



Promoting choice and value  
for all gas and electricity customers

# Gas Balancing network code

Konrad Keyserlingk

Senior Manager, European Wholesale  
DECC-Ofgem Gas Stakeholder Group

13 July 2012

## Process

### Process so far:

- **18 October 2011:** ACER publication of framework guidelines on gas balancing rules
- **April to June 2012:** ENTSOG public consultation on draft network code
- **June:** ACER preliminary opinion on network code communicated to ENTSOG – bilateral discussions ongoing

### Next steps:

- **26<sup>th</sup> July:** ENTSOG refinement workshop in Brussels
- **Over summer:** ENTSOG to incorporate feedback from ACER and from public consultation
- **After summer:** ENTSOG stakeholder support process
- **5<sup>th</sup> November:** Network code to be submitted to European Commission

## ACER's role

- ACER's statutory role on this project was primarily to draft the framework guideline and will be to provide a reasoned opinion within 3 months of the publication of the network code.
- Active ACER engagement throughout the network code development process is needed to ensure that ACER's comments can be considered within ENTSOG's timescales.
- ACER drafted an informal preliminary opinion, based on ENTSOG's code.
- This is now being discussed with ENTSOG and will also be presented at their 26<sup>th</sup> July public workshop.

## Role for national regulators in approving aspects of the balancing regime

- Several sections of the NC require NRA approval (*e.g. Within-day obligations, measures for cross-border cooperation, incentives, nomination rules, cash-out methodology, neutrality, information provision requirements, commercial linepack products, implementation, interim steps*)
- Timescales need to be realistic
- “Deemed” approval (in the absence of a veto within a defined timeline) is not acceptable
- NRAs need to be able to initiate change
- What happens if NRAs reject TSO proposals?
- NRAs need to be able to amend TSO proposals
- Process for NRA decision making does not need to be harmonised

## Within-day obligations

- Network code must reflect all criteria set out in Framework Guideline
- Approval process needs to be changed
- ENTSOG should define Within-day obligations
- Analysis of how existing Within-day obligations relate to criteria is needed
- Interaction with information provision

## Operational balancing (“TSO procurement”)

- Merit order needs to be made stricter (maximise the use of short-term products)
- Balancing services need to be defined and rules are needed for their use
- Cross-border cooperation needed for product definition
- Balancing platforms need to comply with market-oriented principles

## Neutrality

- Only efficiently incurred costs to be passed through
- Needs to allow for incentives
- Detailed harmonisation not needed
- Credit arrangements

## Nomination rules

- Interim step not justified
- Agree with focusing on interconnection points, but also need to look at requirements for domestic entry or exit points
- Consistency in timing with CMP, CAM, balancing information provision etc needs to be ensured
- Network code needs to provide some guidance for circumstances in which TSOs may reject nominations

## Other

- Use of interim steps must be minimised
- “Small adjustment” to imbalance charges may need to be capped
- Imbalance charges based on single trade: risk of gaming?
- ENTSOG and ACER monitoring roles





