

**REPORT ON THE APPLICATION OF THE ENTRY
CAPACITY TRANSFER AND TRADE METHODOLOGY
DURING FORMULA YEAR 2009/10**

MAY 2010

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1. EXECUTIVE SUMMARY.

The Enduring Rolling Monthly Transfer and Trade System Entry Capacity Auction (RMTTSEC) was introduced in summer 2008. The Entry Capacity Transfer and Trade Methodology that supports this auction has been successful in enabling additional capacity to be made available at all entry points that requested additional firm capacity. Capacity allocations resulting from RMTTSEC auctions for the months April 2009 to March 2010 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:

- for the period April 2009 to March 2010 all capacity requests, at all ASEPs, were satisfied in stage 1, i.e. by using capacity at the same ASEP.
- 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.
- because all capacity requests were satisfied in stage 1 no capacity transfer or trades, i.e. between different ASEPs, were required

Transfer and Trade Aggregate Results (April 09 – March 10)					
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	299,779,526	331,401,000	299,779,526	232,283,537	0
Barrow	3,600,000	0	3,600,000	0	0
Theddlethorpe	12,317,053	8,000,000	12,317,053	2,527,444	0
Easington	9,132,638	772,440,663	9,132,638	5,951,927	0
Hatfield Moor Storage	34,800,000	0	34,800,000	0	0
St Fergus	586,142	76,450,030	586,142	586,142	0
Isle of Grain	963,208,349	0	963,208,349	0	0
STAGE 2					
No trade or transfers occurred					

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 report provides details of the operation of National Grid’s entry capacity Transfer and Trade (“T&T”) methodologies for the formula year 2009/10. 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 reviews the requirement for any potential future development.

In addition to this introduction this report consists of three 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.

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.

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 April 2009 to March 2010 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 transfer nor a trade as defined by the Licence.
- 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.
- Capacity at Holehouse Farm and Teesside was surrendered for one or more months, but as no capacity was requested or allocated at these ASEPs for any month these ASEPs have been omitted from the tables.

April 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	5,365,355	1,336,270,040	9,950,000	5,365,355	5,365,355	0	0
Barrow	200,000	138,600,000	0	200,000	0	200,000	0
Theddlethorpe	4,400,000	446,974,975	0	4,400,000	0	4,400,000	0
Easington	2,930,710	247,794,415	0	2,930,710	0	2,930,710	0
Isle of Grain	184,300,000	223,440,000	0	184,300,000	0	184,300,000	0

As shown in the table above allocations at Bacton in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

May 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	22,064,043	1,457,952,096	0	22,064,043	0	22,064,043	0
Theddlethorpe	1,222,942	452,276,237	0	1,222,942	0	1,222,942	0
Isle of Grain	184,300,000	223,440,000	0	184,300,000	0	184,300,000	0

As shown in the table above allocations were met at all ASEPs, from unsold capacity. No allocations were met with surrendered capacity.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

June 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	16,486,883	1,458,600,440	9,950,000	16,486,883	9,950,000	6,536,883	0
Isle of Grain	184,308,349	223,440,000	0	184,308,349	0	184,308,349	0
Easington	0	638,526,976	1,500,000	0	0	0	0

As shown in the table above some allocations at Bacton in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered capacity, the unsold capacity has not been reduced by the surrendered amount.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

July 2009							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	15,864,661	1,464,280,980	6,220,000	15,864,661	6,219,998	9,644,663	0
Easington	250,000	643,546,092	0	250,000	0	250,000	0
Isle of Grain	184,300,000	223,440,000	0	184,300,000	0	184,300,000	0
<p>As shown in the table above some allocations at Bacton in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount.</p> <p>At Bacton capacity has been surrendered by more than one Shipper at the same surrender price. Due to pro-rata rules and because a fraction of a kWh cannot be allocated there is a minor (2 kWh) mismatch between the surrender quantity and that allocated from surrendered.</p>							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

August 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	14,299,306	1,462,276,128	7,760,000	14,299,306	7,759,998	6,539,308	0
Isle of Grain	184,300,000	223,440,000	0	184,300,000	0	184,300,000	0

As shown in the table above some allocations at Bacton in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount. At Bacton capacity has been surrendered by more than one Shipper at the same surrender price. Due to pro-rata rules and because a fraction of a kWh cannot be allocated there is a minor (2 kWh) mismatch between the surrender quantity and that allocated from surrendered.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

September 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	14,299,306	1,462,667,896	4,450,000	14,299,306	4,449,999	9,849,307	0
Theddlethorpe	2,777,778	488,426,281	0	2,777,778	0	2,777,778	0
St Fergus	0	1,077,831,523	4,590,000	0	0	0	0
Isle of Grain	41,700,000	223,440,000	0	41,700,000	0	41,700,000	0

As shown in the table above some allocations at Bacton in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount.

