

Minutes from 1st DECC/Ofgem Gas Stakeholder Network Group

16 December 2011, Ofgem

1. Introductions

See Annex I for list of attendees

2. Purpose of group and terms of reference (TOR)

a) Presentation of DECC/Ofgem Group ToR [DECC]

The Chair gave a brief outline of the TOR that had been circulated prior to the meeting. The purpose of the group is twofold:

1. **To enable DECC and Ofgem to develop a UK position on forthcoming network codes.** Bi-directional approach – Ofgem and DECC to share the information learned from government/regulatory meetings with the broader group of GB stakeholders, giving more transparency to the code development process. Also to provide a forum for GB and NI stakeholders to feed into these policy discussions and to engage in the code development process. Strategic, rather than technical meeting, to develop a long-term view for GB and NI – only expected to be three or four comitology meetings for each Network Code (NC) therefore need to identify and focus on priorities. What do we want to promote/avoid based on UK experience?
2. **To consider how the UK gas market may adapt to accommodate the changes that European network codes and comitology guidelines will bring.** The UK gas market is the most advanced and liquid in Europe but more can still be done to integrate with neighbouring markets. This puts the UK in a good position to pro-actively trial or pilot some of the changes needed to develop a single European market. This is why we intend to adopt an *open, forward-thinking* approach to influence the debate on forthcoming network codes and target model more generally.

A number of discussion points were raised surrounding the draft TOR:

- TOR very much based on the TOR for the electricity DECC/Ofgem group in September – do they need to be amended to be more appropriate for the gas market?
- Membership – who's missing?
- Frequency of meetings – flexible, as and when needed.
- **Action:** Attendees to respond with comments on TOR and membership.
Deadline for comments Friday 20th January COB.

b) Interactions with Gas Forum, Transmission Workgroup and Operational Forum

Backgrounds to the different workgroups:

Transmission workgroup (NG) - standing item on EU issues at each meeting since June 2010 (minutes on the gas governance website). Not many of the attendees have attended TWG. These tend to be general updates on gas and elec rather than an

opportunity to discuss the underlying detail of NC. Alternative would be to go to ENTSOG workshop.

Operational Forum (NG) – Operational update, monthly meeting. Not deemed the best forum for European debate.

Gas Forum – trade association comprising shippers and suppliers in GB (onshore and offshore). Produced a high level position paper on EU issues. Keen to take UK experience to feed into the EU debate through a bottom-up approach – highlighting importance of underlying competitive market principles and the 'lighter-touch' regimes used in the UK. Gas Forum currently appointing a new MD who will take a leading role in this group.

c) Discussion

Question raised as to whether the DECC-Ofgem group is the appropriate platform for NI to discuss NC development – should there be separate groups for GB and NI? Agreed that given the purpose of the group is to provide strategic input to the NC process (rather than to discuss technical detail) it is appropriate to have NI presence.

Noted that there is still a gap for a GB industry group to discuss the detail behind NC – suggested that though the group must focus on strategic priorities to be effective, discussion on a specific detail will be appropriate when it is relevant to a specific priority.

Agreed that GB stakeholders must adopt a proactive approach when engaging in the EU process in order to ensure that the impact of EU changes for the UK are fully considered prior to NC becoming binding.

In summary, agreed that group should proceed with the strategic approach. If we come up with questions on the details these could be explored in the TWG or in smaller sub-groups (though regarding the former, noted that it might not be appropriate to dominate a work group focused on changes to the UNC with EU issues). NI participants welcome to attend both the strategic and any sub-group meetings.

3. What does GB want from the EU Network Codes and are there any major concerns?

a) Presentation of the full spread of network codes, expected content and timing [Ofgem]

Reaffirmed purpose of the group:

- Update stakeholders of latest developments
- Give GB market participants an overview of Network Codes and other developments of the single European gas market
- Provide a platform for input to ACER, comitology and ENTSOG discussions and allow for parties to influence European associations (EFET, Eurogas etc.)
- Provide a forum for discussion of how GB can prepare itself for changes
 - Underlined the importance of joint responsibility with Sue Harrison feeding back from the comitology meetings, Chris Logue from ENTSO-G and stakeholders with other meetings.

Brief background of what the Third Package set out to do – key developments being the creation of ACER and the ability to establish legally binding network codes. Why has this been done? – To fill the regulatory gap that exists at interconnection points.

The Gas Target Model (published this week) sets out at a high level the vision of a series of liquid trading hubs across Europe with sufficient and efficiently used infrastructure. The Third Package specifies that Member States (MS) need to set the rules at entry/exit points – create a common framework among MS to avoid fragmentation and ensure liquidity, interconnection and investment increases.

What else should we be doing in 2012 to ensure that GB is integrated with neighbouring markets?

Overview of which NC Ofgem are working on at the moment. Noted that the NC development process is constantly evolving and will take time to get right – current timeframe – FG 6 months, NC 1 year. NC focus on two things: the efficient use of infrastructure and liquid hub development.

- *Balancing*: FG complete, GB already mostly compliant.
- *CAM*: focus on access to interconnector capacity
 - o How will auction regime work?
 - o Consideration of 'bundled' capacity products.
 - o Ofgem keen for input from SG on which issues to raise with consultant on CAM.
- *Tariffs* – very early stages, scoping paper. Focus on reserve price for these auctions. Impact assessment forthcoming. For discussion in Jan/March ACER Board of Regulators.
- *Interoperability* – also scoping document for discussion at Jan/March ACER Board of Regulators.
 - o Questions of how we nominate/gas quality etc.

