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European Workgroup

European Workgroup

6th March 2014

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1. General Update

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Code Status Update

Code	Current Status	Implementation date
Congestion Management (CMP)	Implemented	1st October 2013 (Fixed)
Capacity Allocation Mechanism (CAM)	CAM approved for EU Wide Implementation at relevant EU IPs 1st November 2015.	1 November 2015 (Fixed)
Gas Balancing	ACER approved the code on 20th March 2013 and comitology started in July 2013. Code approved by EC at the comitology meeting on the 2nd October.	Oct 2015/Oct 2016 (subject to NRA approval for additional 12 months to implement) (Fixed)
Interoperability	On 15 January ACER submitted its recommendation to the EC for the EC to adopt the Code. Pre-comitology meeting to take place on 21st January, with comitology meetings scheduled for 28 April and 11 July 2014.	Q4 2015 (Estimated)
Tariffs	ENTSOG received letter to commence Tariff NC 19th December 2013. Launch Document now published with first SJWS 11th February. Code to be submitted 31st December 2014.	Estimated earliest mid January 2017. Applicable from October 2017.
Incremental Capacity	ENTSOG received letter to commence Tariff NC 19th December 2013. Incremental Capacity to be introduced via combination of new articles in CAM Network Code and via Tariffs Network Code. Launch Document now published with first SJWS 10th February. Code amendment to be submitted 31st December 2014.	Applicable from March 2017

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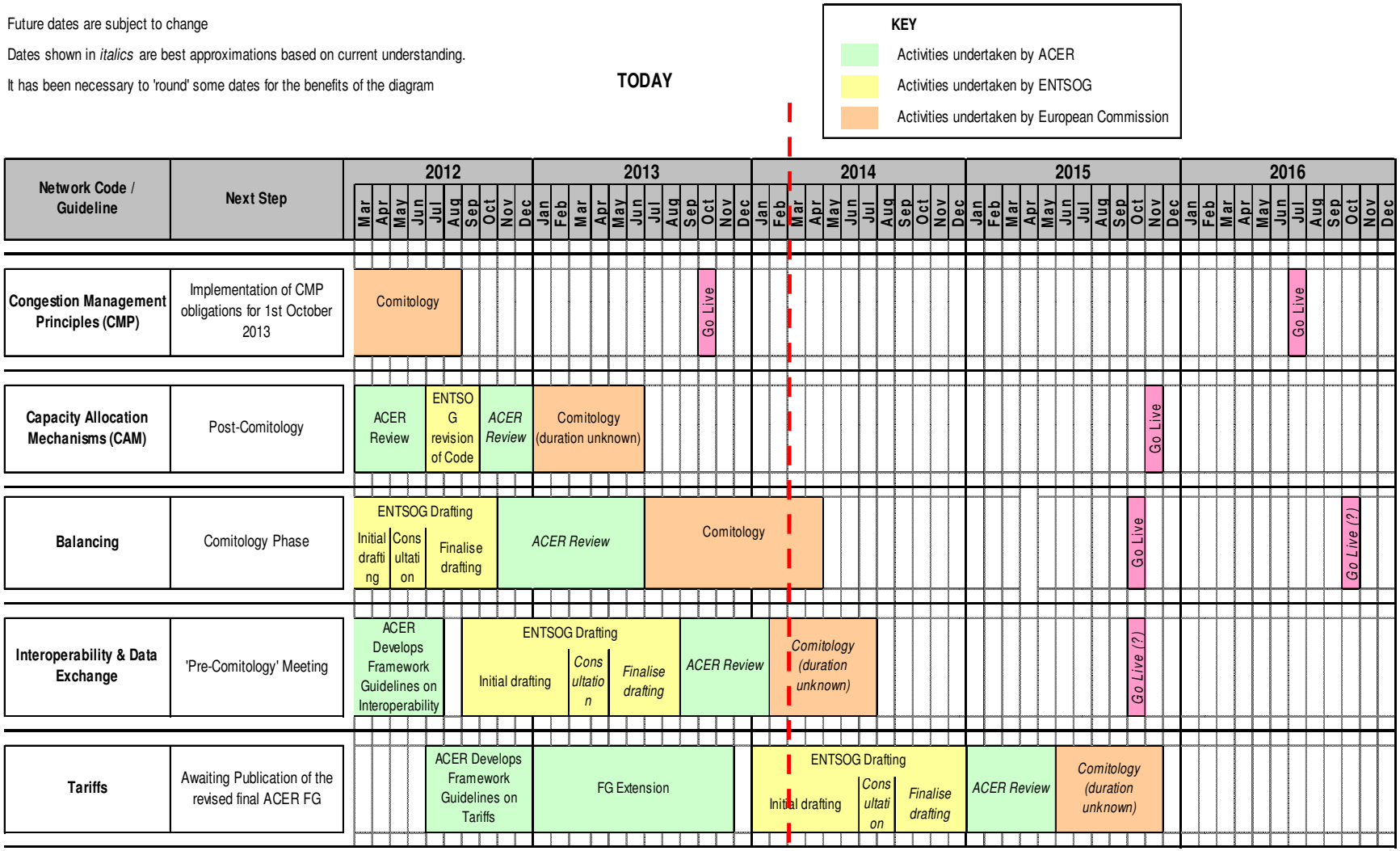
Gas Codes Timeline

Status of Development of European Gas Network Codes

Future dates are subject to change

Dates shown in *italics* are best approximations based on current understanding.

