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Tariff FG

DECC/Ofgem Stakeholder Group for Gas

23 April 2013

Richard Miller

Process update

- ACER board agreement on FG text, except
 - Cost allocation section
 - Notice period for change in tariffs
 - Transparency on RAB
- ACER to revise text on cost allocation (and other 2 issues)
 - April-June: ACER develop text
 - July-August?: ACER consulting
 - November?: ACER agreement of final FG
- ENTSOG to start drafting NC?
 - April-November? start drafting of agreed sections of FG
 - Commission will send ENTSOG formal letter once all FG finalised

FG agreement

- Implementation by Oct 2017 (extra year in special circumstances)
- Revenue recovery
 - At IPs by varying the capacity charges in future years
 - At non-IPs regulators can choose an alternative approach
 - Adjustment to flow based charges in future years where these used to recover costs driven by flows
- Reserve prices
 - Quarterly and Monthly: proportional to annual, deviations possible
 - Day-ahead and within-day: Less than or equal to proportional prices to annual, multipliers (between 1 and 1.5) possible
 - Seasonal factors – methodology for determining these to be set out in NC
 - Interruptible: NC to set out methodology
 - Bi-directional sites – discount to reflect likelihood of interruption
 - Unidirectional sites (backhaul) – price to reflect marginal (actual) cost to provide service
- Payable price – floating price
 - Reference price in year of capacity use + auction premium

Cost allocation

- Commission wants more detailed section setting out:
 - List of cost allocation methodologies
 - Description how each method determines tariffs
 - Entry / exit split
 - Input parameters
 - Cost drivers (and what these refer to)
 - Circumstances where each method used

