



Steve Fisher
Gas Access and Charging
Development Manager
National Grid Gas
National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

*Promoting choice and value for
all gas and electricity customers*

Direct Dial: 020 7901 7159
Email: andrew.burgess@ofgem.gov.uk

Date: 19 June 2012

Dear Steve

Entry Capacity Transfer and Trade Methodology Statement

On 25 May 2012, you submitted on behalf of National Grid Gas National Transmission System (NGG NTS) a revised Entry Capacity Transfer and Trade (ECTT) methodology statement (the Statement) for our approval¹ as required by your gas transporter licence (the Licence)². You also submitted a Consultation Conclusions Report alongside the ECTT methodology statement³.

We have decided to approve the ECTT methodology statement.

This letter outlines the background to the Statement's submission and gives reasons for our decision. It also includes comments about the review of the ECTT methodology statement due in 2013.

Background

The ECTT methodology outlines the circumstances under which NGG NTS will consider entry capacity transfers⁴ or trades⁵ at the Rolling Monthly Transfer and Trade System Entry Capacity Auction (RMTNTSEC)⁶, and how the capacity quantities to be transferred or traded will be determined.

The objectives of the methodology are set out in paragraphs 11(d) and 12(d) of Special Condition C8D of the Licence. The relevant objectives are:

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

² Specifically, paragraphs 11(f) and 12(f) of Special Condition C8D

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

⁴ 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.

⁵ 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.

⁶ The RMTNTSEC auction operates in two stages. The first stage satisfies capacity bids from unsold baseline and surrendered capacity at the ASEP. The second stage satisfies outstanding capacity bids, after the application of stage 1, from the transfer and trade of capacity from other ASEPs.

- 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 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.

On 20 April 2012, you submitted a report on the application of the ECTT Methodology ("the ECTT Application Report") during Formula Year 2011-12⁷. This report confirmed that there had been no requirement for transfers or trades during this period⁸.

As set out in the ECTT Application Report, you consider that the ECTT methodology applied for the formula year 2011-12 successfully met the transfer and trade objectives listed above. You consider 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 significantly increased (or reduced); and
- 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).

Consultation

Pursuant to Special Condition C8D paragraphs 11(g) and 12(g) of the Licence, you consulted on the ECTT methodology statement prior to submitting it to us. No responses were received to that consultation.

As no responses were received to the consultation, you did not make any changes to the version of the statement that you consulted on.

NGG NTS response

You state that the ECTT methodology has been working successfully and that you do not propose to make any significant changes to the existing methodology.

The changes you propose to make to the ECTT methodology statement are largely limited to routine changes to dates, minor text revisions and updating of indicative demand levels.

Our view

We consider that the ECTT methodology statement you submitted on 25 May 2012 is consistent with the methodology objectives as set out in the Licence.

⁷ 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/>

⁸ The report also noted that no transfers or trades occurred in 2009-10 or 2010-11.

We note that no transfer or trade of capacity took place in 2011-12, for the third successive year. However, there is no evidence to suggest this is because the methodology is not working. It is more likely that the demand for capacity at the RMTNTSEC auction has been met from existing unsold baseline entry capacity and surrendered entry capacity without the need to utilise the transfer or trade methodology. This may be because NTS users have satisfied their capacity requirements at other auctions or are able to purchase sufficient entry capacity at daily auctions.

Next year's review

We consider that the Statement submitted to us on 25 May 2012 satisfies the relevant Licence conditions. However, we also take the view that a comprehensive review of the ECTT methodology in 2013 will be required in order to reflect the outcome of the RIIO-T1 price control.

The RIIO-T1 business plan you submitted in March 2012 states that a more responsive gas network will be required to manage greater variability of network flow. In essence, the NTS will need to become more responsive in order to accommodate changes in supply and demand patterns and ensure a reliable service is provided to customers.

In your business plan you outline the need for potential changes to the commercial regime in relation to entry capacity for the RIIO-T1 period. The price control settlement may also introduce changes which may affect some existing arrangements. Although we have not made a final decision on the RIIO-T1 price control, you should make sure that the review of the ECTT methodology in 2013 reflects the outcome of the price control and promotes the efficient transfer and trade of capacity to meet changing gas demand.

Our 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, the Authority has decided that it will approve the Entry Capacity Transfer and Trade methodology statement prepared and submitted by NGG NTS on 25 May 2012.

Yours sincerely



Andy Burgess
Associate Partner, Transmission and Distribution Policy

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