connected to the Scottish Independent Undertakings (SIUs) that are owned and operated by SGN under our Scotland Gas Networks plc gas transporters licence.

Context and background to LNGS decision

It has been known for some time that the Avonmouth facility is an aging plant and cannot reasonably be expected to operate into the next decade. This was recognised as part of the RIIO GD1 price control process and which resulted in a separate price control outcome for LNGS to cover the costs of operating the Avonmouth facility up to 2018¹. It was also recognised under SGN's RIIO GD1 Final Proposals that the costs of operating the SIUs in the longer term are unknown, and that Ofgem would seek the views of SGN for options to deliver an enduring solution to the SIUs in the longer term and following the closure of Avonmouth in 2018².

It is important to recognise all scenarios and assumptions to date have asserted that the Avonmouth facility will remain operational until 2018.

Delivering an alternative LNG solution

You will be aware that over the past few months we have been working to develop an alternative LNG solution to overcome any unexpected temporary outages at Avonmouth. Our conclusion is that delivering an alternative LNG solution is the least cost option for ensuring security of supply for the mainland SIUs in the medium term (i.e. for the remainder of RIIO-GD1 and possibly beyond), and is the only realistic technical option that can be delivered prior to the closure of the Avonmouth facility in 2018.

¹ <https://www.ofgem.gov.uk/publications-and-updates/avonmouth-liquefied-natural-gas-facility-price-review-final-proposals>

However, we have previously made it clear to Ofgem and other interested parties that the technical parameters for implementing any alternative LNG solution prevent any such option from becoming operational before 2018. This would allow adequate control systems to be in place prior to such arrangements becoming operational. For this reason, the announcement by LNGS to close the Avonmouth facility earlier than 2018 does, in our view, create a significant security of supply risk for customers connected to the SIUs.

It is critically important to recognise the Avonmouth facility provides Gas Safety (Management) Regulations (GS(M)R) compliant gas. Any medium to longer term solution that relies on alternative LNG supplies must also conform to these requirements, and this is an inherent issue for all alternative sources of UK specification LNG (whether this is sourced from the new facility at the Isle of Grain or any other European terminal). Therefore, to make these sources of LNG GS(M)R compliant will require investment in new ballasting facilities and ensuring their reliable operation.

We are investigating the possibility of an exemption from the GS(M)R requirements. If this is not achieved we will be reliant on LNG from these sources remaining within the limits of the emergency envelope of GS(M)R, and the declaration of a Gas Supply Emergency to operate using this gas. If any gas is outside this specification we would have to shut down gas supplies in the four SIU communities to prevent a breach of legislation.

These technical and legislative limitations make the permanent closure of the Avonmouth facility before 2018 such an important issue, as any alternative technical solutions cannot be delivered in this timeframe without there being significant risk associated with the quality of gas that can be supplied to customers connected to the SIUs. We consider it critical that you set out what steps you are able to take to facilitate continued security of supplies for the SIUs following the closure of the Avonmouth facility.

It is essential for National Grid to provide a guaranteed gas quality specification for the Isle of Grain road tanker loading facility. This would allow us to fully understand the impact of this decision and make plans for the SIU networks operation without a gas source that is fully compliant with the requirements of GS(M)R.

We have invested considerable time and effort investigating all options for meeting the ongoing and future needs of customers connected to the SIUs. We have also discussed at length with you options for ensuring the continued operation of the Avonmouth facility up to 2018. We have already expressed to you the early closure of the Avonmouth facility will also create issues for shippers, suppliers and Ofgem in terms of sourcing alternative LNG supplies for customers, and we consider it critical that you extend the operation of Avonmouth to April 2018.

We also consider that the terms and conditions of the existing Tanker Filling Agreement currently in force between ourselves to supply LNG to SGN, by facilitating the loading of LNG onto road tankers that in turn supply the SIUs, must be honoured and adhered to at all times.

Summary and Next Steps

The early closure of the Avonmouth facility presents significant security of supply risks to customers connected to the SIUs, and has the potential to become a major political concern moving forward. We would therefore request the earliest possible notification of your decision on the closure of Avonmouth in its entirety.

We consider it critical for you to explore all options for keeping the Avonmouth facility operational up to 2018, and as envisaged at the outset of the RIIO price control process.

We will continue to work with LNGS, DECC and Ofgem in developing longer term solutions for meeting the energy needs of stakeholders connected to the SIUs. Your consultation document does not make clear the steps you intend to take to mitigate the security of supply issues your decision will have for your customers, and we would be eager to learn of the measures you propose to mitigate this risk.

Please note we are happy for our response to be made public and we will also place this submission on the Joint Office website.

Should you wish to discuss this response further then please do not hesitate to contact me at john.lobban@sgn.co.uk.

Yours sincerely,

John Lobban
Managing Director, Scotland Gas Networks