

National Grid Gas plc

Operating Margins Tender
January 2009

Explanation and Tender Guidance
Document

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Website:

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

nationalgrid

1. Background

At its last Transmission Price Control Review, National Grid Gas accepted NTS Special Licence Condition C25, which requires it to "...use reasonable endeavours to promote competition in the provision of Operating Margins ("OM") services...". A significant amount of work has been done over the last 12 to 18 months in this regard, including successful engagement with the industry via two consultations, a workshop, a UNC modification proposal and a range of bilateral meetings, all with the aim of ensuring, as far as possible, that barriers to participation were removed and that interested parties were able to participate in the development of proposals, thereby giving them the best chance of success.

This document, and its associated tender, represents the first test of the extent to which new provider types will be willing to offer an OM service.

It should be noted that National Grid Gas has raised UNC modification proposal 240, which will amend the terms of UNC Section K (Operating Margins) to classify supply increase/offtake reduction as valid sources of OM (subject to subsequent demonstration of suitability to the HSE). The remainder of this document is drafted on the basis that UNC modification proposal 240 is successfully implemented, allowing National Grid Gas to procure OM from sources of supply increase/offtake reduction.

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2. Introduction

Important - Please Read

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
- Supply Increase/Offtake Reduction Operating Margins Contract Term Summary

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 the 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.

3. Overview of Operating Margins

3.1. The Need for Operating Margins

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

The OM service is used to maintain system pressures in the period before other system management services become effective, for example national or locational balancing actions by either the System Operator or from the market. Primarily, OM will be used in the immediate period following the occurrence of any of the following, to the extent that all other System Operator actions are insufficient in volume and/or timescales:

- Supply Loss: Terminal, Sub-Terminal, Interconnector, LNG Importation Terminal;
- Pipe Break (including loss of infrastructure that renders pipe unusable);
- Compressor Failure; and
- Demand Forecast Error.

It is important to ensure that the deliverability and sustainability of OM holdings is sufficient to manage these events.

A quantity of OM is also procured to manage the orderly run-down of the System in the event of a Network Gas Supply Emergency (NGSE) whilst firm load shedding takes place.

National Grid Gas forecasts its OM requirements (both locational and non-locational) by using network analysis and statistical techniques to model the impact of the operational stresses described above.

4. Summary of Tenders Requested

National Grid Gas is looking to receive tenders for OM service provision from existing and new service providers as set out below:

4.1. Permissible Service Provider Types under Current Arrangements

Permissible service provider types under current arrangements are as follows:

1. Storage facility operators
2. Primary capacity holders at storage facilities (it is envisaged that 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)
3. LNG Importation (with storage) facility operators
4. Primary capacity holders at LNG importation facilities

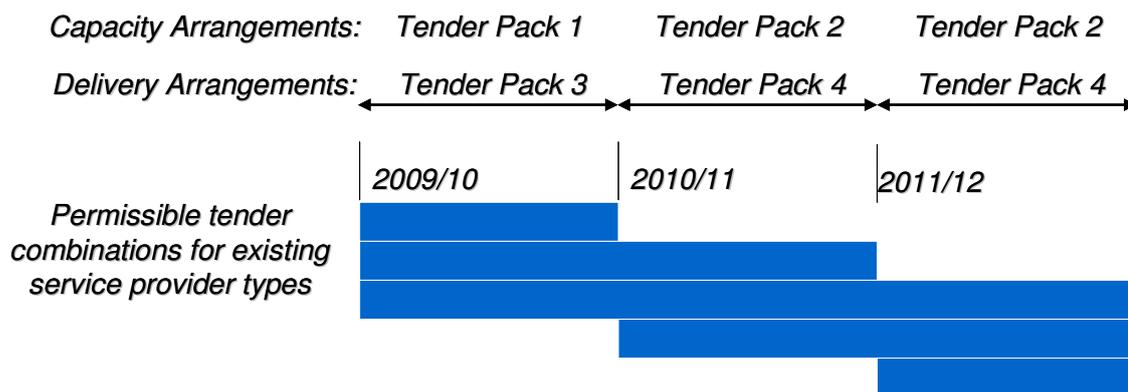
Existing service providers, being storage-based, can offer the following types of tender (as currently defined in UNC Section K):