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CMP Implementation



DECC – Ofgem Stakeholder Group for Gas

22 April 2013

Darren Reeve

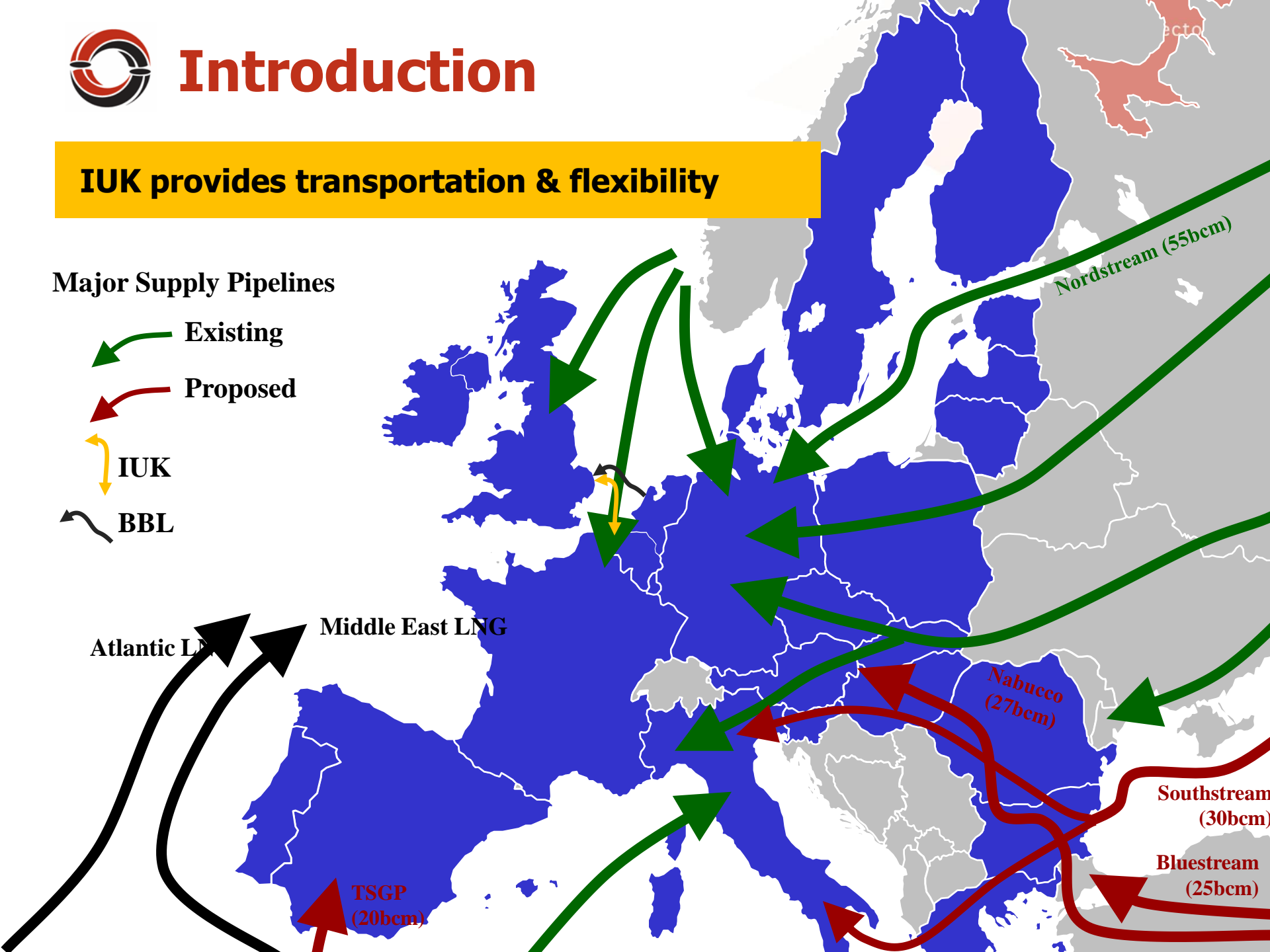


Introduction

IUK provides transportation & flexibility

Major Supply Pipelines

- Existing (green arrow)
- Proposed (red arrow)
- IUK (yellow arrow)
- BBL (black arrow)





'Congestion Management Procedures'

Amended Annex 1 to Regulation (EC) 715/2009

- Applies in the event of contractual congestion

Aimed at bringing unused capacity back to the market

- Oversubscription and Buy-back (Oct 2013)
- Surrender of Capacity (Oct 2013)
- Longterm UIOLI (Oct 2013)
- Firm day-ahead UIOLI/restriction of noms (July 2016)
- Monitoring & reporting requirements

In addition, IUK proposes to enable new Shippers to

- Sign a contract with IUK (without long-term capacity rights)
- Access capacity directly from IUK
 - as well as through the secondary market



CMP Proposal (1)

Offer additional capacity for sale (OS Capacity)

- Above technical capacity of the Interconnector
- Dynamic statistical scenario and risk model
 - to forecast utilisation and physical capability
 - ensuring genuine firm OS Capacity product offered
 - without creating disproportionate BB risk
- Day Ahead Product
- Entry-Exit Capacity
- Offered and allocated via auction, with reserve price

Buy back

- If nominations exceed the physical capability of the Interconnector system
- Market-based mechanism: pay as bid, with limit on exposure



CMP Proposal (2)

Capacity Surrender

- Allow existing Shippers to surrender contracted capacity to IUK
- Surrendered capacity to be re-sold via auction

Long-Term Use It Or Lose It

- Monitor Shippers' long-term capacity utilisation
- In conjunction with NRAs
- Potential withdrawal of unjustified underutilised capacity
 - And offered for resale

Enhance transparency through the publication of more data



Implementation Process

IUK to consult market on CMP implementation

- Starting *this week*, for 4 week consultation period
- Media Release at launch

Post-Consultation

- Assessment of responses by IUK
- Agree / finalise business rules
 - With NRA oversight/approval of further changes
- Contractual drafting
- Seek contract signatures with all IUK Shippers
- Seek approval from two NRAs (Ofgem & CREG)

Implementation - 1 October 2013

- Subject to required contractual changes and NRA approvals



Network Codes: Summary

Significant Impact

- For all systems TSOs & Network Users
- Phased over ~next 5 years (?) as codes come into force

Challenges

- Resources, costs, disruption to business.....
- Prescriptiveness
 - Needed to an extent to harmonise
 - Risks imposing inappropriate 'one size fits all' solutions
- Much of code content is being developed for grid systems within one member state – not for pipeline interconnectors
- Will continue to be interconnector specific issues as implementation progresses

Congestion Management Procedures – UNC Modification 0449

DECC Ofgem Stakeholder Group for Gas - 22 April 2013

Current Process

- UNC0449 is following standard UNC modification process.
- Timeline that we are working to (please note all dates are subject to due process):
 - UNC0449 raised and submitted to Modification Panel (21 March)
 - Undergoing Workgroup development, with aim to complete Workgroup report in June
 - Workgroup Report to be sent to June Modification Panel (20 June) to decide whether it can be issued for consultation
 - If issued Industry Consultation will close on 16 July
 - Panel recommendation expected on 15 August
 - Await Ofgem decision
- To be reviewed as part of the introduction of Capacity Allocation Mechanism (CAM) Code

