

National Grid Grain LNG Ltd
Third Party Access Arrangements
Guide for prospective Secondary Capacity customers
2017/18

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Overview

This guide is intended to assist any parties who wish to gain access to unused capacity at the Isle of Grain LNG Importation Terminal, Kent, UK (the Terminal).

This guide describes the physical and contractual structure of the Terminal, as well as outlining the Secondary Capacity Mechanisms and Use It Or Lose It (UIOLI) facilities that are available to Third Party shippers at the Terminal.

The Terminal is operated by National Grid Grain LNG Ltd (Terminal Operator), with primary capacity rights at the Terminal sold via open season auction processes to six independent primary capacity holders. These primary rights consist of the following capacity elements:

1. firm rights to berth and unload a specified number of LNG tankers on specific berthing slot dates within an Annual Unloading Programme;
2. a firm right to use a certain volume of temporary LNG tank capacity;
3. a firm right to nominate LNG for re-gasification and send out into the gas network up to the customer's maximum daily delivery capacity.

The Terminal has in place a hierarchy of anti-hoarding measures (outlined below) for circumstances when primary capacity holders do not wish to fully utilise their capacity holdings at the Terminal with their own LNG.

1. Bi-Lateral Trading of Cargoes

By the very nature of their contracts, primary capacity holders are fully incentivised to compete to acquire Third Party cargoes via bi-lateral trading arrangements, should they not intend to use their capacity.

Such trading of cargoes is common in the LNG industry, and being the norm, is considered the most efficient way for a Third Party cargo to access the UK market through the Grain LNG Terminal. This approach allows discussions with primary capacity holders to commence well in advance of specific berthing slot dates.

There is clear evidence that this mechanism is used frequently and should any Third Parties wish to utilise this type of mechanism, they should contact primary capacity holders via the links provided in section 3 of this document.

The other anti-hoarding measures in the hierarchy are designed to complement primary capacity holders' and Third Parties' ability to use this bi-lateral trading mechanism efficiently.

2. Within Terminal Trading

The commercial systems at Grain LNG are designed to support the efficient trading of individual capacity rights between customers within the Terminal. In other words customers can transfer rights to:

1. berthing slots;
2. temporary LNG tank capacity;
3. send-out rights;
4. LNG stock in the facility.

This 'within Terminal' trading may be used to facilitate secondary trading of capacity by the primary capacity holder, e.g., acquiring more temporary LNG tank space to allow unload of a Third Party cargo, and some elements may be used by secondary capacity holders, e.g., transferring stock remaining at the end of a contract period to a primary capacity holder.

3. Secondary Capacity Mechanisms

Primary capacity holders are able to sell-on their capacity rights to Third Party shippers under a Secondary Capacity Mechanism, developed by customers to give Third Parties firm access to the Terminal.

Secondary Capacity Mechanisms take two basic forms, either the cargo is handled by the primary capacity holder and delivered back to the Third Party (or a counterparty) at the National Balancing Point (NBP), or the Third Party obtains capacity from the primary holder for a pre-determined period of time and manages the unloading and nomination of the LNG through the Terminal and into the gas network themselves. Depending upon the nature of the arrangement it is possible that the Third party may require agreements to be in place with the Terminal Operator to cover its use of the Terminal.

The details of such mechanisms differ between primary capacity holders, but key features are similar.

3.1 SCM Slot Definition

Third parties wishing to access the terminal should contact primary capacity holders in the first instance to discuss the possibility of entering into bi-lateral arrangements. As stated above, SCM products are shipper specific but typically consist of the following:

- a single, firm, fixed date berthing slot (or slots) on which to unload an LNG vessel (or vessels) of certain dimensions and cargo volume,
- firm temporary LNG tank capacity sufficient to accommodate the cargo to be unloaded
- firm deliverability over a pre-determined time period, sufficient to vacate the tank space occupied prior to the primary customer's next scheduled berthing slot.

The options surrounding the size of vessel and the amount of space and send-out capacity available will be dependent upon the capacity holdings of the primary customer although within-Terminal trading between primary customers may provide an element of flexibility here.

If a Third Party is interested in accessing the Terminal via this type of product, they should contact the primary capacity holder through their contact details with the details of approximate delivery dates and capacities they wish to be made available. Details of the arrangements required for booking Secondary Capacity can be obtained from the primary capacity holders directly.

3.2 Fees and Costs

The fees and costs associated with the SCM service will be specific to the primary capacity holder and any specific pre-qualifications, including credit arrangements required to be put in place prior to using the service will be specified by them. If any charges relating to the service need to be paid directly to the Terminal (i.e. power costs), these will be advised by the primary capacity holder.

