

# **REQUEST FOR PROPOSALS OPERATING MARGINS**

**(FOR SERVICE COMMENCEMENT 1st MAY 2008)**

**MARCH 2006**

**Contracts, Operations and Trading  
National Grid Gas plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA**

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## **1 INTRODUCTION**

Significant changes to the location of gas deliveries to the UK are currently taking place. Investment in the NTS to facilitate this increased supply diversity will deliver a gas network that is capable of handling a wider variation of flows. Consequently, National Grid Gas's Operating Margins (OM) requirements are anticipated to become less locationally dependent. It is for these reasons that National Grid Gas has prepared this request for proposals seeking to identify potential candidates for the provision of future OM services.

This document sets out the basis of services National Grid Gas is seeking to procure in the future and illustrates the likely scope of services required.

This request for proposals is issued only to gauge market interest in the provision of Operating Margins in the future. Should National Grid Gas wish to invite offers for the provision of Operating Margins services, it will issue an invitation to tender to interested parties. In responding to this request for proposals, participants may indicate interest in receiving an invitation to tender in the future.

## **2 OPERATING MARGINS**

National Grid Gas purchases Operating Margins ("OM") on an annual basis in line with both the requirements of section K of the UNC and obligations described in the National Grid Gas Safety Case ("the Safety Case"). The Safety Case places an obligation on National Grid Gas to maintain OM at levels and locations determined throughout the year.

Typically OM will be used to maintain NTS system pressures in the period before other balancing measures become effective. Primarily Operating Margins will be used in the immediate period following operational stresses such as a supplier alert as a result of a failure offshore, unanticipated demand changes or unexpected pipeline and/or plant unavailability. A quantity of OM is also kept in reserve to manage the orderly rundown of the system following the declaration of a Gas Supply Emergency.

By way of example, it may take 4 to 5 hours to restore gas supplies following a supply loss in the south east of the system or for actions by shippers to source additional gas to take effect. During this period, without the use of OM, pressures could drop below the minimum level permitted in parts of the network to maintain normal network operation resulting in a gas supply emergency and curtailment of gas supplies to consumers. In addition, a lack of OM would also compromise the management of an orderly rundown once in a gas supply emergency.

Use of an OM service will result in additional gas being available to the system (i.e. gas that would not ordinarily be available had an OM service not been used). The features of an OM service are:

- guaranteed availability at short notice;
- high levels of reliability and deliverability (or flow reduction); and
- suitable physical location on the network.

In practice, this has led to the majority of OM being in the form of gas held in storage facilities. A major component of OM has been the storage of gas in LNG storage facilities as these provide high levels of deliverability that, on all but 5 days a year, will result in the delivery of additional gas at locations close to strategic extremities of the network.

## Safety Case Requirements

Operating Margins forms part of the National Grid Gas Primary Transporter Safety Case. Failure to comply with the Safety Case is a criminal offence. This latter point is a significant consideration in any alternative OM procurement plan.

### 3 OPERATING MARGINS REQUIREMENTS

Our forecast OM requirements are determined from assessing allowances for each of the following requirements: Major Events, Minor Events and Orderly Rundown. These are currently defined as follows:

**GROUP 1** formerly Major Events, includes those events that, although unlikely to occur co-incident with a 1 in 50 winter, would have a major impact on the safe operation of the NTS. This group includes a loss of supply or loss of infrastructure.

**GROUP 2** formerly Minor Events, though better described as multiple events, includes those events that could reasonably be expected to happen during any winter, but potentially more so in a severe winter as alternative supplies are expected to be less available and occurrences of such events could escalate due to higher demands. Inclusion of this OM is required in order that OM is kept available for a series of such events. This events group includes analysis for compressor failure, routine forecast errors and significant supply losses.

**GROUP 3, ORDERLY RUNDOWN** is OM stock to ensure safe rundown of the system in the event of a Network Gas Supply Emergency while firm load shedding takes place.