It has been necessary to 'round' some dates for the benefits of the diagram



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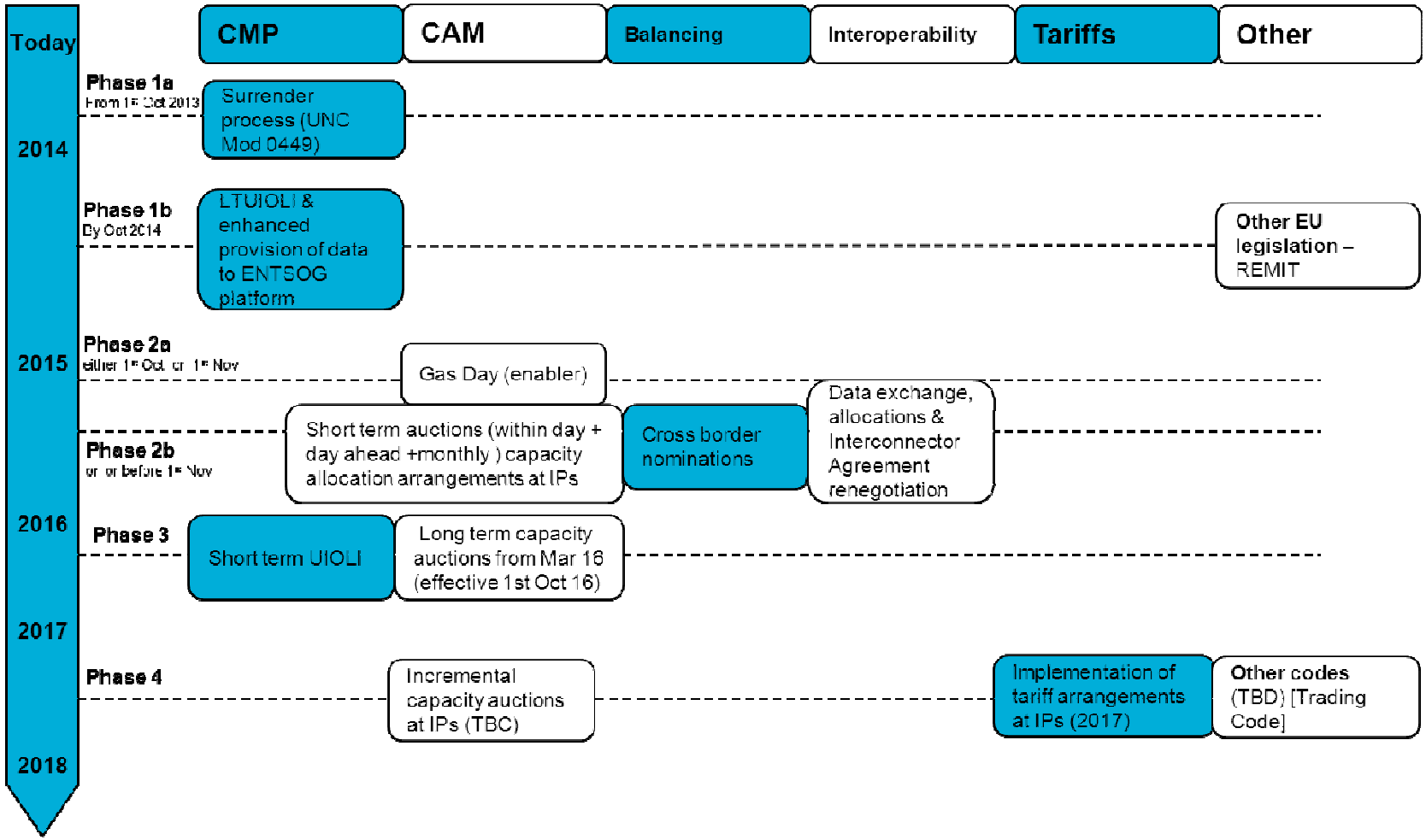
Road Map



Notes: 1) Short term UIOLI may not be required for NTS

2) Long term capacity auctions may need to be delivered in conjunction with short term auctions

2. EU Code Updates

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EU Gas Balancing Code Update



Chris Shanley (National Grid)
Ryan McLaughlin (Ofgem)

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NG Impact Assessment

Red	Changes required to the Uniform Network Code (UNC) and related documents/contracts/NTS processes and systems
Amber	**a)UNC change to be confirmed** b) a future opportunity for NG to consider c) a future obligation (following implementation of the code) on NG, which may or may not require a UNC change
Green	No impacts identified

- NG IAs highlight a number of areas that would benefit from early discussion with Ofgem
- NG wrote to Ofgem seeking their views in June and January 2013
- This presentation aims to give an overview of the NG proposal and the Regulator's current thinking

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Views sought

1. Whether Operating Margins (OM) gas is a balancing service
2. Use of Locational trades for national balancing purposes in the GB System Marginal Prices (SMP) and System Average Price (SAP)
3. Whether a separate Neutrality Mechanism methodology and further approval would be necessary
4. Whether the GB information provision model (base case) and the second Non Daily Metered forecast would require further NRA approval
5. The need for approval of the GB value of the small adjustment to exceed 10% of SAP
6. Whether National Grid has any Within Day Obligations

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1. OM is not a Balancing Service

- NG does not believe that we have Balancing Services in the context of the Balancing Code
- OM is used as a safety tool solely at times of system stresses to maintain pressures in the NTS until the market has time to respond
- OM is required under GB safety legislation and its provision and use is set out in the TSO “Safety Case”
- KEMA study: “in a purely market based system as applied in Great Britain…”

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Regulation 994/2010

- *Balancing Code - this Regulation shall not apply in emergency situations where the transmission system operator shall implement specific measures defined under the applicable national rules and on the basis of Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply, as appropriate*
- The services procured for the purposes of providing OM gas appear to be consistent with Reg 994/2010:
  - 'market based' (Annex II) and 'non-market based' (Annex III) measures for coping with the situation at alert level and mitigating the situation at emergency level

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Ofgem View

- Article 2(4) of NC BAL
- It is NGG's responsibility to ensure that when it utilises OM gas, it acts in accordance with applicable EU and national rules.
- If NGG uses OM in any circumstances where Article 2(4) is not applicable, they will be likely be considered a Balancing service in terms of the NC BAL.
- Ofgem will monitor compliance on an ongoing basis.

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2. Locational trades

- Article 22(5) of the Code includes the following clause:
  - *Subject to the approval of the national regulatory authority the price of locational products may be taken into account for the purpose of determining the marginal sell price, the marginal buy price and the weighted average price, where proposed by the transmission system operator with corresponding consideration of the extent of the transmission system operator's use of locational products*.
- NG propose locational trades (for balancing purposes only) should continue to feed into the calculation of SMP prices and SAP – last such locational trade 2006

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Ofgem View

- We are satisfied that locational trades in GB are presently immaterial to the calculation of the marginal sell price, marginal buy price and weighted average price.
- We therefore do not object to locational trades being taken into account in determining the above prices, as we consider that the estimated cost of introducing a mechanism to flag them is greater than the benefit any flagging would provide at this time.
- Ofgem will monitor compliance on an ongoing basis. We expect NGG to inform us if the use of locational trades increases to a material level at any point in the future.

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3. Neutrality Mechanism

- NG requested agreement that a separate Neutrality Mechanism methodology and further approval would not be necessary
- GB existing UNC neutrality processes contained within UNC Section F is compliant with the Balancing Code and has already been approved

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Ofgem View

- BAL Art. 30(2) includes the following provision:
  The national regulatory authority shall set or approve and publish the methodology for the calculation of the neutrality charges for Balancing, including their apportionment amongst network users and credit risk management rules.
- We are comfortable that the requirements of NC BAL Art. 30(2) are met within the UNC.
- Ofgem approved these provisions when they were implemented into the UNC, so we do not believe that an additional process is required to grant approval to satisfy NC BAL Art. 30(2).

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4. Info Provision

- Three information provision models are prescribed by the Balancing Code. These models explain how the information that Shippers require to balance their portfolio(s) will be provided by the TSO.
- The GB regime is fairly consistent with the “base case” model but National Grid has identified a number of relatively minor inconsistencies, which will be addressed by a Modification to the UNC.
- NG has sought agreement that the GB information provision model (base case) and the second Non Daily Metered forecast would not require further NRA approval

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Ofgem View

- NC BAL Article 33(4) includes the following provision:

  The national regulatory authority shall decide on one information model per balancing zone.

- We are satisfied that GB's regime is largely consistent with the 'base case' model.
- There remain some minor discrepancies, however, which we understand will be addressed through a UNC Modification that is currently in draft form.
- As this UNC mod will not proceed on a self-governance basis, we are satisfied that, when we make a decision on the mod, Ofgem will have the opportunity to review the additional changes required to ensure full compliance with the 'base case' model. Ofgem's determination of that UNC Mod application will constitute its approval, or withholding of approval, in terms of the NC BAL requirement.