*ofgem*

Promoting choice and value  
for all gas and electricity customers

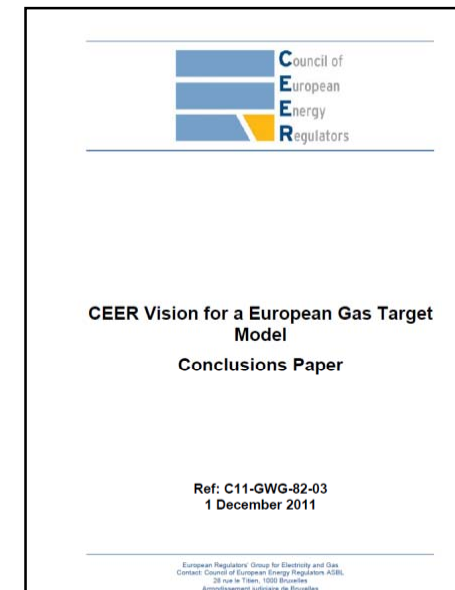
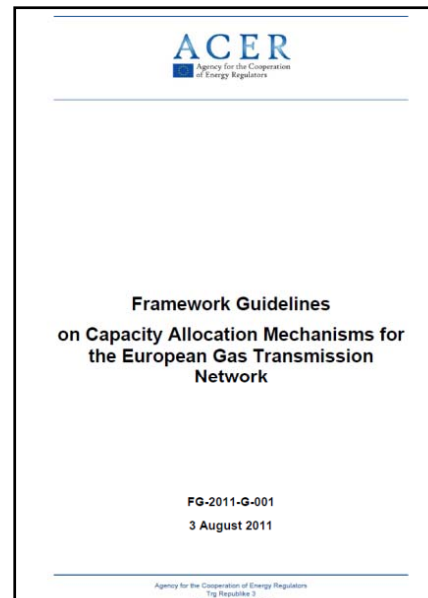
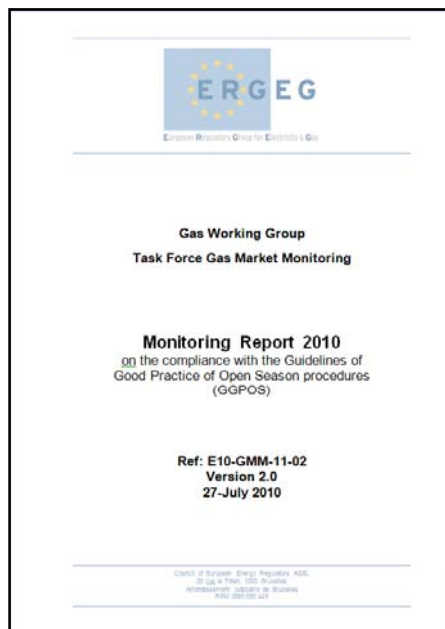


Promoting choice and value  
for all gas and electricity customers

# Gas Target Model Follow-up - CEER work on Incremental Capacity

DECC/Ofgem gas stakeholder meeting  
Ofgem offices, July 2012

- **GGPOS** monitoring called for further guidance on coordination of cross-border market-based investments
- **CAM** does not deal with allocation of incremental capacity
- **GTM** took on task how to identify and integrate new capacity



### Recommendation 3:

CEER, in consultation with stakeholders, will develop proposals how to identify and integrate new capacity, based on market demand established through coordinated market-based procedures. CEER includes this topic in its work plan 2012.

- Broadly speaking, various conceptual approaches to cross-border investment coexist in Europe:
  - Merchant approach (exempt, “non-regulated” investments)
  - Regulated model (TSO makes business case, NRA adjusts revenue allowance)
  - Market-based investment as an intermediate approach: open seasons and UK experience with incremental capacity auctions
- Incremental Capacity workstream to focus on developing a market-based approach for cross-border investment, in the framework of the 3rd Package:
  - building on some of the advantages of the merchant approach (eg, demand-driven investment) by requiring certain amounts of user commitment (though not necessarily 100%)
  - providing for a “default” regulated regime, the principles of which could apply to all cross-border interconnection points in Europe (exemptions seen as the exception rather than the norm)

- **22-23 Mar:** Kick-off presentation at Madrid Forum
- **25 Apr:** First Stakeholder Roundtable (by invitation only), to gather initial views on “what are the problems” – if any – that should be addressed with this work, and on “what are the options” for how this cross-border investment regime could look like
- **28 Jun:** Launch of Public Consultation
- **10 Jul:** Second Stakeholder Roundtable, to follow-up on action points sourcing from first roundtable
- **Jul/Sep:** NRA survey of current practices running in parallel to public consultation
- **14 Sep:** Close of consultation period
- **Oct/Nov:** Presentation (initial findings) at Madrid Forum; evaluation of comments; draft recommendations paper
  - Third stakeholder workshop (TBC whether “wide” or “narrow” group)
- **Dec (expected):** Publication of final paper

