



European Commission consultation on security of supply regulation (994/2010)

Informing UK Government response

11 March 2015



Timeline and Government approach



- Summary of stakeholder responses:
 - 6 responses (4 infrastructure developers; 2 shippers). Conscious far from full market coverage
 - On balance, responses concise and aimed at specific aspects of the consultation, very UK specific.
 - Responses largely in favour of market-based mechanisms. Some bespoke interventions requested (mainly outside the scope of the consultation).
 - 50/50 split on value of completing internal energy market. Little evidence presented or alternative model suggested.
 - Adequacy of current market structure to deliver needed infrastructure investments queried.



UK Approach and Principles

(Subject to Ministerial clearance)

1. Support strongly EU attempt to diversify suppliers and reduce power of monopoly suppliers but this can't come at the expense of damaging the internal market and must be cost-effective.
2. Welcome emphasis on well-functioning and liquid markets. Measures and obligations should not create barriers to commercial investment.
3. Embrace regional solutions but these should be voluntary and not prescriptive
4. Some targeted infrastructure investments may be justified based on robust whole-corridor cost-benefit analysis and keep market distortion to a minimum. Issue of who pays?
5. Highlight need for existing obligations to be proportionate and not damage supply security of other MSs



What happens next

Key dates

- 1) 8 Apr
consultation
closes
- 2) Spring/
summer –
influencing
window
- 3) Late summer
– publication
of proposals
for regulation
- 4) Autumn 2015
negotiations
begin

- Commission will analyse responses and begin drafting
- Likely that more concrete proposals are floated in different fora with opportunities to influence Commission
- DECC will continue to consider UK approach as more detailed proposals emerge, including working with other MSs as appropriate
- Expecting proposals for a revised regulation to be published late summer
- Negotiations likely to begin on a draft regulation in autumn
- Aim to use this DECC-Ofgem European Stakeholder Group to discuss emerging issues and provide updates



Thank you for your time

- 1) Any areas of concern?
- 2) Any further questions?

Projects of Common Interest (PCI)

