

**OPERATING MARGINS**  
**EXPLANATION AND TENDER GUIDANCE**  
**DOCUMENT**

**Issued 08<sup>th</sup> January 2008**

**National Grid Gas plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA**

**Website:**

**<http://www.nationalgrid.com/uk/Gas/OperationalInfo/GasOperatingMargins/>**

**nationalgrid**

## **Important - Please Read**

### **Introduction**

This Explanation and Tender Guidance Document is to be read in conjunction with the following documentation which is available on National Grid's website:

<http://www.nationalgrid.com/uk/Gas/OperationalInfo/GasOperatingMargins/>

- Tender Sheets
- Operating Margins Gas Storage Agreement

together with this Explanation and Tender Guidance Document referred to as "the Documentation".

### Disclaimer and Tenderer's Responsibility

This Explanation and Tender Guidance Document is not intended to be legally binding or to form any offer capable of acceptance. Nothing herein shall be deemed to create a legal relationship between National Grid Gas and any other person.

Tenderers for Operating Margins Service shall satisfy themselves of the accuracy and completeness of any information they may use in preparing their tenders, whether such information is provided by National Grid Gas or comes from any other source. National Grid Gas, its advisors and any other person responsible for production of any information to a tenderer do not accept any duty of care to the tenderer. It is the duty and responsibility of a tenderer to ensure that it takes into account all considerations relating to the tender for and entering into of an agreement for Operating Margins Service.

**National Grid Gas reserves the right not to proceed with any tenders or proposals made in response to the Documentation.**

### **Terminology and Interpretation**

The Documentation makes reference to various technical and industry-related terms and phrases. Save where otherwise expressly defined, these shall have the meanings set out in the Operating Margins Gas Storage Agreement: issued January 2008 ("OM Gas Storage Agreement"). In the event of any conflict between the OM Gas Storage Agreement and any other information supplied with, contained in or referred to in the Documentation (and any other information supplied at any time by National Grid Gas with respect to Operating Margins Service), tenderers and prospective tenderers should rely solely on the terms and conditions set out or referred to in the OM Gas Storage Agreement. The information contained in this Explanation and Tender Guidance Document is, to the best of National Grid Gas' belief, accurate and has been given in good faith. However, no warranty or representation or other obligation or commitment of any kind is given by National Grid Gas, its employees or advisers as to the accuracy and completeness of any information contained in this Explanation and Tender Guidance Document, or that there are not other matters material to the matters referred to herein other than is contained or referred to in such information. Neither National Grid Gas nor its employees or advisers shall be under any liability for any error, misstatement or omission in this Explanation and Tender Guidance Document and none of such information shall constitute a contract or part of a contract.

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## 1 **OVERVIEW OF 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 availability, reliability and deliverability; and
- suitable physical location on the network.

### **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 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.

### **Potential providers of an Operating Margins Service**

Section 3 of this Explanation and Tender Guidance Document provides more detail of the

mandatory requirements a potential provider must meet. Potential providers of a service include:

- Storage facility operators
- Primary capacity holders at a storage facility (it is envisaged primary capacity holders will transfer space and injection rights with National Grid Gas signing the Storage facility operators terms and conditions however, National Grid Gas would consider alternatives).
- Importation facility operators
- Primary capacity holders at an importation facility

## **2      OVERVIEW OF TENDER AND CONTRACTING PROCESS**

### **Operating Margins Tender:**

All Operating Margins Tenders must be submitted not later than 17:00 hours on **Monday 04<sup>th</sup> February 2008** ("Market Day").

The detailed requirements and guidance in respect of the completion and submission of Operating Margins Tenders can be found in Sections 3, 4 and 5 of this Explanation and Tender Guidance Document.

### **Acceptance and Rejection of Operating Margins Tenders:**

After Market Day, National Grid Gas will assess all Operating Margins Tenders which it receives, applying the assessment principles set out in the Tender Assessment Principles document. National Grid Gas may either accept or reject an Operating Margins Tender by issuing an Operating Margins Tender Acceptance or Operating Margins Tender Rejection. Where a tenderer permits National Grid Gas to accept only some of the quantity tendered in a Operating Margins Tender, then National Grid Gas may issue a Operating Margins Tender Acceptance in respect of the successful quantity and a Operating Margins Tender Rejection in respect of the quantity which National Grid Gas rejects.

National Grid Gas will issue Operating Margins Tender Acceptances and Rejections in respect of this tender round by **Wednesday 27<sup>th</sup> February 2008**.