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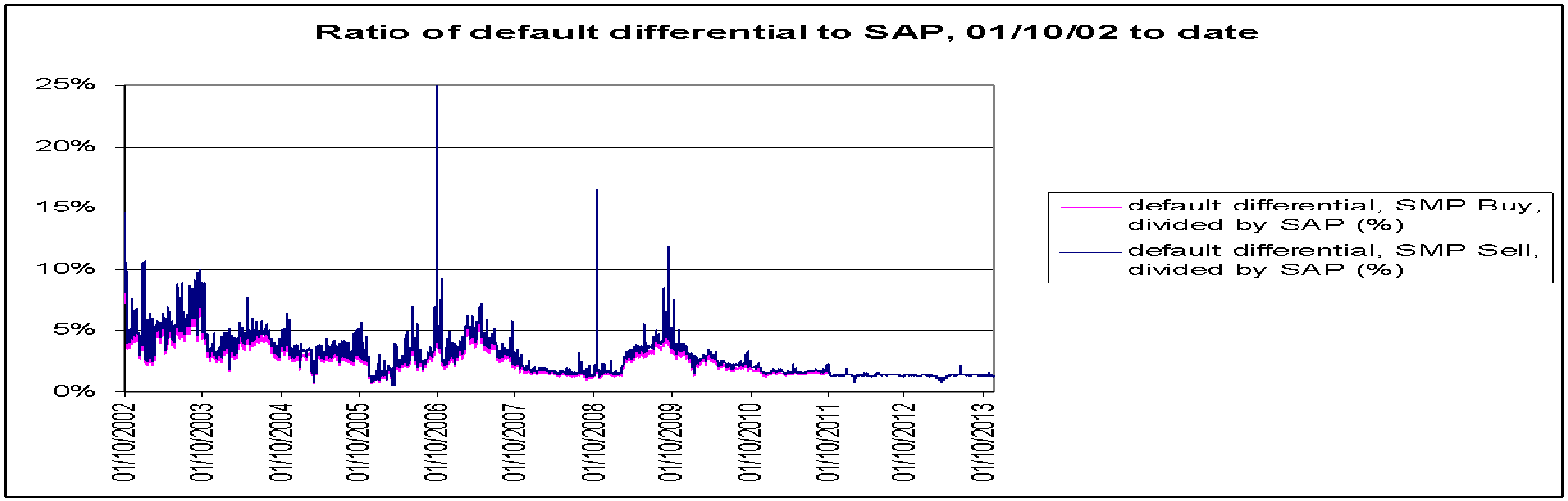
5. GB value of the small adjustment

- NG has sought approval for the GB value of the small adjustment to exceed 10% of SAP



- Going forward GB is unlikely to see significant steps up in the Default System Marginal Price (to multiples of the current level) or drops in SAP (to levels around 10p/th)

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Ofgem View

- NC BAL Article 22(7) includes the following provision:

  The value of the small adjustment shall not exceed ten percent of the weighted average price unless the transmission system operator concerned can justify otherwise to the national regulatory authority and have it approved pursuant to Article 20.

- GB's current methodology (as previously approved by Ofgem) for calculating the small adjustment is unlikely to yield a small adjustment of greater than 10% (based on forecasts for gas prices which would determine this).
- If NGG become aware of any circumstance where the small adjustment may be greater than 10%, we would expect them to comply with Art. 22(7) by justifying this to us and seeking approval pursuant to Art. 20.

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6. WDOs

- A WDO can be imposed on Shippers' inputs and off takes within the gas day, in order to help the TSO manage the overall position of the system
  - System Wide WDOs
  - Portfolio WDOs
  - Entry/Exit Point WDOs
- The WDO may be necessary to incentivise Shippers to take appropriate balancing actions during the gas day
- The TSO also has the ability to impose a charge where the Shipper has failed to comply
- NG does not intend to propose a WDO in the near future

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Existing WDOs

- The Balancing Code also includes a requirement on TSOs to consult on existing WDOs
- The local operating terms within National Grid's network connection contracts (Network Entry Agreements (NEAs) and Network Exit Agreements (NExAs)) provide NG with limited control of the flows at entry and exit points in order to safeguard connection equipment
- We are aware that some GB stakeholders have previously indicated that they believed these provisions are WDOs

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NG View

- National Grid believes it does not have any Within Day Obligations
- Balancing Code includes a statement in article 25(3):
  - “This obligation is additional to any other agreements with final customers containing, amongst other things, localised specific restrictions and obligations regarding the physical gas flow”
- However, NG recognises that future requirements for network flexibility is an important issue for our customers and stakeholders…..

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Network Flexibility Project

- NG are undertaking a project to review the future requirements for a more flexible system
- We intend to start engagement with the industry on these areas from Q2 2014
- This engagement will start with quantifying the impact that these issues will have on customers if no action is taken

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Ofgem View

- We recognise concerns from market participants surrounding flexibility arrangements in GB.
- We believe that the RIIO Talking Networks project may be a more appropriate forum for detailed discussions regarding industry's concerns about network flexibility. This allows scope for a more holistic view to be taken in the context of the GB regime.
- If we or NGG consider that WDOs are required in the context of the NC BAL, we expect them to submit a proposal to us for approval in accordance with the requirements of NC BAL Chapter 6.
- This view does not, of course, restrict Ofgem's right to take a decision on our own initiative as outlined in BAL Art. 26(1).

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EU Gas Balancing Code: Nominations at Interconnection Points



Phil Lucas

EU Workgroup: 6 March 2014

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Background

- EU Balancing Code implementation required by October 2015
- Implementation requires changes to:
  - **Daily Nominations process at Interconnection Points (IPs)**;
  - Information provision; and
  - SMP buy and SMP Sell price derivation
- IP Nominations – last update at January 2014 EU Workgroup

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Impact Assessment

Balancing 1. Nomination Process at IPs	
Impact Rating	**Major** – proposed nomination rules for IPs are significantly different from those applied in the GB regime
Overview of change	• Rules for matching of nominations and renominations at each side of an IP • Aspects of the new process to be implemented are specified in the Interoperability and CAM codes • The nomination rules developed consider the interactions between the different codes
Status	Pre Modification Stage – last update EU Workgroup Jan 2014
UNC Modification	Yes
Key Aspects	1. **Single sided** and **double sided** nominations 2. Transporter *may* reject nom if allocated capacity is exceeded and/or may treat over-nom as a request for interruptible capacity. **Over-nomination requests** for within-day interruptible capacity will not be offered and noms will not be rejected if capacity is exceeded other than in Exceptional Events

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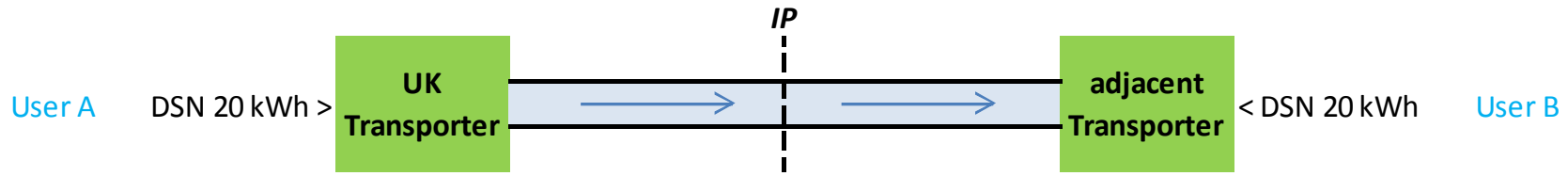
Nomination Regime Comparison