Second round selection

**Iain Morgan,
Senior Regulatory Economist,
Network Regulation Policy**

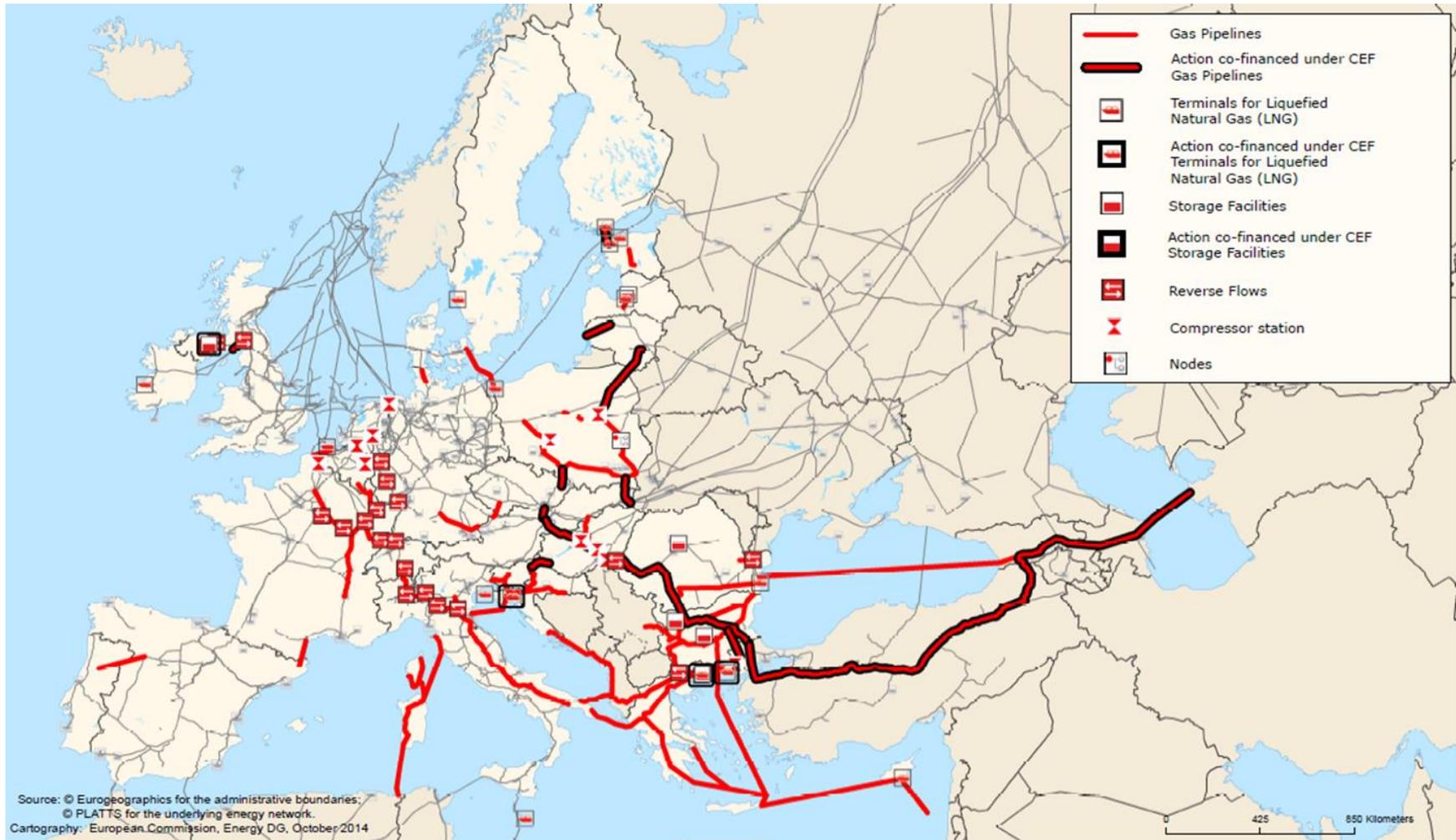
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- Promoters submit projects that they consider should receive 'PCI' status. These are considered by Regional Groups comprising ministries, NRAs, gas and electricity TSOs, project promoters, ENTSO-G, ACER and the Commission.
- Regional Groups will consider the regional PCI lists in summer 2015.
- A PCI should:
 - have a significant impact on the energy markets of at least two EU countries (e.g. by contributing to the integration of their networks)
 - increase competition in energy markets by offering alternatives to consumers
 - enhance the EU's security of supply by allowing countries to receive energy from a greater number of sources
 - contribute towards the EU's energy and climate goals (e.g. by facilitating the integration of renewable energy into the grid)

- PCIs can benefit from a number of advantages, including:
 - accelerated planning and permit granting procedures, including a binding three-and-a-half-year time limit for granting a permit
 - there being a single national authority to deal with when it comes to obtaining permits
 - lower administrative costs for project promoters and authorities resulting from streamlining of their environmental assessment procedure
 - increased transparency and improved public participation (projects have to conduct public consultations, create information manuals, etc)
 - increased visibility for investors who are included on the list
- Also possibility of receiving financial support under the Connecting Europe Facility (CEF)
 - Projects may have access to financial support totalling €5.85bn between 2014 and 2020
 - Under the first round of CEF funding in 2014, €647m was allocated to PCIs
 - A total of €650m in grants is planned for PCIs in 2015 with the first of two calls for proposals open from 4 March – 29 April 2015

Map of current gas PCIs



- The Commission issued a consultation on the second PCI list on 22 December 2014. The deadline for responses has been extended to 31 March 2015
- There are nine UK and Ireland projects included in the consultation:
 - Physical reverse flow from Northern Ireland to GB and Ireland via the Scotland to NI pipeline (TRA-N-027)
 - Shannon LNG Terminal and connecting pipeline (LNG-N-030)
 - Physical reverse flow at Moffat Interconnection Point (TRA-N-059)
 - Twinning of South West Scotland Onshore System between Cluden and Brighthouse Bay in the UK (TRA-N-060)
 - Physical reverse flow on South North pipeline (TRA-N-071)
 - Southwest Kinsale Storage Expansion project (UGS-N-197)
 - Preesall Gas Storage (UGS-N-203)
 - Islandmagee Gas Storage Facility (UGS-N-294)
 - Expansion of Isle of Grain LNG terminal (LNG-N-368)

- The Ten Year Network Development Plan (TYNDP) will be publicly released by mid-March.
- Projects must be in the TYNDP to be eligible to qualify as PCIs
- ENTSOG is preparing the CBA templates:
 - qualitative and financial templates should be released this week
 - economic template will be released by the end of March
 - Promoters must provide CBAs to the Commission in the week commencing 13 April (*still to be confirmed by Commission*)

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.

