

**REPORT ON THE APPLICATION OF THE CAPACITY
METHODOLOGIES DURING FORMULA YEAR 2013/14**

MAY 2014

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1 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 as set out in Special Condition 9A.10 of the Licence, that:

“The Licensee must, by 31 May in each Formula Year, provide the Authority with a report on the application and implementation of each methodology relevant to Entry Capacity Transfer, Entry Capacity Trade, Entry Capacity Substitution and Exit Capacity Substitution and Exit Capacity Revision during the previous Formula Year setting out the extent to which, in the Licensee’s opinion, the capacity objectives were achieved during that previous Formula Year.”

National Grid is further required to use “reasonable endeavours” to ensure that the Methodologies will facilitate the “Capacity Objectives” as set out within Special Condition 9A.5 and for information contained within appendix 1 (Additional applicable Licence conditions are also contained within appendix 1).

The following sections summarise the effects, in terms of capacity release at individual NTS entry and exit points, of applying each capacity methodology for the formula year 2013/14. National Grid’s opinion of the extent to which each capacity methodology achieves the capacity objectives is provided.

2 Transfer and Trade

2.1 Results

Transfers and Trades resulting from the Rolling Monthly Transfer and Trade System Entry Capacity (RMTNTSEC) auctions for the months April 2013 to March 2014 are provided in the table below.

The first stage of the Entry Capacity Transfer and Trade methodology requires that where possible unsold or surrendered capacity at an ASEP be used to satisfy bids for capacity from Users at the same ASEP. All unsold and surrendered capacity not allocated in Stage 1 will be made available in Stage 2. Sold out ASEPs with unsatisfied capacity bids from Stage 1 will be considered as recipient ASEPs for Transferring or Trading available capacity from different, donor ASEPs.

Results April 2013 - March 2014					
Month	Final Recipient	Initial Donor	Stage 1	Stage 2	
			Surrendered Quantity Allocated kWh/d	Transfer	Trade
Apr-13	Teesside	Teesside	10,750,000	-	-
May-13	Teesside	Teesside	10,750,000	-	-
Jun-13	Teesside	Teesside	10,750,000	-	-
Jul-13	Teesside	Teesside	10,750,000	-	-
Aug-13	Teesside	Teesside	10,750,000	-	-
Sep-13	Teesside	Teesside	10,750,000	-	-
Oct-13	Teesside	Teesside	10,750,000		
Nov-13	Teesside	Teesside	10,750,000	-	-
Dec-13	Bacton	Bacton	17,584,260	-	-
	Teesside	Teesside	32,899,998		
Jan-14	St Fergus	St Fergus	4,250,000	-	-
Feb-14	St Fergus	St Fergus	9,999,999	-	-
	Teesside	Teesside	10,750,000		
Mar-14	Easington	Easington	3,450,938	-	-
	St Fergus	St Fergus	9,999,999	-	-
	Teesside	Teesside	10,749,999	-	-
Total			185,685,193		

The table above shows that:

- for the period April 2013 to March 2014 all capacity requests, at all ASEPS, were satisfied in stage 1, i.e. by using unsold and/or surrendered capacity at the same ASEP
- at ASEPs where surrendered capacity was allocated more capacity remained available at these ASEPs for allocation through the Daily Auctions than would have been the case without the surrender process
- because all capacity requests were satisfied in stage 1 no capacity transfer or trades, i.e. between different ASEPs, were required

The Entry Capacity Transfer and Trade methodology has therefore been successful in enabling additional capacity to be made available at all entry points where firm capacity was requested as part of the RMTNTSEC auction.

Please note:

- **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 RMTNTSEC auction at the same specific ASEP. 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 ASEPs with unsold and surrendered capacity not allocated in stage 1 will be considered as donor ASEPs for Transferring or Trading that capacity to different ASEPs
- Any unsold capacity allocated in stage 1, i.e. at the same ASEP, has been omitted from the table.

2.2 Achievement of Objectives

As can be seen from the table above, the Transfer and Trade methodology was successful in enabling additional capacity to be made available to Shippers. Where surrendered capacity was allocated more capacity remained for the Daily Auctions. The Transfer and Trade process stimulated secondary trading at Bacton, Easington, St Fergus and Teesside and in total 185,685,193 kWh/d of capacity was surrendered and allocated leaving this quantity of additional capacity remaining for the Daily Auction at these ASEPs.