Non Interconnection Points	Interconnection Points
One type of Nomination / Re-nomination	'**Single Sided**' and '**Double Sided**' Nominations and Re-nominations
One Nomination per IP per User	One **or more** Nominations per IP, per User
No NG NTS interaction with adjacent Transporters at IPs	NG NTS interaction with adjacent TSOs at IPs to undertake Nomination 'matching' process. Specification of an **Initiating** and **Matching** Transporter role.
No details of User's counterparty at IP required	Details of **User's counterparty** at IP required
Nomination submission period: D-30 to D-1 13:00	Nomination submission period: D-30 to D-1 13:00
Re-nomination submission period: 15:00 on D-1 to 03:00 on D*	Re-nomination submission period: 15:00 on D-1 to **02:00** on D
Typically 1 hour processing time	Processing time up to **2** hours
Communications as per UK Link Manual / Gemini	Communications as per **Edig@s file formats**
Limited ability to reject a nomination (eg: validation failure)	**Additional reasons** for Transporter to amend nomination
Application of Overrun Charges for nominations in excess of capacity entitlement	Application of Overrun Charges for nominations in excess of capacity entitlement

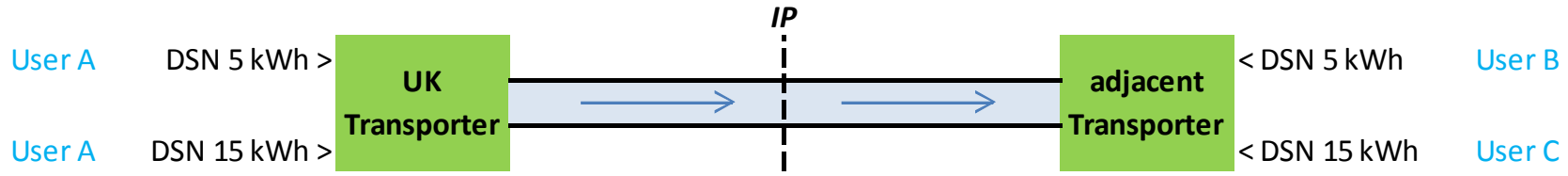
*** Assumes implementation of UNC Modification Proposal 0461**

Nominations at IPs - Examples

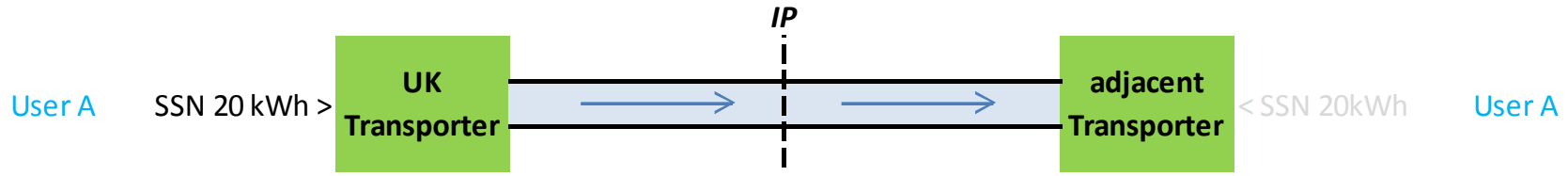
Example 1



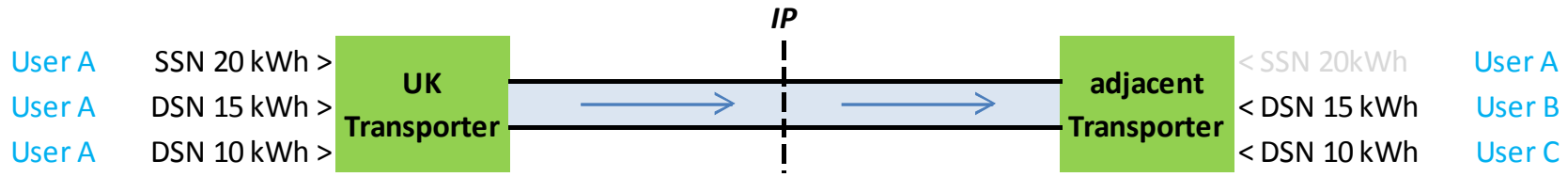
Example 2



Example 3



Example 4



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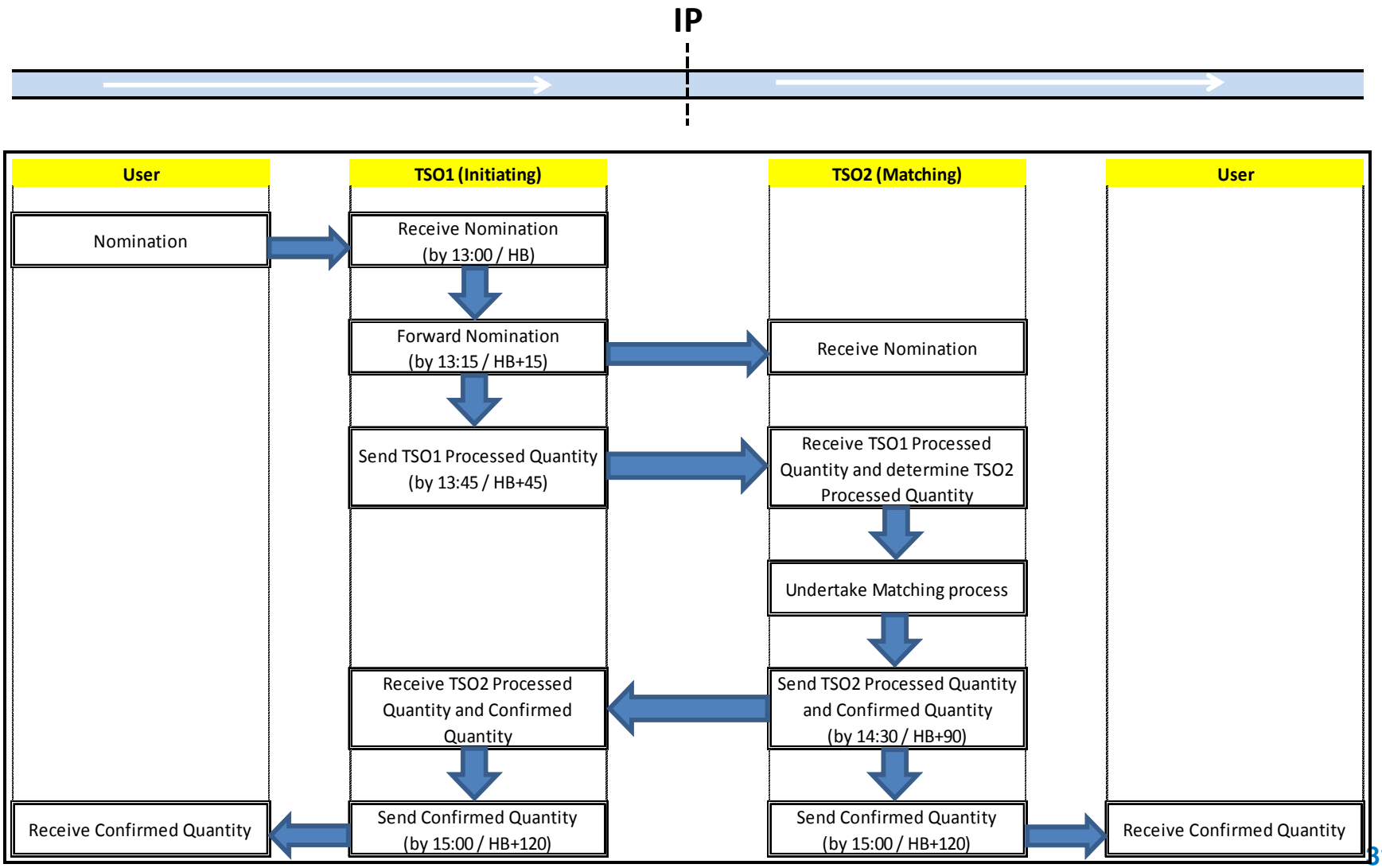
Single Side Nomination Processing