Bacton Split update

Richard Miller
11/03/15

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- Ofgem published final decision and direction to change NGG's NTS licence on 10 Feb 2015
 - This will split Bacton from 1 Nov 2015 into
 - Bacton IP: baseline equals sum of maximum technical capacity of IUK and BBL. CAM will be implemented at this IP and Moffat.
 - Bacton UKCS - baseline is the equal to remainder of current Bacton ASEP
- Appeal window closed 10 Mar 2015
- Industry have developed four UNC modifications that address how existing Bacton entry capacity holdings are to be treated from 1 Nov 2015.
 - The UNC Panel recommended that all four modifications should be made
 - The Panel considered that no clear majority existed for preferring which modification better facilitates the relevant objectives
 - We are currently assessing the four modifications

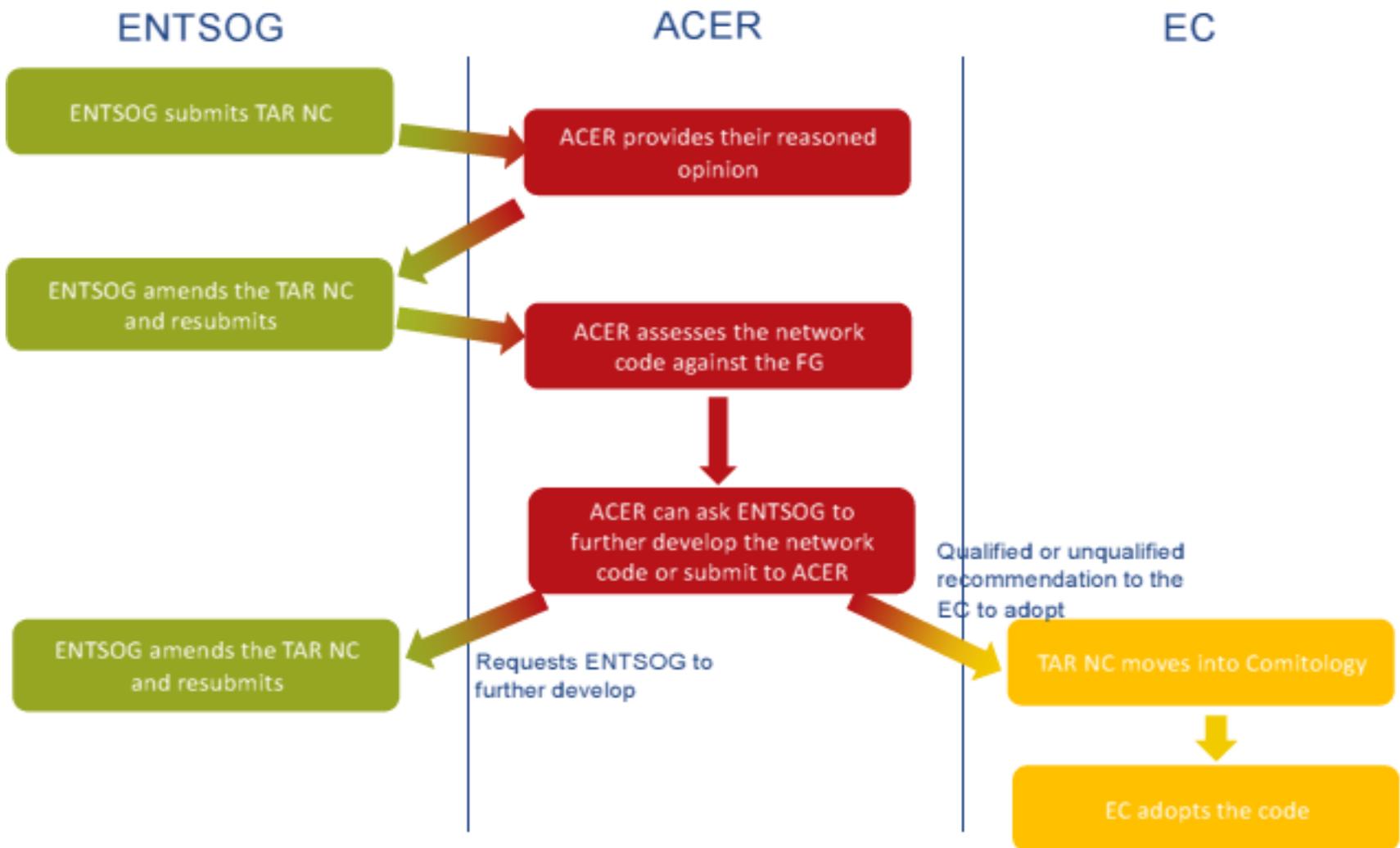
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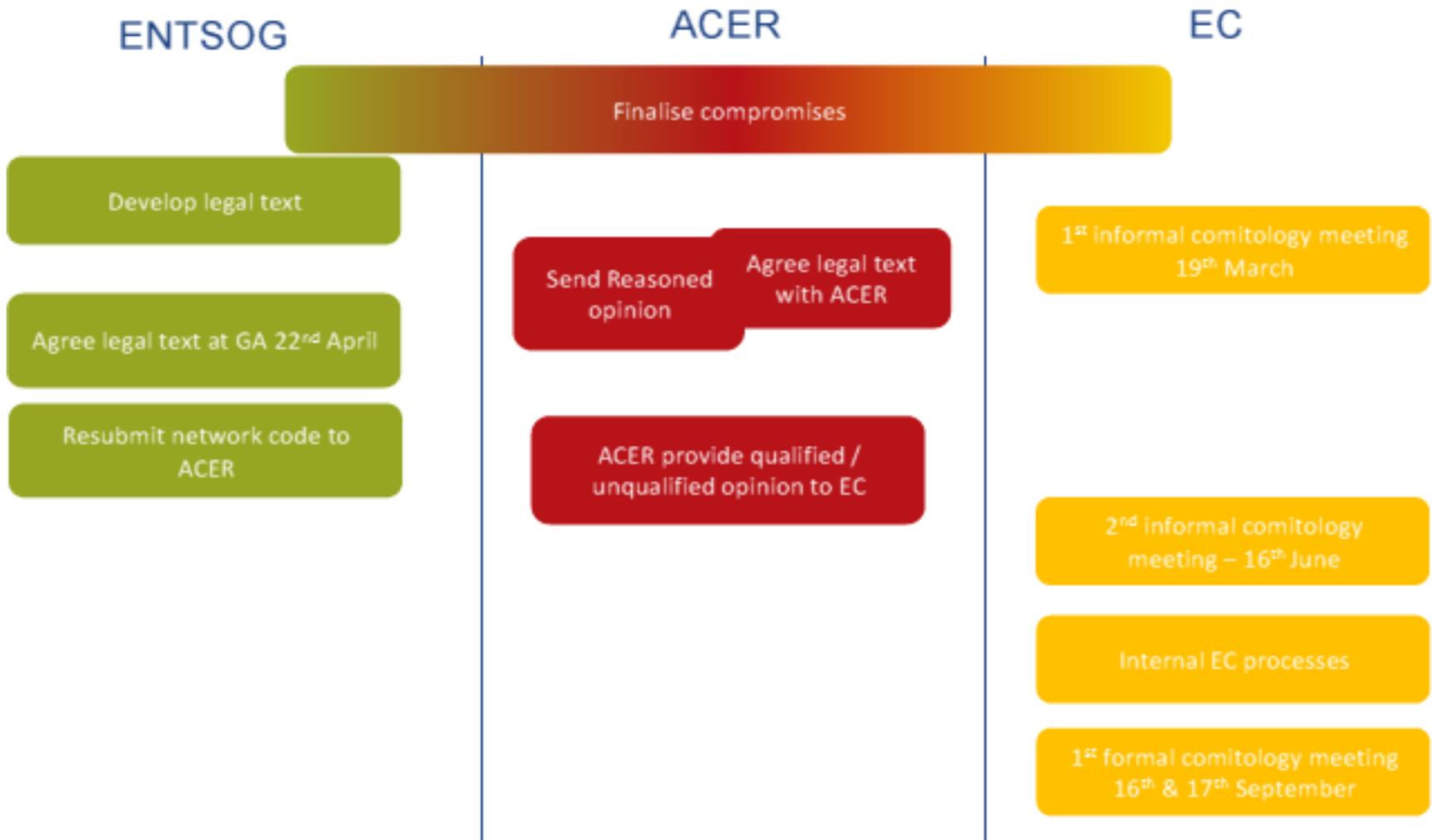
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EU Tariffs Code Update

