

**REPORT¹ ON THE APPLICATION OF THE ENTRY
CAPACITY TRANSFER AND TRADE METHODOLOGY
DURING FORMULA YEAR 2008/09**

OCTOBER 2009

¹ Please note this has been re-published in order to provide additional information in response to comments in Ofgem's letter approving the Entry Capacity Transfer and Trade Methodology Statement dated 22 June 2009 found at www.ofgem.gov.uk/CustomPages/Pages/ArchivedPublications.aspx.

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1. EXECUTIVE SUMMARY.

The Enduring Rolling Monthly Transfer and Trade System Entry Capacity Auction (RMTTSEC) was introduced in June 2008 for monthly capacity allocations from August 2008. The Entry Capacity Transfer and Trade Methodology that supports this auction was successful in enabling additional capacity to be made available at all entry points that requested additional firm capacity.

The total allocated capacity at Easington and Hatfield Moor Storage was greater than could have been obtained in the absence of Transfer and Trades for the months shown in the table below. The table also indicates the number of days when actual gas flows exceeded the obligated level. This was partly feasible to capacity Transfer and Trades. The fact that flows at Hatfield Moor did not exceed obligated levels suggests that one or more Shippers that bought capacity at or before the RMTTSEC did not use the capacity that they had obtained.

		Nov08	Dec08	Jan09	Feb09	Mar09
Capacity in excess of the obligated level made available through T&T (i.e. stage 2 of the RMTTSEC auction).	Easington	0.92%	7.82%	9.62%	3.96%	1.62%
	Hatfield Moor Storage	0.91%	0.70%	0.70%	0.70%	0.64%
Number of days where flows were above obligated	Easington	0	10	19	12	0
	Hatfield Moor Storage	0	0	0	0	0

Capacity allocations resulting from RMTTSEC auctions for the months August 2008 to March 2009 are provided in section 3. The table below summarises these results by aggregating the monthly capacity allocations for each ASEP over the period considered.

The table shows that:

- where capacity was sold out at an ASEP, namely Hatfield Moor Storage and Easington, any unsatisfied bids remaining were then satisfied through Transfers and Trades in stage two of the auction.
- at various ASEPs demand for capacity was met from surrendered quantities. This meant that more capacity remained available at these ASEPs for allocation through the Daily Auctions.
- for the period August 08 to March 09 all capacity requests, at all ASEPs, were satisfied. It is National Grid's view that this was mainly due to:
 - to the use of ex post exchange rates,
 - new infrastructure in the Easington vicinity,
 - the process being conducted on a month by month basis,
 as discussed in section 5.

Transfer and Trade Aggregate Results (August 08 – March 09)					
STAGE 1					
ASEP	Total requested bids kWh	Total of surrendered bids kWh	Total allocated (from unsold and surrendered) kWh	Quantity of total allocation which was met by surrendered bids kWh	Unsatisfied bids remaining after stage 1 kWh
Bacton	148,375,854	47,430,000	148,375,854	46,395,226	0
Barrow	1,100,000	42,680,000	1,100,000	1,100,000	0
Theddlethorpe	29,709,012	1,159,313,469	29,709,012	29,709,012	0
Easington	271,838,998	29,498,494	17,171,719	17,171,719	254,667,279
Hatfield Moor Storage	68,799,910	61,835,000	29,985,030	0	38,904,880
St Fergus	48,349,999	8,000,000	48,349,999	8,000,000	0
Hornsea	11,283,233	75,601,390	11,283,233	11,283,233	0
Teesside	50,294,813	46,504,741	50,294,807	34,805,287	0
STAGE 2					
Recipient Location	Donor Location	Exchange Rate	Quantity from Donor ASEP (kWh)		
Easington	Theddlethorpe	1:1	246,963,648 (from surrendered)		
	Hornsea	1:1	7,703,631 (from surrendered)		
Hatfield Moor Storage	Theddlethorpe	1:1	38,469,051 (from surrendered)		
	Hornsea	1:1	435,829 (from surrendered)		
All bids satisfied					
Total capacity traded (Aug08 to Mar09) 293,572,159 kWh					
Total capacity transferred (Aug08 to Mar09) 0 kWh					

2. INTRODUCTION

National Grid Gas plc (“National Grid”) in its role as holder of the Gas Transportation Licence in respect of the NTS (the “Licence”) has prepared this report to meet the requirements set out in Standard Special Condition C8D paragraphs 11(i) and 12(i) of the Licence, as detailed below.