UNC0449

- Seeks to comply with the following relevant objective:
 - *g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators*
- Modification will introduce a number of enduring and transitional requirements:
 - *Interconnection Point* as a new classification of “System Point”
 - Surrender processes introduced for:
 - NTS Entry Capacity
 - NTS Exit (Flat) Capacity
 - Introduce AMSEC Oversubscription process (utilising many of the same features as the AMSEC surrender process)
 - EU Transparency obligations at Interconnection Points for firm capacity products with a duration of 1 month or longer

NTS Entry Capacity

- Applied at QSEC, AMSEC and RMSEC Auctions
- Common process:
 - Offline surrender prior to auction invitation being issued
 - Surrender capacity only utilised where bids exceed the available capacity
 - Based on capacity entitlements
 - NTS utilise buyback functionality to effect the capacity surrender
- Allocation Process:
 - QSEC – embedded within existing allocation process
 - AMSEC / RMSEC – NTS use DRSEC auction functionality to effect capacity allocation

NTS Exit (Flat) Capacity

- Applied to Enduring Annual and Annual NTS Exit (Flat) Capacity application processes
- Common process:
 - Offline surrender prior to auction invitation being issued
 - Surrender capacity only utilised where bids exceed the available capacity
- Allocation Process:
 - Enduring Annual – embedded within existing allocation process
 - Annual – surrendered capacity allocated as non-obligated
- Surrender
 - Enduring Annual – NTS use adhoc reduction functionality to effect surrender of capacity holding
 - Annual - NTS utilise buyback functionality to effect the surrender based on capacity entitlements

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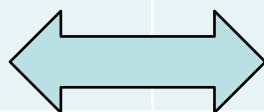
Gas European Network Code Implementation

April 2013

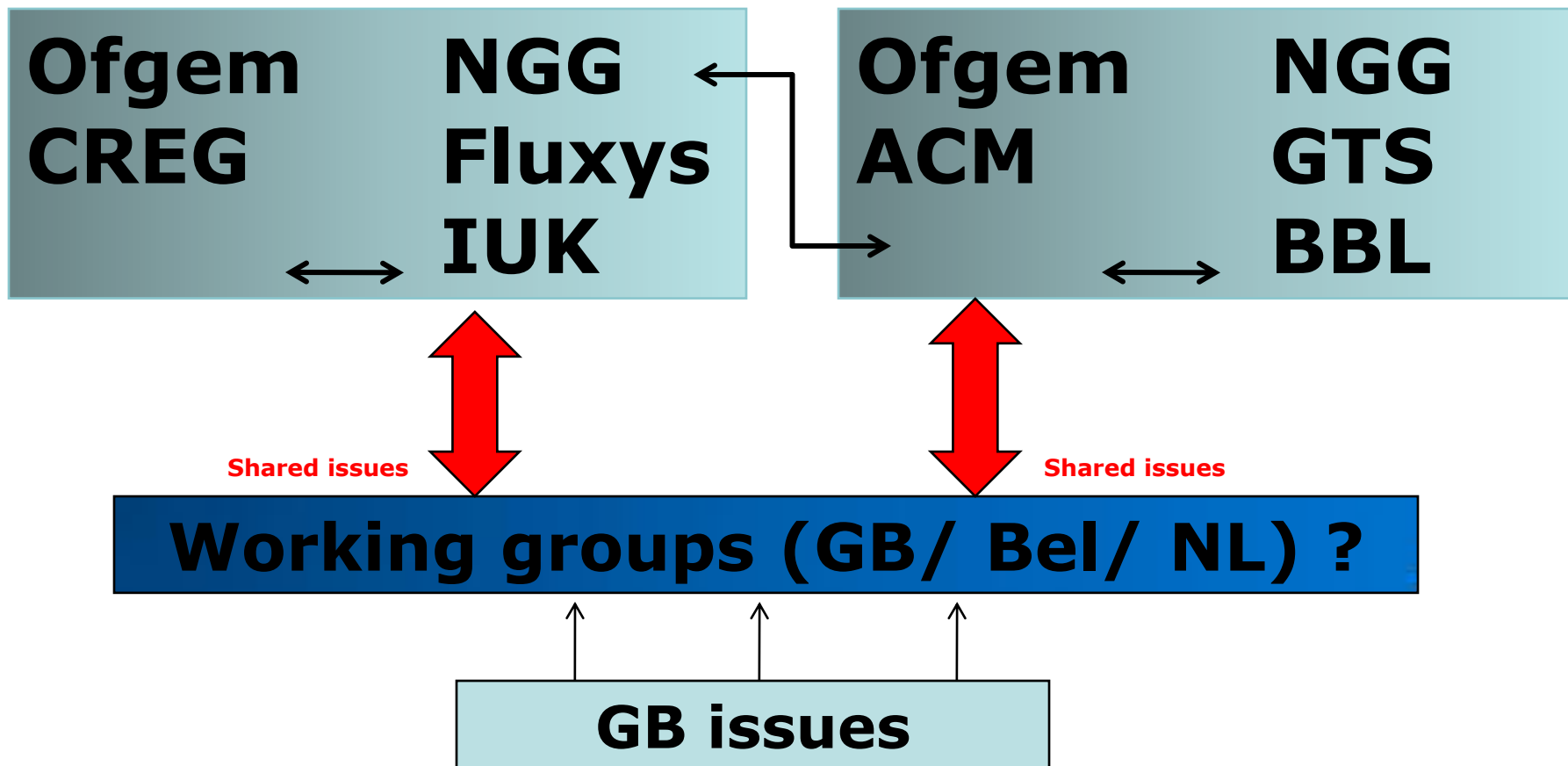
- Ofgem open letter on CMP implementation
- Individual TSO process on Congestion Management Procedures implementation:
 - NGG consults on Bacton/ Moffatt- Ofgem approval
 - IUK consults on its I/C – Ofgem/ CREG approval
 - BBL consults on its I/C- Ofgem/ ACM approval
 - Ireland still under discussion
- Ofgem published an open letter on IUK & BBL flows (closed in Dec 2012)
 - Ofgem analysing data flows using Heren data but also over recent cold period
 - GB charging arrangements impact IUK but still unexplained on BBL?
 - Will network code implementation alone on BBL be enough?

