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European Workgroup

European Workgroup

3rd April 2014

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1. General Update

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. Comitology meetings had been scheduled by the Commission for 28 April and 11 July 2014 but NG understands that these are to be postponed	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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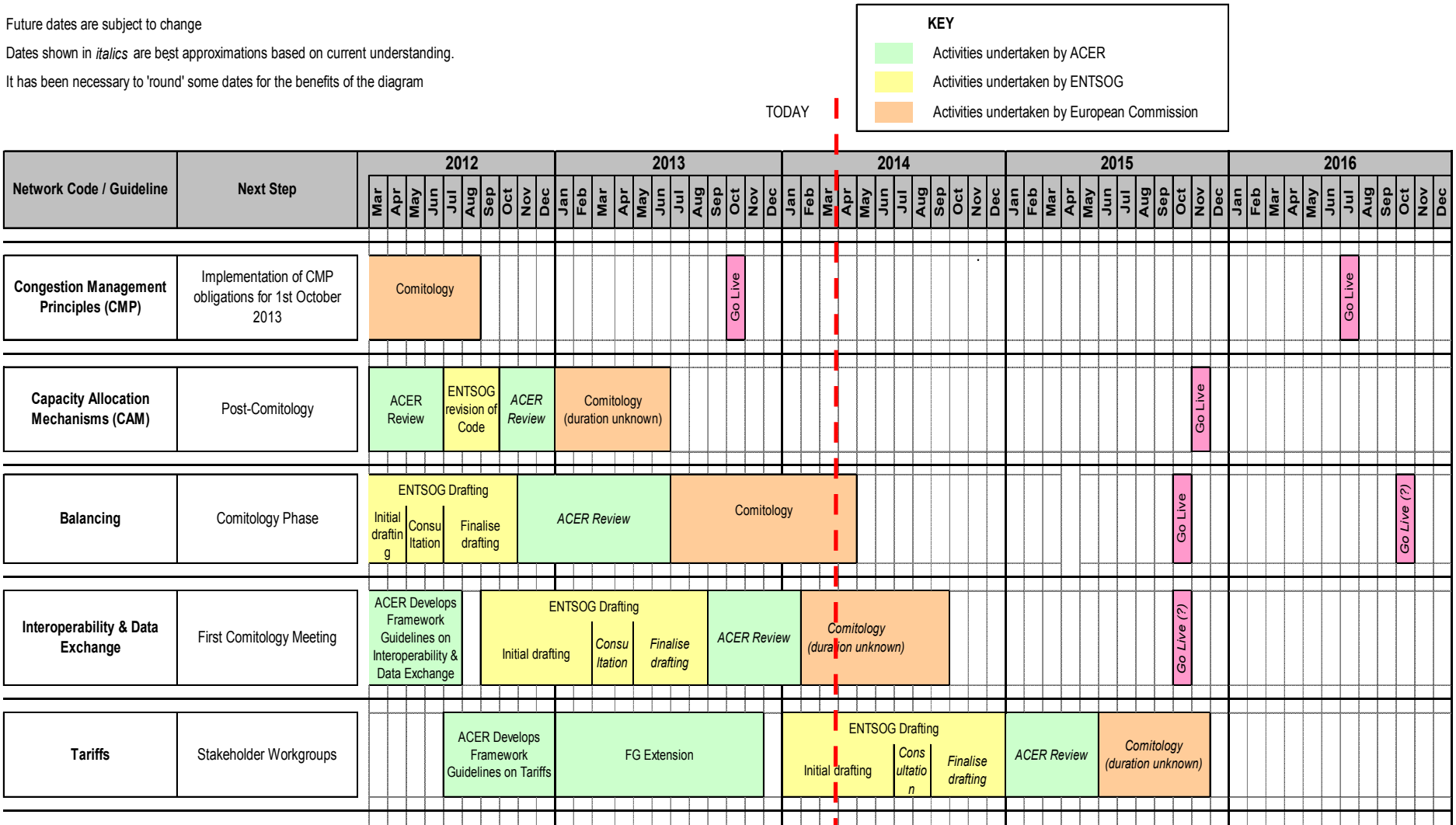
Gas Codes Timeline

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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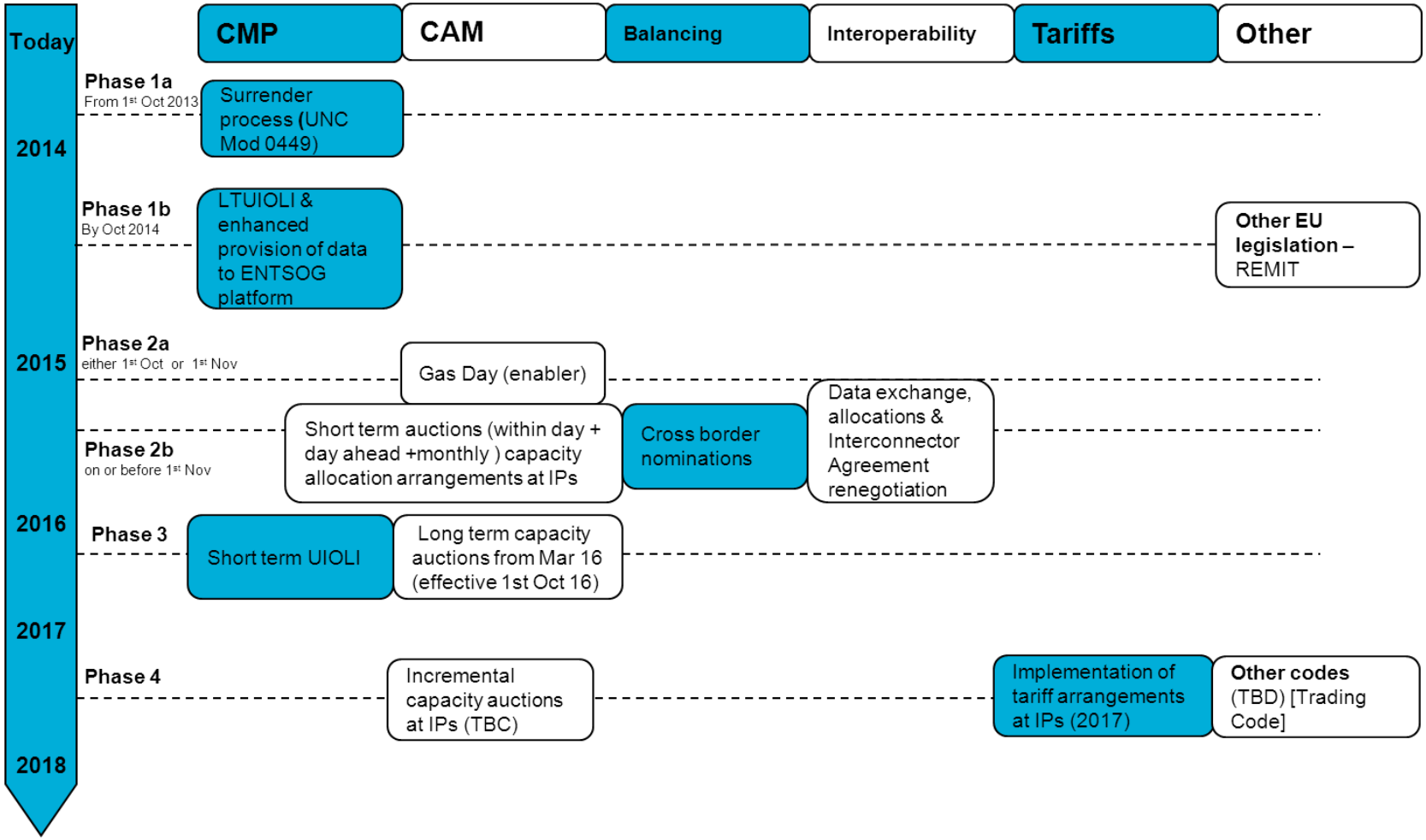
Road Map