C8D 11(i)

“The licensee shall, by 31 May in each formula year, provide the Authority with a report on the application and implementation of the entry capacity transfer methodology during the previous formula year setting out the extent to which, in the licensee’s opinion, the entry capacity transfer objectives were achieved during that previous formula year”

C8D 12(i)

“The licensee shall, by 31 May in each formula year, provide the Authority with a report on the application and implementation of the entry capacity trade methodology during the previous formula year setting out the extent to which, in the licensee’s opinion, the entry capacity trade objectives were achieved during that previous formula year”

This report² provides details of the operation of National Grid’s entry capacity Transfer and Trade (“T&T”) methodologies for the formula year 2008/09. In particular, it sets out the extent to which National Grid believes the entry capacity transfer and entry capacity trade objectives (“T&T objectives”) were achieved. It also summarises the areas of potential future development.

In addition to this introduction this report consists of four main sections:

- **Section 3** summarises the results of the Rolling Monthly Transfer and Trade System Entry Capacity (“RMTTSEC”) auctions;
- **Section 4** reviews the extent to which the Licence objectives were achieved during the period; and
- **Section 5** is used to identify potential developments that might be expected to improve the ability of National Grid to better meet the intent of the T&T objectives. National Grid has identified no such developments this year.
- **Section 7** provides additional information on the development of the T&T methodology.

The obligations to introduce T&T processes are detailed in Standard Special Condition C8D paragraphs 11 and 12 of the Licence. To comply with these obligations, National Grid issues an annual Entry Capacity Transfer and Trade Methodology Statement.

² This report was initially published on 20th May 2009. Following discussions with Ofgem additional sections and comments have been added.

3. RMTTSEC AUCTION RESULTS

UNC modification proposal 0187A was implemented in June 2008 introducing the Enduring Rolling Monthly Transfer and Trade System Entry Capacity Auction (RMTTSEC), accommodating T&T of firm capacity between ASEPs. This process was introduced in June 2008 for capacity allocations in August 2008 and has subsequently been carried out on a monthly basis.

Capacity allocations resulting from the RMTTSEC auction for the months August 2008 to March 2009 are provided in the tables below.

Please note:

- **Unsold** quantity is capacity remaining unsold following the QSEC and AMSEC auctions.
- **Surrendered** capacity is capacity that Shippers with capacity allocations greater than their requirements make available for purchase by other Shippers, at the same or different ASEPs. If surrendered capacity is not allocated to a new Shipper then it remains with the original Shipper at the original ASEP.
- In **Stage 1** unsold capacity plus surrendered capacity is made available for allocation in the RMTTSEC auction at the same specific ASEP. Unsold capacity will be subject to the reserve price for the ASEP published in National Grid's Statement of Transmission Transportation Charges, whilst surrendered capacity will have a reserve price set by the surrendering Shipper. Available capacity is allocated in accordance with UNC, i.e. to the highest priced bids using the lowest cost capacity first. Any allocations under stage 1 either from unsold or surrendered capacity is neither a trade nor transfer as defined by the Licence.
- ASEPs have been omitted from the tables in Stage 1 where all the capacity allocated in that stage is solely from unsold capacity at that ASEP.
- In **Stage 2** all unsold and surrendered capacity not allocated in Stage 1 will be made available for T&T. Sold out ASEPs with unsatisfied capacity bids from stage 1 will be considered as recipient ASEPs for Transferring or Trading available capacity from different ASEPs. This will be subject to an exchange rate. Where surrendered capacity is allocated to satisfy a capacity requirement at a different ASEP it is known as a Capacity Trade. Where unsold capacity is allocated at a different ASEP this is a Capacity Transfer.

