

DECC-Ofgem European Stakeholder Group for Gas
Friday 7th February, 14:30 – 17:00 9 Millbank, SW1P 3GE
Chair: Rob Mills (Ofgem)

Minutes

1. Actions from last meeting

- a. Action on Ofgem to finalise the interoperability briefing, prepare a REMIT briefing, and adjust the text of the Balancing and CAM briefings.
 - i. These have all been completed, and the new REMIT briefing was distributed to stakeholders at the meeting.
- b. Action on National Grid to produce a note detailing the proposed ENC implementation workshops, including the scope and objectives of the proposed 2-3 workshops.
 - i. The [UNC European Workgroup](#) (discussed further in item 3) is designed to deal with gas implementation. If stakeholders have any further comments or ideas for how to conduct the implementation engagement process they are invited to contact National Grid (Chris.Logue@nationalgrid.com).
- c. Action on Ofgem to put Rules for Trading on the next stakeholder agenda for a more substantive discussion.
 - i. This is discussed in item 5
- d. Action on Ofgem to redraft the terms of reference and distribute to stakeholders, with a fuller discussion of the ToRs and scope of the group to take place at the next meeting.
 - i. The redrafted terms of reference have been distributed, and along with the scope of the group are discussed under item 3.

2. Upcoming meetings

- a. Jessica Housden (Ofgem) made sure that stakeholders were all aware of the Gas Day Open Meeting, hosted by Ofgem and taking place on the 12th February.

3. Redrafted Terms of Reference, scope of group + UNC European Workgroup

- a. The redrafted terms of reference have been distributed to stakeholders, and stakeholders are invited to send their comments to Daniel Tattersall (daniel.tattersall@ofgem.gov.uk) by 14th March.

- b. In a discussion of the scope of the group, it was agreed that the group plays an important strategic function and can contribute to the early identification of problems, both in the current Network Code processes, and also as the Codes move into implementation. However, the technical details of the codes and implementation are outside of the scope of this group, and should be left to the UNC Europe Workgroup.
- c. Colin Hamilton (National Grid) gave an update from the first UNC European Workgroup meeting and explained what the Workgroup is hoping to deliver. It will be focussed on the technical details and business rules associated with the Network Codes and their implementation, including dealing with code modifications that have been raised.

4. PRISMA – use and teach ins

- a. Fabien Laroche asked stakeholders whether they are using the PRISMA booking platform and what their experiences have been so far, ahead of a meeting between Ofgem and PRISMA on the 17th February.
- b. Stakeholders (and their affiliated companies) are using PRISMA, and generally the platform works well. The issues lie more with the products (bundled products in particular) than the platform itself. However, it is not within PRISMA's remit to address any contractual differences between the products on either side of a bundle. It was noted that PRISMA "does not define the product".
- c. Also highlighted was that there were some limitations with the capability of PRISMA's platform for secondary trading of capacity. However, shippers acknowledged that the platform has only been running for a short amount of time and that secondary trades can still be carried out by way of bilateral agreements between shippers (OTC markets). They warned against shippers being pushed into using one platform for secondary trading or being prevented from entering into bilateral agreements or using OTC markets. It is important to recognise that other platforms may come along in the future and that it should be up to the shippers to decide which one they choose to adopt.

5. Rules for Trading

- a. Ryan McLaughlin (Ofgem) reported back from the first meeting of the Rules for Trading (RfT) expert group on the 27th January. There was a general agreement amongst the experts that while issues existed they were not sufficient to warrant another set of Framework Guidelines or a Network Code, and that the focus should be on implementing the current NCs and solving the issues with them in a bottom up/light touch way. For example problems over the definition of capacity products need to be resolved during CAM implementation.

- b. Stakeholders at the meeting asked whether the RfT would look exclusively at capacity or would it cover commodity too. Ryan explained that the EC Priorities for 2014 specified that RfT would only cover capacity.
- c. There are no further meetings of the expert group scheduled. ACER will now prepare a report for the Commission outlining their conclusion on the scoping of an RfT FG.

