

**CONSULTATION CONCLUSIONS
(Supplementary) REPORT**

Consultation on the Proposed Entry
Capacity Transfer and Trade Methodology
Statement.

4th September 2007

Supplementary Consultation Report on the Proposed Entry Capacity Transfer and Trade Methodology Statement.

Special Condition C8D of the Authority's proposals for National Grid Gas plc's Gas Transporter licence in respect of the NTS¹ (the "Licence") sets out obligations to prepare and submit for approval by the Authority entry capacity trade and entry capacity transfer methodology statements setting out the methodologies that National Grid NTS ("NG") will use to facilitate entry capacity trades and entry capacity transfers. In addition, NG is obliged to consult with relevant shippers and interested parties prior to submitting proposals to the Authority. NG considers that it is appropriate to prepare a single document to meet these proposed obligations.

On 2nd May 2007 NG issued proposals for the Entry Capacity Transfer and Trade Methodology Statement ("T&T"). NG invited views in respect of these proposals to be made by 30th May 2007. Representations were received from nine respondents. These representations can be found on NG's web-site at <http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ecttms/>. At the conclusion of the consultation NG considered that it could not submit a proposal for the T&T to the Authority for approval for two reasons:

- It was expected that further development of UNC processes in associated UNC modification proposals would have required later adjustment to the methodology; and
- Continued consultation on the form of the Licence meant that the Authority had no means to approve the methodology statement.

Thus NG did not publish a consultation report.

Following further industry workstream meetings, on 30th July 2007, NG issued revised proposals for the T&T inviting views in respect of these proposals to be made by 28th August 2007. Representations were received from three respondents;

- E.ON UK plc ("Eon") did not specifically state whether or not they support the proposal;
- Statoil (UK) Limited ("Stuk") who are "unable to support"; and
- EdF Energy ("EdF") who provided support "for this winter only".

NG issued a consultation conclusions report² and submitted its proposed T&T Methodology Statement for approval by the Authority on 31st August 2007.

The consultation report provided a summary of the representations received, NG's response to specific issues and an indication of whether changes had been made to the T&T as a result. The full representations can be found on the web-site given above.

On 4th September 2007 NG received an additional response, from Centrica Storage Ltd ("CSL"). As this response was submitted before the deadline for responses, but was not received by NG due to technical problems, NG believes that it is appropriate to consider the comments raised by CSL. NG's replies to CSL's comments are contained within this supplement to the initial consultation and should be read in conjunction with that report.

¹ Notice under section 23 (3) of The Gas Act 1986, Ofgem ref 195/07 – dated 30/07/07.

² Consultation conclusions report: Consultation on the Proposed Entry Capacity Transfer and Trade Methodology Statement; National Grid - 31st August 2007

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Party	Issue	Response Quotes	National Grid NTS Response	Proposed changes
1 – General				
CSL	Clarity	13 a) This paragraph is ambiguous / incomprehensible. 13 b) This paragraph is ambiguous / incomprehensible.	Without the Transfer and Trade obligations NG will be limited in the amount of capacity it can make available at ASEPs with demand above obligated levels. This is because – a) capacity has previously been sold at an ASEP and is no longer needed / valued at that ASEP. The User has no means to move (trade) that capacity elsewhere; b) NG has a requirement to make capacity available for sale at obligated levels at all ASEPs. At ASEPs where capacity at these levels is potentially no longer required NG could release non-obligated capacity at other ASEPs but the residual risk at the original ASEP remains. Capacity transfer allows the obligation at the donor ASEP to transfer to the recipient ASEP.	None.
2 – Material increase in costs				
CSL	Elements of increased costs.	8) It would be helpful if the document better described which costs (or risks) are being assessed to enable us to place such costs in the correct context. For example: If the mechanism caused additional compression to be needed then there could be an increase in costs to NGG however the benefit to the market of additional gas delivery may outweigh the compression cost.	This paragraph 8 clarifies the licence obligations. Hence it provides only the level of detail given in the Licence, but see also response to issue 2.2.	None. Issue for consideration in developing an enduring solution.