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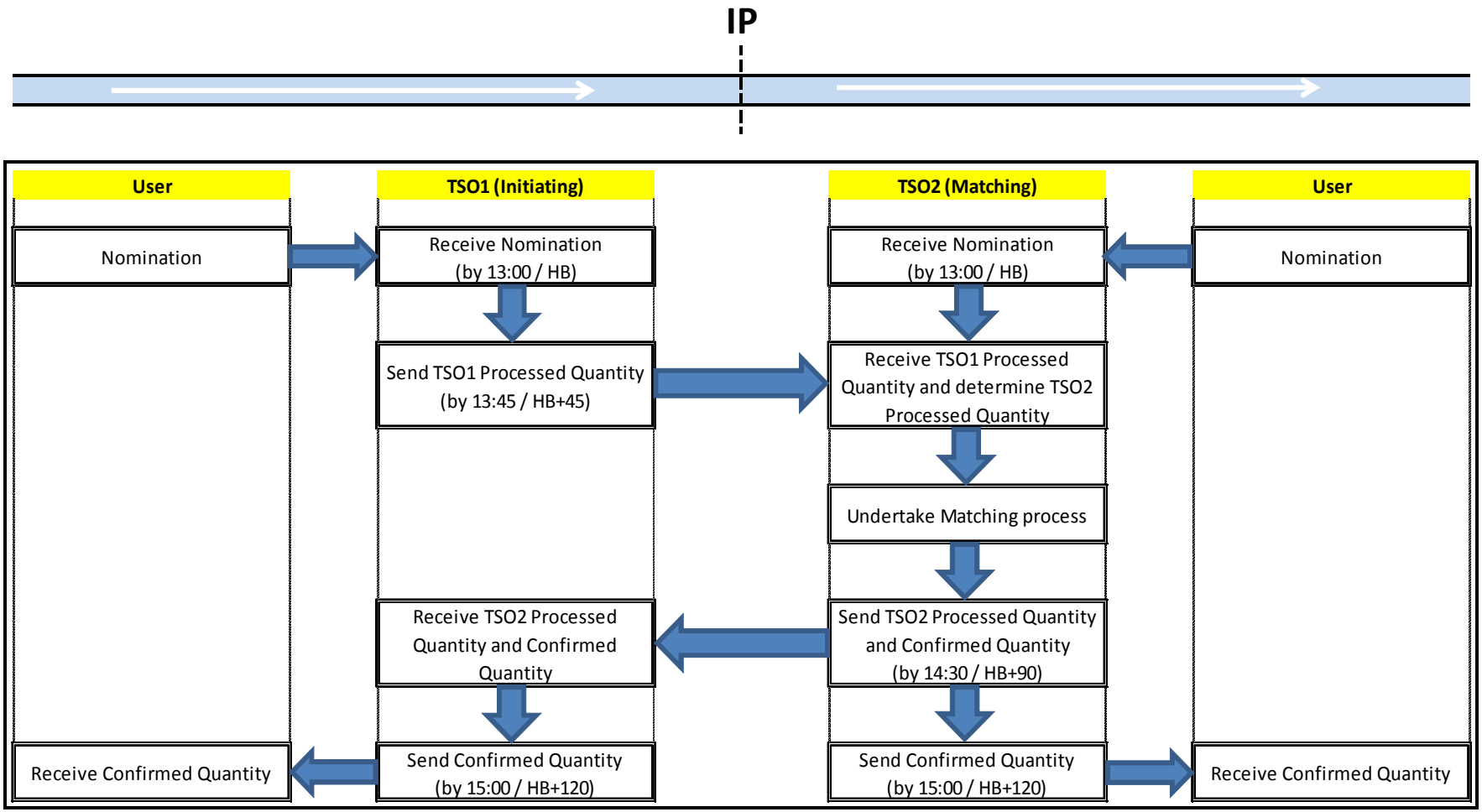
Double Sided Nomination Processing



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UNC Modification Outline

- Application – at which system points the new rules apply
- User / Transporter interactions
- Nomination and Re-nomination types
- Information requirements
- User submission timing
- National Grid NTS response timing
- Communications format
- Rejection reasons
- Treatment of nominations in excess of capacity entitlement in Exceptional Events

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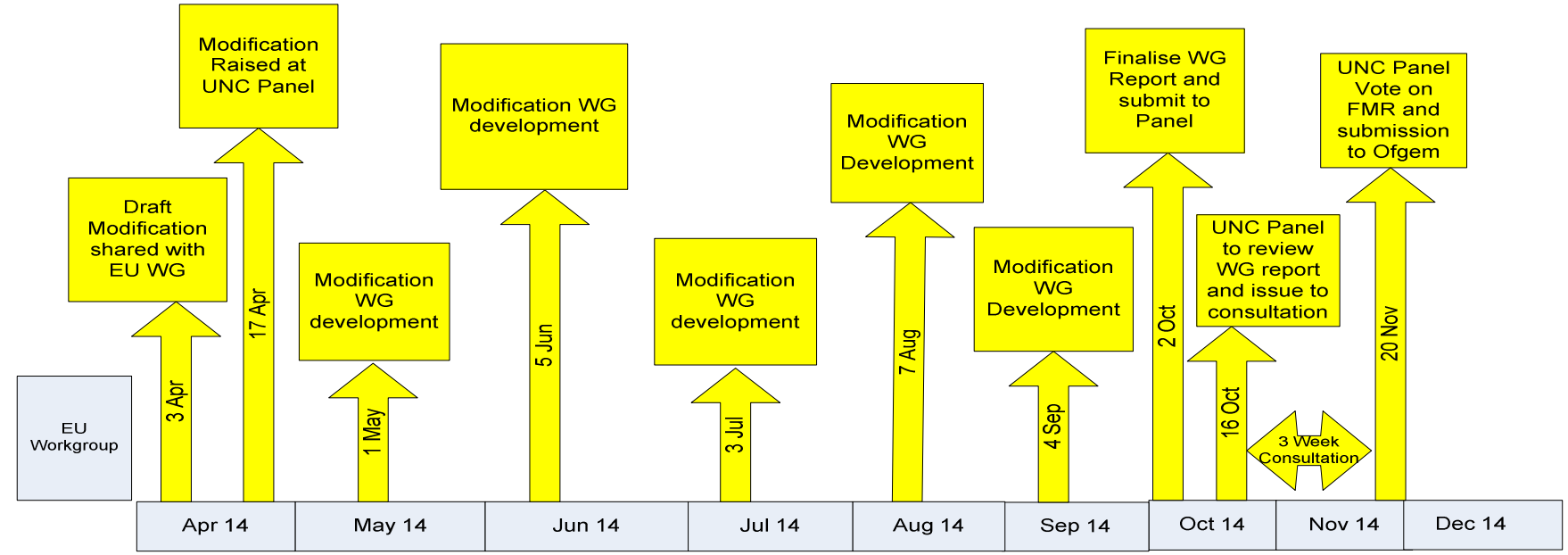
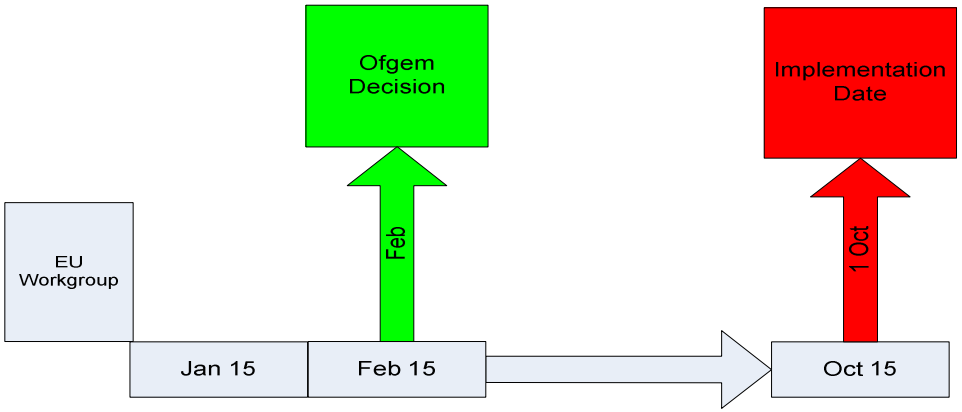
Estimated Modification Timeline