6. Tariffs kick-off meeting

- a. Colin Hamilton (National Grid) [presented](#) an update from the ENTSO-G's Tariffs kick-off meeting on the 15th January, which was designed to give stakeholders an opportunity to feed in comments to the NC drafting process. Comments focussed on the concern that there would no longer be fixed prices capacity at interconnection points and that the terms of existing capacity contracts would be amended. There was also a feeling that 'mitigation measures' allowed in the Framework Guideline were currently insufficient. NGG will update stakeholders regularly on TAR NC development (via UNC European workgroup, DECC-Ofgem stakeholder group etc). ENTSO-G has until December 2014 to draft TAR NC; NGG strongly encouraged all GB stakeholders to follow ENTSG's SJWSs (Stakeholder Joint Working Sessions), in Brussels or via webcast. This will help to feed market participants' priorities into the process as early as possible.
- b. Ofgem requested feedback on the potential impact of the GB tariff setting year moving to the calendar year. ENTSG are tasked with completing a cost benefit analysis on standardising this across Europe (the three options they will consider are i) to do nothing ii) standardise in line with CAM year iii) standardise as calendar year). Stakeholder feedback was that as long as it was clear what the tariff year was, that there was sufficient notice given, and the costs and benefits properly weighed, the impact wasn't considered material. No further actions were suggested.
- c. Ofgem's Gas Transmission Charging Review (GTCR), which focuses on the domestic regime only, could be helpful in this respect. Although it does not cover all TAR NC issues, there are several common themes - eg fixed/floating tariffs, short-term capacity pricing. Ofgem will prioritise areas in accordance with TAR NC where possible. Ofgem added that the Gas Transmission Charging Review (GTCR) will help with ENTSO-G's relatively short timeframe by prioritising areas for work, and National Grid will feed into this process. The GTCR [literature review tender](#) is now live, entitled: "Regulating a network monopoly: principles of tariff setting and revenue recovery in the absence of significant network capacity constraints, including questions about long-term and short-term access pricing".

7. Incremental and new capacity kick-off meeting

- a. Alex Barnes provided an update from the incremental and new capacity kick-off meeting, which took place on 14th January, where ENTSO-G presented its project plan for developing the 'Incremental Proposal' amendment to the CAM NC and inputs to the TAR NC development process. The proposal seeks to harmonise the auction mechanisms used across Europe.
- b. Stakeholders are generally pleased that the proposal is not too prescriptive, though concern remains over the floating tariffs regime at Interconnection Points that is set out in the TAR FG which can disincentivise shippers from making bookings years ahead and therefore does not meet the economic test (f factor).

8. Bridge to 2025

- a. Feodora von Franz (Ofgem) delivered a [presentation](#) on the Bridge to 2025, a vision paper produced by CEER and ACER which comprises four pillars: gas, electricity, consumers and distribution system operators.
- b. The Gas Target Model ACER Task Force will produce the gas pillar; in parallel, a revised Gas Target Model will be proposed. Stakeholders have 6 weeks to comment on the consultation paper, which is expected to be published on 29 April.

9. Comitology update

- a. Sue Harrison updated the group on recent developments in the comitology process. On the 21st January there was a constructive discussion on the Interoperability NC, with a key issue discussed being that of gas odourisation and its possible role as a barrier to trade. There was also the repeated (and consistent across many of the NCs) problem concerning the quality of the legal drafting. The first formal Interoperability comitology session is to be held on the 28th April.
- b. A question was also raised over whether the comitology process may be changed, resulting in the loss of Member States' right to vote on Commission proposals. Sue Harrison noted that Member States are pushing back strongly on this so the process will remain unchanged for the foreseeable future.
- c. Action on Ofgem to add this to the agenda at the next stakeholder meeting if necessary

10. Bacton update

- a. David McCrone (Ofgem) delivered a [presentation](#) on the next steps to be taken concerning the implementation of CAM at the Bacton gas terminal.
- b. There were a number of stakeholder questions, which have been answered in detail in annex 1.

11. Congestion Management Procedures open letter

- a. Ofgem has published an open letter concerning the options for implementation of CMP on BBL Company. The letter is available [here](#), and stakeholders are invited to respond by 24th February.

Annex 1: Ofgem responds to questions asked on implementation of CAM at the Bacton gas terminal

How will any split of the Bacton ASEP be determined? Will shippers be able to input into this process? Could we end up in a scenario where a UKCS only shipper is forced to assign some or all of their capacity to a European ASEP which is redundant to them? This needs to be considered alongside any development of flexibility.

We have not yet determined the specific details of how capacity at the Bacton ASEP would be split. In our open letter on issues relating to the implementation of CAM at Bacton (31/10/2013) we proposed that the description of existing Bacton ASEP baseline capacity set out in the NGG Licence would be split to distinguish between gas flowing from UKCS and via the interconnectors with Europe in order to maximise the offer of bundled capacity at interconnection points, as is required by CAM. We proposed that the capacity made available to the new European ASEP would be equal to the sum of the maximum technical capacity of IUK and BBL. The remainder of the current Bacton ASEP baseline capacity would be made available at the UKCS ASEP.

We would expect any split of the Bacton ASEP capacity to be in line with shippers' wishes as far as is practically possible. Figures shared at the workshop on 28/01/2014 suggested that future booked capacity was significantly less than the Bacton baseline (and indeed, less than the total maximum technical capacity of the two interconnectors).