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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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 <- Final Stakeholder Workshop**
- **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**

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TAR NC & INC CAP Development Process

- Business rules now published:
  - Tariffs:
    - http://www.entsog.eu/publications/tariffs#TAR-NC-MEETINGS-SJWS--WORKSHOPS
  - Incremental Capacity:
    - http://www.entsog.eu/publications/incremental-capacity#5-BUSINESS-RULES

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Potential Issues to consider for GB

- **Storage**
  - Discussions re storage tariffs should reflect that Users should avoided paying twice to enter and exit gas from system versus storage should have no special treatment.
  - Discussions over degree of harmonisation of principles in setting tariffs for storage versus national discretion

- **Debate over pricing of interruptible capacity**
  - Should discount be ex-post or ex-ante?
  - Is zero price appropriate? - (some support but cross-subsidy concerns)

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Potential Issues to consider for GB

- **Shorthaul at IPs could be at risk**
  - Discussions on-going re definition of “transmission service”, “non-transmission services” (out of scope of Tariff Code) and “dedicated services”
  - Revenues at IPs recovered via capacity tariffs (some limited scope for commodity charge based on flow based costs and for “dedicated services”)
  - If shorthaul not classified as “dedicated service” then may be excluded from IPs

- More information at http://www.entsog.eu/

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	Q2 - 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 (facilitating Modification)	Q3 - 2014	6 Months	Q1 - 2015
	Data Exchange	Q3 - 2014	6 Months	Q1 - 2015

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4. System Developments

5. Draft Modifications

EU Balancing Code – SMP Buy/Sell



Hayley Burden
EU Workgroup 3rd April 2014

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UNC V EU Balancing Code

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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SMP Buy/Sell - Options

1. No Change
2. Change GB regime to match EU definition
3. Change GB regime to match EU definition and amendment to Default System Marginal Price (DSMP)

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Option 1 – No Change

- NG and Ofgem view is that if GB does nothing, then we will not be legally compliant with the EU Balancing Code
- Not being EU compliant will open GB to potential infraction proceedings/fines
- We would like to work with EU Workgroup members to assess the impact of the proposed change, and ensure the effect on the GB balancing regime is minimal

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Option 2 – Change to Match EU Definition

- Current view is that this option requires the least change to GB arrangements to achieve legal compliance
- This was the option was most favoured by the January 2014 TX WG, however:
  - In view of the differing feedback at last month's EU WG, NG NTS have completed some additional analysis to assess the impact of the EU change on the GB balancing regime

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Analysis

- NG NTS has analysed the last 3 Gas Years to ascertain how many times the SMP Buy/Sell has been set with trades in the opposite direction
- On these days we've identified:
  - the amount of energy cashed out at SMP Buy and Sell;
  - the associated monies paid by/to Shippers through Balancing Neutrality; and
  - the difference the EU definition would make to these monies

How often are cashout prices set by trades in the opposite direction?

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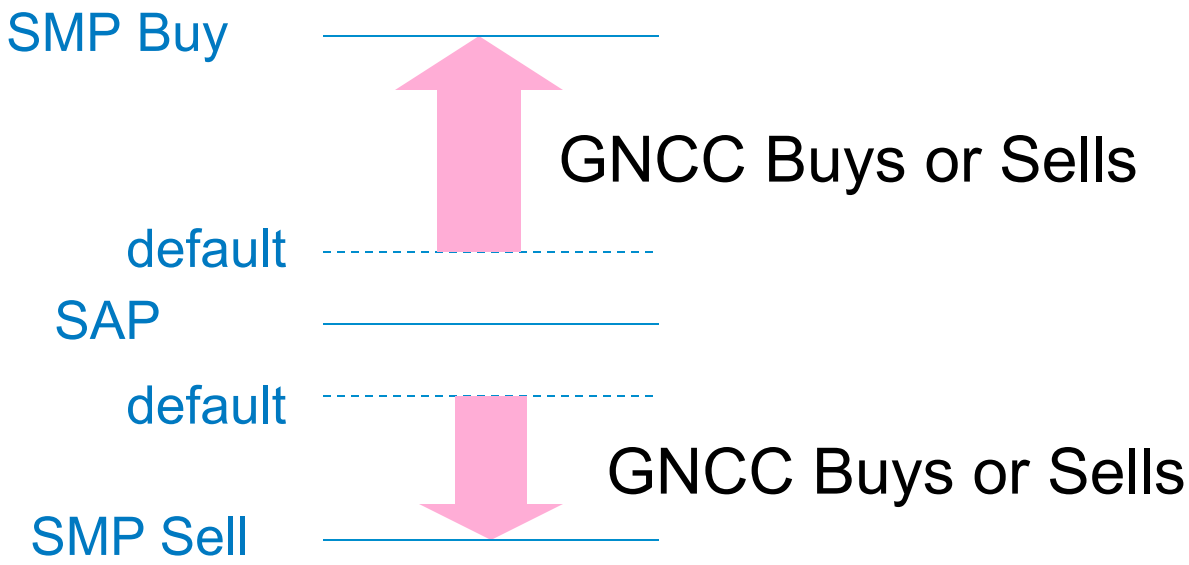