AUGUST 2008
STAGE 1
<ul style="list-style-type: none">• Surrendered bids at three ASEPs• No surrendered bids allocated
STAGE 2
<ul style="list-style-type: none">• No Trade or Transfers occurred
All capacity bids satisfied

SEPTEMBER 2008
STAGE 1
<ul style="list-style-type: none">• Surrendered bids at three ASEPs• No surrendered bids allocated
STAGE 2
<ul style="list-style-type: none">• No Trade or Transfers occurred
All capacity bids satisfied

OCTOBER 2008						
STAGE 1						
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Unsatisfied kWh
Theddlethorpe	1,500,000	401,591,069	5,000,000	1,500,000	1,500,000	0
As shown in the table above allocations at Theddlethorpe in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Theddlethorpe.						
STAGE 2						
<ul style="list-style-type: none"> No Trade or Transfers occurred 						
All capacity bids satisfied						

NOVEMBER 2008

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Unsatisfied kWh
Hornsea	5,861,420	70,077,605	47,473,550	5,861,420	5,861,420	0
Theddlethorpe	9,550,000	324,759,657	82,676,639	9,550,000	9,550,000	0
Teesside	28,400,000	125,896,544	23,105,835	28,400,000	23,105,834	0
Easington	14,653,550	3	9,862,737	4,862,737	4,862,737	9,790,813
Hatfield Moor Storage	19,679,970	10,100,000	14,155,000	10,100,000	0	9,669,970

More capacity remained for the Daily Auctions due to some capacity allocations being met from surrendered quantities at Hornsea, Theddlethorpe and Teesside. Although capacity at Easington was sold out, surrendered capacity enabled other Shippers to increase their capacity allocations. Capacity surrendered by Shippers at Hatfield Moor Storage and Easington could have been used to satisfy the requested capacity by other Shippers, however this was only possible where reserve prices placed on surrendered capacity were lower or equal to the bid request price for the capacity. The unsatisfied capacity requests progressed to stage two.

STAGE 2

Recipient Location	Donor Location	Exchange Rate	Quantity from Donor ASEP (kWh)
Easington	Theddlethorpe	1:1	9,790,813 from surrendered
Hatfield Moor Storage	Theddlethorpe	1:1	9,669,970 from surrendered

Allocated capacity at Easington and Hatfield Moor Storage was greater than could have been obtained in the absence of Transfer and Trades; aggregate capacity allocations at these ASEPs exceeded obligated levels.

All capacity bids satisfied

DECEMBER 2008

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Unsatisfied kWh
Bacton	54,084,392	600,362,000	8,200,000	54,084,392	8,200,000	0
Hornsea	5,421,813	10,900,000	28,127,840	5,421,813	5,421,813	0
St Fergus	33,349,999	320,407,338	2,000,000	33,349,999	2,000,000	0
Teesside	21,894,813	115,196,020	23,398,906	21,894,807	11,699,453	0
Easington	87,524,995	3	4,396,065	4,396,065	4,396,065	83,128,930
Theddlethorpe	11,600,000	55,555,983	351,932,243	11,600,000	11,600,000	0
Hatfield Moor Storage	14,604,260	7,169,290	11,920,000	7,169,290	0	7,434,970

As shown in the table above additional unsold capacity remained available for Daily Auctions at Bacton, Hornsea, St Fergus, Teesside and Theddlethorpe. This additional capacity was due to some allocations in Stage 1 being met by surrendered bids rather than from the unsold quantity thus leaving a greater unsold quantity. Although capacity at Easington was sold out, surrendered capacity enabled other Shippers to increase their capacity allocations. Capacity surrendered by Shippers at Hatfield Moor Storage could have been used to satisfy the requested capacity by other Shippers at this ASEP. However this would only have been possible if reserve prices placed on surrendered capacity were lower or equal to the bid request price for the capacity. The unsatisfied capacity requests progressed to stage two.

