

DECC-OFGEM STAKEHOLDER GROUP FOR GAS

7TH MEETING – 7 FEBRUARY 2013

MINUTES

1. The Chair (Pamela Taylor) opened the meeting and welcomed participants. There were no actions from the previous meeting.

2. Congestion Management Procedures (CMP) Network Code

2.1 Ofgem (Michael Jenner) updated on the CMP guidelines implementation and enforcement ([see slides](#)). Ofgem informed that it will not be releasing a consultation document but instead an open letter proposing 2 options for CMP implementation on the gas interconnectors:

1. Using DECC's 2.2 regulations in the gas act to make CMP a relevant requirement of their licences
2. Altering specific sections of the existing licences to include CMP regulations.

Ofgem favours the first option as it is a more flexible approach, the process will be industry led; the licensees will conduct their own consultation, provide Ofgem and the relevant neighbouring NRAs with proposals, then the NRAs will accept/reject these proposals. If a proposal is deemed by NRAs not to be complaint then TSOs may need to consult again to ensure a CMP compliant proposal is put to NRAs for approval.

DECC believes that the approach proposed by Ofgem sounds sensible, subject to approval from DECC lawyers. Ofgem proposed to hear from TSOs on this issue at future meetings of the group. There was a general agreement within the group that the use of DECC's 2:2 regulations was a sensible approach.

A stakeholder asked if this would be the plan for all network codes, and Ofgem (Michael Jenner) stated that it would be an option going forward, and would depend on the success of the implementation of CMP and the specific implementation requirements of each network code.

A stakeholder queried whether Ofgem has a draft timetable that it could share with stakeholders.
Action for Ofgem to send a draft timetable to stakeholders.

2.2 Ofgem (Michael Jenner) also gave a brief update on the status of implementing CMP on National Grid Gas Transmission where a UNC code modification will be necessary to ensure compliance.

3. Capacity Allocation Mechanisms (CAM) Network Code

3.1 DECC (Sue Harrison) reported from the first CAM Network Code comitology meeting which took place on 24 January. There was very good attendance from Member States. The second comitology meeting is scheduled for 15 April.

3.2 The main contentious issues included:

- quotas for short and medium term capacity – this is expected to be agreed;

- incremental capacity – most Member States were undecided, so likely to be a compromise, eg smaller percentage or case-by-case assessment
- mandatory bundling- Member States are still concerned but it looks like this will be agreed. Regarding Article 21 on amending existing contracts, the European Commission is likely to reduce the detail in the text without undermining the objective.
- the implementation period is too short; Member States want longer.

3.3 Alex Barnes (Gazprom) stressed that the European Commission's impact assessment is misleading, wrong data is used and it mixes capacity with congestion management issues.

Regarding mandatory bundling he asked whether there will be a UK impact assessment – DECC said that the purpose of these meetings was to assess the impact on UK, but a specific UK IA would not be published. Stakeholders stressed that Bacton is both an interconnection as well as a domestic point – it may have to be split: entry from North Sea, entry BBL, entry IUK. Stakeholders concerned that if Bacton entry capacity were split rigidly between bundled capacity for BBL and for IUK there would be no flexibility if an IUK bundled capacity holder wanted to use the Bacton entry part of this product to flow gas into GB from BBL (assuming they had unbundled BBL capacity on the Belgian and BBL side to do this).

Ofgem recognises difficulties around this; stakeholders should perhaps look at the PRISMA platform for capacity booking developed in continental Europe which aims to deliver early implementation of CAM style auctions. There are a series of workshops coming up in February to which GB stakeholders could sign up to. GB will have an obligation to bundle capacity.

Alex Barnes asked whether it will be possible for the UK to vote against the mandatory bundling at the comitology meeting. Ofgem and DE CC stressed that at this stage in the process the arguments to vote against would have to be very convincing but, as we would be in a minority, voting against would have no impact on the outcome. **Action for stakeholders to send suggestions to Sue Harrison (DECC) and Richard Miller (Ofgem).**

4. Tariffs Framework Guidelines

4. Ofgem (Richard Miller) gave an update on the Tariffs Framework Guidelines ([see slides](#)). ACER held a public workshop on 23 January and an “open house” event on 4 February for stakeholders to provide input into proposed changes to the Framework Guidelines. There will be an opportunity to provide ACER with written comments on its proposed changes to the Framework Guidelines as ACER will publish these on its website on 31 January – the closing date for comments is noon on 11 February.

