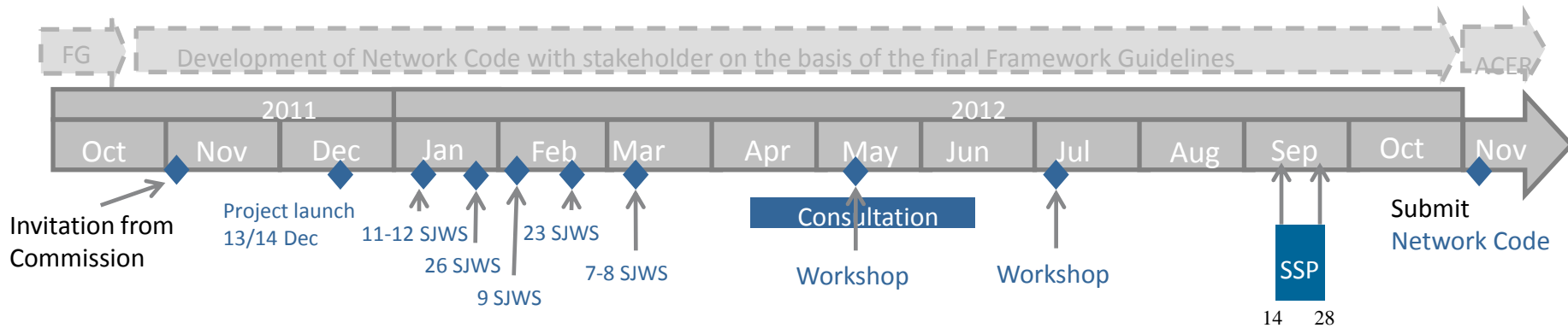


EU Gas Balancing Code – Update



ENTSOEG - Current project plan



Date	Event
12 June 2012	Public consultation closed
28 September 2012	Stakeholder Support process closed
26 October 2012	Final ENTSOG Draft Code submitted to ACER
26 January 2013	ACER formal opinion

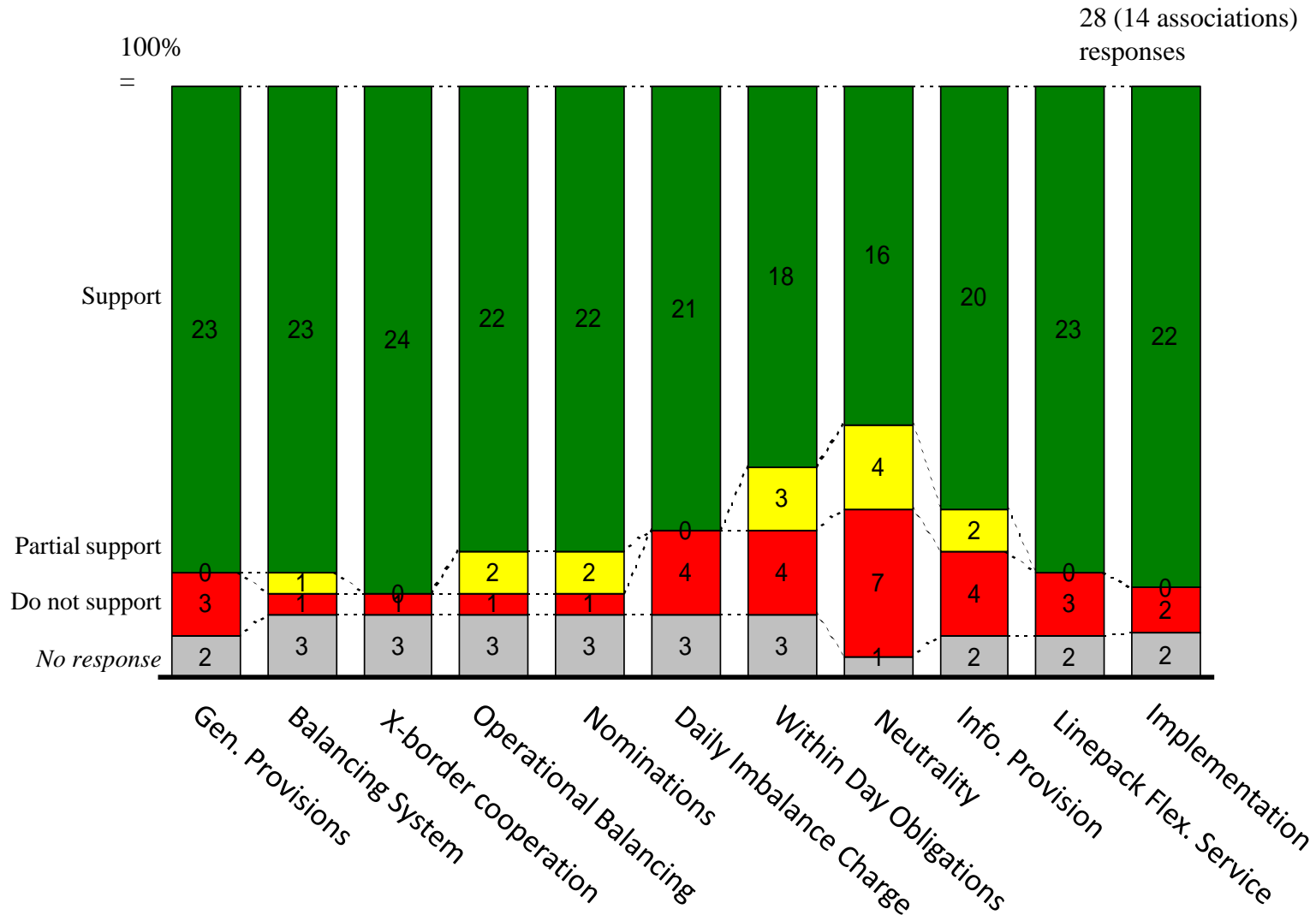
Overview of ENTSOG consultation responses

