



National Grid Gas NTS and other interested parties

Promoting choice and value for all gas and electricity customers

Your Ref:
Our Ref:
Direct Dial: 020 7901 7009
Email: stuart.cook@ofgem.gov.uk

25 June 2010

Dear Colleague

Notice of approval of the Entry Capacity Transfer and Trade ("ECTT") Methodology Statement

On 1 June 2010, National Grid Gas National Transmission System ("NGG NTS") submitted to Ofgem¹ for approval an Entry Capacity Transfer and Trade Methodology Statement, pursuant to paragraphs 11(a)i(bb) and 12(a)i(bb) of Special Condition C8D of its Gas Transporter Licence ("the Licence"). At the same time it also submitted a Consultation Conclusions Report pursuant to paragraphs 11(g)(iii) and 12(g)(iii) of the Licence.

Having regard to the principal objective and statutory duties of the Authority², and for the reasons set out in this letter, the Authority has decided that it will approve the ECTT Methodology Statement prepared and submitted pursuant to paragraphs 11(a)i and 12(a)i) of Special Condition C8D of the Licence.

This letter outlines the background to NGG NTS's submission of the ECTT Methodology Statement for approval by the Authority and gives reasons for our decision.

Background

The enduring ECTT methodology was applied from 1 June 2008. The objectives of the methodology are detailed in Special Condition C8D paragraphs 11(d) and 12(d) of the Licence as follows (collectively, the "Transfer and Trade objectives"):

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

¹ Ofgem is the Office of gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority' and 'We' are used interchangeably in this letter.

² Set out in Section 4AA of the Gas Act 1986, as amended, most recently by the Energy Act 2010.

As required by Special Condition C8D paragraphs 11(i) and 12(i) of the Licence, a report on the application of the ECTT Methodology during Formula Year 2009/10 has been provided to the Authority by NGG NTS³. There was no requirement for transfers or trades during this period.

As set out in the report, NGG NTS believes the ECTT Methodology applied for the formula year 2009/10 successfully met the Transfer and Trade objectives. NGG NTS believes it:

- (i) made effective use of the NTS - through the surrender and allocation of capacity at Bacton, St Fergus, Theddlethorpe and Easington, better use was made of existing capacity;
- (ii) would have avoided material increases in costs, had stage 2 allocations been required⁴ - the application of the approved Methodology would have identified system capability limits, such that in the absence of low probability circumstances, the risk of capacity buy back auctions being required would not be significantly increased (nor reduced); and
- (iii) increased competition between Shippers 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 value it most (as indicated by bid prices).

Respondents' views

Pursuant to Special Condition C8D paragraphs 11(g) and 12(g) of the Licence, NGG NTS on 21 April 2010 initiated a consultation in relation to the ECTT Methodology Statement which it proposed to submit to the Authority. It received no responses to that consultation.

NGG NTS response

NGG NTS proposes no substantive changes to the existing ECTT Methodology which was approved in June 2009. The ECTT Methodology Statement submitted to the Authority does however include routine changes of dates and the updating of demand parameters.

NGG suggests that the lack of stage 2 allocations in 2009/10 means that the current methodology has not been tested over the past year, and that it would therefore be prudent to retain the current methodology until a requirement to amend it has been demonstrated.

Ofgem's view

It is our view that the ECTT methodology is consistent with our principal objective and wider statutory duties. We consider that the methodology will continue to provide the efficiency benefits that have been a feature of previous years. In particular it should result in greater unsold and sold capacity being made available than would otherwise be the case.

Whereas there was no trade or transfer activity during the past year, there is no evidence to suggest that this is because the methodology has not worked. Surrender of capacity at ASEPs continued to be seen, but demand for capacity was lower. We believe that there are several reasons for this, especially the release of 345GWh/day of additional capacity at Easington from October 2009, and higher activity in the AMSEC auction. This may indicate that shippers satisfied their needs at AMSEC with a subsequent fall in Rolling Monthly Transfer and Trade System Entry Capacity sales.

³ See <http://www.nationalgrid.com/NR/rdoonlyres/5C425919-62E0-48D3-B209-05630685EB05/41080/TTreviewof200910reportMay2010version2.pdf>

⁴ In 2009/10 no stage 2 allocations were made i.e. no use of capacity transfers or trades between different ASEPs were required.

Ofgem's decision

Following consideration of the documentation provided and having regard to the Authority's principal objective and statutory duties and for the reasons set out above, Ofgem has decided that it will approve the Entry Capacity Transfer and Trade Methodology Statement prepared and submitted by NGG NTS on 01 June 2010 pursuant to paragraphs 11(a)i) and 12(a)i) of Special Condition C8D of its Gas Transporter Licence.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart Cook', written over a horizontal line.

Stuart Cook

Senior Partner, Transmission and Governance

Signed on behalf of the Authority and authorised for that purpose.