



National Grid Gas NTS and other interested parties

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Dear Colleague

### **Notice of approval of the Entry Capacity Transfer and Trade Methodology Statement**

On 23 May 2011, National Grid Gas National Transmission System ("NGG NTS") submitted to Ofgem<sup>1</sup> for approval an Entry Capacity Transfer and Trade ("ECTT") methodology statement, as required by its Gas Transporter Licence<sup>2</sup> ("the Licence"). At the same time, it also submitted a Consultation Conclusions Report<sup>3</sup>.

Having regard to the principal objective and statutory duties of the Authority<sup>4</sup>, and for the reasons set out in this letter, the Authority has decided that it will approve the ECTT methodology statement.

This letter outlines the background to NGG NTS's submission of the ECTT methodology statement and gives reasons for our decision.

### **Background**

The enduring ECTT methodology was applied from 1 June 2008. Its purpose is to define under what circumstances NGG NTS will consider entry capacity transfers<sup>5</sup> or trades<sup>6</sup>; and how NGG NTS will determine the quantities that it will allow to be transferred or traded.

The objectives of the methodology are detailed in 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 NGG NTS) that are

<sup>1</sup> Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority' and 'We' are used interchangeably in this letter.

<sup>2</sup> Specifically, paragraphs 11(a) i) (bb) and 12(a) i) (bb) of Special Condition C8D

<sup>3</sup> As required by paragraphs 11(g) (iii) and 12(g) (iii) of Special Condition C8D

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

<sup>5</sup> The process by which unsold NTS entry capacity rights are moved from one Aggregate System Entry Point (ASEP) to another ASEP where all obligated entry capacity has been sold.

<sup>6</sup> The process by which previously allocated NTS entry capacity rights are moved from one ASEP to another ASEP where all obligated entry capacity has been sold.

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), facilitate effective competition between relevant shippers and between relevant suppliers.

A report on the application of the ECTT Methodology during Formula Year 2010/11 ("the ECTT Application Report") has been provided to the Authority by NGG NTS<sup>7</sup>. There was no requirement for transfers or trades during this period.

As set out in the ECTT Application Report, NGG NTS believes the ECTT methodology applied for the formula year 2010/11 successfully met the transfer and trade objectives. NGG NTS believes it:

- made effective use of the NTS. Through the surrender and allocation of capacity at Bacton and Easington, better use was made of existing capacity.
- 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).
- 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 valued it most (as indicated by bid prices).

These factors are relevant to objectives (i), (iii) and (iv).

### **Respondents' views**

Pursuant to Special Condition C8D paragraphs 11(g) and 12(g) of the Licence, NGG NTS on 13 April 2011 initiated a consultation in relation to the ECTT methodology statement which it proposed to submit to the Authority. There were no responses to that consultation.

### **NGG NTS response**

NGG NTS proposes no material changes to the existing ECTT methodology which was approved in June 2010. The ECTT methodology statement submitted to the Authority does however include routine changes of dates and the updating of indicative demand levels<sup>8</sup>. As there were no responses to the consultation, NGG NTS have proposed no changes to the version which was consulted on.

NGG NTS believes the methodology statement has been working successfully, and that the transfer and trade process stimulated secondary capacity trading at Bacton and Easington. This has meant that more capacity remained available at these Aggregate System Entry Points (ASEPs) for allocation through daily auctions.

NGG NTS also notes that all entry capacity requests were satisfied in stage 1 of the Rolling Monthly Transfer and Trade System Entry Capacity (RMTTSEC) auction. As a result, no capacity transfers or trades between different ASEPs were required, and so the methodology has not been tested. In submitting the ECTT methodology in 2010, NGG NTS suggested it would be prudent to retain the current methodology until a requirement to amend it has been demonstrated.

NGG NTS has implemented a change to shorten the timelines for the RMTTSEC process. This does not change the ECTT methodology, and is consistent with the timelines as defined

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<sup>7</sup> As required by Special Condition C8D paragraphs 11(i) and 12(i) of the Licence. It is available at: <http://www.nationalgrid.com/uk/Gas/Charges/statements/>

<sup>8</sup> The actual demand levels used in the network analysis are determined prior to each set of transfers and trades, using information available at the time. The methodology provides indicative historical and forecast demand levels for guidance.

in the Uniform Network Code (UNC). At the time entry capacity transfers and trades were introduced, it was intended that timelines would be improved (ie, shortened) once experience of the process had been gained. Although there has been no requirement for stage 2 (transfer and trade) analysis in the past two years, NGG NTS have implemented the change, which is also in line with industry preferences for the auction window to be closer to the end of the month. However, NGG NTS have stated that experience of actual stage 2 analysis may make it necessary to revert back to the previous timeline should it become apparent that the necessary analysis is not possible under the reduced timescales.

### **Ofgem's view**

In our view, the ECTT methodology statement submitted by NGG NTS is consistent with the methodology objectives as set out in the Licence. 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. The surrender of capacity at Bacton and Easington in the formula year 2010/11 has meant that greater volumes of unsold capacity were made available in daily auctions.

No transfer or trade of capacity took place in 2010/11, for the second successive year. However, there is no evidence to suggest this is because the methodology has not worked. Surrender of capacity has continued; it appears that demand for capacity at the RMTTSEC auction has not been strong enough to trigger transfer or trade of capacity from one ASEP to another. This may be because shippers have satisfied their capacity requirements at prior auctions, or are confident that they will be able to acquire sufficient capacity in daily auctions.

We note NGG NTS's decision to implement a shortened timescale for the RMTTSEC auction. This improvement was envisaged when entry capacity transfer and trade was introduced, and is in line with industry preferences. This may make the RMTTSEC auction more attractive for shippers. This is because the auction window will occur closer to the month in which the capacity will become available.

### **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 23 May 2011.

Yours sincerely



Hannah Nixon  
**Partner, Transmission**

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