Key Issues

GB issues	Shared issues
Capacity identification e.g. how to calculate capacity at Bacton?	How to bundle capacity?
Should changes apply to all entry/exit points in GB or just interconnection points?	What booking platform to use (PRISMA) & how this should be governed?
How do we go about changing the gas day?	Interaction between capacity/ allocation & nominations (within-day)?



Package approach at cross-border points- look at CAM, nominations in balancing, charging etc



Need to consider with Irish NRAs- Moffat

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Future gas priorities

DECC-Ofgem Gas
stakeholder group
29 April 2013

Future gas priorities

1. Finalisation of current priorities
2. Implementation of existing rules
3. Other FG / NC areas
4. Future focus for CEER in gas

1. Finalisation of current priorities

Network Codes/Framework Guidelines

- NC CAM: finalisation of comitology in 1st half 2013
- NC BAL: comitology in 2013
- NC INT: 2013 finalisation of NC and comitology in 2014
- FG/NC TAR: finalisation of FG in 2013; start NC in 2014

2. Implementation of existing market rules

- **CMP implementation:** harmonised/consistent implementation across Europe as far as necessary and possible (develop ideas on how each mechanism should work)
- **CAM NC implementation:** besides the work on the GRI CAM Roadmap there is need for a coordinated discussion on relevant CAM implementation issues for NRAs
- **Early implementation** of other NCs e.g. balancing, interoperability and tariffs and monitoring

3. Other FG / NC areas for 2014

- **Incremental capacity:** allocation of new built gas transmission capacity at existing interconnections points
 - 2013 finalising CEER Blueprint with stakeholder involvement
 - 2014 ACER to start formal FG scoping, definition of the most appropriate legal instrument and timeline

- **Rules for trading:** first scoping could start in second half of 2013, formal scoping to start in 2014
 - Rules for Trading related to technical and operational provisions of network access services and system balancing

4. Future focus for CEER

- **CEER Gas Target Model review and update**
 - Update to be developed by CEER with stakeholder involvement (public consultation, workshops)
 - Outcome: updated gas market model and input to other areas, e.g.
 - scoping of future FGs/NCs or necessary NC amendments,
 - further reaching CEER papers on some of the topics addressed, etc.

- **Follow-up on work on interaction** between electricity and gas markets

- **Continuation of the work on existing topics**
 - Storage - transparency and implementation issues, strategic questions
 - LNG - access, transparency issues, strategic questions
 - Security of supply

- **Address some other topics, e.g.**
 - Gas in transport
 - Power-to-gas
 - Biogas
 - Consumer issues and smart meters from the gas perspective taking into account national specificities
 - Energy efficiency in gas, gas industry's role in EE

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