

**REPORT ON THE APPLICATION OF THE ENTRY
CAPACITY TRANSFER AND TRADE METHODOLOGY
DURING FORMULA YEAR 2010/11**

APRIL 2011

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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 2010 to March 2011 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 2010 to March 2011 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 10 – March 11)					
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	200,298,984	410,299,400	200,298,984	137,746,143	0
Easington	75,087,057	322,669,717	75,087,057	46,650,392	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 2010/11. 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 intends to implement a change to the RMTTSEC timeline from 1 June 2011. This change reduces the current process timeline, moving the surrender process to the same month as the other RMTTSEC processes and the auction window closer to the month end.

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 2010 to March 2011 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.
- 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.
- ASEPs have been omitted from the tables in Stage 1 where all the capacity, for all the months, allocated in stage 1 is solely from unsold capacity at that ASEP.

April 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	3,764,043	1,510,660,865	0	3,764,043	0	3,764,043	0
Easington	6,200,000	607,225,516	4,396,065	6,200,000	4,396,065	1,803,935	0

As shown in the table above some of the allocations at Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Easington.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

May 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	5,507,177	1,510,660,865	0	5,507,177	0	5,507,177	0
Easington	6,200,000	985,667,584	4,982,207	6,200,000	4,982,207	1,217,793	0

As shown in the table above some of the allocations at Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Easington.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

June 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	5,799,136	1,510,660,865	0	5,799,136	0	5,799,136	0
Easington	6,200,000	987,518,596	4,396,065	6,200,000	4,396,065	1,803,935	0

As shown in the table above some of the allocations at Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Easington.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

July 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	5,229,399	1,537,055,645	0	5,229,399	0	5,229,399	0
Easington	7,800,000	990,689,600	5,400,000	7,800,000	5,400,000	2,400,000	0

As shown in the table above some of the allocations at Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Easington.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

August 2010

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	2,930,710	1,537,055,645	0	2,930,710	0	2,930,710	0
Easington	7,800,000	986,855,988	5,400,000	7,800,000	5,400,000	2,400,000	0

As shown in the table above some of the allocations at Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Easington.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

September 2010							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	4,396,065	1,537,055,645	0	4,396,065	0	4,396,065	0
Easington	0	613,040,424	5,400,000	0	0	0	0
No allocations were met with surrendered capacity.							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

October 2010							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	6,972,531	819,891,997	58,614,200	6,972,531	6,972,531	0	0
Easington	3,000,000	132,030,200	49,260,650	3,000,000	2,999,999	1	0
<p>As shown in the table above all of the allocations at Easington and Bacton in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Easington and Bacton.</p> <p>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 1 kWh is allocated from unsold capacity.</p>							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

November 2010							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	6,972,531	820,583,930	58,614,200	6,972,531	6,972,531	0	0
Easington	0	118,842,005	49,260,650	0	0	0	0
As shown in the table above all of the allocations at Bacton in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Bacton.							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

December 2010							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	6,972,531	806,496,586	58,614,200	6,972,531	6,972,531	0	0
Easington	1,846,057	116,651,727	38,668,520	1,846,057	1,846,056	1	0
<p>As shown in the table above all of the allocations at Bacton and Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Bacton and Easington.</p> <p>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 1 kWh is allocated from unsold capacity.</p>							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

January 2011

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	93,540,509	780,059,626	58,614,200	93,540,509	58,614,198	34,926,311	0
Easington	18,811,000	53,722,396	35,168,520*	18,811,000	0	18,811,000	0

As shown in the table above some of the allocations at Bacton in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Bacton.

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 2 kWh is allocated from unsold capacity.

* This capacity was surrendered, however the surrendering Shipper did not have entitlement, and the capacity was unable to be allocated. Both Ofgem and the respective Shipper were notified.

STAGE 2

- No Trade or Transfers occurred

All capacity bids satisfied

February 2011							
STAGE 1							
ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	52,707,176	776,087,731	87,921,300	52,707,176	52,707,176	0	0
Easington	8,615,000	51,871,630	85,168,520	8,615,000	8,615,000	0	0
As shown in the table above all of the allocations at Bacton and Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Bacton and Easington.							
STAGE 2							
<ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

March 2011

STAGE 1

ASEP	Requested kWh	Unsold kWh	Surrendered kWh	Total Allocated kWh	Allocation met with surrendered kWh	Allocation met with unsold kWh	Unsatisfied kWh
Bacton	5,507,176	794,344,731	87,921,300	5,507,176	5,507,176	0	0
Easington	8,615,000	51,871,630	35,168,520	8,615,000	8,615,000	0	0

As shown in the table above all of the allocations at Bacton and Easington in Stage 1 were met from surrendered bids and not from the unsold quantity therefore more capacity was remaining for the Daily Auctions at Bacton and Easington.

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 stimulated secondary trading at Bacton 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 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

National Grid notes that the Transfer and Trade Methodology has not been tested in the year 2010/11 due to the absence of stage 2 allocations. Also no stage 2

allocations occurred in the previous year 2009/2010. Without requirements for stage 2 analysis, appropriate experience of the time and resource required has not been gained. It was envisaged that improvements (i.e. shortening) to the RMTTSEC timeline would be put in place based on this experience. Without the knowledge that stage 2 analysis would provide National Grid's concerns remain, i.e. sufficient time must be available between the capacity auction window and allocations for the necessary analysis. However National Grid is conscious of industry preference for the auction window to be closer to month end. Notwithstanding National Grid's concerns and considering the absence of stage 2 analysis over the last two years, National Grid is proposing to shorten the RMTTSEC process.

From 1 June 2011 (in respect of July 2011 capacity) the RMTTSEC auction process will be shortened by approximately five or six calendar days. The precise change will be influenced by the proximity of non-business days to month end. The surrender window should now be within the same calendar month as the remaining RMTTSEC auction processes and the auction window will be approximately five or six days closer to the end of the month. However, National Grid will keep the timeline under review and if necessary, based on the experience of actual stage 2 analysis, may revert back to the current timeline.

National Grid is required to review and consult, on an annual basis, on the Transfer and Trade Methodology. The introduction of a reduction to the RMTTSEC timeline process does not change the Transfer and Trade Methodology and there are no material changes proposed to the Transfer and Trade Methodology Statement. The Methodology consultation is likely to start towards the end of April 2011. Notification of the timeline change was given at the Transmission workgroup meeting April 7th 2011 and will be confirmed via the Transfer and Trade Methodology Consultation cover letter.

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 v4.0.
- National Grid believes that the T&T solution applied for formula year 2010/11 successfully met the T&T objectives.
- A reduction in the RMTTSEC timeline in order to move the whole RMTTSEC process including surrender into the same month, and the auction window closer to month end, is to be implemented from 1 June 2011.