- In recent years, cashout price set with trade in “opposite direction” around 10 times a year
- Buys have set SMP Sell, and Sells have set SMP Buy

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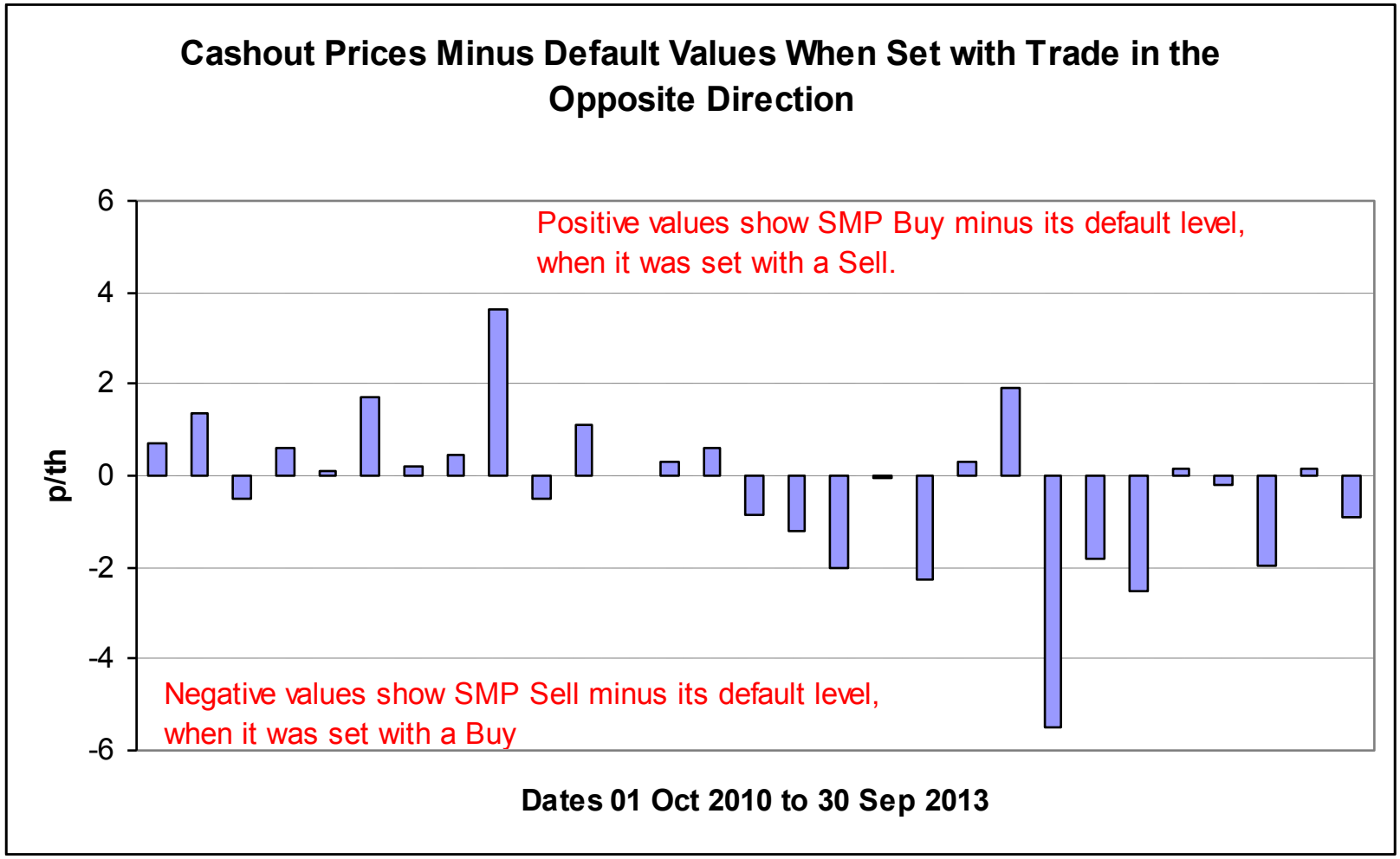
How does this effect Cashout Prices?



What is the likely impact of the EU change on Balancing Neutrality? (SMP Buy)

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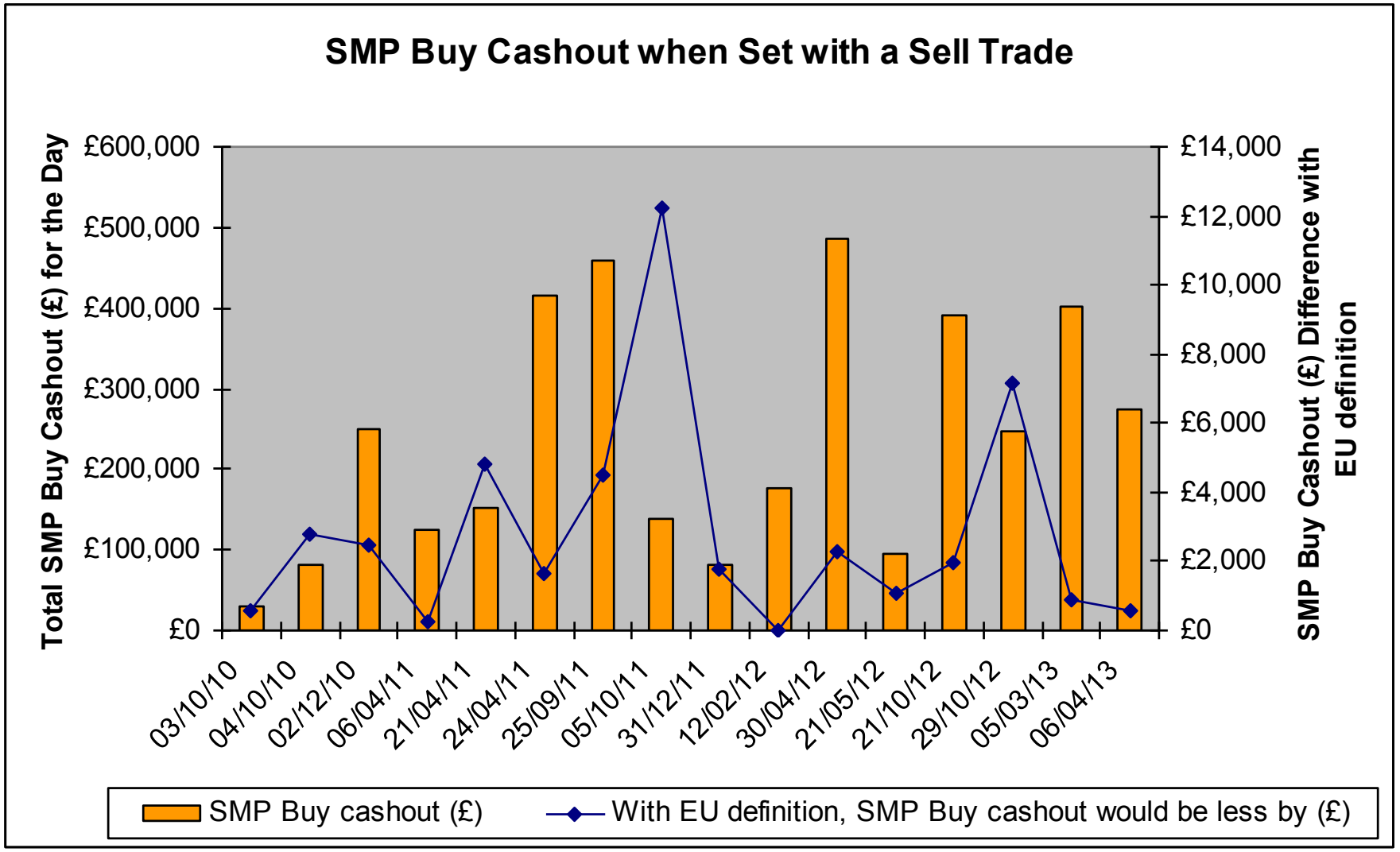