Port Authority fees such as pilots and tugs will most likely be the responsibility of the Third Party bringing the cargo into the Terminal, as will any costs relating directly to the blending requirements of the LNG imported, based on its composition relative to network entry specifications

4. Use It or Lose It (UIOLI)

4.1 Overview

The UIOLI product is the Terminal Operator's anti-hoarding mechanism. In the event it is forecast that there will be spare capacity available at the terminal (which will not be utilized or on-sold by primary capacity holders or has been returned by primary capacity holders) the Terminal Operator will offer such capacity to the market in the form of a 'UIOLI slot' via an auction process.

Typically, a UIOLI slot will be offered seven (7) days prior to the berthing date, although in some circumstances the notice period may be longer. Third parties are therefore encouraged to check the Grain LNG website on a regular basis for available slots.

The key difference between UIOLI and SCM is that in the former the contractual relationship is directly between the Terminal Operator and the Third Party, with no direct involvement with any primary capacity holders.

Third Parties interested in purchasing a UIOLI slot are required to become Registered Users. In order to become a Registered User, the party must sign a Short Term Framework Agreement (which contains all the relevant contractual terms, including credit requirements) and pay a non-refundable fee of £10,000. Registered Users are able to participate in auctions for UIOLI slots advertised on the Bulletin Board. Bids are submitted by completing a Confirmation Notice (contained in Schedule 6 of the Short Term Access Framework), and if accepted, the Confirmation Notice will be signed by the Terminal Operator and the Registered User will become a Shipper, subject to Grain LNGs General Terms and Conditions (GTCs), for the duration of the send out period.

4.2 UIOLI Slot Definition

A UIOLI slot consists of a berthing slot, storage capacity and interruptible deliverability.

The slot is designed to allow an LNG tanker to be unloaded and the LNG nominated to the network within a specified time window, usually 11 days. In addition to nominating the LNG for delivery to the network, a Third Party also has the right to transfer LNG to other parties within the Terminal. The unloaded LNG must all be exported or transferred by the time the window expires. This period may be extended in certain circumstances as described in section 4.3.

4.3 Arrangements for Unloading and Regasification

The UK gas entry specification applicable at the Terminal usually requires imported LNG to be blended with other gases (nitrogen or propane) before it can be delivered to the Transmission or Distribution networks. The Terminal will provide information to Third Parties in advance to allow them to confirm that their LNG specification can be blended (see section 4.4).

UIOLI is a physical product where the Third Party becomes a shipper in the Terminal. Unused space is identified by the Terminal so there is no concept of re-gasifying stock to clear space for the Third Party's cargo, as there is with SCM. The Third Party will be required to make all necessary arrangements with the Port, pilots, tugs, etc. to facilitate the berthing and unloading of its vessel (see section 4.4 for further details).

A Third Party UIOLI shipper using the Terminal will be issued with an account in the Grain Inventory and Nomination (GIN) system, which will allow for inventory management for the duration of the UIOLI Slot. This web-based system will allow the Third Party shipper access to nominate send-out to the NBP from their LNG stock within the pre-defined parameters of their UIOLI Slot. The system will also allow for inventory to be transferred to primary shippers within the Terminal throughout the duration of the UIOLI Slot if required by the Third Party.

Under certain circumstances (e.g. high primary capacity holder nominations or reduced capacity) the Terminal may have to interrupt send-out of the Third Party shipper during the UIOLI Slot. In this eventuality additional deliverability will be allocated on days subsequent to the Slot to allow for the Third Party's LNG to be delivered to the NBP. This additional deliverability will be allocated at the discretion of the Terminal Operator, but will ultimately allow export of all shipper stock held.

Throughout each nominating day, GIN will confirm to the Third Party shipper the forecast delivery to each network entry point and at the end of the Gas Day, the actual allocated values.

4.4 Pre Application Activities

Any Third Party interested in obtaining a UIOLI slot at the Terminal is required to pay a non-refundable fee of £10,000 and to sign the GLNG Short Term Access Framework, thereby becoming a Registered User. In order to become a Registered User, please complete the following steps:

1. Download the standard Confidentiality Agreement. Complete all details as required (do not date), print and execute two (2) originals of the agreement.

Applicants are advised that this is a standard document for all applicants and material amendments will not be accepted.

2. Send the signed originals of the Confidentiality Agreement and a letter of application stating your company name, registered address or equivalent, registered company number and a brief summary of your participation in the global LNG/Gas markets by registered post or email to:

Karen Astbury
Commercial Advisor
National Grid GLNG
Isle of Grain
Rochester
Kent
ME3 0AB
+44 (0) 1926 656556
[Email: box.glngcommercial@uk.ngrid.com](mailto:box.glngcommercial@uk.ngrid.com)

Grain LNG will return a counter-signed, executed original of the Confidentiality Agreement and will contact the applicant to discuss capacity requirements.