A key factor in the consideration of any service would be the right for National Grid Gas to carry out an annual process to review and potentially amend its assessment for Operating Margins volumes, deliverability and location for future years. National Grid Gas's methods of assessment will include the use of network analysis models to determine the requirements for particular failure scenarios as described. It will also include statistical models based on operational data for supply loss, compressor loss and demand forecast error probability. Due to the distributed nature of the NTS, it is not possible to identify a single OM quantity for the UK as Operating Margin gas must be available on a locational basis. To this end, the analysis will define OM requirements in a number of NTS zones with a maximum and minimum. The models described will be updated on an annual basis to reflect the latest information on future supplies, demands and enhancements to the NTS. The assessment of bids for the provision of an OM service will be subject to both volume and deliverability requirements being within acceptable bounds as determined from analysis; the figures provided in 3.1 below provide an illustration of the volume and deliverability requirements that would be used in such an assessment.

### 3.1 Forecast Operating Margins requirement

National Grid Gas is interested in receiving proposals from Providers that can offer to supply a proportion of its OM requirement. National Grid Gas anticipates that these requirements may be supplied on contracts varying from 3 to 10 years in duration. However, depending on the supplier's circumstances, National Grid Gas is willing to consider proposals which may involve the provision of OM services for other periods. Our forecast OM requirements for this period are as follows:

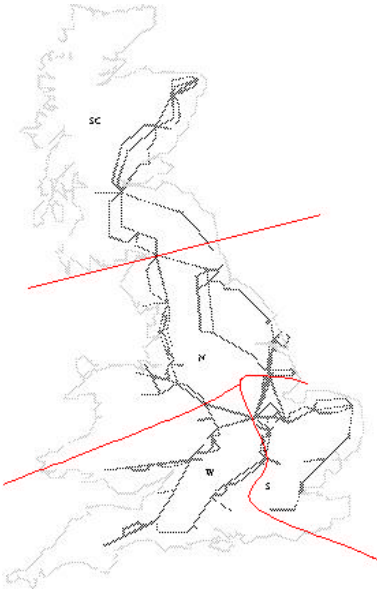
**Table 1: Operating Margins Forecast Volume (GWh) Requirements**

<b>Year</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>2008/09</b>	1631	907	772
<b>2009/10</b>	1611	867	781
<b>2010/11</b>	1591	835	789
<b>2011/12</b>	1863	1076	751
<b>2012/13</b>	2238	1481	1004
<b>2013/14</b>	2439	1873	1401
<b>2014/15</b>	2915	2222	1954
<b>2015/16</b>	2915	2222	1954
<b>2016/17</b>	2915	2222	1954
<b>2017/18</b>	2915	2222	1954

High, medium and low figures are based on current assessments of future supplies as determined through the "Transporting Britain's Energy" [1] process and estimates of the certainty of that gas actually being delivered. The requirements are dependant on National Grid Gas's assessment of the UK's future supply profile. Similarly, the locational requirements illustrated below may be revised each year depending on changes to the NTS in terms of supply and demand patterns and changes in infrastructure.

[1] Transporting Britain's Energy 2005 document can be found on the National Grid website (<<http://www.nationalgrid.com/uk/gas>> under Ten Year Statement) and via the following link: [www.nationalgrid.com/NR/rdonlyres/FDCE0ECD-A3F0-4A71-8300-0D1E6B359F0D/4199/TBE2005DevelopmentofInvestmentScenarios.pdf](http://www.nationalgrid.com/NR/rdonlyres/FDCE0ECD-A3F0-4A71-8300-0D1E6B359F0D/4199/TBE2005DevelopmentofInvestmentScenarios.pdf)

For the purposes of this Request for Proposals, the NTS has been considered as four geographical areas: Scotland, North, West and South (see Figure 1).



**Figure 1: Geographical Areas**

A central case has been taken and assessed against the locational and non-locational elements which make up the total requirement. These give a minimum volume requirement for each area (i.e. that volume required to meet the locational elements of Operating Margins which must be sourced from that area) and a maximum (i.e. the locational elements plus the full extent to which that area could meet the substitutational elements of Operating Margins).