- **Problem identification:** experience with market-based investment procedures and why a new approach may be needed
- **Options for incremental capacity auctions and interactions with ten-year network development plans (TYNDPs)**
  - Conditions that call for the launch of an incremental capacity auction
    - Option 1: Regular “integrated” capacity auction for existing and incremental capacity
    - Option 2: Separate incremental capacity auction, launched when demand is identified in a regular process
    - Option 3: One time integrated auctions
  - Decision on the investment (investment triggers)
    - based on subscription levels
    - based on revenues generated by the subscriptions
  - NRA approval of the investment
    - based on “economic test” being met
    - based on wider criteria

- **Open Seasons:** what is stakeholders' past experience with them?
- **Problem identification:** what problems need to be addressed?
- **Project scope:** what points should be within the scope of this work?
- **Harmonisation:** what degree is necessary? what can be done locally?
- **Auctions:** advantages/disadvantages of using auctions vs open seasons for allocating incremental capacity?
- **"Economic test":** what should be the key considerations?
- **Market-testing:** how frequently should this be conducted?
- **Identifying investment needs:** at what point should TSOs consider further enhancement if an existing capacity auction results in a congestion premium over the reserve price? what other criteria could be used?
- **Integrated vs separate auctions:** pros and cons? how should incremental auctions be organised?
- **Binding vs non-binding bids:** what are the pros/cons of each?
- **Approval of investment:** should this be automatic if economic test is passed, or should it be subject to a separate approval process?

- ENTSOE presented on planning processes for new investment to inform NRA views on timings – helpful context
  - High-level conclusion was that there is no “common” lead-time for getting construction finalised and capacity made available
- EFET put forward its proposal for a cross-border investment regime, and talked us through its pros and cons
  - Integrated rather than separate auctions
  - Limited to “where they are needed only”
  - Questions on scope (big, multi-country projects?)
- ENTSOE presented on feasibility of using CAM NC allocation mechanism (ascending-clock) for holding integrated auctions
  - Initial view was that CAM algorithm could be tweaked to accommodate without too much difficulty
- Discussion on economic test led by EFET
  - Agreement that principle of economic test should be enshrined in EU legislation, but parameters left to local decision



- How are investment needs currently **identified**?
  - what are the **criteria** used?
  - general methodology or case-by-case basis?
  - how is market **informed** and involved in this process?
  - if an **economic test** is used, how is this designed?
- Who **approves** investments and on what basis?
- How is **new capacity** treated relative to existing capacity (eg, allocation mechanism, tariffication, short term reservation)?
- Is there a **national development plan** and if so, is this binding?
- How are **cross-border** investments currently being dealt with? Are they treated differently to “domestic” investments?
- What are the **key challenges** that need to be addressed with regards to cross-border investments?



