



Promoting choice and value
for all gas and electricity customers

Update on NC CAM

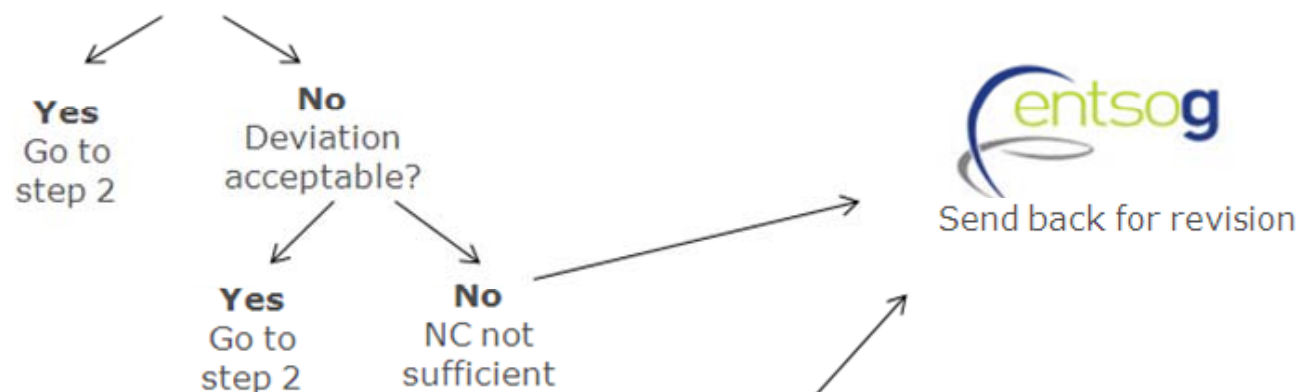
DECC/Ofgem stakeholder meeting
13 April 2012

NC CAM - Status

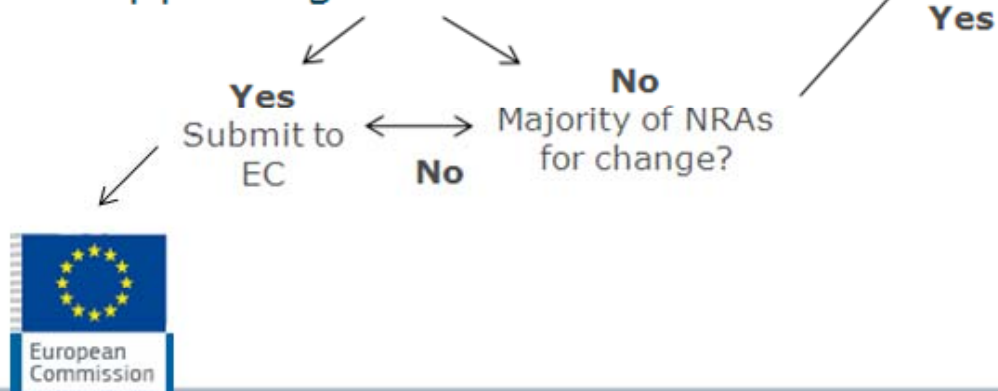
- NC CAM officially submitted on 6th March 2012
- ACER has 3 months to provide a reasoned opinion to ENTSG
 - *Deadline 6th June 2012*
 - *Decisions being taken at April and May AGWG*
 - *Approval of opinion needed at May BoR*
- Depending on assessment of the NC, several outcomes possible
 - *NC submission to Csion*
 - *NC submission to Csion, with recommendation for Comitology*
 - *NC submission to ENTSG*
 - *Target would be for ENTSG quick response (late July); and*
 - *ACER submission to Csion by end of summer (mid August)*
- Depending on the points raised, a short ACER consultation may be needed (workshop or two weeks consultation?)

NC CAM – Process for review

- Step 1: NC in line with FG?



- Step 2: NC fulfils objectives of maintaining security of supply and of supporting the internal market?