**Table 2: Locational OM Requirements in GWh**

	SC		N		W		S	
	Max	Min	Max	Min	Max	Min	Max	Min
<b>2008/09</b>	196	106	307	178	457	270	273	150
<b>2009/10</b>	190	101	286	163	446	261	259	139
<b>2010/11</b>	185	97	269	151	438	254	248	130
<b>2011/12</b>	224	128	398	240	503	309	331	197
<b>2012/13</b>	341	171	643	363	660	389	511	292
<b>2013/14</b>	463	212	882	478	821	465	691	380
<b>2014/15</b>	588	248	1166	623	897	496	897	496
<b>2015/16</b>	588	248	1166	623	897	496	897	496
<b>2016/17</b>	588	248	1166	623	897	496	897	496
<b>2017/18</b>	588	248	1166	623	897	496	897	496

In addition to the volume requirements described above, National Grid Gas will also require a minimum deliverability rate for the services delivered in each area. This is to ensure that the additional volume delivered to the NTS by the Operating Margins Service Provider(s) is at a sufficient rate to secure the balance of the NTS during a period of any of the events described above.

The table below indicates minimum delivery rates for each of the geographical areas under the conditions used for table 2.

**Table 3: Locational OM Requirements for Minimum Deliverability in GWh/d**

	SC	N	W	S
<b>2008/09</b>	100	200	200	100
<b>2009/10</b>	100	200	200	100
<b>2010/11</b>	100	200	200	100
<b>2011/12</b>	100	200	200	100
<b>2012/13</b>	100	251	200	190
<b>2013/14</b>	139	368	279	279
<b>2014/15</b>	198	523	396	396
<b>2015/16</b>	198	523	396	396
<b>2016/17</b>	198	523	396	396
<b>2017/18</b>	198	523	396	396

The final dimension to Operating Margins provision is that there is a seasonal variation to the requirements. The tables above all describe the winter 100% requirement; the table below illustrates the extent to which that element may vary seasonally.

**Table 4: Seasonality Factors**

	Seasonality Factor (% of maximum requirement)
May	55%
June	55%
July	55%
August	55%
September	55%
October	100%
November	100%
December	100%
January	100%
February	85%
March	75%
April	55%

Note the above seasonality factor refers to an aggregated requirement and may therefore not be required for each and every service. e.g. it may be more efficient and economic to contract with a number of services where there is little variation in seasonality across a service year.

## 4 BASIS OF PROPOSALS AND SERVICE ASSESSMENT

4.1 In offering proposals for OM services it is envisaged that Providers would contract with National Grid Gas by one or more of the following means

<b>Demand (offtake reduction)</b>	Shippers of NTS-connected consumers would offer a service to reduce and limit its hourly offtake at a specified location.
<b>Supply (gas delivery)</b>	Shippers at NTS entry points would offer a service to increase or not decrease its hourly rate of delivery at a defined location.
<b>Storage (gas delivery)</b>	Providers with gas held in NTS-connected storage facilities would offer a service to increase the rate of gas delivery to a defined level and for a defined duration
<b>Importation facility (gas delivery)</b>	Providers flowing through importation facilities would offer a service to increase the delivery rate and duration of delivery to the NTS
<b>DN (offtake reduction)</b>	Operators of DNs would offer a service to reduce and limit the hourly offtake at defined exit points

Note: demand offtake reduction services will be limited to covering Major and Minor Events as they would be unavailable during Orderly Rundown.

Providers are free to table alternative proposals. National Grid Gas will consider the suitability of any alternative proposals, among other things (see paragraph 4.5 below), in light of operational requirements.

4.2 National Grid Gas anticipates that these requirements may be supplied on contracts varying from 3 to 10 years in duration but are willing to consider proposals which may involve OM services being provided over other periods, depending on the supplier's circumstances. The Provider would be responsible for all service costs (including operations, maintenance and repair costs) and any required plant/facility investment.

4.3 In terms of the required specification for each of the service categories listed above Providers should refer to section 5 of this document.

4.4 As a minimum each proposal shall be capable of providing an OM Volume of at least 25GWh (from a single site/facility or aggregated from a number of smaller sites/facilities).

4.5 The principal factors to be taken into account when considering proposals are to include:

- Deliverability
- Maximum Utilisation Time
- Volume
- Maximum Response Time
- Price and pricing structure (and that offered for varying levels of service)
- Service recovery time
- Incentives for permitting within year profiling, booking reductions etc
- Geographical location of the service
- Any other factors which, in National Grid Gas's reasonable opinion, are relevant in appraising the viability of any proposal submitted.

4.6 In preparing their proposals, Providers shall also give details of the means by which the contract performance could be monitored.