STAGE 2

Recipient Location	Donor Location	Exchange Rate	Quantity from Donor ASEP (kWh)
Easington	Hornsea	1:1	4,872,916 from surrendered
	Theddlethorpe	1:1	78,256,014 from surrendered
Hatfield Moor Storage	Hornsea	1:1	435,829 from surrendered
	Theddlethorpe	1:1	6,999,141 from surrendered

Allocated capacity at Easington and Hatfield Moor Storage was greater than could have been obtained in the absence of Transfer and Trades; aggregate capacity allocations at these ASEPs exceeded obligated levels.

All capacity bids satisfied

JANUARY 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Unsatisfied kWh
Bacton	50,413,553	595,625,605	10,090,000	50,413,553	10,090,000	0
St Fergus	15,000,000	319,407,322	6,000,000	15,000,000	6,000,000	0
Easington	102,311,941	0	0	0	0	102,311,941
Hatfield Moor Storage	8,792,840	1,307,870	11,920,000	1,307,870	0	7,484,970

As shown in the table above additional unsold capacity remained available for Daily Auctions at Bacton and St Fergus. This additional capacity was due to some allocations in Stage 1 being met by surrendered bids rather than from the unsold quantity thus leaving a greater unsold quantity. The requested quantity at Hatfield Moor Storage could have been satisfied by capacity surrendered by other Shippers at Hatfield Moor Storage however this was not possible as these Shippers placed a reserve price on the surrendered capacity which was higher than the bid request prices for the capacity. The capacity requests progressed to stage two.

STAGE 2

Recipient Location	Donor Location	Exchange Rate	Quantity from Donor ASEP (kWh)
Easington	Theddlethorpe	1:1	102,311,941 from surrendered
Hatfield Moor Storage	Theddlethorpe	1:1	7,484,970 from surrendered

Allocated capacity at Easington and Hatfield Moor Storage was greater than could have been obtained in the absence of Transfer and Trades; aggregate capacity allocations at these ASEPs exceeded obligated levels.

All capacity bids satisfied

FEBRUARY 2009						
STAGE 1						
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Unsatisfied kWh
Bacton	34,202,683	596,005,098	18,430,000	34,202,683	18,430,000	0
Barrow	600,000	61,264,444	21,340,000	600,000	600,000	0
Theddlethorpe	2,629,673	66,277,452	357,109,516	2,629,673	2,629,673	0
Easington	42,166,136	0	0	0	0	42,166,136
Hatfield Moor Storage	11,722,840	4,238,580	11,920,000	4,238,580	0	7,484,260
<p>As shown in the table above additional unsold capacity remained available for Daily Auctions at Bacton, Barrow and Theddlethorpe. This additional capacity was due to some allocations in Stage 1 being met by surrendered bids rather than from the unsold quantity thus leaving a greater unsold quantity. The requested quantity at Hatfield Moor Storage could have been satisfied by capacity surrendered by other Shippers at Hatfield Moor Storage however this was only possible where Shippers placed a reserve price on the surrendered capacity which was lower or equal to the bid request prices for the capacity. The capacity requests progressed to stage two.</p>						
STAGE 2						
Recipient Location	Donor Location	Exchange Rate	Quantity from Donor ASEP (kWh)			
Easington	Theddlethorpe	1:1	39,335,421 from surrendered			
	Hornsea	1:1	2,830,715 from surrendered			
Hatfield Moor Storage	Theddlethorpe	1:1	7,484,260 from surrendered			
<p>Allocated capacity at Easington and Hatfield Moor Storage was greater than could have been obtained in the absence of Transfer and Trades; aggregate capacity allocations at these ASEPs exceeded obligated levels.</p>						
All capacity bids satisfied						