### **Formation of an Operating Margins Contract:**

Where National Grid Gas accepts a Tender in relation to which the Tenderer has submitted their tender with the OM Gas Storage Agreement published by National Grid Gas without amendment and which accurately reflects the terms of the Tender, this acceptance will be subject to contract dependant upon agreement of the OM Gas Storage Agreement including Schedule 1 & 2. In all cases, the Tenderer and National Grid Gas shall use reasonable endeavours to agree the terms and conditions and in any case no later than the 26<sup>th</sup> February 2008.

Where National Grid Gas accepts a Tender in relation to which the Tenderer has submitted their tender accompanied with amended or alternative terms and conditions proposed and the tender is accepted then the Tenderer and National Grid Gas shall use reasonable endeavours to agree the terms and conditions and in any case no later than the 26<sup>th</sup> February 2008.

### **3 MANDATORY REQUIREMENTS OF THE TENDER PROCESS**

- 3.1 Each Operating Margins (OM) Tender must be in respect of one Facility that is listed as such in the Tenderer's OM Tender Sheet 1.
- 3.2 Each OM Tender must be in respect of a quantity of space of at least 25,000,000kWh (from a single Storage Facility for the purposes of the OM Tender).
- 3.3 It is a requirement that the service proposed in any Tender Offer must feature:-
- 3.3.1 High levels of facility availability and reliability; and
  - 3.3.2 The ability for the OM storage capacity space offered in the tender to be filled no later than 1<sup>st</sup> October 2008 (net of any OM withdrawals between 1<sup>st</sup> May and 30<sup>th</sup> September 2008); and
  - 3.3.3 The ability to access unused deliverability (note, primary access rights are not necessary for an OM service); and
  - 3.3.4 The quantity of minimum deliverability that would be available to National Grid Gas at the facility in question when other users in the facility are not utilising any part of the deliverability. Where a facility's ability to deliver gas is impacted by certain operational circumstances, such as the quantity of gas in store, then this should be taken into account and;
  - 3.3.5 The ability to accept Offer(s) such that the Operating Margins gas held in store from the relevant facility could be physically delivered (as per 3.3.4) over an interval of not more than 24 hours<sup>1</sup>, assuming other users at the facility are not utilising their deliverability (i.e. National Grid Gas must be able to accept Offer(s) such that total space held for OM equals the daily physical deliverability of the facility); and
  - 3.3.6 A physical service on the National Transmission System (NTS) on an hourly basis (i.e. when an OM nomination is made there must be an hourly physical flow change at the NTS level of the quantity requested in the nomination that otherwise would not have occurred if the OM nomination had not been made); and
  - 3.3.7 The ability to provide a maximum response time of 2 hours.
- 3.4 The Tenderer must complete all mandatory fields on the tender sheets, and must enter only 1 item of data per field.
- 3.5 Only one set of tender sheets may be submitted in respect of each Facility for the service year.
- 3.6 Each OM Tender must be accompanied by either a preferred OM Gas Storage Agreement or specify alternative terms and conditions to be considered applicable to the service.
- 3.7 The Tenderer must provide (upon request) satisfactory evidence to support all tendered parameters.

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<sup>1</sup> There may be occasions where National Grid Gas requires to hold more gas in store than this (for example if a facility has limited refill capability), however it is mandatory that providers place Offer(s) to allow National Grid Gas to accept this quantity as typically this will be the maximum requirement.

#### **4 COMPLETION AND SUBMISSION OF OM TENDERS**

- 4.1 The Tenderer must submit an OM Tender which is:-
- 4.1.1 Fully compliant with the mandatory requirements of Operating Margin set out in Section 3 of this Explanation and Tender Guidance Document;
  - 4.1.2 Set out on the relevant tender sheets contained in the document entitled “**OPERATING MARGIN TENDER SHEETS**” in accordance with Section 5 of this Explanation and Tender Guidance Document;
  - 4.1.3 Returned by post or by hand (not facsimile or email) to:

**Sam Wither**  
Network Operations  
National Grid Gas plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

To be received not later than 17:00 hours on Monday 04<sup>th</sup> February 2008.

**Envelopes containing OM Tenders must be clearly marked on the top left hand corner ‘OM TR’.**

- 4.2 If, in the sole judgement of National Grid Gas, a tenderer has failed to submit a compliant OM Tender, National Grid reserves the right to:-
- 4.2.1 accept the OM Tender in question; or
  - 4.2.2 disqualify the OM Tender in question; and/or
  - 4.2.3 take any other action it deems appropriate in the circumstances including requesting the tenderer to amend any parameters other than prices or resubmit a non-compliant OM Tender, so that it is made compliant.