What is the likely impact of the EU change on Balancing Neutrality? (SMP Sell)

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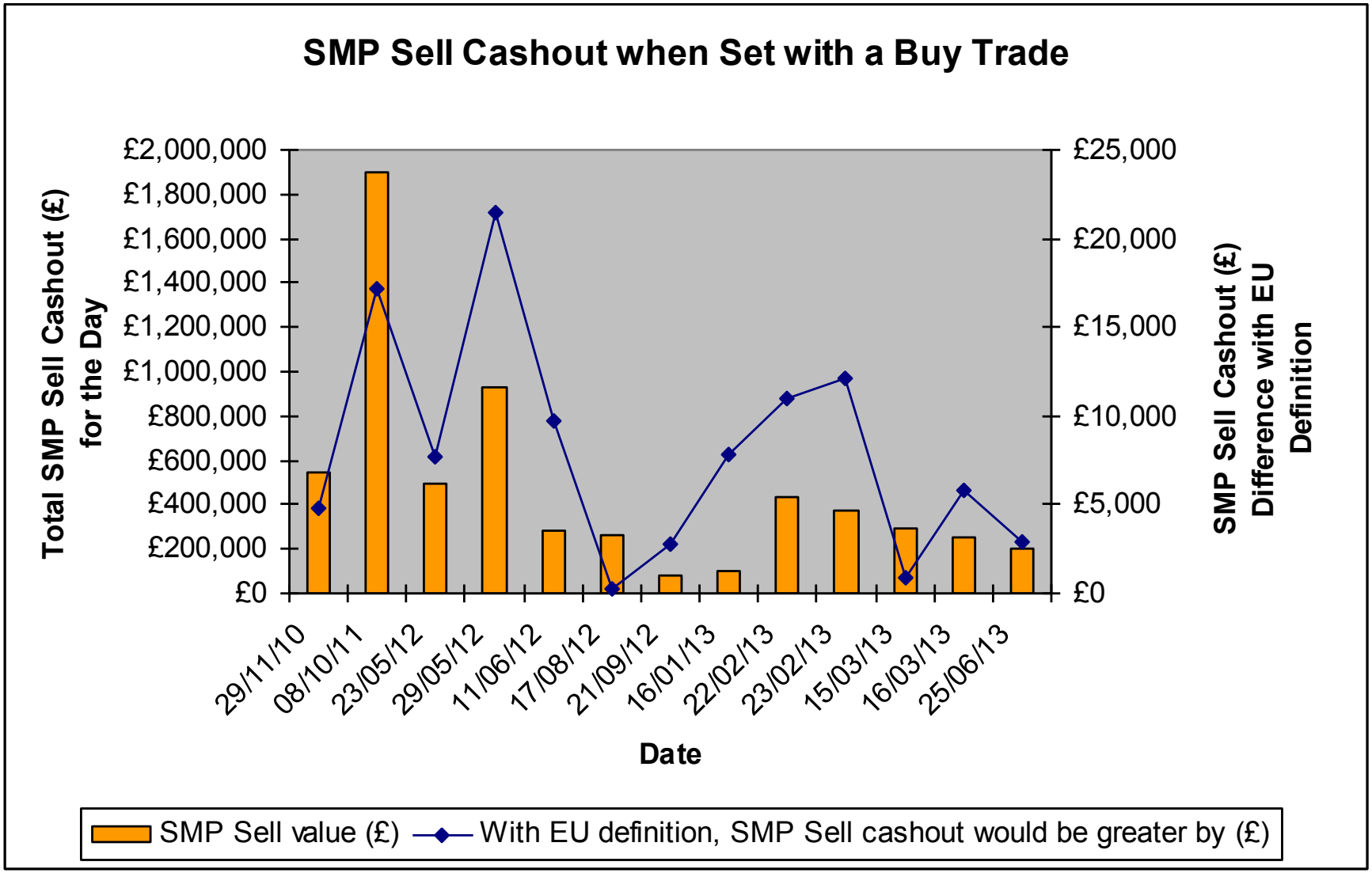

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Key Findings of Analysis

- There are approximately 10 Days per Gas Year where the SMP buy and sell prices are set by trades in the opposite direction. On these days over the last 3 Gas Years:
  - SMP buy prices were on average 0.83p/th greater than the default price, and;
  - SMP sell prices were on average 1.56p/th less than the default price

- By applying the EU definition retrospectively on these days:
  - SMP Buy cashout would be on average £2,817 less (*Reducing SMP Buy total cashout of £3,810,775 by 1%*)
  - SMP Sell cashout would be on average £8,045 greater (*Increasing SMP Sell total cashout of £6,146,335 by 2%)*

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TSO 'Helper' Concept

- The EU definition creates a situation where a Shipper whose imbalance is in the opposite direction to the overall system length, is potentially cashed out closer to SAP
- These Shippers are seen as 'helping' the TSO balance the system and will potentially be penalised less. (Similar approach to the current dual price imbalance calculation in the electricity market)
- E.g. 16 Jan 2013 –Market short. Balancing buys from 70p/th to £1/th
  - SAP = 76.4p/th, SMP Buy = £1/th, SMP Sell = 70p/th
  - EU Code says SMP Sell = 75.5p/th
- Under the EU definition a Shipper who was 'long' would receive a higher price for their gas than under the current GB arrangements

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Change in Shipper Behaviour?