Nomination matching and allocations under the EU Interoperability Code

European Workgroup

March 2014

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Background

- TSOs must agree a nomination matching rule/process and for this to be included in the Interconnection Agreement (IA)
- ‘allocate as nominate with Operational Balancing Account (OBA)’ allocation rule envisaged, and for the allocation rule to be included in the IA
- For existing IAs, the adjacent TSOs may agree to maintain a non-OBA allocation rule
- OBA allocation rule favoured by IUK and BBL
- However, User Agents currently play a key role in the GB nomination and allocation process

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National Grid's analysis approach

- 3 options derived and evaluated:
  - **OPTION 1**: NG performs matching / allocation process directly with adjacent TSO (No Agents)
  - **OPTION 2**: NG purchases/acquires/leases User Agent systems and performs nomination matching / allocations
  - **OPTION 3**: NG creates service contract for agency services to NG; possibly with existing User Agent(s) - agent delivers matching / allocations on NG's behalf (possibly 1 agent for all 3 IPs)
- Structured interviews and high level cost/benefit analysis performed to identify way forward

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Conclusion

- Option 1 is preferred:
  - Simple and efficient way of delivering the solution as defined in the Code
  - Single TSO-TSO communication channel (using common DE solutions also required by the Code)
  - Simplest option in terms of procurement/contractual arrangements as negotiations limited to TSOs
  - Better facilitates any new IPs (avoidance of contract renegotiation with agent service provider under Option 3)
  - Minimal marginal costs to National Grid

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Tariff Code & Incremental Capacity Amendment

Colin Hamilton

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TAR NC & INC CAP Development Process

- Kick-off meetings: 14-15 January 2014
- SJWS 1: 10-11 February 2014
- **SJWS 2: 26-27 February 2014**
- **SJWS 3: 13-14 March 2014**
- **SJWS 4: 25-26 March 2014**
- **SJWS 5: 8-9 April 2014**
- **Draft code consultation: 29 May-25 July 2014**
  - **Consultation WS: 24-25 June 2014**
- **Refinement WS: 23-24 September 2014**
- **Refined draft code shipper support process: 7-21 November 2014**
- **Entsog submits TAR NC & INC CAP to ACER: 31 December 2014**

Stakeholder Joint Working Session 2 nationalgrid
26-27 February 2104

- **INC CAP**
  - When to offer new/incremental capacity
  - Auction procedures
  - Open season procedures
- **TAR NC**
  - Multipliers & seasonal factors
  - Cost allocation tasks
  - Mitigating measures
  - Tariff setting year: impact assessment
  - Transparency
- **Details: http://www.entsog.eu/upcoming-events**
- **SJWS 3: 13-14 March 2014**

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Potential Changes & Issues for GB

- Provisions in TAR NC applies to tariff levels for new and existing contracts from 1 October 2017
- Different treatments at IPs and other entry/exit points
  - Revenue recovery via floating price cf commodity charge
  - Cross-subsidy issue?
  - Impact of floating price on long-term auctions (including incremental)
- Definitions: e.g. “Transmission Services”, “dedicated services”:
  - impact of TAR NC on GB regime – e.g. eligibility of shorthaul.
- Tariff year could move from 1 October to 1 January subject to impact assessment

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Potential Changes & Issues for GB

- Selection of tariff methodology must be reviewed and justified at least every 4 years
  - Change in methodology could lead to “step-change” in prices
- Publication of revised reference prices at least 30 days prior to next gas year, tariff setting period or regulatory period
  - Alignment to CAM auction cycle?
- Storage: tariffs to take account of benefits from storage but must minimize any adverse effect on IP flows.
- More details:
  - http://www2.nationalgrid.com/UK/Industry-information/Europe/Industry-Material/

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CAM Update

Matthew Hatch (National Grid)
Danielle Stoves (IUK)

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CAM Bundling Examples

- Slides to follow

3. UNC Modification Plans

Phase 2 UNC Modifications Potential Timescales

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EU Network Code	Area of change	Panel Submission	Workgroup Development	UNC Consultation
Balancing	Information Provision	Q1 - 2014	6 Months	Q3 - 2014
	SMP Buy & Sell	Q1 - 2014	6 Months	Q3 - 2014
	Nomination Process at IP's	Q2 - 2014	6 - 9 Months	Q4 -2014
CAM	CAM / CMP Compliant Capacity Auctions	Q2 - 2014	6 - 9 Months	Q4 - 2014
	Gas Day (Mod 0461)	Complete	Complete	Closed 27th Jan 2014
Interoperability	OBAs / allocations	Q2 - 2014	6 Months	Q4 - 2014
	Interconnection Agreements/Contract Changes	Q3 - 2014	6 Months	Q1 - 2015
	Data Exchange	Q3 - 2014	6 Months	Q1 - 2015