National Grid Gas’s decision as to whether or not an OM Tender is compliant shall be final, and the tenderer concerned may be notified of such decision without prior consultation or explanation.

- 4.3 No costs or expenses incurred in the course of preparing and/or submitting an OM Tender will be paid for by National Grid Gas.
- 4.4 If any further information is required to assist with the preparation of an OM Tender, the tenderer 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 tenderers. No further information will be issued by National Grid Gas after Friday 25<sup>th</sup> January 2008.
- 4.5 OM Tenders will be opened by an evaluation panel no earlier than 09:00 hours on Monday 04<sup>th</sup> February 2008.

## **5 GUIDANCE NOTES FOR COMPLETION OF THE TENDER SHEETS**

The document entitled “**OPERATING MARGINS TENDER SHEETS (for Operating Margins Service Agreements commencing Thursday 01<sup>st</sup> May 2008)**” comprises:

- Tender Sheet 1 – Tenderer, Tenderer Submission
- Tender Sheet 2 – Facility, Deliverability & Availability, Charges & Capacity
- Tender Sheet 3 – Tenderer Signature and Acknowledgment

**All** Tender Sheets must be completed by **all** Tenderers.

***Please note: National Grid Gas will supply electronic copies of tender sheets via email, on request. Alternatively, tenderers may submit OM Tenders on copies of the relevant tender sheets taken from the National Grid Gas website.***

## **OM TENDER TENDER SHEET 1**

**Tender Sheet 1 must be completed by all tenderers, in respect of each tendered Facility.**

### **Part 1 Tenderer**

- 1 Please insert the Tenderer's company name in the space provided.
- 2 For the purposes of receiving Tender Acceptance Notices, the Tenderer shall specify the representative for whose attention Tender Acceptance Notices are to be marked.
- 3 Please insert the Representative's Address in respect of the facility in the space provided.
- 4 For the purposes of receiving Tender queries, the Tenderer shall specify the representative's telephone number in the space provided.
- 5 For the purposes of receiving Tender Acceptance Notices, the Tenderer shall specify the representative's facsimile number in the space provided.
- 6 For the purposes of receiving communications, the Tenderer shall specify the representative's email address in the space provided.

### **Part 2 Tenderer Submission**

- 7 If the Tenderer wishes to complete the tender sheets and agrees to the preferred OM Gas Storage Agreement please indicate this by ticking this option.
- 8 If the Tenderer wishes to complete the tender sheets, however wishes to propose amendments to the terms of the preferred OM Gas Storage Agreement, please indicate this by ticking this option and supplying an amended OM Gas Storage Agreement for consideration as part of this tender process.
- 9 If the Tenderer wishes to complete the tender sheets, however finds the terms of the preferred OM Gas Storage Agreement incompatible with the facility they wish to tender under the OM requirement, please indicate this by ticking this option and supplying alternative terms for consideration as part of this tender process.

## **OM TENDER TENDER SHEET 2**

**Tender Sheet 2 must be completed by all tenderers, in respect of each tendered Facility.**

### **Part 1 Facility**

- |           |                             |                                  |
|-----------|-----------------------------|----------------------------------|
| <b>10</b> | <b>Facility Name</b>        | Name of facility.                |
| <b>11</b> | <b>Location of Facility</b> | Full address including postcode. |

## Part 2 Deliverability & Availability

- |    |  |  |
|----|--|--|
| 12 | <b>The quantity of minimum deliverability available to National Grid Gas</b> | The quantity of minimum deliverability (in kWh per day) that would be available to National Grid Gas at the facility in question when other users in the facility are not utilising any part of the deliverability. Where a facility's ability to deliver gas is impacted by certain operational circumstances, such as the quantity of gas in store, then this then this should be taken into account. This parameter is important, as National Grid Gas needs to understand the limitations of the facility, for example to deliver gas in a Group 3 event where the OM gas may be the only gas left in store. |
| 13 | <b>Periods of unavailability</b>   | Dates of planned outages.  |
| 14 | <b>Withdrawal Response Time</b>  | The time taken from receipt of the withdrawal nomination before the commencing of the Withdrawal on the hour.  |