- The ‘helper’ concept described may be perceived as changing the incentive for Shippers to balance
- Whether this would materialise in a change in Shipper behaviour is something that we are unable to predict
- NG NTS would monitor this if Option 2 was implemented in the GB regime

Option 3 – Change to Match EU Definition and amendment to default differential (DSMP)

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- This option proposes a change to match the EU definition and suggests an additional change to the DSMP methodology to counteract any perceived reduction in incentive for shippers to balance
- This would require an amendment to the DSMP methodology to increase the price differential (Current default price 0.86p/th)
- A separate consultation would be required to change this and could ultimately increase imbalance charges paid by shippers

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SMP Buy & Sell – Summary of Options

Description	Pros	Cons
1) No change.	• No cost. No implications for current GB balancing arrangements.	• Not EU compliant - open to infraction proceedings/fines.
2) Change to Match EU definition.	• Compliant. • Shippers with an imbalance in the direction that is "helping" the TSO are cashed out close to SAP.	• Modification change and minor system change (TBC). • Changes in behaviour would need to be monitored but impact is expected to be minimal.
3) Change to Match EU definition and amendment to default differential.	• Compliant. • Shippers incentivised to balance regardless of market / system length.	• Modification and system change – beyond EU requirement. • Need to consult on default methodology changes.

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NG NTS View

- Based on the data presented we believe that Option 2 – change to match EU definition will have a very small impact on GB balancing arrangements
- We do not foresee this will have a significant impact on a Shippers incentive to balance their portfolio; however this is something that NG NTS would monitor
- What are the views of the EU Workgroup on the options?

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Appendix

1. Data: SMP Buy Cashout Set with a Sell Trade

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Date	SMP buy (p/therm)	SAP (p/therm)	SMP sell (p/therm)	SMP Buy minus default (p/therm)	Market length	Imbalance (GWh)	SMP Sell energy (GWh)	SMP Buy energy (GWh)	SMP Sell cashout (£)	SMP Buy cashout (£)	With EU definition, SMP Buy cashout would be less by (£)
03/10/2010	40.50	38.95	30.00	0.70	LONG	114.94	117.19	-2.25	-£1,199,515	£31,061	£540
04/10/2010	39.50	37.32	31.00	1.34	LONG	94.61	100.74	-6.13	-£1,065,589	£82,577	£2,795
02/12/2010	61.55	60.10	58.00	0.60	LONG	40.92	52.86	-11.94	-£1,046,062	£250,773	£2,464
06/04/2011	56.00	55.06	52.50	0.10	LONG	72.68	79.16	-6.49	-£1,418,104	£123,940	£229
21/04/2011	54.50	51.95	49.00	1.71	LONG	24.49	32.73	-8.25	-£547,224	£153,328	£4,811
24/04/2011	45.20	44.18	40.00	0.18	LONG	106.16	133.12	-26.96	-£1,817,003	£415,857	£1,649
25/09/2011	44.55	43.27	42.01	0.44	LONG	152.10	182.28	-30.17	-£2,612,740	£458,649	£4,509
05/10/2011	41.20	36.79	25.50	3.64	LONG	84.39	94.25	-9.86	-£820,033	£138,576	£12,257
31/12/2011	48.65	46.79	36.00	1.08	LONG	130.43	135.29	-4.86	-£1,661,922	£80,702	£1,799
12/02/2012	65.20	64.43	59.00	0.00	LONG	38.22	46.17	-7.95	-£929,526	£176,809	£11
30/04/2012	60.00	58.95	57.00	0.28	LONG	9.47	33.25	-23.78	-£646,627	£486,783	£2,277
21/05/2012	53.20	51.82	49.96	0.61	LONG	53.67	58.95	-5.28	-£1,004,972	£95,901	£1,106
21/10/2012	59.51	58.33	53.20	0.30	LONG	74.22	93.54	-19.32	-£1,698,112	£392,304	£1,985
29/10/2012	66.05	63.25	55.00	1.92	LONG	61.01	71.92	-10.91	-£1,349,654	£245,831	£7,154
05/03/2013	72.70	71.65	66.00	0.16	LONG	13.21	29.44	-16.23	-£662,928	£402,535	£907
06/04/2013	78.10	77.05	75.20	0.16	LONG	48.67	59.00	-10.32	-£1,513,756	£275,148	£576
Average											£2,817

2. Data: SMP Sell Cashout Set with a Buy Trade

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Date	SMP buy (p/therm)	SAP (p/therm)	SMP sell (p/therm)	SMP Sell minus default	Market length	Imbalance (GWh)	SMP Sell Energy (GWh)	SMP Buy Energy (GWh)	SMP Sell value (£)	SMP Buy value (£)	With EU definition, SMP Sell cashout would be greater by (£)
29/11/2010	60.00	58.55	57.10	-0.51	SHORT	-6.17	28.03	-34.21	-£546,193	£700,281	£4,834
08/10/2011	55.50	54.25	53.00	-0.48	LONG	18.95	104.84	-85.89	-£1,895,959	£1,626,592	£17,143
23/05/2012	59.95	56.59	54.95	-0.87	LONG	0.54	26.17	-25.63	-£490,756	£524,285	£7,750
29/05/2012	58.50	55.10	53.10	-1.23	SHORT	-60.17	51.22	-111.39	-£928,046	£2,223,461	£21,459
11/06/2012	75.50	60.29	57.50	-2.01	SHORT	-64.00	14.20	-78.20	-£278,626	£2,014,509	£9,763
17/08/2012	56.40	54.08	53.25	-0.06	SHORT	-33.15	14.68	-47.83	-£266,788	£920,487	£282
21/09/2012	72.00	66.71	63.70	-2.24	SHORT	-73.78	3.55	-77.33	-£77,154	£1,899,671	£2,718
16/01/2013	100.00	76.37	69.99	-5.50	SHORT	-93.04	4.20	-97.24	-£100,235	£3,317,875	£7,877
22/02/2013	80.00	75.72	73.00	-1.83	SHORT	-72.52	17.62	-90.14	-£438,940	£2,460,632	£11,023
23/02/2013	87.00	82.42	79.00	-2.54	SHORT	-25.03	13.97	-38.99	-£376,451	£1,157,568	£12,103
15/03/2013	80.00	76.35	75.25	-0.21	SHORT	-63.73	11.43	-75.16	-£293,501	£2,051,763	£832
16/03/2013	90.00	86.85	84.00	-1.97	SHORT	-30.15	8.71	-38.86	-£249,568	£1,193,269	£5,852
25/06/2013	65.00	63.32	61.55	-0.89	SHORT	-52.26	9.72	-61.98	-£204,118	£1,374,562	£2,956
Average											£8,045