*ofgem*

Promoting choice and value  
for all gas and electricity customers



Promoting choice and value  
for all gas and electricity customers

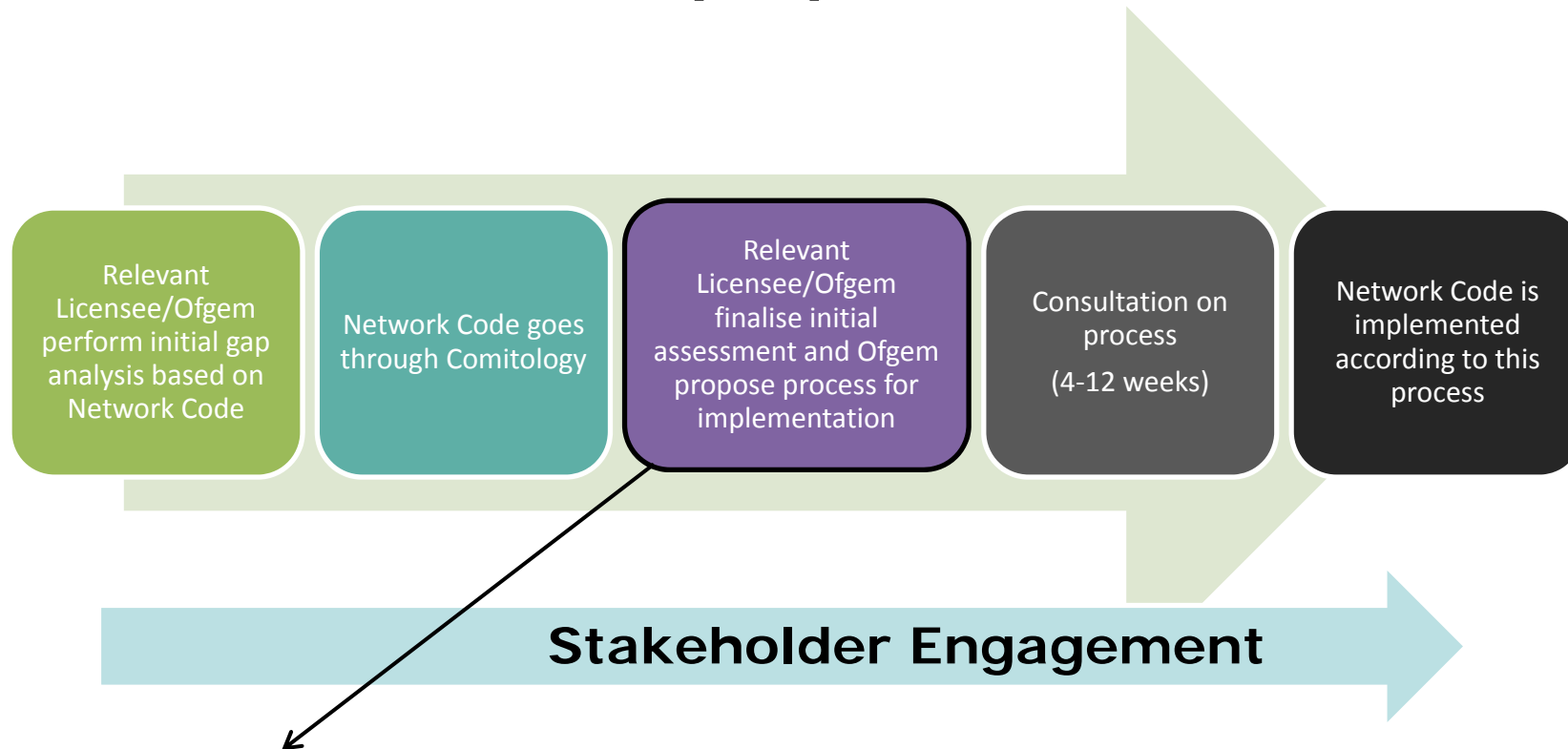
# Implementation of Network Codes in GB

DECC-Ofgem Gas SG Meeting

## Background

- Currently expect close to 20 Network Codes and Guidelines (gas and electricity) will become binding between now and 2016. The first guideline (CMP in gas) will become binding in October 2013.
- Ofgem has a duty to ensure compliance of the GB regulatory arrangements with the Network Codes and with the Comitology Guidelines.
- To achieve compliance **GB industry codes, licences, other agreements (such as charging methodologies and access rules) and GB legislation may need to be modified.**

## How do we propose to do this?



Here, we may decide to use our **Third Package Powers** to propose changes to industry codes, licences and other agreements.

## What do our Third Package powers mean?

Licence	Code/ Charging Methodology/ Access Rule	Ofgem can raise a <b>modification proposal</b> for the purposes of ensuring compliance of the Regulation etc.	Ofgem can direct licensee to make <b>amendments to achieve the relevant objectives</b> which include compliance with the Regulation*	Ofgem can set the <b>timetable for the development of these proposals</b>
<b>Gas Transporter</b>	UNC and Network Code			
	Transportation and Connection Charging Methodologies			
<b>Interconnector</b>	TPA Charging Methodology			
	Access Rules			

\*only applies once they submit these arrangements for approval

## What is next?

CMP guidelines implementation will come first once the NC has been published at EOJ.

After that, we will share implementation plan and timeline at a later meeting.



*ofgem*

Promoting choice and value  
for all gas and electricity customers