We will consult on our proposals to split the Bacton ASEP later this year. While the formal assignment of capacity to any new ASEP(s) will likely be resolved through modification of the UNC, we may invite shippers, through their consultation responses, to provide an indication of how they would want to split existing holdings. This will help us reach our final decision on how to split the Bacton ASEP.

If there was a scenario where a UKCS only shipper assigned some or all of its existing capacity to the European ASEP, we consider that amending the overrun regime as discussed at the workshop on 28/01/14 might help mitigate any concerns about that capacity becoming redundant. While the shipper would have no entry capacity at the UKCS ASEP, entry capacity held at the European ASEP (and therefore, at Bacton in aggregate) might allow them to flow from UKCS without penalty. We expect industry to develop this further to determine what benefits it can bring.

Why are Ofgem considering splitting the Bacton ASEP?

Given the particular characteristics of the Bacton ASEP, our view is that the part of the entry capacity that enables gas to enter GB from the interconnectors with Europe is within the scope of CAM; conversely, the part of the entry capacity that enables production from the UKCS to enter GB does not fall within the scope of CAM. This implies that if CAM is

implemented according to its narrow scope at IPs, then from 1 November 2015 capacity for gas entering from Europe will be sold under CAM while gas entering from UKCS will continue to be sold under the existing UNC arrangements.

One solution to this would be to roll CAM out across all entry points. This would ensure that capacity is sold in a consistent manner across GB. However this is beyond the scope of CAM and would be extremely challenging to implement for 1 November 2015. As such, we ruled this option out in our open letter and responses supported this. An alternative would be that entry capacity for gas entering from UKCS at Bacton only is sold under CAM auctions. This would likely be simpler than rolling out CAM auctions to all GB entry points. However, it would mean that different rules for gas entering from UKCS would apply depending on the entry terminal, and our view is that we do not think it appropriate to make a special case for UKCS gas arriving at the Bacton ASEP. Again, responses to our consultation supported this view.

Our open letter considered that there are four separate options for how capacity could be treated given it will be offered for sale at Bacton in two separate auctions. These options are:

1. NGG manages any constraint;
2. Capacity reduction;
3. Competing auction; and
4. Split entry capacity.

For the first three of these options we consider that the disadvantages outweigh the advantages. Most notably in respect of providing incorrect signals in respect of the amount of capacity available and gives an unfair advantage, as a result of the different timing of the auctions, to those shippers looking to participate in one of the auctions.

Our fourth option is in respect of the baseline entry capacity at the Bacton ASEP being split. This would allow for separately defined volumes of capacity to be made available in the UNC and CAM auctions, which would provide the advantage that the CAM and UNC auctions could be held independently of each other.

Does the implementation of CAM, as well as the Tariffs network code, represent a material change in existing contracts between shippers and TSOs? Is there an argument for providing parties the opportunity to terminate existing contracts?

Article 20 of the CAM Regulation sets out what the obligations are in respect of existing contracts which, in summary, is that parties to existing contracts should aim to reach agreement on the bundling of the capacity via contractual arrangements in compliance with the requirement for capacity to be bundled across interconnection points.

The effect that the implementation of CAM and the Tariffs network code will have on existing contracts and whether they could be terminated will depend on a number of factors including the specific terms of the contracts in question, the contract law for the relevant jurisdiction that they operate under, and the respective positions of the parties to them.

Stakeholders should therefore seek their own independent legal advice on their rights and obligations in respect of their own contracts.

The substitution methodologies will need to be reviewed in light of any split of the Bacton ASEP. Substitution of entry capacity away from the new Bacton ASEPs could impact flexibility.

We expect that the substitution methodologies will be reviewed as part of implementing the CAM network code.

Attendance list

Isabelle Magne (dial in)	GDF Suez
Graham Craig (dial in)	Uregni
Nick Wye (dial in)	Waters Wye Associates
Julie Cox (dial in)	EnergyUK
Doug Wood	BP Gas
Marshall Hall	Oil and Gas UK
Manda Goodwin	ConocoPhillips
David Cox	London Energy Consulting Ltd
Nevile Henderson	BBL Company
Richard Fairholme (dial in)	E-on
Sue Harrison	DECC
Chris Logue	National Grid
Pavanjit Dhesi	Interconnector
Robert Sale	Interconnector
Steve Rose	RWE
Alex Barnes	Gazprom M&T
Ric Lea	Gazprom M&T
John Costa	EDF Energy
Colin Lyle	EFET
Colin Hamilton	National Grid
Andrea Bonzanni	EDF Trading
Sofia Eng	EDF Trading
Samia Adel	Storengy UK
Clare Cattle-Jones	Energy Networks
Lee Bowerbank	ExxonMobil
Amrik Bal	Shell