3. Percentage Reduction in SMP Buy Cashout due to EU Definition

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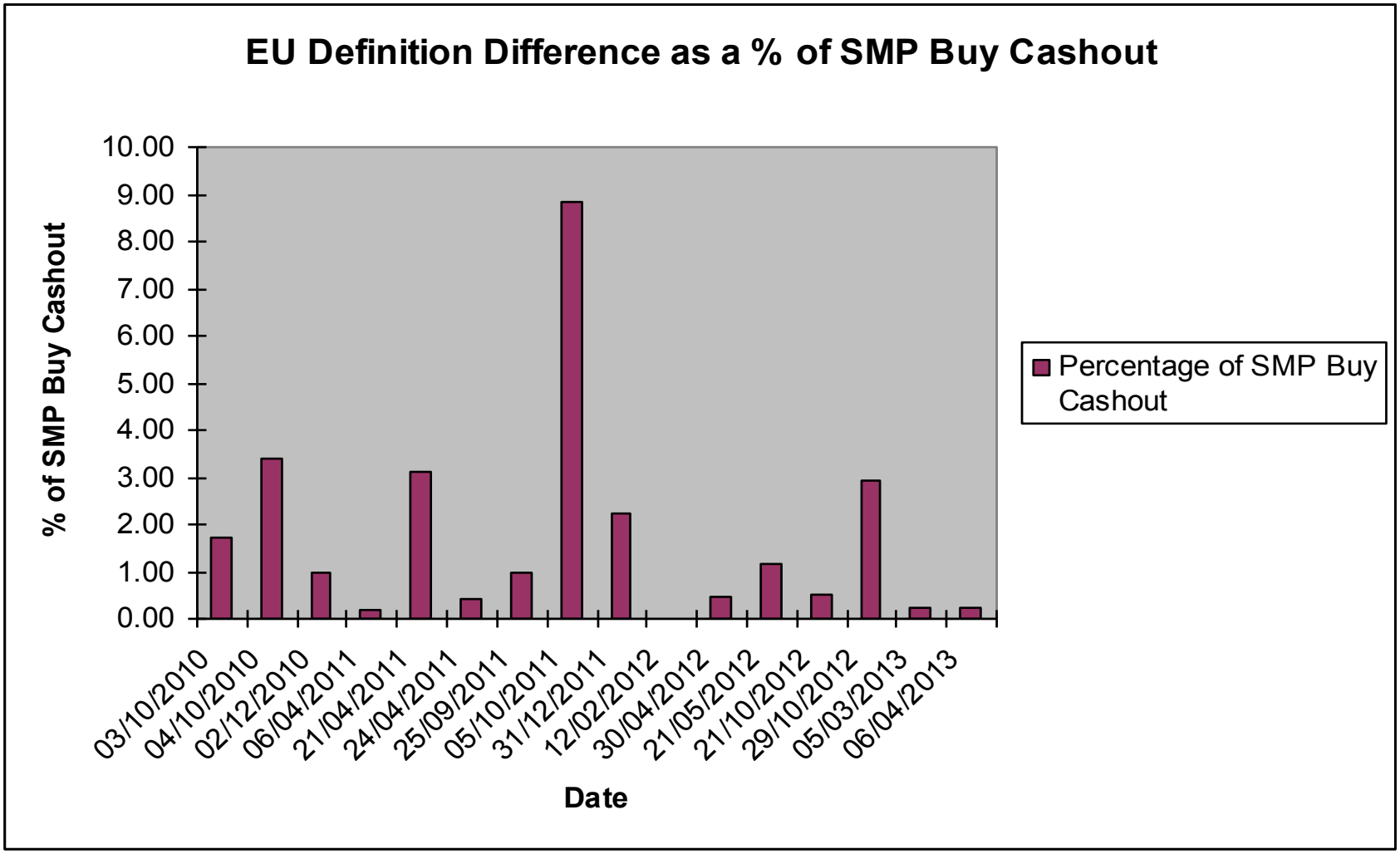
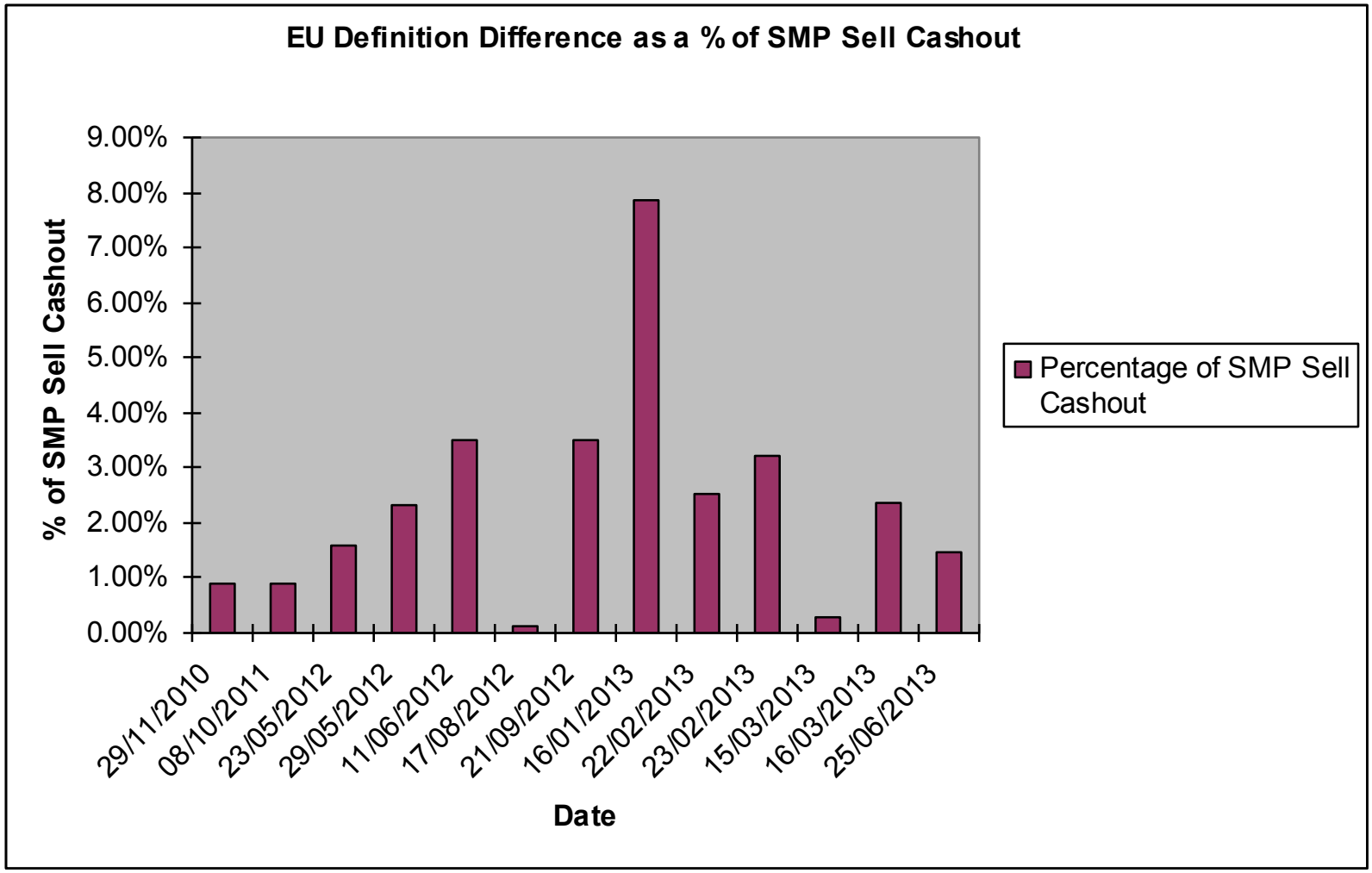