Process



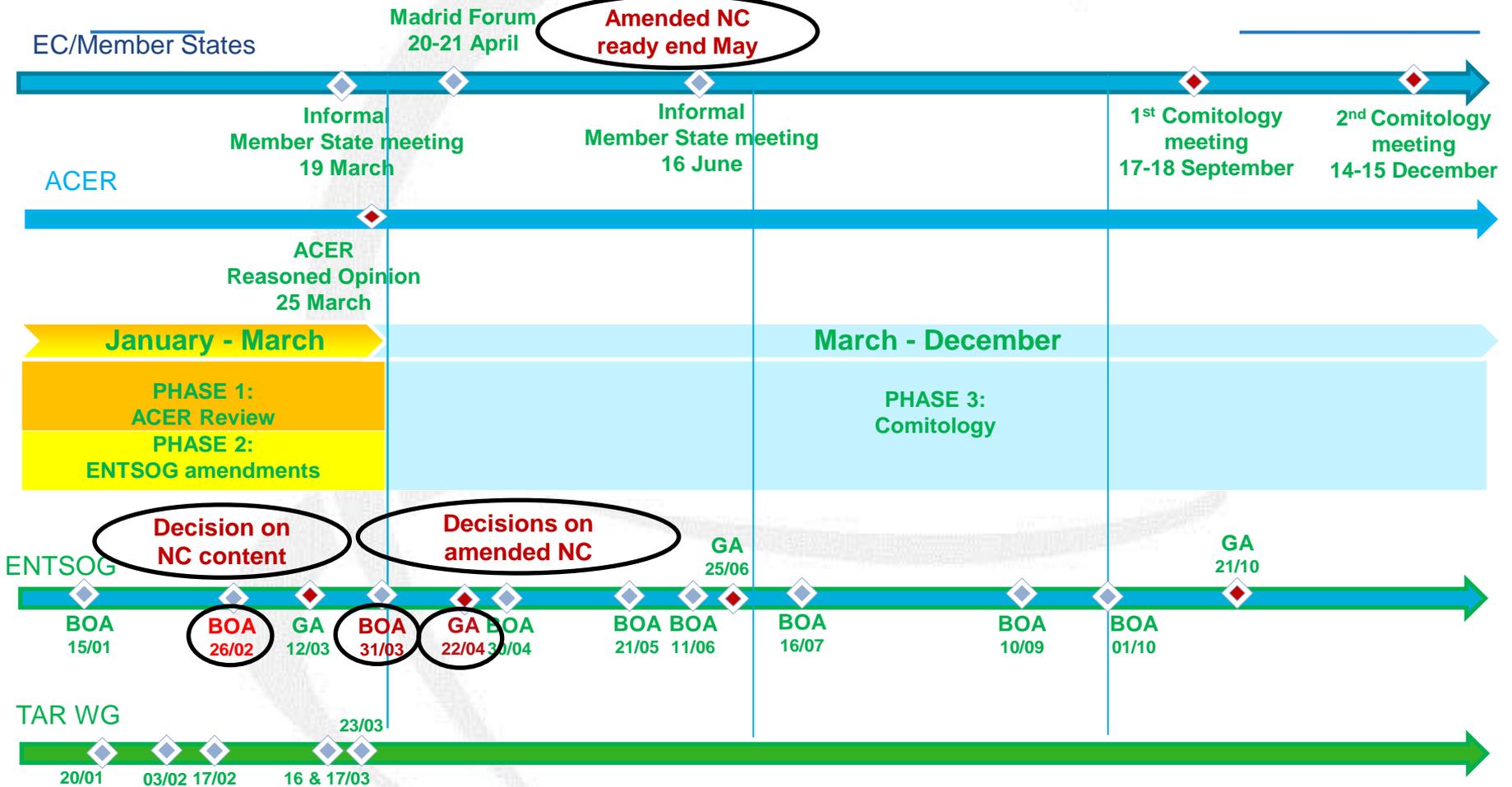
Next Steps



EU Tariffs Code Update

- EC wants TAR NC finalised for 16th June (2nd informal comitology meeting)
 - Code finalisation on very strict timetable
 - ACER reasoned opinion process being run in parallel with ENTSOG code finalisation
 - Creation of Issues List (changes restricted to this)
 - Code to be finalised in May
 - ENTSOG: GA approval 22nd April
 - ACER sign off: 6th May

TAR NC Timeline for 2015



EU Tariffs Code Update

- Some compromises have been agreed between ACER and ENTSOG
- Some issues are unresolved, therefore:
 - ENTSOG may include deviations to FG in the TAR NC counter to ACER's view
 - Possibility of a “qualified recommendation” when ACER submits TAR NC to EC
- Some issues likely to require resolution in comitology

Who Is Doing What

No.	Issue Name	TAR NC Article	Action for
1.	Provision of binding tariffs prior to auctions	Article 27	ENTSOG
2.	Option to provide fixed long term tariffs	Article 42(1)(b)	ENTSOG
3.	Higher multiplier cap	Article 29(2)	ENTSOG
4.	Transmission and dedicated services definitions	Article 3(3) & (12)	ENTSOG
5.	Application of cost allocation methodology within a multi-TSO entry-exit system	Article 5(4)	ENTSOG
6.	Non-physical backhaul pricing	Article 32(2)	ACER
7.	High-transit exemption – Partial non-application of cost allocation methodology & Volume risk for high transit systems	Articles 2(5) and 15	EC
			ENTSOG
8.	Cost allocation methodologies and subsequent tariff adjustments	Articles 10 to 15	EC
9.	Cost allocation methodology counterfactual	Article 21(1)(a)(iv)	n/a