Operating Margins Capacity Arrangements (where National Grid NTS will hold Operating Margins Capacity in Operating Margins Facilities, and may input (whether by injection, unloading of sea-going vessels or otherwise) gas into, hold gas in, and withdraw gas from such Operating Margins Facilities); and

Operating Margins Gas Delivery Arrangements (where Users will hold Operating Margins Capacity in Operating Margins Facilities, and may input (whether by injection, unloading of sea-going vessels or otherwise) gas into, hold gas in and withdraw gas from such Operating Margins Facilities, for delivery to the NTS in such quantities and at such times as National Grid Gas and the User in question may agree).

National Grid Gas requests tenders for up to three years, for services starting on 1st May 2009. Please note, however, that anyone wishing to offer a multi-year tender commencing on 1st May 2009 **must** also provide a one-year tender covering the period 1st May 2009 to 1st May 2010 (a 'First Year' tender).

Existing service provider types should tender for **either** Capacity Arrangements **or** Gas Delivery Arrangements by filling in the tender sheets as follows:



I.e. a tenderer wishing to submit a two-year Capacity tender for service provision starting on 1st May 2009 would complete Tender Packs 1 and 2, whereas a tenderer wishing to submit a two-year Capacity tender for service provision starting on 1st May 2010 would complete Tender Pack 2 only.

4.2. Permissible Service Provider Types under Proposed New Conditions

Permissible service provider types following implementation of UNC modification proposal 240 include sources of supply increase or offtake reduction; namely:

5. Offers for a guaranteed level of supply increase/offtake reduction (or combination thereof) from a Shipper's portfolio; or
6. Offers for a site to be available for supply increase/offtake reduction as part of a portfolio managed by National Grid Gas.

National Grid Gas recognises the difficulty in contracting for firm supply increase or offtake reduction ahead of time. Hence it is proposed to adopt a 'portfolio based' approach.

An offer for OM service provision under (5) above would provide National Grid Gas with a direct alternative to OM service provision from storage, whilst providing flexibility for the service provider to deliver from a portfolio of supply and/or demand sources; the exact combination of which could be decided on at the time of the OM utilisation. National Grid Gas envisages that such portfolio-based OM service provision would allow providers to be better able to offer a guaranteed turn-down rate based on a proportion of the portfolio's combined input/offtake capability.

An offer for OM service provision under (6) above would provide National Grid Gas with access to a supply increase or offtake reduction at a site when it is available. The ability of National Grid Gas to accept such an offer would be linked to the receipt of a number of other offers of a similar type from other providers, such that they could be amalgamated by National Grid Gas to form a 'pseudo-portfolio' of providers similar to that offered under (5) above.

A key part of the process for developing the OM service capability of new provider types is a demonstration of service robustness to the Health and

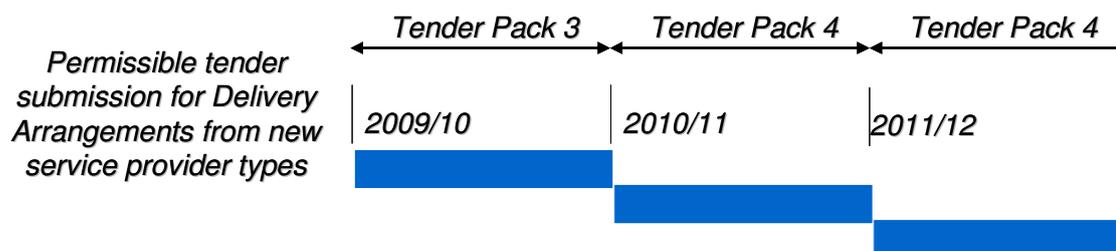
Safety Executive (HSE). National Grid Gas intends to work with successful tenderers of new OM service provision to establish processes for, and build experience of, actual OM service utilisation; such that such a demonstration can be made.