4. Percentage Increase in SMP Sell Cashout due to EU Definition



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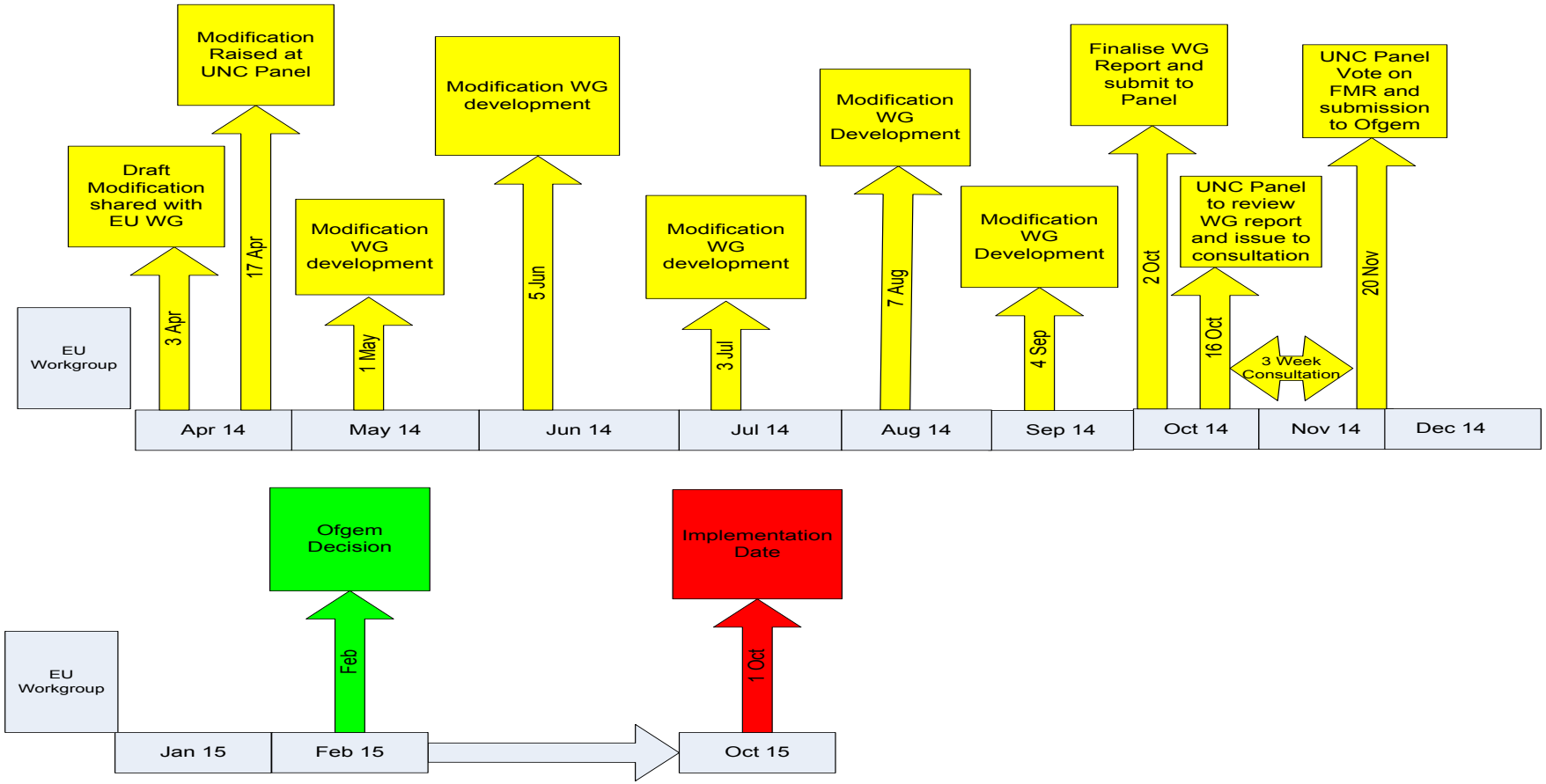
EU Gas Balancing Code: Nominations at Interconnection Points

Phil Lucas

EU Workgroup: 3rd April 2014

Estimated Timescales



- Various Nominations Process at IPs updates provided by NTS – last one at March 2014 EU WG

UNC Modification Outline – Why Change?