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3 – Nodal Allocation Maximum				
CSL	Setting the CAP on the NAM	<p>20 a) Capping the NAM at 150% is contra the objectives by potentially preventing effective use of the NTS.</p> <p>20 a) Use of the minimum historical demand for a month may cause the method to be driven by exceptional circumstances. We suggest that minimum demand for a typical (or perhaps 1 in 10 warm) will give more consistent and predictable results.</p>	See response to issue 4.1	<p>None.</p> <p>Issue for consideration in developing an enduring solution.</p>
CSL	Setting the NAM	20 b) Where flow has historically been above the NAM then the NAM should be increased to that flow, unless another constraint reached first.	See response to issue 4.2	None.
CSL	Confidentiality	<p>20 b) What does “constraining limit” mean and why can it not be used when NGG do not need to disclose confidential arrangements to implement this methodology.</p> <p>20 b) The confidential limits do not need to be disclosed in order for NGG to use this methodology so could be used.</p>	<p>“Constraining limit” means any limit identified by NG that would prevent the NAM, determined according to paragraph 20 a), from being permitted. These limits are usually contained within the NEA e.g. maximum flow rate for measurement systems, and are confidential. Paragraph 20 b) concludes by explaining why historical flows are required as a limit for the NAM.</p> <p>The methodology has been developed to avoid disclosure of confidential information.</p>	None.

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4 – Definition of Zones.				
CSL	Definition.	<p>21 This gives a very wide capture of zones and does not consider how closely connected ASEPs are.</p> <p>21/22 The definition and zones published in the TYS are not congruent.</p>	<p>Paragraph 21 explains how zones have been derived. NG has used the zonal arrangement to maximise the potential for 1:1 exchange rates. To limit zones by defining them to much closer, geographically, ASEPs would limit the scope for 1:1 exchanges without a significant benefit in terms of ZAMs.</p> <p>The methodology utilises the same zones as is provided in the latest TYS, but provides greater detail, e.g. includes smaller ASEPs and the Theddlethorpe zone.</p>	<p>None.</p> <p>Issue for consideration in developing an enduring solution.</p>
5 – Merit Order				
CSL	Determination of merit order.	<p>24 – 26 This methodology to determine merit order is most likely to result in the zone with the least available capacity to be placed first. This could result in absurd results where locationally close and excess capacity is transferred after locationally more distant and more limited capacity. The suggested methodology will work better where capacity is to be sterilised from the donor asep however it may not result in the most economic exchange rates in locations where capacity is close and freely available.</p>	<p>The merit order is used to ensure that the Licence obligation, to avoid material increase in costs, is met. For example, NG cannot determine from which ASEP capacity will be surrendered. It is most likely that this will be from ASEPs least likely to flow. Therefore the analysis should be undertaken on this basis.</p>	<p>None</p>
6 – Steady State / Transient Analysis				
CSL	Effect of system flexibility & linepack usage	<p>28 This statement will cause within day flow variation patterns to have precedence over Entry capacity. This means that users of system flexibility and line pack (who get the benefit without charge) could cause system capacity to be limited. This would not be efficient where NGG have the ability to limit the flow variations by other means.</p>	<p>Analysis undertaken by NG generally assumes steady state conditions, i.e. flow at 1/24th end of day quantity. However, historical flow patterns have shown deviations from the 1/24th rate so the methodology allows NG to consider the effects of such deviations (“it will not be assumed that the system is constantly in balance”) when establishing, without incurring a material increase in costs, system capability.</p>	<p>None</p>