MARCH 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Unsatisfied kWh
Bacton	9,675,226	596,289,116	10,710,000	9,675,226	9,675,226	0
Barrow	500,000	61,264,444	21,340,000	500,000	500,000	0
Easington	25,182,376	0	15,239,692	7,912,917	7,912,917	17,269,459
Hatfield Moor Storage	14,000,000	7,169,290	11,920,000	7,169,290	0	6,830,710
Theddlethorpe	4,429,339	68,627,618	362,595,071	4,429,339	4,429,339	0

As shown in the table above additional unsold capacity remained available for Daily Auctions at Bacton, Barrow and Theddlethorpe. This additional capacity was due to some allocations in Stage 1 being met by surrendered bids rather than from the unsold quantity thus leaving a greater unsold quantity. Although capacity at Easington was sold out, surrendered capacity enabled other Shippers to increase their capacity allocations. Capacity surrendered by Shippers at Hatfield Moor Storage and Easington could have been used to satisfy the requested capacity by other Shippers, however this was only possible where reserve prices placed on surrendered capacity were lower or equal to the bid request price for the capacity. The unsatisfied capacity requests progressed to stage two.

STAGE 2

Recipient Location	Donor Location	Exchange Rate	Quantity from Donor ASEP (kWh)
Easington	Theddlethorpe	1:1	17,269,459 from surrendered
Hatfield Moor Storage	Theddlethorpe	1:1	6,830,710 from surrendered

Allocated capacity at Easington and Hatfield Moor Storage was greater than could have been obtained in the absence of Transfer and Trades; aggregate capacity allocations at these ASEPs exceeded obligated levels.

All capacity bids satisfied

4. ACHIEVEMENT OF OBJECTIVES

The Licence obligations with respect to T&T require National Grid to prepare T&T methodologies, and to submit a statement of these methodologies to the Authority for approval each year.

The Licence requires that the T&T Methodology is developed to facilitate the achievement of the T&T objectives. These objectives are detailed in Standard Special Condition C8D paragraphs 11(d) and 12(d) of the Licence.

The relevant objectives are:

- (i) ensuring that entry capacity transfer/trade is effected in a manner which makes effective use of the pipeline system;
- (ii) ensuring that entry capacity transfer/trade is effected in a manner which is compatible with the physical capability of the pipeline system;
- (iii) avoiding material increases in costs (including entry capacity constraint management costs in respect of obligated entry capacity previously allocated by National Grid) that are reasonably expected to be incurred by National Grid as a result of facilitating entry capacity transfer/trade; and
- (iv) in so far as is consistent with (i), (ii) and (iii), facilitate effective competition between relevant shippers and between relevant suppliers.

As can be seen from Section 3, the Transfer and Trade Methodology was successful in enabling additional capacity to be made available at all entry points that requested additional firm capacity.

Specifically, without the T&T process it would not have been possible to increase the obligated capacity levels at Easington and Hatfield Moor Storage. The T&T process also stimulated secondary trading at Barrow, Bacton, St Fergus, Theddlethorpe, Teesside and Hornsea.

National Grid believes that it has, through the T&T process, of which the Methodology is an integral part:

- (i) made effective use of the NTS. The processes have facilitated release of additional capacity at Easington and Hatfield Moor Storage where it would otherwise not have been available. In addition, through the surrender and allocation of capacity at Bacton, Barrow, St Fergus, Theddlethorpe, Teesside and Hornsea, better use was made of existing capacity.
- (ii) ensured that successful Transfers and Trades were compatible with the physical capability of the NTS. Application of the approved Methodology placed limits on potential Transfers and Trades thus ensuring that physical capability was not exceeded. However these limits did not hamper the process as all requested increases in obligated capacity were met with 1:1 exchange rates.
- (iii) avoided material increases in costs. Application of the approved Methodology identified system capability limits such that, in the absence of low probability circumstances, the risk of capacity buy-back actions being required was not significantly increased (nor reduced).
- (iv) increased competition between Shipper and Suppliers. By undertaking Transfers and Trades through an auction process all Users had equal access to available

capacity and this was allocated to those who valued it most (as indicated by bid prices).