10.	Commercially sensitive information	Article 24(2)	ENTSOG
11.	Ex-post interruptible pricing in combination with ex-ante	Articles 32(1)(b) & 34	ENTSOG
12.	Mitigating measures and transitional provisions	Articles 48 and 49	ENTSOG
13.	Protection of existing contracts with a fixed price	Article 50	EC
14.	Implementation and interaction with Article 26 of CAM	Article 50	ENTSOG
15.	One-off reset and stop-loss	Article 48	EC

Issues

- Binding tariffs:
 - Code now likely to require binding tariffs for first year
 - Auction calendar likely to move to June/July
- Fixed price tariffs:
 - Fixed price mechanism likely for incremental
 - Issue remains over unsold “existing capacity”
- Higher multiplier cap:
 - Cap of 3.5 may be allowed for 2 years then reviewed
 - Minimum multiplier of zero remains but is being challenged by Commission

Issues

- Definitions of Transmission and Dedicated Services
 - Definitions being revised – likely to include concept that Transmission services linked to capacity and distance as cost drivers
- Non-physical backhaul
 - Differing views remain between ACER and ENTSOG,
- Commercially sensitive information
 - Under discussion but push still towards more transparency

Issues

- Ex-post interruptible pricing in combination with ex-ante
 - Differing views between ACER and ENTSOG
 - Ex-post option may remain in text
- Storage
 - EC driving for an elaborated text for article on determining storage tariffs
 - ACER not no believe in requirement for additional text
 - ENTSOG developing alternative drafting proposal for discussion