New service providers, being based on supply increase or offtake reduction, can offer the following types of tender (as proposed to be defined in UNC Section K):

Operating Margins Gas Delivery Arrangements (where Users will increase the delivery of gas into the NTS or reduce or delay the offtake of its nominated quantity of gas from the NTS in such quantities and at such times as National Grid NTS and the User in question may agree).

Due to the unproven nature of this type of service provision, National Grid Gas requests tenders for one year only, starting at 06:00 on 1st May 2009 and ending at 06:00 on 1st May 2010.

New service provider types should fill in the tender sheets as follows:



4.3. Economic Basis of Tenders

National Grid Gas has written to Ofgem requesting clarification of the LNG Storage pricing arrangements that will apply as it attempts to create and stimulate a more open and competitive environment for the provision of OM. Once it has this clarification, National Grid Gas will communicate relevant information to the industry.

5. Overview of Tender and Contracting Process

5.1. Operating Margins Tenders

All Operating Margins Tenders must be submitted not later than 17:00 hours on Friday 30th January 2008 (“Market Day”).

Please note that tenderers will have the right to withdraw tenders up to the point that they are accepted and suitable terms have been agreed.

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.

5.2. 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 Section [6] of this 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 17:00 hours on Friday 20th February 2009.

5.3. Formation of an Operating Margins Contract

Where National Grid Gas accepts a Storage Tender submitted under the OM Gas Storage Agreement terms 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 prior to notification of tender outcome on 20th February 2009.

Where National Grid Gas accepts a Storage Tender accompanied by amended or alternative terms and conditions and the tender is accepted then the Tenderer and National Grid Gas shall use reasonable endeavours to agree the terms and conditions prior to notification of tender outcome on 20th February 2009.

Where National Grid provisionally accepts a tender from a new provider type, it will look to agree suitable terms based on the principles set out in the ‘Supply Increase/Offtake Reduction Operating Margins Contract Term

Summary' document. The Tenderer and National Grid Gas shall use reasonable endeavours to agree the terms and conditions by 31st March 2009.

6. Mandatory Requirements of the Tender Process

6.1. Capacity Tenders

Each Operating Margins (OM) Tender must be in respect of one Facility that is listed as such in Tender Sheet 2 of the relevant tender pack.

Each OM Tender must be in respect of a quantity of space of at least 6,000,000kWh (equivalent to 0.5 GWh per hour deliverability for 12 hours) from a single storage facility or LNG Importation Facility with Storage.

It is a requirement that the service proposed in any Tender Offer must feature:

1. High levels of facility availability and reliability;
2. The ability for the OM space offered in the tender to be filled no later than 1st October 2009 (net of any OM withdrawals between 1st May and 30th September 2009);
3. The ability to access unused deliverability (note, primary access rights are not necessary for an OM service);
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;
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 4 above) over an interval of not more than 24 hours, 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 is not greater than the daily physical deliverability of the facility);
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
7. The ability to provide a response time of no greater than 2 hours.

6.2. Gas Delivery Tenders

Each Operating Margins (OM) Tender may be in respect of one Facility or a portfolio containing a number of facilities, so long as they are listed as such in the Tenderer's Tender Pack 3 OM Tender Sheet 2.

Each OM Tender must be in respect of a quantity of supply increase/offtake reduction of at least 0.5 GWh per hour from either a single Facility or a portfolio of facilities and be sustainable for at least 12 hours.

It is a requirement that the service proposed in any Tender Offer must feature:

1. High levels of facility availability and reliability;
2. 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. The ability to provide a response time of no greater than 2 hours.

6.3. General

The Tenderer must complete all mandatory fields on the tender sheets, and must enter only 1 item of data per field.

To allow flexibility in the formulation of tenders, multiple sets of tender sheets may be submitted in respect of each Facility for a service period.

Each OM Tender must either be accompanied by National Grid Gas's preferred OM Gas Storage Agreement or specify alternative terms and conditions (including being based on the principles set out in the 'Supply/Demand-Side Operating Margins Contract Term Summary' document) to be considered applicable to the service.