5. ADDITIONAL OBSERVATIONS ON THE APPLICATION OF THE T&T METHODOLOGY

Observations

In 2007/08 an “interim” Transfer and Trade methodology was in place and applied for that year. Transfer and Trades undertaken during year 2007/08 were generally in excess of 1:1. In contrast to the interim period all capacity transfer and trades in 2008/09 (from August 08 to March 09) were at an exchange rate of 1:1. National Grid believes this was due to three factors:

- Commissioning of additional infrastructure in the vicinity of constrained ASEPs, including the completion of the following projects.
 - Easington to Ganstead commissioned in October 2008
 - Asselby to Pannal commissioned in October 2008.

In effect not only did the additional projects support 1:1 exchange rates they also supported the introduction of the Discretionary Release of capacity (the DRSEC process).

From October 2009 the obligated level at Easington increases to 1407.15 GWh which will require the additional infrastructure referred to above. Hence there will be less spare capability available and the achievement of 1:1 will be less likely in 2009/10 than it was in 2008/09.

- Exchange rates being determined after, rather than in advance of, submission of capacity bids.

Determining exchange rates after capacity bids were known allowed Network Analysis of potential transfers and trades to be limited to relevant flow patterns. Hence Network Analysis of potential flow patterns which may have limited the extent of capacity that could be moved in 2007/08, did not limit transfers in 2008/09.
- The process being applied for each month rather than for the winter as a whole.

Undertaking analysis for a shorter duration (one month) closer to real time (month ahead of relevant month) has meant that fewer assumptions have been required regarding relevant demand levels and supply patterns.

Potential Improvements

National Grid believes that the Transfer and Trade Methodology has worked well in the year 2008/09 and is of the opinion that no changes are necessary.

At the Transmission Workstream meeting on 2nd April 2009, National Grid requested (see minute 3.2.2) that if any party considered that changes are necessary then they should contact National Grid. Notwithstanding that National Grid is required to review and consult, on an annual basis, on proposals for the Transfer and Trade Methodology, no party has come forward with any suggested changes.

6. SUMMARY

- National Grid believes that it has fully complied with the Entry Capacity Transfer and Entry Capacity Trade obligations through the Transfer and Trade methodology statement issue v2.0.
- National Grid believes that the T&T solution applied for formula year 2008/09 successfully met the T&T objectives.
- T&T provided additional capacity above obligated levels at Easington and Hatfield Moor Storage.

7. ADDITIONAL COMMENTS IN RESPONSE TO OFGEM'S APPROVAL LETTER FOR THE TRANSFER AND TRADE METHODOLOGY STATEMENT DATED 22 JUNE 2009³

Ofgem have requested that this report on the application and implementation of the entry capacity transfer and trade methodology for the period 2008/2009 should highlight how key concerns of both Ofgem⁴ and Poyry Energy Consulting⁵ (based on the Interim Solution) have been met.

Ofgem and Poyry raised a number of issues which can be broadly categorised as the use of ex-post exchange rates, exchange rates better than 1:1, discretion and lack of transparency, and potential inconsistencies in data.

Ex-Post Exchange Rates.

In their letter of April 2008 Ofgem said that "ex-post exchange rates are less transparent giving more discretion to NGG.....which creates uncertainty for shippers which may inhibit their participation".

During the development of the interim methodology in 2007 and the enduring methodology in 2008 National Grid contended that determination of exchange rates ex-post would deliver more efficient results. Poyry agreed in their audit report saying "the requirement to generate ex-ante exchange rates.....acted to limit the amount of capacity moved".

National Grid believes that the results achieved for the year 2008/09 where all transfer and trades were achieved with an exchange rate of 1:1 vindicated the decision of National Grid to propose a methodology based on determining exchange rates ex-post.