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7 – Supplementary Information				
CSL	Easington ZAM	We note, with some surprise, that NG NTS propose a Zonal Allocation Maximum (ZAM), for the period November through to March 2008, of 99.5mcm/day for the Easington Zone; this being just 1.5mcm/day above the Easington ASEP baseline.	These are indicative results from applying the methodology. This limit is derived partly from the effect of other ASEPs within the Easington zone and the residual obligation at those ASEPs, and the interaction with adjacent zones (see responses below).	None
CSL	Local constraint at Easington ASEP	<p>Whilst we accept there will be local constraints at the Easington ASEP evidence and our observations suggests that these constraints would allow a ZAM significantly in excess of the 99.5mcm/day, for example: Easington nodal maxima has been previously modelled at 135 mcm/day and 116mcm/day which we understood took into account local constraints and demand sensitivities.</p> <p>We have observed flows through the Easington ASEP much higher than 99.5mcm/day. This has been for extended periods and where system demand was well below peak. A good example of high flow was 15 February 2007 when demand was 358mcm, the high flow period also co-incides with the period when di-urnal demand would be at it's lowest.</p> <p>We would also like to point out gasday 8th February where demand was 435mcm, flows were not so high but were consistently above 98.5 all day.</p>	<p>CSL provide examples of where flows have been in excess of the ZAM of 99.5 mcm/d. However, these are individual days, whereas NG needs to consider every day for the month in question. Hence setting the ZAM nearer to previous peak flows would create a material increase in costs (see response to issue 2.1).</p> <p>In addition, the examples provided show peak within day flows, whereas assessment (and capacity allocation) is for an average end of day quantity.</p> <p>NG has considered, in its assessments, tough, but not extreme, supply scenarios. NG has examined supply patterns for the days identified and these show more favourable (for Easington) conditions than those analysed by NG, i.e. higher flows at St Fergus, lower at Teesside. The supply pattern is something that NG cannot control.</p>	None
CSL	Other ASEPs within the Easington Zone have different flow patterns to the Easington ASEP.	Whilst it may be reasonable to suggest a degree of separation of the flow patterns between the Easington ASEP and the Hornsea, Hatfield Moor and Garton ASEPs, we suggest that to propose that Easington ASEP flows are virtually mutually exclusive (as a ZAM of 99.5mcm/day suggests) appears simply wrong. Intuitively, at the very least, changes in expected flows from Hornsea and Hatfield Moor and a proportion of the Garton ASEP would allow additional capacity to be moved to Easington.	<p>The supplementary information provides indicative outcomes when applying the methodology in respect of the proposed UNC modifications. These UNC modification proposals allow only a 1:1 exchange rate within zone.</p> <p>As has been explained 1:1 exchange rates are applicable below the minimum zonal capability. The zonal information provided on the 25th June</p>	None

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		<p>For example, in the extreme if all Hornsea entry capacity were to be surrendered to only increase Easington ASEP by 1.5mcm/day would appear incompatible with NG NTS' obligations under its licence.</p> <p>This rule also appears to sit uncomfortably with NG NTS' previous proposals to aggregate the Easington Zone entry capacity baselines into a single zonal baseline.</p>	<p>demonstrated that the minimum capability for the Easington zone varies (with demand level) from 45 to 80 mcm/d. However, applying the methodology results in a 1:1 relationship above this level; up to 99.5 mcm/d.</p>	
CSL	Potential higher Teesside obligated baselines	<p>We are unclear as to how movement of baseline in the Northern triangle will have a material impact on aggregate flows out of the Easington Zone. Intuitively, if Teesside increased and St Fergus decreased, whilst maintaining similar risk, this would have no impact on flows from the Easington Zone.</p>	<p>An increase in capacity at Teesside balanced by a decrease at St Fergus would not necessarily result in a decrease in actual observed flows at St Fergus.</p> <p>Paragraph 31 iv) allows a "Cross Zone check". (See above response). When assessment has been completed for Teesside ASEP (in Northern Triangle zone) and Easington ASEP (in Easington zone) a further check is required to confirm that both "maxima" are compatible. If the system is incapable of satisfying both zones simultaneously (as initial analysis suggests) then each ASEP (Teesside and Easington) will be reduced by the same amount.</p>	None
CSL	Transparency	<p>Unfortunately, given the 'black box' nature of the modelling involved with deriving the ZAM we are unable to provide specific comments on the model parameters and assumptions.</p> <p>In conclusion we believe that, given the importance of the Easington ZAM and the 'black box' nature of its calculation, we strongly urge that an independent audit is carried out to ascertain the accuracy of the proposed 99.5mcm/day and to provide sensitivity analysis around this figure to ensure that no capacity within the Easington Zone is sterilise this winter.</p> <p>We further suggest that Ofgem sponsor such an audit and that this is carried out at the earliest opportunity to allow potential participants in the forthcoming AMTSEC auctions time to adequately consider their positions.</p>	<p>See response to issue 1.1</p> <p>The need for Ofgem sponsorship of an independent audit is for Ofgem to decide. NG is confident that, given the timescales available, the methodology satisfies its Licence obligations.</p>	<p>None.</p> <p>Issue for consideration in developing an enduring solution.</p>