## **5 SPECIFICATIONS**

Depending upon their preferred service category Providers are to offer services capable of meeting the following specifications.

## 5.1 SPECIFICATION GAS DELIVERY CONTRACT – SUPPLY

Seller	Shipper at entry locations connected directly to the NTS
Product definition	Increase in the hourly rate of gas delivery into the NTS.
Maximum Response Time	2 hours
Last exercise time	03:59 for delivery at 05:00 on day D
Exercisable days	As specified
Deliverability	Increase in hourly rate of delivery of gas into the NTS at locations specified by National Grid Gas. Maximum to be equal to the max flow permitted at the entry point or lower amount specified by Provider
Volume	Provider to specify
Maximum Utilisation Time	Provider to specify
Delivery Point	Provider to specify location(s).
Measurement of contract performance	Flow rate must increase by at least that set out in the notice. Volume exercised will be the difference between that flow rate specified in the notice and that which existed immediately prior to exercise of this contract and for the duration specified in the notice.
Audit and Information requirement	N/A
Availability window	Provider to specify
Failure and Liabilities	Liquidated damages (LD's) shall be payable for the Providers failure to perform the contract. LD's shall be related to magnitude by which the flow-rate post-exercise falls short of that specified in the flow increase notice for the duration of the exercise period. LD's are to be priced at the estimated cost of providing an alternative.
Aggregation	Aggregation of contracts shall be permitted within zones specified by National Grid Gas. Substitution may also be permitted when flow rate increase required by National Grid Gas is less than total amount contracted in aggregated zone. However, once a call-off within the aggregated portfolio has been triggered no decrease in flows should be permitted at locations subject to aggregation rules.
Interaction with other contractual arrangements	The supply increase offered to National Grid Gas must be available throughout the contract period and not made available on the basis that other parties may have prior rights which might result in the services not being available when required by National Grid Gas. This is to ensure that National Grid Gas can call on the contracted services in all circumstances enabling it to fulfil its statutory and safety obligations.
Inspection, proving and testing	National Grid Gas reserves the right to test Providers Deliverability for 1 day annually for up to 1 hour per time without incurring exercise fee.
Safety Case Obligations of Provider	The Provider shall provide National Grid Gas with such information and data as National Grid Gas may reasonably require to facilitate the necessary change to its Safety Case.

## 5.2 SPECIFICATION GAS DELIVERY CONTRACT – STORAGE

Seller	Shippers with gas held at storage facilities connected directly to the NTS
Product definition	Increase in the hourly rate of gas delivery from an NTS connected storage facility
Maximum Response Time	2 hours
Last exercise time	03:59 for delivery at 05:00 on day D
Exercisable days	As specified
Deliverability	Increase in hourly rate of delivery of gas into the NTS as notified by National Grid Gas, for the duration notified by National Grid Gas Maximum to be equal to the max flow permitted at the storage connection point or lower amount specified by Provider
Volume	Provider to specify
Maximum Utilisation Time	Provider to specify
Injection	Requirement to maintain prescribed gas in store as set out in the contract (monitor arrangements).
Delivery Point	Provider to specify location(s).
Measurement of contract performance	Flow rate must increase by at least that set out in the notice. Volume exercised will be the difference between that flow rate specified in the notice and that which existed immediately prior to exercise of this contract and for the duration specified in the notice.
Audit and Information requirement	Requirement for the Shipper “earmarked” OM stock level to be reported daily to National Grid Gas and procedure preventing any nominated withdrawal of shipper gas below the OM stock level
Availability window	Provider to specify
Failure and Liabilities	Liquidated damages (LD's) shall be payable for the Providers failure to perform the contract. LD's shall be related to magnitude by which the flow-rate post-exercise falls short of that specified in the flow increase notice for the duration of the exercise period. LD's are to be priced at the estimated cost of providing an alternative.
Aggregation	Aggregation of contracts shall be permitted within zones specified by National Grid Gas. Substitution may also be permitted when flow rate increase required by National Grid Gas is less than total amount contracted in aggregated zone. However, once a call-off within the aggregated portfolio has been triggered no decrease in flows should be permitted at locations subject to aggregation rules.
Interaction with other contractual arrangements	The supply increase offered to National Grid Gas must be available throughout the contract period and not made available on the basis that other parties may have prior rights which might result in the services not being available when required by National Grid Gas. This is to ensure that National Grid Gas can call on the contracted services in all circumstances enabling it to fulfil its statutory and safety obligations.
Inspection, proving and testing	National Grid Gas reserves the right to test Providers Deliverability for 1 day annually for up to 1 hour per time without incurring exercise fee.
Safety Case Obligations of Provider	The Provider shall provide National Grid Gas with such information and data as National Grid Gas may reasonably require to facilitate the necessary change to its Safety Case. If the storage facility is not owned by National Grid then National Grid Gas shall require the right to be able to instruct storage operator directly to flow with costs being borne by defaulting counter-party.