ENTSOG/NG comment:

- *CAM* – pilot stakeholder engagement, 2 consultations. Initial CAM NC due March 6th, to be put for 'opinion' before that. Consultants will be used to help ACER to form its opinion on the NC. Little experience of using auctions at cross-borders, steering group of regulators (of which Ofgem is a member) to direct the consultants research.
- *Balancing* – network code kicked off early December. Other stakeholder group workshops planned over the next few months. Consultation in May.

Key issues for group to consider:

- Capacity auctions at cross-border points (quarterly vs. annual products)
- Tariffs (short-term revenue prices) – *development of a tariffs NC seen to be a priority for 2012. Key question is on the reserve price for short term capacity.*
- Incremental capacity (CEER work) – *not addressed in Gas Target Model. Need for the development of a mechanism to allocate incremental capacity that can be applied at a European level.*
- CMP – *input into comitology*
- How will the implementation of provisions at cross-border points (auctions, bundling, CMPs etc.) affect GB? What else may increase efficiency? What else needs tackling? Example of the change in the GB Gas day (*move forward an hour*).

- Gas quality – *workshop held on 5th Nov. Commission commissioned consultants who concluded that costs of harmonisation outweighed the benefits – but not the end of the debate on this.*
- Interactions with further interventions work. Investment in storage? “use it or lose it” LNG? *Consultation on Gas SCR.*

b) Discussion

Question of how the twin-track process for NC development will work? (i.e. NC either developed through ENTSO-G [CAM] or goes straight to comitology [CMP]). Concern that the comitology approach is less transparent. Noted that the rationale behind some NC being sent straight to comitology is to do with speed (though CAM to be delivered earlier than CMP). Agreed that the key issue is to ensure linkages are consistent.

Concerns were also raised that there is a lack of clarity as to where NC apply – should it just be at cross-border points as set out in the Third Package, or is it any network entry point (as seems to be the reality – eg. Gas balancing and interoperability). Agreed that NC will apply to cross-border points but that this captures a broader remit than just interconnectors.

Regarding interconnectors, noted that DECC and Ofgem are currently discussing the implications of NC for exempted interconnectors with the European Commission.

On code modifications, noted that there will be a formal modification process but that this should be seen as a last resort; more important to ensure consistency in the first place. The implications of a change at a cross-border point for domestic entry/exit points (i.e. Bacton and Moffat) will need to be considered when implementing the network codes.

Also noted that a key challenge will be to ensure that the NC that are focused on large network systems are also appropriate for interconnectors.

4. Influencing strategy [DECC]

Regarding CMP, Commission to consider new version on w/c 20 Dec – would be useful to get comments from everyone before then, so they can be included before it goes to comitology. Noted that there isn't expected to be a large number of meetings in this process.

Sue Harrison agreed to send round the new version of the CMP expected before Christmas and asked for comments as soon as possible from the group.

5. Future meetings

a) Actions for next Gas meeting, and agenda

The main focus of the next meeting will be on the interconnection points and some of the changes emerging from the network codes and comitology proposals.

Action points from meeting:

1. Update TOR to ensure objectives reflect need to be proactive
Sub-group meetings to be organised on an adhoc basis
2. Set-up new meeting for early Feb
3. Additional members – Chris Mansfield to liaise with Clémence Marcelis -
Suggests participation of Oil and Gas UK?
4. **Deadline for comments on TOR and membership: Friday 20th January**
COB

Annex I – List of Participants

34 attendees

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|--------------------------|---|
| Alex Whitmarsh | Ofgem |
| Amrik Bal | Shell |
| Andrew Pearce | BP Gas Marketing, EFET, OGB, Eurogas |
| Andrew Burgess | Ofgem |
| Bogdan Kowalewicz | Ofgem |
| Celine Hayes | Gaslink |
| Chris Logue | National Grid |
| Christiane Sykes | Statoil |
| Clare Cattle-Jones | Energy Networks Association |
| Clémence Marcelis | Ofgem |
| Colin Lyle | EFET |
| Darren Reeve | IUK |
| Donal Kissane | BGE(NI) - <i>dialled in</i> |
| Dr Christopher Mansfield | Shell U.K. Limited, Chairman of the Gas Work Group for the International Association of Oil and Gas Producers (OGP) |
| Ed Stafford | DECC |
| Felicity Bush | ESBI Investments, Eurelectric (Moffat) |
| Fiona Strachan | Gazprom |
| Fred Frazer | DETINI - <i>dialled in</i> |
| Gareth Davies | IFIEC - Chemical Industries Association |
| Graham Clegg | UREGNI - <i>dialled in</i> |
| Helen Stack | Centrica |
| Ivan Oiszak | Centrica |
| Jack O'Connell | BGE(NI) - <i>dialled in</i> |
| Julie Cox | AEP UK, Eurelectric |
| Mark Raphael | Mutual Energy - <i>dialled in</i> |
| Mary Palomino | EDF Trading |
| Mary Simmons | IUK |
| Michael Jenner | Ofgem |
| Pamela Taylor | Ofgem |
| Peter Bolitho | E.ON Trading |
| Richard Hewitt | National Grid |
| Richard Miller | Ofgem - - <i>dialled in</i> |
| Roisin McLaughlin | UREGNI - <i>dialled in</i> |
| Sue Harrison | DECC |