	Majority of respondents supported ENTSOG policy/approach
	Mixed views were presented by respondents
	Majority of respondents were opposed to policy/approach

Chapter	Q#	Count	Position	Issues raised
II BALANCING SYSTEM				
<i>VTP and Trade Notifications</i>	1	38		8
<i>Sufficient harmonisation</i>	2	37		
III CROSS-BORDER COOPERATION				
<i>Report on harmonisation progress</i>	3	38		6
<i>Report on CBC</i>	4	41		
IV OPERATIONAL BALANCING				
<i>TSO trading in adjacent markets</i>	5	39		35
<i>economic and efficient' criterion</i>	6	38		
<i>Short-term standardised products</i>	7	41		
<i>Exchanged-based trading and TPO</i>	8	40		
<i>Services provided on Trading Platform</i>	9	36		
<i>Contractual structure</i>	10	36		
<i>Originating Party obligation to (re)nominat</i>	11	30		
<i>Merit order</i>	12	40		
<i>Procurement of balancing services</i>	13	39		
<i>TSO-proposed incentive mechanisms</i>	14	37		
V NOMINATIONS				
<i>Reasonable noms procedures</i>	15	37		29
<i>Schedule for day-ahead noms</i>	16	36		
<i>Schedule for re-noms</i>	17	37		
<i>Specific features of nominations</i>	18	36		
VI DAILY IMBALANCE CHARGES				
<i>Quantity determination</i>	19	38		9
<i>Locational and Temporal Market Products</i>	20	40		
<i>Inclusion of day-ahead trades</i>	21	40		
<i>Source of trades</i>	22	36		
<i>Small adjustment</i>	23	41		
<i>Cross-border trade criterion</i>	24	35		
VII WITHIN-DAY OBLIGATIONS				
<i>Elaboration of criteria</i>	25	40		33
<i>Additional criteria needed</i>	26	34		
<i>TSO and NRA roles in approval</i>	27	36		
<i>6-mos process for TSO</i>	28	34		
<i>6-mos process for NRA</i>	29	35		

Chapter	Q#	Count	Position	Issues raised
VIII NEUTRALITY ARRANGEMENTS				
<i>Scope/depth of code proposals</i>	30	38		14
<i>Transparency</i>	31	34		
<i>Info. granularity</i>	32	33		
<i>Neutrality pots</i>	33	36		
<i>Neutrality pots in practice</i>	34	26		
<i>Cash-flow management</i>	35	30		
	36	34		
IX INFORMATION PROVISION				
<i>Info. for offtakes</i>	37	36		15
<i>Variant 2 requirements</i>	38	40		
<i>CBA and additional elements</i>	39	42		
<i>Harmonised info. flows</i>	40	38		
<i>Transparency Guidelines</i>	41	36		
<i>Input info. Requirements</i>	42	38		
X LINEPACK FLEXIBILITY SERVICE				
<i>LFS product reqs.</i>	43	35		4
XI IMPLEMENTATION, INTERIM MEASURES				
<i>Definition of short-term balancing market</i>	44	27		25
<i>Access to short-term gas flexibility</i>	45	25		
<i>LNG "small country" carve-out in FG</i>	46	30		
<i>Price-based tolerances</i>	47	30		
<i>Application of average price</i>	48	26		
<i>Forecast accuracy and tolerance phase-out</i>	49	31		
<i>Mitigating NDM demand risk</i>	50	28		
<i>Release of TSO surplus flexibility</i>	51	27		
<i>Ref. to balancing platform trades</i>	52	28		
<i>Additional interim measures</i>	53	31		
<i>ENTSOG monitoring activity</i>	54	28		
-- GENERAL ISSUES				
<i>Level of detail in code</i>	55	20		4
<i>Omitted material issues</i>	56	26		
<i>Supporting document</i>	57	37		