### 5.3 SPECIFICATION GAS DELIVERY CONTRACT - IMPORTATION FACILITY

Seller	Providers at LNG importation facilities connected directly to the NTS
Product definition	Increase in the hourly rate of gas delivery from an importation facility connected to the NTS
Maximum Response Time	2 hours
Last exercise time	03:59 for delivery at 05:00 on day D
Exercisable days	As specified
Deliverability	Increase in hourly rate of delivery of gas into the NTS as notified by National Grid Gas, for the duration notified by National Grid Gas Maximum to be equal to the maximum flow permitted at the entry point or lower amount specified by Provider
Volume	The Provider shall specify the maximum utilisation time per exercise and any capped usage per annum
Maximum Utilisation Time	Provider to specify
Refill	Requirement to maintain prescribed gas in store as set out in the contract (monitor arrangements) and refill any used volumes at next tanker unloading.
Delivery Point	At the importation terminal entry point to the NTS.
Measurement of contract performance	Flow rate must increase by at least that set out in the notice. Volume exercised will be the difference between that flow rate specified in the notice and that which existed immediately prior to exercise of this contract and for the duration specified in the notice.
Audit and Information requirement	Daily and forecast of "local" stock level to be provided to National Grid Gas for each of the next 7 days Additionally National Grid Gas would require rights that on its behalf the terminal operator could block any nominated withdrawal of shipper gas below the 'earmarked' inventory.
Availability window	Provider to specify
Failure and Liabilities	Liquidated damages (LD's) shall be payable for the Providers failure to perform the contract. LD's shall be related to magnitude by which the flow-rate post-exercise falls short of that specified in the flow increase notice for the duration of the exercise period. LD's are to be priced at the estimated cost of providing an alternative.
Aggregation	Aggregation of contracts shall be permitted within zones specified by National Grid Gas. Substitution may also be permitted when flow rate increase required by National Grid Gas is less than total amount contracted in aggregated zone. However, once a call-off has been triggered within the aggregated portfolio then no decrease in flows would be permitted at locations subject to aggregation rules
Interaction with other contractual arrangements	The supply increase offered to National Grid Gas must be available throughout the contract period and not made available on the basis that other parties may have prior rights which might result in the services not being available when required by National Grid Gas. This is to ensure that National Grid Gas can call on the contracted services in all circumstances enabling it to fulfil its statutory and safety obligations.
Inspection, proving and testing	National Grid Gas reserves the right to test Providers Deliverability for 1 day annually for up to 1 hour per time without incurring exercise fee.
Safety Case Obligations of Provider	The Provider shall provide National Grid Gas with such information and data as National Grid Gas may reasonably require to facilitate the necessary change to its Safety Case.