Though all bids were satisfied during stage 1 allocations, the lack of stage 2 activity should not, in National Grid's view, 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 Entry Capacity Transfer and Trade process, of which the methodology is an integral part, it:

- has made effective use of the NTS. Through the surrender and allocation of capacity at Bacton, Easington, St Fergus and Teesside, 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)
- 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)

3 Entry Capacity Substitution

3.1 Results

The Entry Capacity Substitution Methodology has been available, if needed, to enable unsold Non-Incremental Obligated Entry Capacity at one or more ASEP(s), to meet a requirement for capacity that is in excess of the Obligated Entry Capacity elsewhere. This is in preference to releasing Funded Incremental Entry Capacity which would require investment in new infrastructure.

Entry Capacity Substitution resulting from QSEC auctions for March 2013 is provided in the table below.

Results for March 2013 QSEC					
ASEP where release of incremental entry capacity was triggered.	Quantity	Date from	Donor	Quantity Substituted	Comment
None	n/a	n/a	n/a	n/a	

As there were no bids for capacity that triggered the release of incremental capacity there was no requirement, nor opportunity, to consider entry capacity substitution.

Entry Capacity Substitution resulting from QSEC auctions for March 2014 is provided in the table below¹:

Results for March 2014 QSEC					
ASEP where release of incremental entry capacity was triggered.	Quantity	Date from	Donor	Quantity Substituted	Comment
None	n/a	n/a	n/a	n/a	

As there were no bids that triggered the release of incremental capacity there will be no requirement, nor opportunity to consider entry capacity substitution. Had such bids been received substitution would have been considered and indicative data relating to quantities and ASEPs populated in the table.

3.2 Achievement of Objectives

As can be seen from the tables above, the Entry Capacity Substitution methodology was not tested. However National Grid believes that it provides a robust methodology that, whilst meeting the capacity objectives, would allow for the release of capacity at an ASEP in excess of the Obligated Entry Capacity without the need to release Funded Incremental Obligated Entry Capacity.

¹ The results for March 2014 QSEC auction are included within this report, however, quantity substituted is not known until the substitution analysis is completed in formula year 2014/15, as there are 60 days to allocate post the March 2014 bid window.

4 Exit Capacity Substitution

4.1 Results

The Exit Capacity Substitution methodology enables additional exit capacity to be made available which otherwise would have been made available only with additional funding of investment to satisfy the incremental demand through the release of Funded Incremental Obligated Exit Capacity.

Exit Capacity Substitution, resulting from Enduring Annual NTS Exit (flat) Capacity applications in the July 2013 Application window, is provided in the table below.

Results						
NTS Exit Point where release of incremental exit capacity was triggered	Quantity kWh	Capacity release date	Donor Exit Point	Donor Quantity Substituted kWh	Exchange Rate	Remaining quantity requiring funding
Pembroke PS	7,000,000	01-Oct-16	Dyffryn Clydach OT	2,549,361	1.2503:1	-
			Dowlais OT	6,202,812	1.2503:1	-

The table shows that:

- Enduring Annual NTS Exit (Flat) Capacity applications in July 2013, triggered the release of incremental capacity at Pembroke Power Station from 1 October 2016
- Exit Capacity Substitution was applied with sufficient unsold capacity being available, at an exchange rate of 1.2503:1 from Dyffryn Clydach Offtake and Dowlais Offtake, to meet the incremental demand
- Exit Capacity Substitution has resulted in a saving through non-application of a revenue driver²

4.2 Achievement of Objectives

As can be seen from the table above, the Exit Capacity Substitution methodology has been successful in enabling unsold exit capacity at Dyffryn Clydach Offtake and Dowlais Offtake to be used to meet the requirement for incremental exit capacity at Pembroke Power Station. Therefore additional capacity has been made available without the requirement for additional funding through the revenue driver mechanism. Consistent with the capacity objectives, application of the methodology has resulted in avoided investment and non-application of a revenue driver.

² No revenue driver had been set for Pembroke Power Station at the time of the capacity application, and hence the avoided cost cannot be quantified. A revenue driver would have been calculated and submitted to Ofgem for approval and inclusion in the NTS Licence had exit capacity substitution not been feasible.

5 Exit Capacity Revision

Since the introduction of the Exit Capacity Revision methodology there has been no incremental exit capacity released and hence no increased flow at any Exit Points has been demonstrated. As a result, within the formula year April 2013 to March 2014, no notional NTS exit points have been established and exit capacity revision has not occurred.