Stakeholder Support Process - Outcome



ACER/EC concerns

- ACER and EC raised a number of concerns on the revised code. Some further changes have been made by ENTSOG, including:
 - **Amendment of gas quantity requested** - ENTSOG has replaced the text with the following: *“The TSO may amend the gas quantity requested under a nomination (respectively re-nomination) in accordance with National Rules or legally binding agreements between the TSO and Network User.”*
 - **TSO recovery of any costs and revenues** - ENTSOG has made several amendments to allay ACER’s concerns that only economic and efficient Balancing costs should be recovered.
 - **WDOS** – some minor amendments made to WDO criteria and information provision for WDOs.
 - **Nominations** – interim measure timeline reduced from 3 to 2 years.

Code Finalisation

- ENTSOG submitted the final draft code and AoD document to ACER on 26 October 2012
- ACER is expected to provide their formal opinion by 26 January 2013
 - If the code is considered to be in line with the ACER framework guidelines it will be sent to the Commission for them to conduct the Comitology process, which will result in the code entering into EU law (6-12 months)
- UK will then have 12 months to comply with the EU code (but NG currently anticipate utilising an option to ask Ofgem for an additional 12 months to enable changes to be made to existing contracts, the UNC and any associated IT systems)

GB Impacts

- NG initial impact assessment on Draft Code presented to June 12 Ofgem/DECC stakeholder group:
 - Generally consistent with ACER's Framework Guidelines
 - Broadly consistent with the GB regime
 - However, there are some conflicts with the UNC:
 - Majority were initiated via the ACER framework Guidelines
 - Nominations at Interconnection Points
- NG is planning to undertake a detailed impact assessment of the code to help inform any implementation plan to be developed by GB parties

Tariff structures FG

DECC/Ofgem gas stakeholder meeting

Ofgem, 14 November 2012

Richard Miller

Process update

- 5 Nov: ACER consultation closed
- ACER review of consultation responses
- 5 Dec: Expert Group Meeting (Ljubljana)
- ACER discussions on FG in light of consultation
- Jan 2013: ACER led tariff workshops (TBC)
- Mar 2013: FG submitted to Commission (TBC)

Views expressed from GB industry (5 Oct)

- General issues
 - Objectives inadequately defined and no clear hierarchy
 - IA does not provide thorough analysis
 - Implementation period of 12 months insufficient
 - Concern with lack of clarity – definitions of various prices, fixed and variable costs, revenue recovery
- Group generally content with
 - 50:50 entry/exit split
 - Reference price set on basis of major cost driver (distance)
- Revenue Recovery Mechanisms
 - Application in following period problem for NI
 - Concern at how one regulatory account would work in GB
 - TO/SO split, entry/exit split and domestic/cross-border
 - Concern at lack of flexibility for TSOs with no captive demand
- Floating price
 - Concern that could discourage long-term bookings and investment
 - Concern at implementing on existing contracts (entered into with fixed price)
- Other
 - Mixed views on discounts at storage

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

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Capacity Allocation Mechanisms (CAM)

DECC/Ofgem gas stakeholder meeting

Ofgem, 14 November 2012

Richard Miller

Process update

- Mar 2012: ENTSOG submitted NC for ACER approval
- Jun 2012: ACER Reasoned Opinion rejected NC (11 issues), asked ENTSOG to resubmit
- Sep 2012: ENTSOG resubmitted NC addressing all but 4 of issues
- Oct 2012: ACER recommended adoption of NC subject to changes on the 4 issues
- Oct 2012: Commission held CAM workshop
- Jan 2013?: First formal comitology meeting

