

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

May 2009

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## 1. 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 report 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 three sections:

- **Section 2** summarises the results of the Rolling Monthly Transfer and Trade System Entry Capacity (“RMTTSEC”) auctions;
- **Section 3** reviews the extent to which the Licence objectives were achieved during the period; and
- **Section 4** 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.

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. TTSEC 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 entry points. 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.

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

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

<b>OCTOBER 2008</b>						
<b>STAGE 1</b>						
<b>ASEP</b>	<b>Requested kWh</b>	<b>Unsold kWh</b>	<b>Surrendered kWh</b>	<b>Allocated kWh</b>	<b>Allocation met with surrendered kWh</b>	<b>Unsatisfied kWh</b>
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.						
<b>STAGE 2</b>						
<ul style="list-style-type: none"> <li>No Trade or Transfers occurred</li> </ul>						
<b>All capacity bids satisfied</b>						

## NOVEMBER 2008

**STAGE 1**

<b>ASEP</b>	<b>Requested kWh</b>	<b>Unsold kWh</b>	<b>Surrendered kWh</b>	<b>Allocated kWh</b>	<b>Allocation met with surrendered kWh</b>	<b>Unsatisfied kWh</b>
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**

<b>Recipient Location</b>	<b>Donor Location</b>	<b>Exchange Rate</b>	<b>Quantity from Donor ASEP (kWh)</b>
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**

<b>ASEP</b>	<b>Requested kWh</b>	<b>Unsold kWh</b>	<b>Surrendered kWh</b>	<b>Allocated kWh</b>	<b>Allocation met with surrendered kWh</b>	<b>Unsatisfied kWh</b>
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**

<b>Recipient Location</b>	<b>Donor Location</b>	<b>Exchange Rate</b>	<b>Quantity from Donor ASEP (kWh)</b>
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

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.

**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

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**

## 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**

### 3. 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 2, 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).

#### **4. ADDITIONAL OBSERVATIONS ON THE APPLICATION OF THE T&T METHODOLOGY**

##### **Observations**

In contrast to the higher exchange rates experienced in the interim period in 2007/08 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 two factors:

- Commissioning of additional infrastructure in the vicinity of constrained ASEPs.
- Exchange rates being determined after, rather than in advance of, submission of capacity bids.

It should not be assumed that future exchange rates will be at 1:1.

##### **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 2<sup>nd</sup> April, 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 at this point in time.

#### **5. 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.