At Bacton capacity has been surrendered by more than one Shipper at the same surrender price. Due to pro-rata rules and because a fraction of a kWh cannot be allocated there is a minor (1kWh) mismatch between the surrender quantity and that allocated from surrendered.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

October 2009

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	15,625,772	772,419,040	29,307,100	15,625,772	15,625,772	0	0
Easington	0	98,640,000	218,378,162	0	0	0	0
St Fergus	586,142	611,315,784	27,938,195	586,142	586,142	0	0

As shown in the table above allocations at Bacton and St Fergus, in Stage 1, were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

November 2009							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	42,168,883	687,437,768	29,307,100	42,168,883	29,307,098	12,861,785	0
Theddlethorpe	2,527,444	469,527,352	5,000,000	2,527,444	2,527,444	0	0
Easington	0	85,451,805	138,617,490	0	0	0	0
St Fergus	0	613,215,784	20,971,835	0	0	0	0
<p>As shown in the table above some allocations at Bacton and Theddlethorpe, in Stage 1, were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount. At Bacton capacity has been surrendered by more than one Shipper at the same surrender price. Due to pro-rata rules and because a fraction of a kWh cannot be allocated there is a minor (2 kWh) mismatch between the surrender quantity and that allocated from surrendered.</p>							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

December 2009							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	52,426,368	629,305,684	58,614,200	52,426,368	52,426,368	0	0
Theddlethorpe	0	469,923,780	3,000,000	0	0	0	0
Easington	1,340,000	30,121,564	65,225,141	1,340,000	1,340,000	0	0
St Fergus	0	613,715,784	16,950,000	0	0	0	0
As shown in the table above allocations at Bacton and Easington in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount.							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

January 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	30,029,377	628,396,629	58,614,200	30,029,377	30,029,377	0	0
Barrow	1,200,000	123,800,000	0	1,200,000	0	1,200,000	0
Theddlethorpe	1,388,889	481,902,737	0	1,388,889	0	1,388,889	0
Easington	1,514,000	12,608,644	135,298,870	1,514,000	1,514,000	0	0
Hatfield Moor S	11,600,000	11,600,000	0	11,600,000	0	11,600,000	0
St Fergus	0	0	2,000,000	0	0	0	0

As shown in the table above allocations at Bacton and Easington in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

February 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	41,436,206	628,396,629	58,614,200	41,436,206	41,436,206	0	0
Barrow	1,100,000	123,900,000	0	1,100,000	0	1,100,000	0
Easington	1,515,000	12,608,644	106,397,420	1,515,000	1,515,000	0	0
Hatfield Moor S	11,600,000	11,600,000	0	11,600,000	0	11,600,000	0
St Fergus	0	709,528,948	2,000,000	0	0	0	0

As shown in the table above allocations at Bacton and Easington in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

March 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	29,713,366	628,396,629	58,614,200	29,713,366	29,713,366	0	0
Barrow	1,100,000	124,100,000	0	1,100,000	0	1,100,000	0
Easington	1,582,928	57,349,845	107,023,580	1,582,928	1,582,927	1	0
Hatfield Moor S	11,600,000	11,600,000	0	11,600,000	0	11,600,000	0
St Fergus	0	711,128,948	2,000,000	0	0	0	0

As shown in the table above some allocations at Bacton and Easington in Stage 1 were met from surrendered bids. Where allocated capacity has been met by surrendered the unsold capacity remaining for the Daily Auctions has not been reduced by the surrendered amount. At Easington capacity has been surrendered by more than one Shipper at the same surrender price. Due to pro-rata rules and because a fraction of a kWh cannot be allocated there is a minor (1 kWh) mismatch between the surrender quantity and that allocated from surrendered.

STAGE 2

- No Trade or Transfers occurred

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, and where surrendered was allocated more capacity remained for the Daily Auctions. The T&T process enabled additional NTS facilitated trading at Bacton, St Fergus, Theddlethorpe and Easington

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. 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 required. 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 actions being required would not have been significantly increased (nor reduced).
- (iii) 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

Potential Improvements

Due to the absence of stage 2 allocations in the year 2009/10, National Grid is of the opinion that the Entry Capacity Transfer and Trade methodology has not been tested and it would be prudent to retain the current methodology statement until such a time as a requirement to amend it is demonstrated.

At the Transmission Workstream meeting on 4th March 2010, National Grid requested (see minute 4.3) 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 v3.0.
- National Grid believes that the T&T solution applied for formula year 2009/10 successfully met the T&T objectives.
- No requirements for changes have been identified.