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10<sup>th</sup> October 2017

Dear Colleague,

### **GAS OPERATING MARGINS (“OM”) 2018/19 TENDER – INDUSTRY CONSULTATION**

This Industry Consultation is made in respect of National Grid Gas’s OM service.

#### **Background and Contract Development**

Under the Transmission Licence, National Grid Gas has an obligation to procure OM requirements in an economic and efficient manner and promote competition in the provision of OM, which it has been doing since its inception.

We have been working hard ahead of the launch of the 2018/19 Gas OM tender round in December, to develop the OM agreements to ensure they incorporate any learning from the feedback given by service providers in the previous tender round. Wherever possible, we have also ensured consistency and alignment across the agreements.

The key changes are:

- i. Removal of the requirement for service providers to notify the facility delivery capacity on a daily basis under Clause 4.3(d) in the Storage Agreement and 4.2(d) in the LNG Agreement
- ii. Clarification of the limitation of liabilities to the service provider should non-compliant gas be delivered to us under Clause 4.3(g)(i)
- iii. Any revision to maintenance is now only required to be published on the service provider’s stated website as specified in Schedule 1
- iv. For clarity, the hourly nomination profile calculation in Clause 5.7 has been replaced with an OM Nomination form in Schedule 2 to specify the hourly profile (Storage and LNG Agreement only)
- v. Less onerous service unavailability provision in Clause 7.1 relating to the scheduling of maintenance
- vi. Clarification of how the service availability is to be calculated in Clause 7.1(h), relating to the injection of gas into storage (Storage Agreement only)
- vii. A monthly report (LNG Agreement only) has replaced the requirement for the service provider to submit daily notifications

- viii. Liquidated damages for a shortfall quantity have been halved
- ix. Template security documents have been included in Schedule 3 and 4 for transparency which it is intended will eliminate any negotiations post tender. These are only relevant to the Storage Agreement as we only require security against our gas which we will inject into the facility. The two acceptable forms of security are:
  - o Letter of Credit (Schedule 3); and
  - o Parent Company Guarantee (Schedule 4)
- Note, if any changes to these documents are required, you will need to include comments within the tender pack and they will be subject to assessment
- x. Credit Security clause (Storage Agreement only) has been re-structured and headings inserted
- xi. Inclusion of a requirement in Clause 26 to ensure service providers who are registered outside of the UK, appoint a UK based agent for service to any proceedings before English courts

## **Service Availability and Withdrawal Rate Proposals**

As part of the OM service review ahead of the 17/18 OM tender, we developed the Service Unavailability provisions to drive the right behaviours in ensuring service providers are rewarded for high availability whilst ensuring the service requirements are met in accordance with the OM methodology. Summer and Winter availability threshold from the Demand reduction and Supply increase agreement was extended to the Storage Agreement in Clause 7.3 to incentivise service providers to tender volumes which they have reasonable certainty in delivering.

Having reviewed the availability mechanism this year, we are considering to remove the summer and winter availability thresholds in clause 7.3(c) altogether thus removing the “cliff-edge” risk of revenue uncertainty for service providers in refunding part or all of their service fee. In return we would expect service providers to reflect this risk being removed with a reduction in their tendered service fee, thus minimising the overall cost of OM to consumers. Just to confirm, this will not affect unavailability and the service fee will continue to be paid on days where the service is available. We are keen to hear your views to ensure this proposal encourages the right behaviour and value to service providers.

We are looking at further opportunities to increase competition and remove barriers to entry and would like to hear from various provider types including demand side response such as CCGT operators and also shippers holding capacity at interconnection points. We welcome the thoughts of different provider types in addition to existing service providers to enhance the service provision and to understand your views and challenges in delivering an OM service.

We are also looking to access the sites deliverability on the day, recognising our deliverability is interruptible where gas is already flowing. We would like to hear your views on the deliverability that

you tender and whether this is the optimum amount you are able to offer us. As a point of clarification, the service fee will not be pro-rated due to the site dynamics of the facilities where deliverability is impacted by the total gas in storage. If you have access to a higher deliverability then we would encourage you to feedback how you can make that available.

## **Consultation**

As part of the development of the template agreements, we have decided to engage with existing and potential providers, and encourage you to review the agreements and provide feedback.

We welcome your views, whether you have tendered previously, chosen not to tender, or would consider tendering in the future. OM represents a revenue opportunity for parties to either contract for a 'capacity' or a 'delivery' service, subject to a successful tender. This can include the different Service Provider types:

- Gas Storage Facility Operators
- Primary Capacity Holders at Gas Storage Facilities
- LNG Importation Facility Operators
- Primary Capacity Holders at LNG Importation Facilities
- NTS Connected CCGT Plants or Industrials
- NTS Connected Supply or Interconnection Terminals

## **Feedback**

Please follow the below link to National Grid's Gas Operating Margins website, this contains details of the template agreements titled:

"TEMPLATE Gas Capacity Agreement (Storage) 2017"

"TEMPLATE Gas Delivery Agreement (LNG Storage) 2017"

"TEMPLATE Gas Delivery Agreement (Demand Reduction\_Supply Increase) 2017"

Whilst we receive your responses, we will be developing the supporting tender documentation. You can find the new template agreements and last year's documentation on the website here:

<http://www2.nationalgrid.com/uk/industry-information/gas-transmission-system-operations/balancing/operating-margins/>

**We request that all feedback is submitted by Tuesday 7<sup>th</sup> November to:**

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Please note that due consideration will be given to comments received from industry, but this consultation does not guarantee any drafting amendments. National Grid Gas reserves the right to amend the template agreements at its absolute discretion.

**Further Information**

Should any party wish to arrange further discussions directly with National Grid Gas, please request a meeting at your earliest convenience. Alternatively please contact me should you have any queries.

Yours Faithfully,

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