3. An invoice will then be issued for £10,000 and upon receipt of funds GLNG will provide the following:
 - Short Term Framework Agreement
 - GTCs
 - Terminal Operating Procedures
 - Network Entry Provisions
4. Complete and execute two (2) original copies of the Short Term Framework Agreement and return to the address above
5. Prior to entering into a UIOLI auction, and prior to entering into a Confirmation Notice with GLNG, the Third Party should be aware of the following:
 - Credit arrangements – Third Parties will need to satisfy specific credit requirements of the Terminal as set out in the Short Term Framework Agreement. Credit arrangements must be in place before a tanker will be allowed to berth at the Terminal.
 - Ship Vetting - A Third Party may only berth an LNG Tanker which is approved by the Terminal Operator. A list of approved tankers is available on the [Grain website](#) and vetting and approval procedures are covered in the GTCs. Tankers not already on the approved list can be submitted for approval by the Third Party, either prior to, or immediately after acceptance of a UIOLI offer. As much notice as possible is recommended to ensure the Terminal Operator has time to vet the vessel prior to arrival at the Terminal. Insufficient notice may result in the tanker not being allowed to berth at the Terminal. The Terminal Operator will make a charge for the vetting procedure; details of this and other terms and conditions applicable to the vetting of LNG tankers are set out in the GTCs.
 - Gas Blending – the Terminal will provide details of the Gas Entry Specifications which it is required to meet in order to deliver gas to the Transmission and Distribution networks. The Third Party will need to consider this in conjunction with the composition of its cargo and the blending capability of the Terminal. Applications for delivery of out of specification cargoes should be made to the Terminal via the [online enquiry form](#).
 - Port requirements - The arrangements and costs associated with local port authority such as berthing fees, tugs and pilots are the responsibility of the Third Party. Details of how to obtain these and other terms and conditions applicable to the berthing of LNG tankers are set out in the GTCs.
 - Gas Shipper's Licence - in order to receive gas delivered from the facility at the NBP, Third Parties wishing to utilise a UIOLI product will be required to be the holder of a valid Gas Shipper's Licence under the Gas Act 1986, be party to National Grid's Network Code and to book the necessary entry capacity. A Gas Shipper's Licence can be obtained by applying to Ofgem and further details of these requirements are available on the National Grid website. Alternatively, Third Parties may use an NBP Counterparty to enter into system entry capacity and NBP delivery arrangements on their behalf. In the latter case the Terminal will need to be notified of the details of the counterparty in advance in writing.

- Claims Validation Agent - Third Parties will have to confirm arrangements with the Claims Validation Agent to ensure that LNG delivered to the Terminal is appropriately allocated to them. Further details are provided in the GTCs.

4.4 Auction Process for a Specific UIOLI Slot

- Upon identification of an available berthing slot with associated LNG tank capacity and interruptible deliverability, the Terminal Operator will make this slot available via auction on the GrainLNG.com Bulletin Board.
- Auctions will take place in two stages – Auction Window Stage 1 and Auction Window Stage 2
- During Auction Window Stage 1, subject to any reserve price, the acceptability of the LNG specification and the satisfaction of Grain LNG's pre-application activities, the slot will be awarded to the highest bidder.
- During Auction Window Stage 2, subject to any reserve price, the acceptability of the LNG specification and the satisfaction of Grain LNG's pre-application activities, the slot will be awarded on a 'first come, first served' basis.
- In the event the UIOLI berthing slot is advertised more than eight days in advance of the berthing slot, the Auction Window Stage 1 will commence at 09:00 on the day the slot is posted and end at 14:30 on the second day.
- In the event the UIOLI berthing slot is advertised with seven or less days' notice, then the Auction Window Stage 1 will commence at 09:00 on the day the slot is posted and end at 14:30 on the same day.
- If no bids are accepted / received after Auction Window Stage 1, then Auction Window Stage 2 will commence and interested parties are invited to register their interest until the day before the UIOLI berthing slot.
- For the avoidance of doubt the Terminal Operator may, at any time while the auction remains open and prior to awarding a slot to a bidder, cancel the auction with no liability.
- Upon receipt of a successful bid, the Terminal Operator will countersign the Short Term Confirmation Notice and return to Shipper by email.

4.5 Fees and Costs

The fees and costs associated with the UIOLI service including the costs of blending and power will be set out in the contract documentation as will any specific pre-qualifications such as credit arrangements.

Port Authority fees such as for pilots and tugs will be the responsibility of the Third Party bringing the cargo into the Terminal.