³ Letter from Stuart Cook to National Grid Gas and others; "The Entry Capacity Transfer and Trade (ECTT) Methodology Statement, dated 22 June 2009; found at www.ofgem.gov.uk/CustomPages/Pages/ArchivedPublications.aspx

⁴ Letter from Steve Smith to National Grid Gas and others; "The Entry Capacity Transfer and Trade Methodology Statement, dated 22 April 2008; found at www.ofgem.gov.uk/CustomPages/Pages/ArchivedPublications.aspx

⁵ Audit of National Grid's "Interim Transfer and Trades" Process. A report produced for the Gas Forum by Poyry Energy Consulting, May 2008.

Exchange Rates Better than 1:1

Ofgem stated that “it would be useful if the circumstances in which exchange rates better than 1:1 may be achieved”.

National Grid has been consistent in its argument that exchange rates better than 1:1 can not be achieved as this would result in the creation of additional levels of obligated capacity. National Grid’s view is that Transfer and Trades are not intended to increase the obligated levels and any such increases would require additional remuneration from Ofgem. Hence the methodology statement does not facilitate the creation of additional obligated capacity.

Discretion and Transparency

Ofgem has expressed concern “that the use of ex-post exchange rates provides less certainty for shippers”. Further “ex-post exchange rates are less transparent giving more discretion to NGG”.

Whilst National Grid recognises the desirability of increased transparency, it believes that the provision of more efficient outcomes should take precedence over transparency where these features are in conflict.

However, the changes introduced for the enduring Transfer and Trade methodology have improved process transparency. As Transfer and Trades is now embedded in a monthly process previous results inform on likely results for subsequent months. All shippers are now notified of the following general information:-

- For each ASEP, the aggregate amount of monthly NTS Entry Capacity allocated under the initial stage and the T&T stage, the aggregate amount of surrendered capacity re-allocated and the revised quantity of NTS Entry Capacity for future auctions.
- For the donor ASEP, the aggregate amount of unsold monthly NTS Entry Capacity allocated to each recipient ASEP under the T&T stage.
- For the recipient ASEPs the highest, lowest and WAP of all accepted bids in the T&T stage, the order in which recipient ASEP groups were satisfied, and the aggregate exchange rate in respect of each relevant donor ASEP

From this information interested parties are able build a monthly picture of National Grid T&T actions and outcomes which can be projected to identify potential outcomes for the next month.

National Grid believes that it has developed a transfer and trade methodology that is largely mechanical and eliminates the potential for National Grid discretion (see comments on “data” below). However Shippers should be assured, any discretionary elements to the process, whether perceived or real, may be subject to independent audit.

To improve transparency National Grid introduced additions to the methodology statement for 2008. This included:

- Definition of “material increase in cost”;
- Listing potential factors that could lead to “other constraint management costs”;

- Clarification of the process to identify ASEPs for rebalancing purposes in test scenarios, including the provision of a worked example;
- A more mechanistic approach to determining test scenarios.

National Grid believes that these changes have contributed to greater transparency, less discretion for National Grid, and greater industry confidence in the process.

Data

In their correspondence Ofgem identified “potential inconsistencies in the data” specifically “between the use of historic demand data and forecast supply data”.

The demand level used in the analysis is primarily determined from historical data, but this may be tempered with forecast data. Demand is much less volatile than supply and the range of demand levels identified through the methodology is unlikely to exclude the actual demand for the upcoming month. Even with declining consumption due to the recession, the use of five years historic low demand should ensure suitable demand levels are analysed. In addition, historical demand data has been published previously so is transparent and not subject to National Grid discretion.

As Transfer and Trades relate to the movement and provision of entry capacity it is much more critical that forecast data (for the relevant month) is used. Hence TBE scenarios are used but it is essential that these are adjusted to take account of known and anticipated developments. The methodology now considers the effects of maintenance plans, new supplies and new NTS infrastructure.

Overall National Grid is satisfied that an appropriate balance has been struck between the use of historic and forecast data.