## Part 3 Charges & Capacity

- |    |  |  |
|----|--|--|
| 15 | <b>Injection Charge:</b>   | The commodity charge (in pence per kWh) (if any) payable in respect of the associated injection rights available.  |
| 16 | <b>Withdrawal Charge:</b>  | The charge (in pence per kWh) (if any) payable in respect of access to the deliverability.   |
| 17 | <b>Capacity Procurement Tender Offer Number</b>  | Each tranche offered is assigned a tender offer number. Each tenderer can offer up to 10 tenders. All Capacity Procurement Tender Offers must be listed in ascending price order, with the lowest price specified first. |
| 18 | <b>The quantity of storage space (in kWh) offered (minimum 1,000,000 kWh)</b>  | The quantity of storage space (in kWh) offered for each tender offer. The minimum that can be tendered is 1,000,000kWh. The aggregate quantity of offers must equal or exceed 25,000,000 kWh.                            |
| 19 | <b>The quantity of injectability available to National Grid Gas</b>  | The quantity of associated injection (in kWh per day).   |
| 20 | <b>Price in pence per kWh per annum</b>  | The capacity charge (in pence per kWh) payable in respect of the storage space offered.  |
| 21 | <b>Please tick if the Capacity Procurement Tender Offer may <u>only</u> be accepted for the full amount of the Tendered Quantity</b> | This option allows the tender to stipulate if only the full amount can be accepted by National Grid Gas as opposed to a partial sum of the quantity tendered.  |

**OM TENDER  
TENDER SHEET 3**

**Part 1 Tenderer Signature and Acknowledgment**

**Tender Sheet 3 must be completed by all tenderers.**

This tender sheet must be completed, signed and dated by an authorised signatory on behalf of the prospective Operating Margins Tenderer. Failure to complete this tender sheet will invalidate the OM Tender.

## **6. ASSESSMENT OF OM TENDERS AND SELECTION FACTORS**

- 6.1 After the OM Tender submission deadline (“Market Day”), all OM Tenders received will be opened, examined for completeness, and logged by an evaluation panel.
- 6.2 National Grid Gas reserves the right to deal with late submissions in a manner which it feels most appropriate taking account of any particular circumstances. In general, any late submissions will not be accepted.
- 6.3 Any submission that is regarded as non-compliant or unclear may be referred by National Grid Gas back to the tenderer for clarification. If necessary, technical parameters may be adjusted by a tenderer to ensure compliance, but price information may not be changed.
- 6.4 Tender Offers will be assessed on the criteria set out in section 6.5 and 6.6, applicable terms and conditions and compliance with the requirements of this notice.
- 6.5 Site Requirements
- 6.5.1 High levels of facility availability and reliability.
- 6.5.2 The ability for the OM storage capacity space offered in the tender to be filled no later than 1st October 2008 (net of any OM withdrawals between 1st May and 30th September 2008).
- 6.5.3 The ability to access unused deliverability.
- 6.5.4 The quantity of minimum deliverability that would be available to National Grid Gas at the facility in question when other users in the facility are not utilising any part of the deliverability.
- 6.5.5 The ability to deliver a physical service on the National Transmission System (NTS) on an hourly basis.
- 6.5.6 The ability to provide a maximum response time of 2 hours.
- 6.5.7 Location of the facility on the National Transmission System (NTS)
- 6.6 In assessing the benefit of acceptance of an OM tender, the value and costs of that tender are considered.
- The forecast cost of an accepted OM tender will be made up of:
- 6.6.1 The Capacity charge
- 6.6.2 The quantity of storage space offered;
- 6.6.3 The Delivery Capacity offered; and
- 6.6.4 The Commodity charges.
- 6.7 Under no circumstances will National Grid Gas be legally bound to accept any (or the lowest) Tender Offer made by any party, nor to reimburse any cost or expenditure whatsoever or howsoever incurred by any party in responding to this notice or in negotiating the provision of any service.

**7. FURTHER INFORMATION**

Any communications with National Grid Gas associated with the documentation or the tender process should be addressed to:

**Sam Wither**

Network Operations  
National Grid Gas plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Tel: 01926 656492

Fax: 01926 656613

Email: [sam.wither@uk.ngrid.com](mailto:sam.wither@uk.ngrid.com)

Alternatively any communications with National Grid Gas associated with the operational tender parameters should be addressed to:

**Juliana Urdal**

Network Operations  
National Grid Gas plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Tel: 01926 656195

Email: [Juliana.urdal@uk.ngrid.com](mailto:Juliana.urdal@uk.ngrid.com)