## 5.4 SPECIFICATION OFFTAKE REDUCTION CONTRACT – DEMAND SIDE

Seller	Shippers of gas to consumers directly connected to the NTS.
Product definition	Rate of Offtake reduction
Maximum Response Time	2 hours
Last exercise time	03:59 for delivery at 05:00 on day D
Exercisable days	As specified
Deliverability	Reduction in the quantity able to be offtaken each hour at the Delivery Point by the Shipper (Maximum reduction equal to SHQ or that specified)
Volume	Provider to specify
Maximum Utilisation Time	Provider to specify
Injection	N/A
Delivery Point	Provider to specify location(s).
Measurement of contract performance	Flow reduction at least equal to the limit set out in the notice. If the premises also has access to a gas supply from an LDZ then upon an OM exercise no increase of gas offtaken through their LDZ connection would be permitted
Audit and Information requirement	Requirement to provide evidence of the rate at which gas was offtaken for consumption at their LDZ offtake immediately prior to the exercise of this contract and each hour thereafter
Availability window	Provider to specify
Failure and Liabilities	Liquidated damages (LD's) shall be payable for the Providers failure to perform the contract. LD's shall be related to magnitude by which the flow-rate post-exercise falls short of that specified in the flow reduction notice for the duration of the exercise period. LD's are to be priced at the estimated cost of providing an alternative.
Aggregation	Aggregation of contracts is permitted within zones specified by National Grid Gas. Substitution may also be permitted when curtailment required by National Grid Gas is less than total amount available in aggregated zone. However, once a call-off within the aggregated portfolio has been triggered no increase in flow should be permitted at locations subject to aggregation
Interaction with other contractual arrangements	The offtake reduction offered to National Grid Gas must be available throughout the contract period and not made available on the basis that other parties may have prior rights which might result in the services not being available when required by National Grid Gas. This is to ensure that National Grid Gas can call on the contracted services in all circumstances enabling it to fulfil its statutory and safety obligations.
Inspection, proving and testing	National Grid Gas reserves the right to test Providers Deliverability for 1 day annually for up to 1 hour per time without incurring exercise fee.
Safety Case Obligations of Provider	The Provider shall provide National Grid Gas with such information and data as National Grid Gas may reasonably require to facilitate the necessary change to its Safety Case.

## 5.5 SPECIFICATION OFFTAKE REDUCTION CONTRACT – DN

Seller	Operators of an distribution networks directly connected to the NTS
Product definition	Rate of Offtake reduction
Maximum Response Time	2 hours
Last exercise time	03:59 for delivery at 05:00 on day D
Exercisable days	As specified
Deliverability	Reduction on the quantity able to be offtaken each hour (Maximum reduction equal to SHQ (or contracted amount) for each remaining hour of day D)
Volume	Provider to specify
Maximum Utilisation Time	Provider to specify
Injection	N/A
Delivery Point	Provider to specify location(s).
Measurement of contract performance	No flow beyond the limit set out in the notice at the location identified in the notice, plus no increase in flows at any other related offtake (within the same DN).
Audit and Information requirement	N/A
Availability window	Provider to specify
Failure and Liabilities	Liquidated damages (LD's) shall be payable for the Providers failure to perform contract. LD's are to be related to magnitude by which the flow-rate post-exercise falls short of that specified in the flow reduction notice for the duration of the exercise period. LD's are to be priced at the estimated cost of providing an alternative.
Aggregation	Aggregation of offtakes within zones specified by National Grid Gas is mandatory. Once an OM exercise within the aggregated portfolio has been triggered no increase in flow should be permitted at other locations subject to aggregation
Interaction with other contractual arrangements	The offtake reduction offered to National Grid Gas must be available throughout the contract period and not made available on the basis that other parties may have prior rights which might result in the services not being available when required by National Grid Gas. This is to ensure that National Grid Gas can call on the contracted services in all circumstances enabling it to fulfil its statutory and safety obligations.
Inspection, proving and testing	National Grid Gas reserves the right to test Providers Deliverability for 1 day annually for up to 1 hour per time without incurring exercise fee.
Safety Case Obligations of Provider	The Provider shall provide National Grid Gas with such information and data as National Grid Gas may reasonably require to facilitate the necessary change to its Safety Case. Provision of OM services to National Grid Gas will require a revision to the DN safety case. Any such revisions will need to be accepted by the HSE before a contract can become effective