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4. System Developments

Karen Healy

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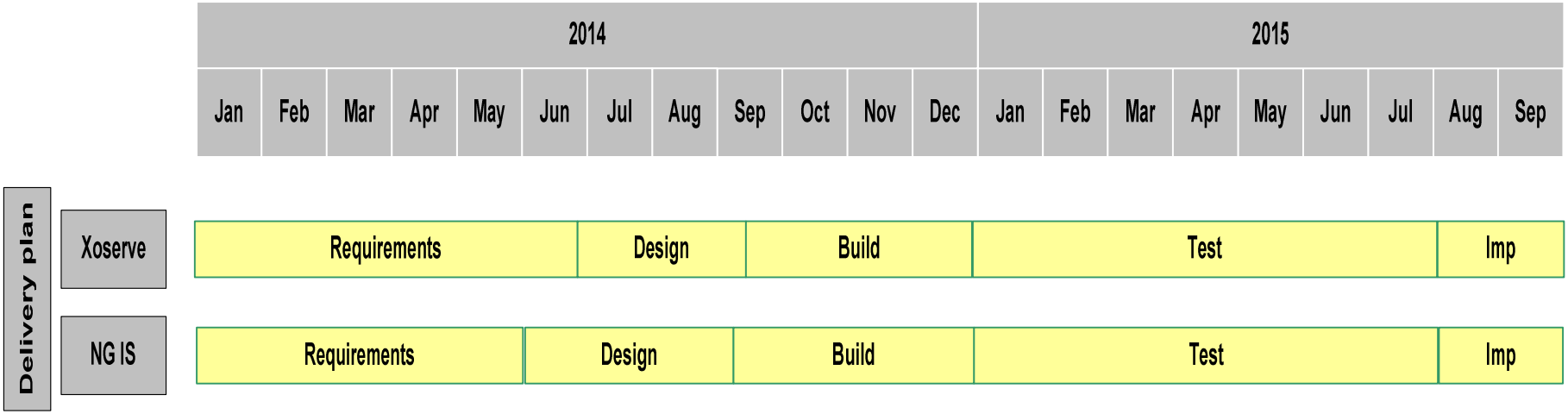
Phase 2 Delivery Plan



- System implementation timescales beyond Design are estimated at present

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Overview of key system delivery stages

- Requirements
  - Business process definition, screen prototypes
- Design
  - Technical design, Security
- Build
  - Write system code, test individual components
- Testing
  - Supplier, UAT, External parties, performance, interface
- Implementation
  - Dress Rehearsals, Implementation, Support

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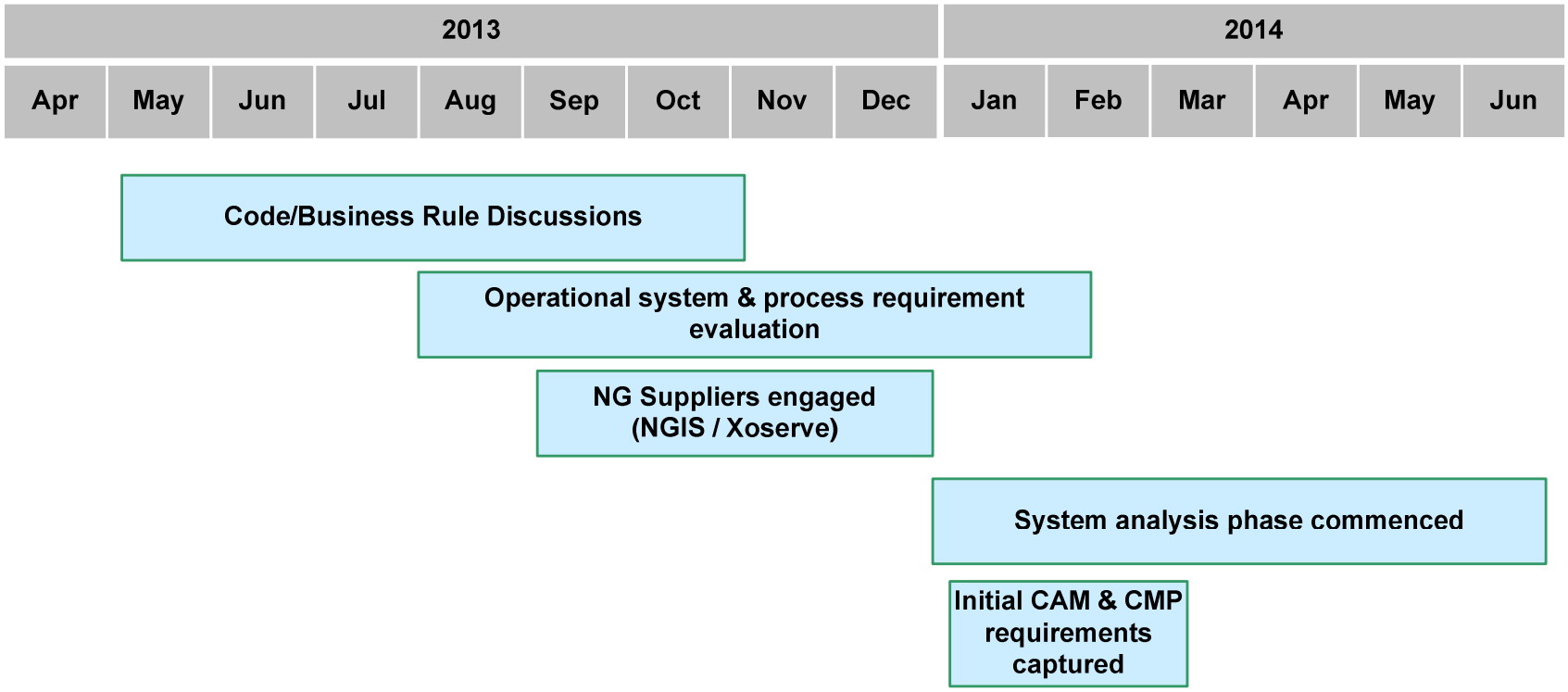
Progress to date



