



National Grid Gas NTS and other interested parties

Promoting choice and value for all customers

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22 June 2009

Dear Colleague,

The Entry Capacity Transfer and Trade (ECTT) Methodology Statement

Ofgem¹ has considered the issues in the Entry Capacity Transfer and Trade (ECTT) Methodology Statement and Consultation Conclusions Report submitted by National Grid Gas National Transmission System (NGG NTS) on 22 May 2009 pursuant to paragraphs 11(g) (iii) and 12(g)(iii) of Special Condition C8D of its Gas Transporter Licence. Having regard to the principal objective and statutory duties of the Authority², and for the reasons set out in the letter, the Authority has decided that:

- It will approve the entry capacity methodology statement pursuant to paragraphs 11(a)(i) and 12(a)(i) of Special Condition C8D of NGG NTS's Gas Transporter Licence

This letter outlines the background to NGG NTS's submission of the ECTT Methodology Statement for approval from the Authority and gives reasons for our decision.

Background

The ECTT methodology has developed in two stages: an interim methodology which was implemented from 1 September 2007 and an enduring methodology which was applied from 1 June 2008. The objectives of the methodology are detailed in Standard Special Condition C8D paragraphs 11(d) and 12 (d) as

- (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 capabilities of the pipeline system;
- (iii) Avoiding material increases in costs (including entry capacity constraint management costs in respect of the obligated 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), (i) and (iii) facilitate effective competition between relevant shippers and between relevant suppliers.

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

² Set out in Section 4AA of the Gas Act 1986, as amended.

In our decision letter³ for the approval of the enduring ECTT Methodology Statement submitted on 22 February 2008, we assessed the enduring Methodology Statement against these objectives. Our key concerns were over the lack of transparency, the use of NGG NTS discretion, the use of ex-post exchange rates and potential inconsistencies in the data. These issues and a separate Audit of the interim methodology⁴ influenced a revision of the methodology as applied from 1 September 2008. As required by licence, a report on the application of the ECTT Methodology during Formula Year 2008/9 has been published by NGG NTS⁵. This report is currently being changed to highlight, amongst other things, how the revised methodology has met the key concerns of Ofgem and the Audit. When published, the report should be read alongside this decision.

The implementation of the enduring ECTT Methodology permitted an aggregate value of 294 GWh of monthly capacity to be traded on the NTS between October 2008 and March 2009. All requests for capacity trade were satisfied and there was no requirement for transfers during this period. The report concludes that the ECTT Methodology applied for the formula year 2008/9 successfully met the Transfer and Trade objectives. During the formula year all capacity was traded at an exchange rate of 1:1. NGG NTS believes that this was possible because of the commissioning of additional infrastructure in the vicinity of constrained ASEPs and because exchange rates were determined *ex post*. They emphasise that it should not be assumed that future exchange rates will be at 1:1.

Respondents' views

NGG NTS received one response to the consultation it published on 17 April 2009. This respondent indicated that they agreed that the Transfer and Trade process has appeared to work effectively under the current methodology, and therefore believe that it is fit for purpose and should remain unaltered for the time being, save for the minor textual changes.

NGG NTS response

NGG propose no substantive changes to the methodology. The enduring Methodology Statement, however, includes a number of minor textual changes and the routine updating of demand parameters.

Ofgem's view

The volume of trades is an indication that the methodology is making effective use of the pipeline system to which the licence relates. Whereas all capacity was traded at an exchange rate of 1:1, it remains a concern that calculating exchange rates *ex post* rather than *ex ante* leaves considerable discretion with NGG NTS. It would be useful if the circumstances in which exchange rates better than 1:1 may be achieved could be indicated by NGG NTS. Such steps will increase transparency and assist the industry in making best use of Transfer and Trade.

Although we consider that the methodology will continue to provide the efficiency benefits that have been identified we would reiterate our desire that the methodology is as transparent as possible. In our view, there is still scope for NGG NTS to provide greater insight into the operation of the methodology and its impact on capacity re-allocations.

³ [Decision regarding the Transfer and Trade Methodology](#), Ofgem 22 April 2008

⁴ Audit of National Grid's 'Interim Transfer and Trades' process. A report produced for the Gas Forum. May 2008

⁵ See <http://www.nationalgrid.com/NR/rdonlyres/6FE4D975-E589-4243-8DF4-FC615063302B/34431/TTreviewof200809reportfinal20may2009.pdf>

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 enduring Entry Capacity Transfer and Trade Methodology Statement submitted by NGG NTS on 22 May 2009 pursuant to paragraphs 11(g)(iii) and 12(g)(iii) of Special Condition C8D of its gas transporter licence.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart Cook', written over a horizontal line.

Stuart Cook
Director, Networks

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