The Tenderer must provide (upon request) satisfactory evidence to support all tendered parameters.

7. Completion and Submission of OM Tenders

Tenders must be fully compliant with the mandatory requirements of Operating Margins set out in Section 6 of this Explanation and Tender Guidance Document;

Set out on the relevant tender sheets contained within Tender Packs 1 to 4 in accordance with Section 8 of this Explanation and Tender Guidance Document;

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 **Friday 30th January 2009**.

Envelopes containing OM Tenders must be clearly marked on the top left hand corner '**OM Tender**'.

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:-

1. accept the OM Tender in question; or
2. disqualify the OM Tender in question; and/or
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.

No costs or expenses incurred in the course of preparing and/or submitting an OM Tender will be paid for by National Grid Gas.

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 23rd January 2009.

OM Tenders will be opened by an evaluation panel no earlier than **09:00 hours** on **Monday 2nd February 2009**.

8. Guidance Notes for Completion of Tender Sheets

The four tender packs published alongside this document are as follows:

1. Tender Pack 1: First Year Tender for Operating Margins Capacity Arrangements
2. Tender Pack 2: Multi Year Tender for Operating Margins Capacity Arrangements
3. Tender Pack 3: First Year Tender for Operating Margins Gas Delivery Arrangements
4. Tender Pack 4: Multi Year Tender for Operating Margins Gas Delivery Arrangements

Each tender pack contains three tender sheets:

Tender Sheet 1 – Tenderer Details, Terms of Tender Submission

Tender Sheet 2 – Facility Details, Deliverability & Availability, Charges & Capacity, limitations

Tender Sheet 3 – Tenderer Signature and Acknowledgment

Each of Tender Packs 1 and 2 (Capacity Arrangements) allows for the submission of 'tranches' of capacity. Tenderers may offer a number of tranches, either with increasing or decreasing price.

Tenderers offering either Capacity or Gas Delivery tenders may submit up to three separate tenders. The tender to which individual Tender Packs refer should be marked in the appropriate place on the tender sheets.

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

TENDER SHEET 1

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

Part 1: Tenderer Details

- 1 Please insert the Tenderer's company name in the space provided.
- 2 For the purposes of receiving Operating Margins Tender Acceptance Notices and Operating Margins Tender Rejection Notices, the Tenderer shall specify the representative for whose attention such 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 Operating Margins Tender Acceptance Notices and Operating Margins Tender Rejection 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: Terms of Tender Submission

- 7 If the tenderer wishes to complete the tender sheets subject to agreeing terms please tick this box.
- 8 If the Tenderer wishes to complete the tender sheets, however wishes to propose alternative terms - for example the Supply Increase/Offtake Reduction Operating Margins Contract Term Summary (subject to agreement by both parties) please indicate this by ticking this option for consideration as part of this tender process.
- 9 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 (OM capacity tenders only).
- 30 (For multi-year tenders only) Please only tick if you are tendering to offer multiple years and will allow National Grid to accept individual years of a multi year tender.

TENDER SHEET 2

Tender Sheet 2 **must** be completed by all tenderers, in respect of each tendered Facility or portfolio of Facilities. Please note that **CAPACITY** tenderers will need to complete parts 1, 2 & 3 and **GAS DELIVERY** tenderers will need to complete parts 1, 2, 4, 5 and potentially part 6 if a supply increase/demand reduction tender.