4.1 The proposed changes ([see slides](#), in red) are under:

- Cost Allocation
- Storage
- Revenue Recovery
- Reserve Price on short-term multipliers
- Incremental capacity

Ofgem welcomes stakeholders to share their views on these changes and to reply by 11 February.

4.2 Stakeholders reported from the ACER public workshop held on 23 January:

- National Grid (Debra Hawkin) mentioned that it would be concerned with revenue recovery, not clear if you can have a multiplier above 1. There is also a lack of clarity on how this is going to work together as it leaves a lot of the methodology to the code.
- RWE (Steve Rose) stressed that the workshop demonstrated regulators' consideration for the comments and issues raised by stakeholders. Improvements should be made on the quality of the guideline. There will be a reaction from the European Associations on Monday 11 February.
- EFET mentioned that its biggest concern is around reserve prices.

5. Incremental capacity

5.1 Ofgem (Konrad Keyserlingk) gave an update on CEER/ ACER work on incremental capacity ([see slides](#)). A Frontier study on incremental capacity provision is due out soon. An ACER/CEER workshop will be held on 25th February. There is a commitment to deliver the blueprint on incremental capacity at the Madrid Forum in April.

5.2 Ofgem focused on three key issues at the meeting ([see slides](#) for more information)

- The “trigger phase” - When to run an incremental capacity process: the aim is to design a predictable and transparent process that enables the market to signal a need for incremental capacity at the right time but concerns over how regularly, there are a range of options.
- The “economic test phase” and “allocation phase” - How to identify the incremental capacity need and how to allocate capacity. There are two models: an integrated option and an open seasons procedure.

5.2 Reaction from stakeholders (Alex Barnes): if new capacity is held back for short-term auctions it will impact on the economic test, lowering the coverage ratio. A key problem is the economic life versus the actual life of gas pipelines.

5.3. Stakeholders to send their comments to Konrad Keyserlingk (Ofgem).

6. Balancing Network Code

6.1 Ofgem (Konrad Keyserlingk) updated on the progress of the Balancing Network Code. ACER issued a Reasoned Opinion to ENTSOG which is now revising the code. It is very likely that ENTSOG will resubmit the code with the requested changes and ACER will then issue a recommendation to the European Commission. The comitology meeting is expected to take place in July 2013, and the code may be put to vote in one comitology meeting. It will then come into force 6 months after; it is likely that CAM will come into force first.

7. AOB

7.1. Stakeholders queried about the progress on the “Open Letter: Call for evidence on the use of the gas interconnectors on GB borders” published by Ofgem. Ofgem replied that the consultation responses have been published on the website and it is currently looking at the Heren data. Ofgem

will publish its conclusions shortly and stressed that the focus of the work is how we can make sure that interconnectors are efficient.

Participant list

Participant	Organisation
Nevile Henderson	BBL
Mark Dalton (dial in)	BG Group
Donal Kissane (dial in)	BGE
Andrew Pearce	BP
Helen Stack (dial in)	Centrica
Adam Cooper	Centrica Energy
Roddy Monroe	Centrica Storage
Jonah Anthony	DECC
Sue Harrison	DECC
Richard Fairholme	E.ON
John Costa	EDF Energy
Arben Kllokoqi	EDF Trading
Julie Cox	Energy UK
Felicity Bush	ESBI
David Cox	Gas Forum
Avian Egan (dial in)	Gas Link
Alex Barnes	Gazprom
Pavanjit Dhesi	IUK
Robert Sale	IUK
Debra Hawkin	National Grid
Clement Perry	Ofgem
Joseph Gildea	Ofgem
Konrad Keyserlingk	Ofgem
Michael Jenner	Ofgem
Pamela Taylor	Ofgem
Richard Miller (VC Glasgow)	Ofgem
Steve Rose	RWE
Gerry Hoggan	Scottish Power
Amrik Bal	Shell
Graham Craig (dial in)	UREGNI
Chris Logue	National Grid