6 Summary

National Grid believes that it has fully complied with

- the Entry Capacity Transfer and Entry Capacity Trade obligations through the application of the prevailing Entry Capacity Transfer and Trade Methodology Statement
- the Entry Capacity Substitution obligations through the application of the prevailing Entry Capacity Substitution Methodology Statement , and
- the Exit Capacity Substitution and Exit Capacity Revision obligations through the application of the prevailing Exit Capacity Substitution and Revision Methodology Statement

National Grid believes that

- the Transfer and Trade solution successfully met the capacity objectives in formula year 2013/14
- despite there being no opportunity to apply the Entry Capacity Substitution, methodology for formula year 2013/14, it has been developed such that it successfully met the capacity objectives in formula year 2013/14
- Exit Capacity Substitution and Exit Capacity Revision have successfully met the capacity objectives for formula year 2013/2014. Exit Capacity was substituted from Dyffryn Clydach Offtake and Dowlais Offtake to Pembroke Power Station hence avoiding investment and on-going savings from year six through avoided application of the rate of return on that investment

Appendix 1 – Licence Conditions:

Special Condition 9A.2 - This obligation requires National Grid to use reasonable endeavours to:

- substitute Entry Capacity and Exit Capacity in accordance with the relevant Capacity Methodology Statements
- revise Exit Capacity in accordance with the relevant Capacity Methodology Statement; and
- meet any requests from a Relevant Shipper to transfer and/or trade Entry Capacity in accordance with the relevant Capacity Methodology Statements

Special Condition 9A.3 (a) - This obligation requires National Grid to have in place capacity methodologies (“the methodologies”) that facilitate the achievement of the capacity objectives. The capacity methodologies are:

- Entry Capacity Substitution
- Exit Capacity Substitution
- Exit Capacity Revision
- Entry Capacity Transfer
- Entry Capacity Trade

Special Condition 9A.3(c) – This obligation requires these methodologies to be set out in the “Capacity Methodology Statements” and that they be approved by the Authority. The Capacity Methodology Statements are:

- Entry Capacity Substitution
- Exit Capacity Substitution and Revision³
- Entry Capacity Transfer and Trade⁴

Special Condition 9A.5 – This obligation requires that the methodologies are developed to facilitate the achievement of the “capacity objectives”, which are:

(a) ensuring that each of Entry Capacity Substitution and Exit Capacity Substitution, Entry Capacity Transfer, Entry Capacity Trade and Exit Capacity Revision are effected in a manner consistent with the Licensee’s duties under the Act and, in particular, the duty to develop and maintain an efficient and economical pipeline system and its obligations under [the Licence];

(b) in so far as is consistent with (a) above, ensuring that:

- (i) Entry Capacity Substitution is effected in a manner which seeks to minimise the reasonably expected costs associated with Funded Incremental Obligated Entry Capacity, taking into account the Entry Capacity that shippers have indicated that they will require in the future through making a financial commitment to the Licensee; and

³ Due to the high degree of similarity between the Exit Capacity Substitution and Revision methodologies National Grid has prepared this single document to satisfy the Licence requirements outlined above

⁴ Due to the high degree of similarity between the Entry Capacity Trade and Entry Capacity Transfer methodologies National Grid has prepared this single document to satisfy the Licence requirements outlined above

(ii) Exit Capacity Substitution is effected in a manner which seeks to minimise the reasonably expected costs associated with Funded Incremental Obligated Exit Capacity, taking into account the Exit Capacity that shippers and DN Operators have indicated that they will require in the future through making a financial commitment to the Licensee;

(c) in so far as is consistent with (a) above, ensuring that Entry Capacity Substitution, Exit Capacity Substitution, Entry Capacity Transfer, Entry Capacity Trade and Exit Capacity Revision is effected in a manner which is compatible with the physical capability of the pipeline system to which the Licence relates;

(d) in so far as is consistent with (a) above, avoiding material increases in costs including:

(i) Entry Capacity and Exit Capacity Constraint Management costs in respect of Obligated Entry Capacity and Obligated Exit Capacity previously allocated by the Licensee to Relevant Shippers; and

(ii) Exit Capacity Constraint Management costs in respect of Obligated Exit Capacity previously allocated by the Licensee to DN Operators,

that are reasonably expected to be incurred by the Licensee as a result of Entry Capacity Substitution, Exit Capacity Substitution, Entry Capacity Transfer, Entry Capacity Trade and Exit Capacity Revision; and

(e) in so far as is consistent with (a), (and where relevant) (b), (c) and (d) above, facilitating effective competition between:

(i) Relevant Shippers, and to the extent relevant to Exit Capacity, DN Operators; and

(ii) Relevant Suppliers