Part 1: Facility Details

- | | |
|---|---|
| 10 Facility Name | Name of facility, or name of portfolio being offered as part of the tender submission. |
| 11 Location of Facility | Full address including postcode. If the service offered is an aggregate position made up from more than one site please list each site individually. |
| 12 Category of service provision | Please select or describe the method of service offered. For example Storage, LNG Importation with Storage, Primary Capacity Holder, Supply Increase, Offtake Reduction, Portfolio of Supply Increase/Offtake reduction. Any additional information relating to the mode of service provision that providers may wish to disclose (for example the use of alternative fuel rather than NTS offtake) can also be entered here. |

Part 2: Deliverability & Availability

- | | |
|---|--|
| 13 The quantity of minimum deliverability available to National Grid Gas | 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 or in the case of a supply increase/offtake reduction service the rate at which the offered supply increase or offtake reduction will change. Where a facility's ability to deliver gas is impacted by certain operational circumstances, such as the quantity of gas in store or load factor, 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 gas supply emergency where the OM gas may be the only gas left in store. A rate of supply increase/offtake reduction as seen at NTS level, is defined by a Minimum Delivery Rate (minimum 0.5GWh/hour – which can be aggregated) and a Maximum Delivery Rate. The provider can specify whether it will be permissible (where available) to nominate delivery greater than the tendered Minimum Delivery Rate. |
|---|--|

- 14 The quantity of maximum deliverability available to National Grid Gas (Optional)**
- This parameter is optional and useful in understanding that at points during the tendered period additional deliverability is accessible dependant upon the facility or service offered. The tender assessment will be based on the minimum deliverability available, however in certain circumstances National Grid Gas recognise that the actual level of deliverability can be much higher.
- 15 Periods of unavailability**
- Dates of planned outages across the periods tendered. National Grid can then take an informed view across all tenders received to assess overall availability across the period. The dates can be indicative for multi year tenders beyond the period 2009/10.
- 16 Withdrawal/Delivery Response Time**
- The time taken from receipt of the withdrawal/delivery nomination before provision of the withdrawal/delivery on the hour. Please note this should be no greater than 2 hours of receipt of a nomination from the next hour bar. So for example if a nomination is sent at 15:01 then the nomination should be met by no later than 18:00. A longer lead time can be submitted if the tenderer also provides a standby cost – see point 23 and 24 – ‘Standby charges’ and following a call to standby is available within 2 hours of receipt of a nomination from the next hour bar.

The following section is in relation to **CAPACITY tenders (Tender Packs 1 & 2 only)** – if completing a **GAS DELIVERY tender sheet please refer to Part 4 & 5 (& Part 6 if a supply increase/offtake reduction provider)** of guidance document below.

Part 3: Charges & Capacity

- | | | |
|----|--|---|
| 17 | Injection Charges: (Optional) | The commodity charges (in pence per kWh) (if any) payable in respect of the associated injection rights available. |
| 18 | Injection Charges tick box option | If the tender submission is accompanied by proposed terms for the contract and contains this element please tick the box and leave no.17 blank. |
| 19 | Withdrawal Charges: (Optional) | The charges (in pence per kWh) (if any) payable in respect of access to the deliverability. |
| 20 | Withdrawal Charges tick box option | If the tender submission is accompanied by proposed terms for the contract and contains this element please tick the box and leave no.19 blank. |
| 21 | Overrun Charges : (Optional) | The charges (in pence per kWh) (if any) payable in respect of access to the deliverability above the contracted values. |
| 22 | Overrun Charges tick box option | If the tender submission is accompanied by proposed terms for the contract and contains this element please tick the box and leave no.21 blank. |
| 23 | Standby Charges : (Optional) | The charges associated in bringing a facility to within the minimum acceptable response time. |
| 24 | Standby Charges tick box option | If the tender submission is accompanied by proposed terms for the contract and contains this element please tick the box and leave no.23 blank. |
| 25 | Capacity Procurement Tender Offer Number | Each tranche offered is assigned a tender offer number. Each tenderer can offer up to 10 tenders. <i>Tranches will be accepted in ascending numerical order; tenderers may tender increasing or decreasing prices for additional tranches, as desired.</i> |
| 26 | The quantity of storage space (in KWh) offered (minimum 500,000 kWh) | The quantity of storage space (in kWh) offered for each tender offer. The minimum that can be tendered is 500,000kWh. The aggregate quantity of offers must equal or exceed 6,000,000 kWh. |
| 27 | The quantity of injectability available to National Grid Gas | The quantity of associated injection (in kWh per day). |
| 28 | Price in pence per kWh per annum | The capacity charge (in pence per kWh) payable in respect of the storage space offered. |
| 29 | Please tick if the Capacity Procurement Tender Offer may <u>only</u> be accepted for the full amount of the | This option allows the tenderer to stipulate if only the full tranche can be accepted by National Grid Gas as opposed to a partial sum of the tranche quantity tendered. |

Tendered Quantity

The following section is in relation to **GAS DELIVERY** tenders (Tender Packs 3 & 4) only – if completing a **CAPACITY** tender sheet please refer to Part 3 of tender guidance document above.

