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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 ENTSOG
  - *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 ENTSOG*
    - *Target would be for ENTSOG 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?

Yes
Go to step 2

No
Deviation acceptable?

Yes
Go to step 2

No
NC not sufficient

entsog
Send back for revision

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

Yes

Yes
Submit to EC

No

No
Majority of NRAs for change?

European Commission

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

13 April 2012

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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