Outstanding issues: ACER issues

1. Quota of existing capacity held back for short term
 - ENTSOG want at least 10% held back
 - ACER want at least 20% of capacity held back
 - 10% first offered as annual capacity 5 years in advance
 - 10% first offered at quarterly capacity auction
2. Short-term reserve price
 - ENTSOG want these set using revenue equivalence principle (multipliers)
 - ACER want this determined in Tariff NC (not in CAM)
3. Unbundled capacity
 - ENTSOG want this offered for up to 5 years
 - ACER want this offered for up to 1 month
4. Quota of incremental capacity held back for short-term
 - ENTSOG do not want quota on incremental capacity
 - ACER want quota of capacity held back from incremental allocation for short-term allocation

Outstanding issues: Commission issues

- **Sunset clause removed**
 - Reasonable endeavours to bundle allocated capacity
 - Bundled capacity contracts cannot exceed duration of original contracts
 - All capacity must be bundled at earliest opportunity
 - Existing capacity contracts cannot be renewed, prolonged or rolled over
- **Capacity calculation**
 - Process to be developed between neighbouring TSOs to resolve capacity mismatches and offer maximum amount of capacity on either side of IP
 - No prescriptive methodology to set capacity levels

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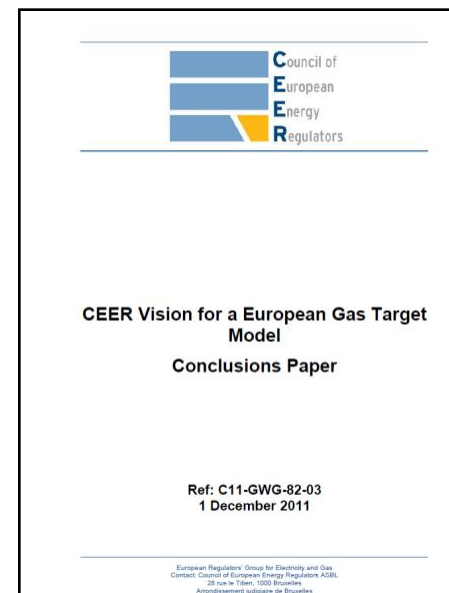
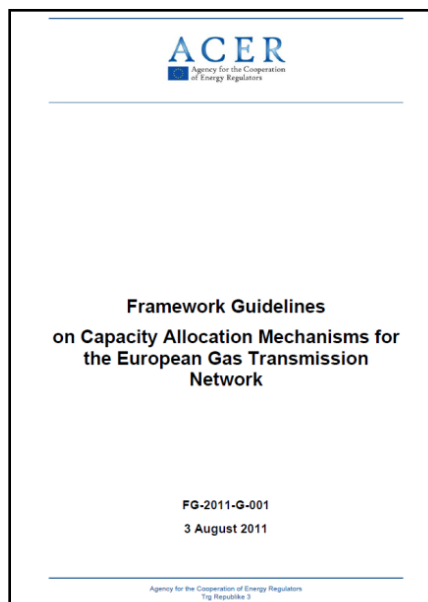
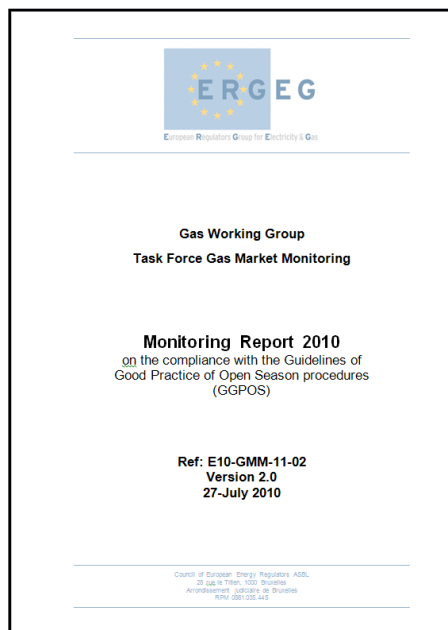
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Gas Target Model Follow-up - CEER work on Incremental Capacity

DECC/Ofgem gas stakeholder meeting
Ofgem, 14 November 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:

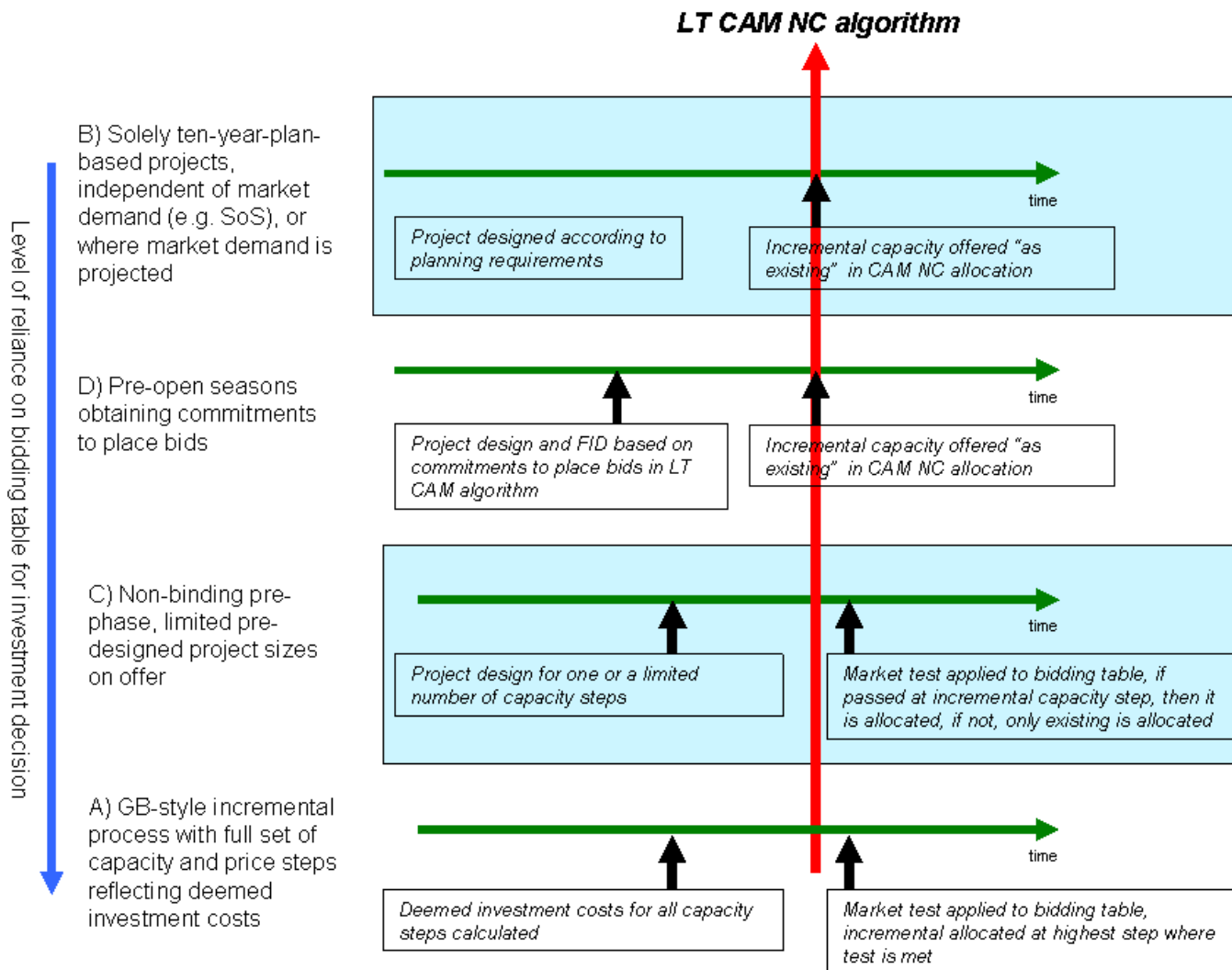
CEER, in consultation with stakeholders, will develop proposals how to identify and integrate new capacity, based on market demand established through coordinated market-based procedures. CEER includes this topic in its work plan 2012.

- Various 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)

- **30 responses received** with the majority of stakeholders welcoming CEER's work and considering that the right questions are addressed in the discussion paper
- In general, positive experience with Open Seasons although the process can be improved (coordination, transparency on costs, on tariffs and eco test in particular)
- Scope of the paper should be either limited to cross-border IPs or include cross-market areas IPs for consistency with CAM/CMP
- No dichotomy between Open Seasons and "integrated auctions"; they share a similar objective and have their own merits, if well-designed

- Some stakeholders consider both processes are useful but in different circumstances
 - “Integrated auctions” appropriate for regular opportunities to book small amounts of incremental capacity
 - Open Seasons allow for a tailored approach for more complex projects (major investments/several IPs)
- Other stakeholders advocate for one option against the other
- Market-testing to be organised on a regular basis (different views on exact frequency) known upfront by market players
- A majority of respondents consider that a full standardisation of economic tests is not necessary but suggest harmonising general principles (structure, transparency, link with regulatory approval)

- Evaluation of responses document, including preliminary CEER views, to be published by end of year (December 2012)
- Blueprint for an EU-wide approach on incremental capacity to be presented at next Madrid Forum (April 2013)
- Public workshop to be held in March 2013
- Close cooperation with ACER, who have commissioned a consultancy study on incremental capacity (in the context of Tariffs FG).



