

**REPORT ON THE APPLICATION OF THE ENTRY
CAPACITY TRANSFER AND TRADE METHODOLOGY
DURING FORMULA YEAR 2011/12**

APRIL 2012

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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 2011 to March 2012 are provided in section 3. The table below summarises these results by aggregating the monthly capacity allocations for each ASEP over the period considered. ASEPs have been omitted from the table where all the capacity, for all the months, allocated in stage 1 is solely from unsold capacity at that ASEP.

The table shows that:

- for the period April 2011 to March 2012 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 11 – March 12)					
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	202,708,662	439,633,500	202,708,662	179,786,847	0
Easington	7,600,000	209,266,210	7,600,000	5,800,000	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 2011/12. 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 additional observations and potential developments that might be expected to improve the ability of National Grid to better meet the intent of the T&T objectives.

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 2011 to March 2012 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 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	4,396,065	1,533,349,908	0	4,396,065	0	4,396,065	0
Easington	1,800,000	968,246,760	0	1,800,000	0	1,800,000	0
Comments: <ul style="list-style-type: none"> No allocations were met with surrendered capacity. 							
STAGE 2							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

May 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	5,861,420	1,543,114,024	0	5,861,420	0	5,861,420	0
Easington	1,800,000	968,246,760	5,250,000	1,800,000	1,800,000	0	0
Comments: <ul style="list-style-type: none"> As shown in the table above all 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

June 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	5,861,420	1,542,349,908	0	5,861,420	0	5,861,420	0
Easington	2,000,000	971,346,780	5,750,000	2,000,000	2,000,000	0	0
Comments: <ul style="list-style-type: none"> As shown in the table above all 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

July 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	1,465,355	1,563,137,884	0	1,465,355	0	1,465,355	0
Easington	2,000,000	973,115,528	13,300,000	2,000,000	2,000,000	0	0
Comments: <ul style="list-style-type: none"> As shown in the table above all 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

August 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	2,802,491	1,548,237,884	0	2,802,491	0	2,802,491	0
Easington	0	985,215,528	5,300,000	0	0	0	0
Comments: <ul style="list-style-type: none"> No allocations were met with surrendered capacity. 							
STAGE 2							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

September 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	2,535,064	1,547,873,772	0	2,535,064	0	2,535,064	0
Easington	0	975,815,528	5,300,000	0	0	0	0
Comments: <ul style="list-style-type: none"> No allocations were met with surrendered capacity. 							
STAGE 2							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

October 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	4,176,262	899,046,492	87,921,300	4,176,262	4,176,262	0	0
Easington	0	109,938,267	58,852,780	0	0	0	0
Comments: <ul style="list-style-type: none"> 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

November 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	3,443,585	899,046,492	87,921,300	3,443,585	3,443,585	0	0
Easington	0	107,726,484	58,852,780	0	0	0	0
Comments: <ul style="list-style-type: none"> 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

December 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	26,380,000	899,046,492	58,614,200	26,380,000	26,380,000	0	0
Easington	0	106,140,929	50,060,650	0	0	0	0
Comments: <ul style="list-style-type: none"> 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

January 2012							
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	51,300,000	878,143,928	58,614,200	51,300,000	51,300,000	0	0
Easington	0	66,054,241	2,200,000	0	0	0	0
Comments: <ul style="list-style-type: none"> 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

February 2012							
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	47,587,000	878,143,928	87,921,300	47,587,000	47,587,000	0	0
Easington	0	61,775,908	2,200,000	0	0	0	0
Comments: <ul style="list-style-type: none"> 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							
Comments: <ul style="list-style-type: none"> No Trade or Transfers occurred 							
All capacity bids satisfied							

March 2012							
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	46,900,000	878,143,928	58,641,200	46,900,000	46,900,000	0	0
Easington	0	70,602,683	2,200,000	0	0	0	0
Comments: <ul style="list-style-type: none"> 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							
Comments: <ul style="list-style-type: none"> 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. Though all bids were satisfied during stage 1 allocations, the lack of stage 2 activity should not be interpreted as a negative reflection upon the effectiveness of the Methodology. It is an indication that in these months there was sufficient capacity available at each ASEP for all bids to be satisfied using the unsold and surrendered capacity at that ASEP.

National Grid believes that through the T&T process, of which the Methodology is an integral part, it:

- (i) has 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) has 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

National Grid notes that the Transfer and Trade Methodology has not been tested in the year 2011/12 due to the absence of stage 2 allocations. Also no stage 2 allocations occurred in the previous two years 2009/2010 or 2010/2011.

In response to the industry preference for the auction window to be closer to month end, a change to the RMTSEC timeline was implemented in 1 June 2011 (in respect of July 2011 capacity) resulting in the RMTTSEC auction process being shortened by approximately five or six calendar days. However, without requirements for stage 2 analysis, appropriate experience of the time and resource required has not been gained and National Grid's concerns remain regarding whether sufficient time is available between the capacity auction window and allocations for the necessary analysis. As such National Grid will continue to keep the timeline under review and if necessary, based on the experience of actual stage 2 analysis, may revert back to the longer timeline.

National Grid is required to review and consult, on an annual basis, on the Transfer and Trade Methodology. No material changes are proposed to the Transfer and Trade Methodology Statement. The Methodology consultation is likely to start towards the end of April 2012.

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 v5.0.
- National Grid believes that the T&T solution applied for formula year 2011/12 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, was implemented in 1 June 2011.