Part 4: Delivery Charge

- | | | |
|-----------|--|--|
| 31 | Fixed Delivery Charge | Fixed Delivery Charge Payable. If a figure is entered here please leave Indexed Delivery Charge Cap blank. |
| 32 | Indexed Delivery Charge | National Grid Gas recognises that utilisation of OM from supply/demand side sourced may have downstream impacts that may be difficult and/or inefficient to factor into a Fixed Delivery Charge. Accordingly, National Grid Gas will consider linking service utilisation to known indices to manage risk as efficiently as possible. If you would like to pursue this option, please supply details of the indexation methodology that would be applicable under this tender offer. Service utilisation could be linked to electricity price references (e.g. day ahead index, System Buy Price) or gas price references (e.g. System Average Price). If this parameter is used please leave the Fixed Delivery Charge blank. |
| 33 | Indexed Delivery Charge Liability Cap | National Grid Gas is unable to accept exposure to uncapped liability. If selecting an Indexed Delivery Charge please consider mechanisms you would be willing to use to cap liability (for example switching from high volatility indices to lower volatility indices as utilisation time progresses, or by proposing a price cap. If a figure is entered here please leave Fixed Delivery Charge blank. This parameter is useful in assessment to determine the limit of liability on the costs of utilisation. |

Part 5: Service Fee

- | | | |
|-----------|---------------------------|--|
| 34 | Annual Service Fee | The annual service fee in £s required to provide the service in 2009/2010 and/or 2010/2011 and/or 2011/2012 (the latter periods being depending on whether or not it is a multiyear tender offer). |
|-----------|---------------------------|--|

Part 6: Utilisation Limitations & Recovery Period (for Gas Delivery tenders only)

- | | | |
|-----------|---|---|
| 35 | Maximum duration per instruction | A maximum duration (in hours) per instruction (the Maximum Delivery Duration). The service can be offered based on preference for 12 hours or 24 hours. |
| 36 | Maximum number of utilisations per month | A maximum number of utilisations per month (the Monthly Utilisation Limit) |
| 37 | Maximum number of utilisations per year | A maximum number of utilisations per year (the Annual Utilisation Limit) |
| 38 | Recovery Period following a utilisation | A recovery time after each utilisation (the Recovery Period). This means the services cannot be nominated or instructed by National Grid Gas until the recovery period has expired. |

**OM TENDER
TENDER SHEET 3**

Tender Sheet 3 must be completed by all tenderers.

Part 1 Tenderer Signature and Acknowledgment

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.

9. Assessment of OM Tenders and Selection Factors

After the OM Tender submission deadline (“Market Day”), all OM Tenders received will be opened, examined for completeness, and logged by an evaluation panel.

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.

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.

Tender Offers will be assessed on the following criteria, as well as the applicable terms and conditions and compliance with the requirements of this notice:

1. High levels of facility availability and reliability.
2. The ability for the OM 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).
3. The ability to access unused deliverability.
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.
5. The ability to deliver a physical service on the National Transmission System (NTS) on an hourly basis.
6. The ability to provide a maximum response time of 2 hours.
7. Location of the facility on the National Transmission System (NTS)
8. The ease with which the service can be called upon to deliver against an OM event (generally there will be a trade off between the magnitude of individual service offers and the number of calls the gas control room would need to make to providers in order to manage an OM event)

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:

- the availability/capacity charge
- the quantity of availability/storage space offered;
- the utilisation fee
- delivery fees; and
- any associated commodity charges

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.