EU Tariffs Code Update

- Issues such as the inclusion in the TAR NC for the protection of existing contracts with a fixed price and the possibility of a “one-off reset” shall be determined by the Commission.
- Refined TAR NC shall be published with an “Explanatory Document”
 - Shall explain ENTSOG consideration of ACER reasoned opinion and EC feedback and give rational for any changes
- ACER to hold workshop on 1 April
 - <http://www.acer.europa.eu/Events/Pages/default.aspx>

EU Incremental Amendment Update

Incremental Proposal

- ACER held consultation (closed 4th March)
 - Responses now published
 - http://www.acer.europa.eu/Official_documents/Public_consultations/Pages/PC_2015_G_02.aspx
- In parallel with TAR NC process ACER, EC and ENTSOG have had meetings on high level to find solutions on the outstanding issues.
 - So far there has been good progress and the High Level group seems to have found solutions on all outstanding issues.

Agreed Action List

No.	Issue Name	Solutions & To Do list	Action
Discussed at 3rd High Trilateral Level Meeting – February 3, 2015			
1.	Option to provide fixed long term tariffs for incremental capacity [TAR NC Article 42(1)(b)]	<i>Incremental tariff assumptions to be based on projected investment costs (include in CAM NC amendment, article 20 C 3). Fixed tariffs to be adjusted to reflect actual investment costs – the difference, positive or negative, will be distributed over the upfront commitment and the socialised part according to the ratio of the F-factor. Fixed tariffs for incremental will last no longer than the initial booking horizon of the incremental capacity.</i>	ENTSOG
2.	Allocation Procedure in Open Seasons Art. 20 (f) CAM NC	<i>CAM auction algorithm will apply default - unless the involved TSOs and NRAs agree on an alternative allocation mechanism. Issue included in ACER consultation.</i>	ACER
3.	F-factor (the level of upfront commitments underwriting the investment Art. 44.2 TAR NC	<i>Text to reflect the principle that the non-committed part of the incremental costs shall be part of the normal TSO costs and thereby included in the RAB.</i>	ACER
4.	Tariff adjustment Art. 47.6 TAR NC	<i>To move the 4 examples in the bullets to the recitals and replace them by a sentence stating the overall aim, that there will be a process to evaluate potential measures and that an agreed measure shall support the avoidance of cross-subsidisation.</i>	ENTSOG
5.	Costs in case of annulled contracts Art. 44.3 and 47.5 TAR NC	<i>44.3: change the wording to match the new wording of 44.2 47.5: Develop a legal construction to ensure that the original commitment to the extent possible stays payable by the user who has requested the incremental capacity.</i>	ACER
6.	One-off reset and stop-loss [Article 48]	<i>Agreement not to include such clauses</i>	

Interoperability Update



Ofgem-DECC-NGG Stakeholder meeting
March 2015

Interoperability Update

- The Interoperability Code completed its passage through the comitology meetings of MS representatives in November 2014
- Entry into EU law is expected by May 2015
- TSOs must be compliant by 1st May 2016
- National Grid NTS is planning to deliver some key features (eg. nominations matching, OBAs) to go live on 1st October 2015 due to linkages with BAL and CAM Codes

Interoperability UNC Mods Update

- 0510: OBA allocation regime
 - 0519: Units solution
 - 0525 – Enabling EU Compliant Interconnection Agreements (IAs)
 - Facilitating consultation on IA changes
 - Enduring rules for shipper engagement on IA changes
 - Removal of CSEP Ancillary Agreements
 - Indemnities arising from new EU Code processes
 - Moffat issues
 - The timetable for this Mod is very challenging
- } March Mod Panel is expected to issue for consultation

TSO-TSO Update

- Drafting for the IAs is progressing well
 - Nominations rules
 - Allocation rules

} Close to completion for all 3 IPs

 - Work with our adjacent TSOs is continuing
- We aim to consult shippers on proposed IA changes that they are impacted by June 2015 at the latest
 - Expected to be 3 separate consultations

Interoperability Deliverables for EU Phase 3

- Key deliverables for 1st May 2016 will be:
 - Consultation with industry about enhanced gas quality information provision
 - TSO-shipper data exchange
 - Common Units (reference temperatures)