

Modification proposal:	Uniform Network Code (UNC) 0237: Disposal of Dynevor Arms LNG Storage Facility		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	10 March 2009	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The Dynevor Arms LNG (Liquefied Natural Gas) storage facility in South Wales is owned by National Grid (NG) LNG. In the past this facility has provided LNG on a commercial basis to the industry and provided support for the National Transmission System (NTS). It is referred to in the UNC because it was previously at an extremity of the NTS where it provided locational Operating Margin (OM) services. OM services allow system pressure to be maintained under certain operational conditions, such as a sudden loss of supply. The need for OM services at this location have been superseded by the development of the Milford Haven pipeline as there are now substantial quantities of gas stored within that pipeline and at two new entry terminals in South Wales. As National Grid Gas (NGG) NTS no longer foresees the need for OM services provision at Dynevor Arms, National Grid (NG) LNG are engaged in a sales process to dispose of the Dynevor Arms facility³.

The modification proposal

UNC 237 has been raised to facilitate the disposal of Dynevor Arms.

The proposal would delete references to Dynevor Arms in the UNC. In the Transportation Principal Document Section Z, the code requirements for Maximum Storage Space, Maximum Storage Deliverability and Maximum Storage Injectibility for the site would be set to zero from Storage year 2009/10 until NG operations cease. In effect, this removes the obligation to manage the facility to provide OM services.

UNC Panel⁴ recommendation

At UNC Panel (the 'Panel') meeting on 22 January 2009, the Panel by panel majority recommended implementation of this proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 03 February 2009. The Authority has considered and

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ National Grid completes review of its UK Liquefied Natural Gas Storage business. National Grid press release⁴ Nov 2008

⁴ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁵. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁶; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

Nine responses were received by the Joint Office. Of these, seven supported the modification and two responses opposed the modification. Supporters of the modification proposal considered it would meet objectives (c), (d), and (f) against the current baseline. Opponents identified (a), (d) and (e) as objectives that may be detrimentally impacted.

The Authority agrees with the majority view of the Panel that implementation of the Proposed Modification would better facilitate the UNC objectives. In particular, we consider that it will better facilitate objective (f), against the current baseline. Our reasons for this are set out below and reflect our view that a distinction should be made between the immediate effects of removing Dynevor Arms from its OM service provision obligations by way of code modification, and the ultimate disposal/closure of the facility by National Grid which is addressed through a separate process.

a) the efficient and economic operation of the pipe-line system

We do not consider that the proposal has any impacts under objective (a), given that there is no anticipated future requirement for locational OM gas at or near the Dynevor Arms LNG site.

Only one respondent considered there was an impact on this objective. They considered that UNC237 would not facilitate this objective as it would have an adverse effect on the security of supply of the Scottish Independent Undertakings (four remote towns in Scotland that receive degasified gas via road tankers) because Dynevor Arms is explicitly mentioned as a source of back-up provision in the event that the primary source (Glenmavis) is unavailable. Our understanding is that this issue has since been resolved between the parties and that alternative back-up arrangements are in place. Thus, we recognise the importance of LNG being available to service the Scottish Independent Undertakings but consider that their requirement is not affected in any material way by the removal of the OM obligation from Dynevor.

⁵ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁶ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

⁷The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under its licence

The proposer argued that the modification would facilitate the determination of the market value of the Dynevor Arms facility and thereby meet their licence obligation to operate and maintain assets in the most economic and efficient manner. However, as indicated above, this decision relates to the removal of the OM service provision rather than any subsequent disposal of the site so we do not consider this objective to be directly relevant.

d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant shippers, suppliers and DNS

The responses in consultation are split between those who consider that the facility will assist competition (on the assumption that disposal of the facility will lead to a new storage operation) and those who consider that it is uncertain whether a buyer would continue to use the facility as currently. These are clearly issues related to the subsequent disposal of the facility rather than OM services.

NGG have also clarified that concerns by respondents that NG NTS would have preferential rights to transfer operating margins gas which are not available to other users are not valid.

We consider that the impact of the removal of OM services obligations at Dynevor Arms on competition in OM services provision is limited. In part, this reflects the fact that no demand for the services has been identified into the future. Also, the minimum inventory level of LNG stored for OM services has been used once over the past 9 years. This pattern of storage use is unlikely to give rise to other than minor competition effects.

f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code

In its response, NGG NTS has indicated that it does not anticipate any future requirement for constrained LNG or locational Operating Margins gas at or near the Dynevor Arms LNG storage site. In view of this we consider the removal of references to Dynevor Arms within the UNC better facilitates the achievement of objective (f). In particular we consider that the removal of provisions in the UNC which are no longer relevant to the administration of the code should help facilitate its administration.

Assessment against the Authority's statutory objectives and duties

Ofgem's principal objective is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition. In the case of LNG storage, our aim is to promote competition by deregulating these activities as far as possible. The possibility of introducing competition in OM services has been explored recently⁸. Our conclusions were that while significant progress had been made towards contestability there were some locational services where the possibility of effective competition is still not apparent. Thus, the provision of OM services remains a regulated part of National Grid Gas's Transmission licence. In the case of Dynevor Arms, it has been argued by the

⁸ Operating Margins (OM) Contestability, Ofgem, 20 February 2009.

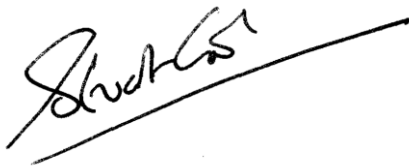
proposer that the service is not required to meet OM needs and so the code can be changed to remove it as an obligation at the site. In our view acceptance of this proposal is consistent with our longer term aims to deregulate the service.

Competition in LNG storage

We note that some comments were received relating to the effect of the disposal on impact on competition within the LNG storage sector. We consider that these issues are not relevant to the decision as to whether the OM service provision obligation should be removed from the UNC and so have not addressed them directly in this letter. For the avoidance of doubt, this approval relates to the removal of OM services obligations not to any subsequent action that might be taken by National Grid either to dispose or close the site.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 0237: Disposal of Dynevor Arms LNG Storage Facility be made.

A handwritten signature in black ink, appearing to read 'Stuart Cook', is written over a horizontal line that extends to the right.

Stuart Cook
Director-Transmission

Signed on behalf of the Authority and authorised for that purpose.