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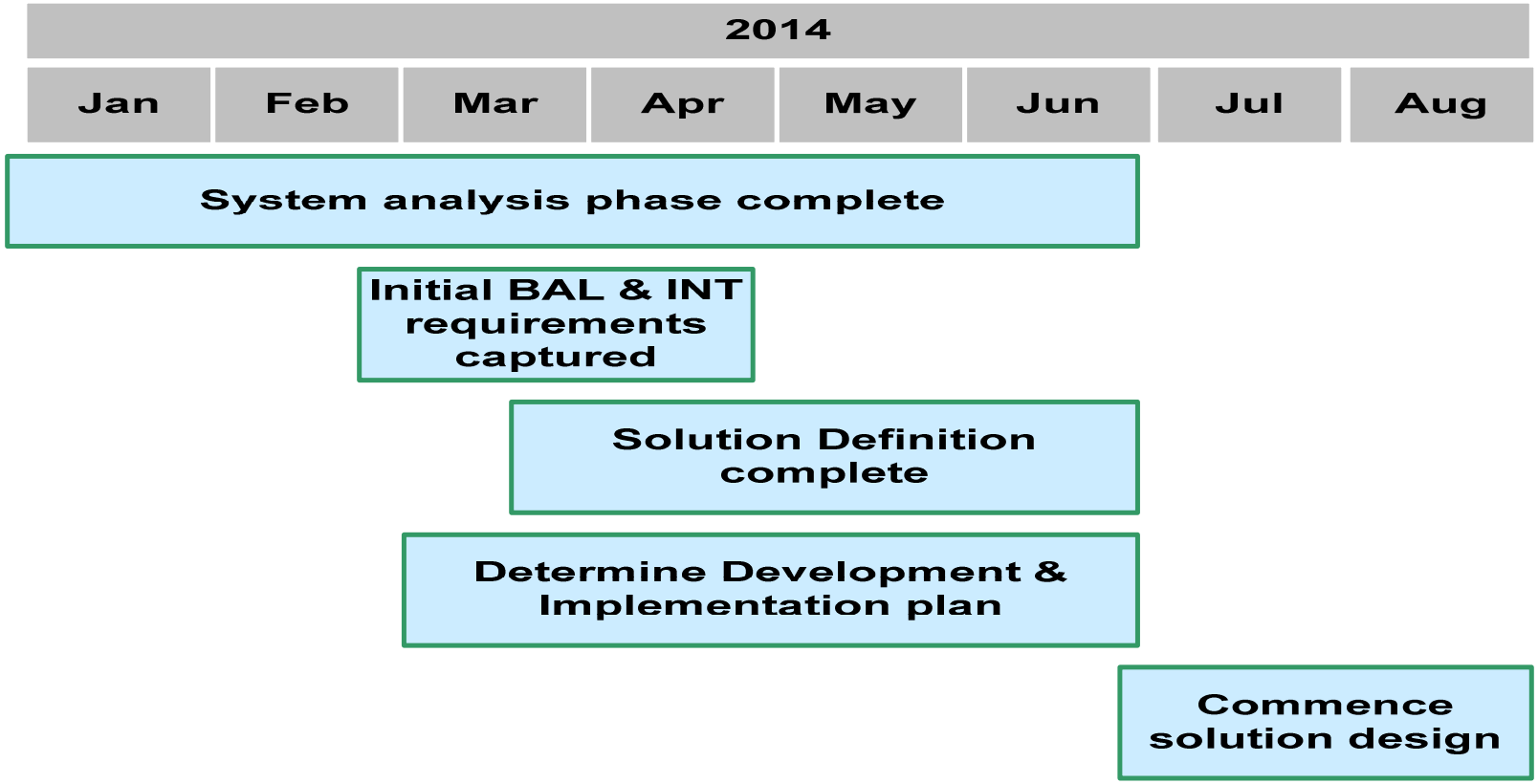
Key next steps



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Future system updates

- Relevant information will be fed into the Modification/EU Workgroup discussions to feed into the development of the proposals and help the Workgroup understand any system impacts
- Further system updates will also be provided periodically to report progress and explain forthcoming key activities

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5. Draft Modifications

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EU Balancing Code – SMP Buy/Sell



Hayley Burden

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Modification Outline (1)

- At the January 2014 Transmission Workgroup NTS indicated that a draft Modification would be developed to amend the calculation of the System Marginal Buy Price (SMBP) and System Marginal Sell Price (SMSP)

UNC	•SMP Buy = max {SAP+ default differential or highest price balancing trade} •SMP Sell = min {SAP - default differential or lowest price balancing trade}
EU Balancing Code	•SMP Buy = max {SAP+ adjustment or highest price balancing BUY} •SMP Sell = min {SAP- adjustment or lowest price balancing SELL}

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Modification Outline (2)

- To achieve compliance an amendment to UNC TPD Section F 1.2 System Prices will be required. This is illustrated by the following addition to current text;

1.2.1 Subject to paragraphs 1.2.2 and 1.2.5, for each Day:
*(a) the **"System Marginal Buy Price"** is the greater of:*
(i) the System Average Price plus the Default System Marginal Price; and (ii) the price in pence/kWh which (subject to Section D4.1.4, 4.1.5(a)) is equal to the Offer Price in relation to a Market Balancing Buy Action taken for that Day;

*(b) the **"System Marginal Sell Price"** is the lesser of:*
the System Average Price less the Default System Marginal Price; and (ii) the price in pence/kWh which (subject to Section D4.1.4, 4.1.5(b) and 4.1.7) is equal to the lowest Balancing Action Offer Price in relation to a Market Balancing Sell Action taken for that Day

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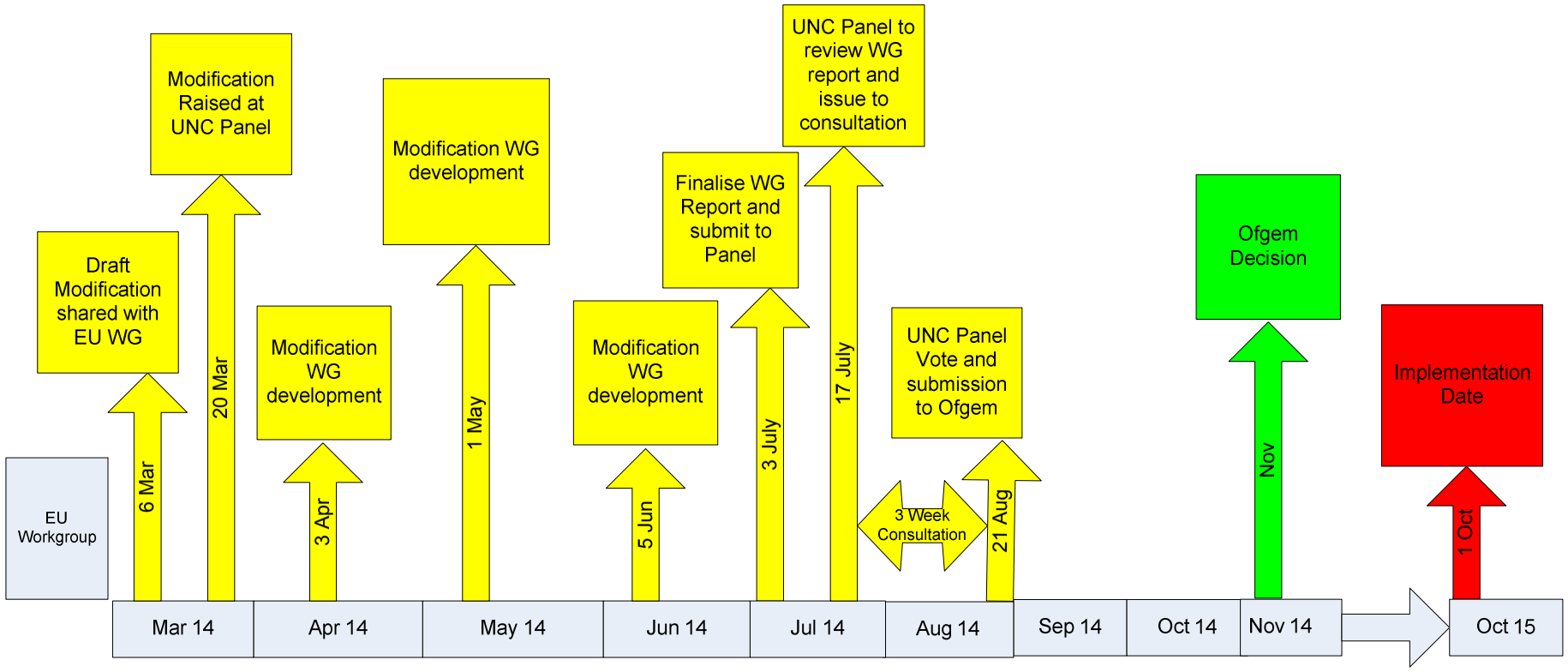
Estimated Modification Timeline



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Next Steps

- Draft Modification published alongside the material for this meeting
- Any comments are welcome. Please send to Hayley.Burden@nationalgrid.com
- Modification to be raised at March UNC Panel Meeting