## 6 COMMERCIAL BASIS

- 6.1 National Grid Gas is interested in receiving proposals in which Providers would supply a proportion of its OM requirement. National Grid Gas anticipates that these requirements may be supplied on contracts varying from 3 to 10 years in duration. However, depending on the Provider's circumstances, National Grid Gas is willing to consider proposals which involve OM services being provided over other periods. The Provider would be responsible for all service costs, including all plant/facility operations and maintenance costs and capital expenditure.
- 6.2 Providers should ideally offer a service commencement date of 1 May 2008, but later commencement dates may also be considered.
- 6.3 For each service year (a calendar year starting on Day 1 May and ending on Day 30 April) the Provider is to confirm the discrete periods (hours) that the service is to be made available. Ideally this should be a full service year but alternative periods e.g. a part year or season might also be considered. For each discrete period offered the Provider must make the service available for at least 98% of the hours offered.
- 6.4 Providers should state the price they wish to be paid when National Grid Gas instructs and utilises the service.
- 6.5 Prior to each service year National Grid Gas shall have the option of notifying a Provider of any changes to its monthly booking profile for that year. For any such changes the Provider shall state in their proposals the basis of any adjustment to the charges payable by National Grid Gas.
- 6.6 Liquidated damages shall be payable for the Providers failure to perform the contract reflecting the magnitude by which the service falls short of that booked. LD's are to be priced at the estimated cost of providing an alternative.
- 6.7 The provision of OM services to National Grid Gas would have to be exclusive and not offered as part of any other contract.
- 6.8 In providing Operating Margins the Provider must be compliant with any statutory or other enactment applicable to it and provision of Operating Margins must not interfere with the Provider's obligations under any other agreements and arrangements to which the Provider may be a party. It is the responsibility of each Provider to ensure that their provision of an Operating Margins service will not place them in breach or non-compliance as described above.
- 6.9 Upon termination of the service agreement as a result of default by the Provider, National Grid Gas shall be entitled to receive from the Provider a lump sum payment representing any increase in cost attributable to making available an alternative OM service for the remainder of the service period.
- 6.10 Upon termination of the service agreement as a result of default by National Grid Gas the Provider shall state any lump sums payable representing any loss of profit or income which the Provider would suffer as a result of such termination.
- 6.11 National Grid Gas will require an appropriate credit guarantee to cover the above liabilities (both liquidated damages and termination provisions).

6.12 Any service will be subject to the necessary UNC modification(s) being approved by Ofgem and any necessary changes to the National Grid Safety Case being accepted by the HSE.

6.13 Providers must demonstrate how measurement of contract performance will be achieved during the period where National Grid Gas exercises its option to call upon a service.

## **7 COMPLETION AND SUBMISSION OF PROPOSALS**

7.1 Providers should submit proposals by post (with a copy by email to [nicholas.gardner@uk.ngrid.com](mailto:nicholas.gardner@uk.ngrid.com)) to:

Nicholas Gardner  
Operating Margins Proposals  
National Grid Gas  
NG House  
Warwick Technology Park  
Gallows Hill  
Warwick CV34 6DA

to be received no later than 10th May 2006.

Envelopes containing Proposals are to be clearly marked on the top left-hand corner "Proposals for Operating Margins commencing May 2008".

7.2 If any further information is required to assist with the preparation of proposals, the Provider should request this information from National Grid Gas. National Grid Gas may consider it necessary to copy any further information given in response to specific enquiries to all other Providers. All communications with National Grid Gas associated with this Request for Proposals should also be addressed to Nicholas Gardner and who can be contacted by phone on 01926 65 3450 and facsimile on 01926 65 6612.

7.3 All proposals will be treated as private and confidential. Provider's must not divulge or release details of their proposals to any third party, other than on an 'In Confidence' basis to those parties having a legitimate need to know, or whom they need to consult for the purpose of preparing their proposals.

## **8 STATUS OF THIS REQUEST FOR PROPOSALS**

This request for proposals does not constitute a call for competition.

This RFP is issued only to understand whether there is any expression of interest in the provision of Operating Margins in the future.

In issuing this Request for Proposals, under no circumstances will National Grid Gas be legally bound to accept any (or the lowest) offer made by any party, nor to reimburse any cost or expenditure whatsoever or howsoever incurred by any party in responding to this request for proposals or in negotiating the provision of any service.

## 9 NEXT STEPS & TIMESCALES

- 9.1 This request for proposals is envisaged to be the first of a number of steps that will identify the availability of OM services that could be procured through a transparent tender process. A provisional timetable for this process is currently envisaged as follows:

Start of Request for Proposals	6 <sup>th</sup> March 2006
Deadline for Receipt of Proposals	10 <sup>th</sup> May 2006
Issue of Invitation of Tender	8 <sup>th</sup> September 2006
Deadline for Receipt of Tender Submissions	15 <sup>th</sup> December 2006
Award of Contract <sup>1</sup>	Q3/Q4 2007

Note 1: all service contracts would be conditional on obtaining any necessary UNC modification(s) and changes to the National Grid Gas Safety Case.