ACER taking
a two-step
approach

NC CAM – Positive notes

- Unanimous support for ENTSOG's stakeholder engagement process
 - joint working sessions, technical workshops, two written consultations, final stakeholder support process
- High degree of compliance with FG
 - as assessed by Frontier Economics
- Introduction of cross-border capacity auctions
 - positive outcome for GB
 - efficient, non-discriminatory and transparent allocation
- Well thought through auction algorithm
 - Yearly, Quarterly and Monthly: ascending clock
 - Daily and Within Day: sealed-bid, uniform price

NC CAM – Key issues

- **Capacity breakdown:**
 - up to 90% offered in one long-term auction, 15 years out
 - at least 10% held back for Quarterly products, with no further reservation possible for Monthly or Daily
 - *impact on effective competition and short-term liquidity?*
- **Tariffs:**
 - suggestion that short term (day-ahead/ within day) reserve prices should be higher than reserve prices for long-term capacity (Revenue Equivalence Principle)
 - *goes beyond FG? pre-empts debate on Tariffs?*
- **Offer of unbundled capacity in event of technical mismatch**
 - possibility for TSOs to offer unbundled capacity if it cannot be matched
 - *Undermines FG aim of progressively bundling capacity?*

NC CAM – Auction design study

- Final report submitted to ACER on 26th March (3 months process)
 - help inform ACER's reasoned opinion
- Review of ENTSOG capacity products + auction design
- High level of compliance but some key recommendations:
 - in the interest of competition, place a quota on proportion of capacity that can be offered beyond Year 5 (65%)
 - to the benefit of liquidity, offer Quarterly products more than one year ahead (2 years suggested)
 - to further FG objective of progressively bundling all capacity, reconsider sales of unbundled capacity in the event of any technical mismatch
 - be aware that requiring the use of multipliers (revenue equivalence principle) may pre-empt decisions yet to be taken in the context of the Tariff Code concerning financial incentives to encourage allocation of day ahead and within day capacity
- Frontier study to be published

NC CAM – Policy Options (GWG)

- **Capacity breakdown**
 - do nothing
 - place a quota restricting volume of capacity that can be sold up to 15 years in advance (eg, 65%)
 - how to allocate remaining 35%? (type of product, how far in advance)
 - define exact quota in NC or leave to local decision?
- **Tariffs**
 - do nothing (or clarify this is just an interim solution)
 - delete reference to revenue equivalence principle
 - set reserve price for short term services at a discount
- **Offer of unbundled capacity in event of technical mismatch**
 - do nothing
 - disallow offering
 - allow offering, but impose conditions: only as interruptible, only up to rolling Monthly (but firm), only if bundled with interruptible on other side



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FG Tariff Structures

Richard Miller
DECC-Ofgem Stakeholder Group for Gas
13 April 2012

Background and Process

Background

- Third Package – requires NCs on certain cross border issues
- ACER develops FGs
- ENTSOG uses FG to develop NC
- Commission makes NC law via comitology
- NC required for harmonised transmission tariff structures

Process & Next Steps

- Feb/Mar 2012 - ACER consulted on FG scope
- Apr to Jun – ACER developing FG for consultation
 - Consultants – assessing options Apr - Jun
 - Expert Group – 2 Apr, 4 May and 30 May
 - ACER GWG
 - ACER Board – approval of FG consultation
- Summer 2012 - ACER consulting on FG and IA
- December 2012 – ACER submits FG to Commission
- 2013 – ENTSOG develops NC
- 2014 – Commission makes NC on tariffs law

Where is the debate going?

- Scope
 - Allowed revenues
 - Include LNG/Storage?
 - Inter-TSO payments?
 - Include incremental?
- Problem identification – expert group listed current problems
- Specific issues
 - Allocating costs - Domestic v cross-border split of TSO revenues
 - Reference price – reserve price for an annual product
 - Relationship between prices in long-term (reference price) and short-term
 - Pricing of Interruptible Products
 - Revenue recovery
 - Price paid – Fixed v Floating
 - Under- and over-recovery mechanisms

GB gas tariff group?

- Should we set up sub-group to look at this from GB perspective?
 - What should be in scope for harmonising?
 - What options do we think best facilitate objectives?
 - What options are likely given debate so far?



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Interoperability and Data Exchange Rules

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Consultation

- **Public Consultation - Closes 16 May**
- **Stakeholder workshop – 23 April**
(ACER premises Ljubljana , 12:30 – 16:00)

Substance

- Interconnection Agreements
- Harmonisation of Units
- Gas Quality
- Odourisation
- Data Exchange
- Capacity Calculation
- Cross-Border Co-operation



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