Option C) Non-Binding Pre-Phase

- identifies, based on informal intelligence, where it would be likely that incremental capacity will be taken up by network users.
- could possibly include a non-binding OS phase, which could give indications on upper limits of capacity requirements, and point to locations where there is likely to be demand.
 - if run regularly, users will become more realistic in their requests, because they know that more chances to signal their needs will come.
- such intelligence could then be translated into a limited number of projects that would lead to pre-defined incremental capacity steps, for which a calculation of deemed investment costs is possible and which are then offered in the long term CAM NC algorithm.
- final investment decision, as in the GB regime, would be based on a certain proportion of the investment costs being covered by the net present value of the respective binding bids.

Option D) Pre-Open Season approach

- full two-phased open season (or only a binding round of capacity commitments) could be held before the long term CAM NC algorithm.
- users would *commit to place their bids* in the long term CAM NC algorithm so that concrete investment projects could be designed, a market test could be applied already to the commitments collected in the open season.
- incremental capacity matching the pre-commitments would then be offered in the normal long term CAM NC algorithm alongside existing capacity.
- commitments to place bids in the long term CAM NC algorithms could be given beyond the 15 year CAM allocation, to allow a longer term risk distribution and a bigger proportion of the investment cost to be covered.
 - bids would then be entered year after year as the CAM allocation opens for the year in question.

- Participant views on these proposals
- Could this work for cross-border IPs?
- Are there lessons to learn or elements to add from GB experience?
 - Milford Haven
 - Fleetwood
 - NTS Exit reform
- Does this overlap with NGG's review of incremental capacity?
- Next steps: Annex to regulation (CAM NC) or Guideline of Good Practice?

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Congestion Management Procedures Implementation

**DECC/Ofgem gas stakeholder meeting
Ofgem, 14 November 2012
Richard Miller**

Process

- Stage 1 (Nov 2012 – Feb 2013)
 - Ofgem consultation
 - Strategic issues
 - Gap analysis
 - Measures to ensure compliance
 - Ofgem decision on
 - Measures and means to ensure compliance
- Stage 2: (Feb 2013 – Oct 2013)
 - TSOs implement measures in industry codes
 - Ofgem/DECC implement licence changes

Big strategic issues

- How far do we go now with early implementation of CAM?
 - Auctions
 - Bundling
 - Bacton
 - Aligning CMPs at interconnection points
- How does Ofgem ensure compliance
 - Industry code route only
 - Industry code route + Licence obligations

Initial Gap Analysis

	NGG entry	NGG exit	IUK	BBL
Over-subscription & buy-back	1. Apply to annual auction of monthly capacity, month-ahead auction and day-ahead auctions.	1. Ensure over-subscription sold after baseline sold out	1. Implement over-subscription mechanism 2. Change timing of day-ahead allocation & nomination? 3. Implement buy-back mechanism 4. How to set buy-back price?	1. Implement over-subscription mechanism 2. Implement buy-back mechanism 3. How to set buy-back price?
Day-ahead UIOLI (optional for Oct 2013)			1. Implement DA UIOLI mechanism 2. Change timing of day-ahead allocation & nomination 3. Implement day-ahead allocation	1. Implement DA UIOLI
Surrender	1. Apply to annual auctions of quarterly and monthly capacity.		1. Change existing surrender mechanisms 2. Make capacity available to all 3. What price does surrendering user receive?	1. Change existing mechanisms 2. What price does surrendering user receive?
Long-term UIOLI	1. Implement LT UIOLI 2. Should shipper receive payment for lost capacity?	1. Implement LT UIOLI 2. Should shipper receive payment for lost capacity?	1. Implement LT UIOLI 2. Should shipper receive payment for lost capacity?	1. Change existing mechanism
Other			1. Regular allocation process 2. Standard capacity products	

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