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- EU Regulation 715/2009 > EU Codes
- Table of EU Articles addressed by Proposal
- Key features of regime
  - Nomination types
  - Process timescales
  - Matching Process Diagrams
- Rejection and Revision of Noms
- Trades and Renominations
- Regime comparison

UNC Modification Outline – Solution

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- Application –
  - at which system points the new rules apply
  - Transition (September 2015)
- Nomination and Renominations – General
- Processing of Nominations
- Processing of Renominations
- Rejection and Revision of Nominations and Renominations
- Processing of Renominations associated with Trades

UNC Modification Outline – Other Matters

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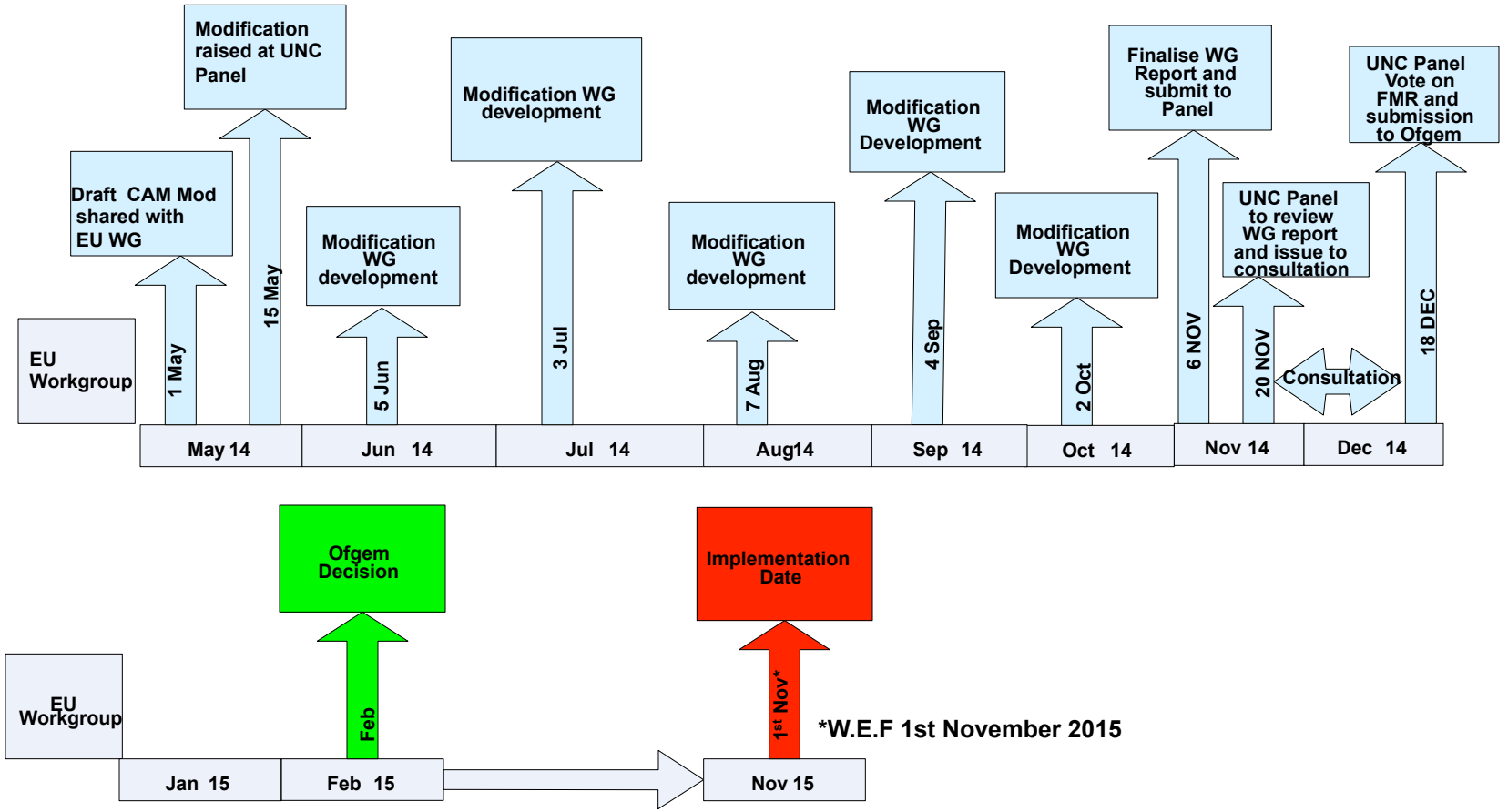
- Requests referral to a Workgroup for development
- Business Rules and Legal Text to be developed as part of the Workgroup
- Better facilitates objective (g) compliance with EC Regulation
- Appendices highlight specific articles of EU Codes addressed by the Proposal

CAM Regulation – UNC Modification

EU Workgroup: 3rd April 2014

Initial Estimated Timescales



CAM Modification

CAM UNC Modification Outline

- EU Regulation 715/2009 > EU Codes
- Proposal seeks to facilitate compliance with Commission Regulation (EU) No 984/2013 (Capacity Allocation Mechanisms)
- Plus continued compliance with Annex I to regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks with regards to the Congestion Management Procedures

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CAM UNC Modification Outline

- Key features of proposal:
- Applicable to European Interconnection points - Bacton (IUK and BBL) and Mofatt
- An EU set of standard capacity products for both entry and exit (yearly, quarterly, monthly, daily and within day) and cessation of Enduring Annual NTS Exit (Flat) Capacity at IPs
- An EU standard capacity auction calendar
- EU standard capacity auction designs (Ascending Clock and Uniform Price)
- Priority given to cross-border bundling of unsold capacity products
- Set aside capacity from longer term auctions for shorter term auctions at IPs
- Capacity originally allocated as cross-border bundled capacity can only be resold as bundled capacity on the secondary market

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CAM UNC Modification Outline

- A joint booking platform for the sale and purchase of capacity at interconnection points
- Charging arrangements
- Transitional arrangements
- Adapting pre-existing CMP solutions to apply to CAM products and auction processes where appropriate.

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CAM UNC Modification Outline

- Requests referral to a Workgroup for development
- Solution detail to be developed as part of workgroup
- Legal text will be developed and provided during the development process
- Better facilitates objective (g) compliance with EC Regulation

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Bacton

EU Workgroup: 3rd April 2014

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Bacton Split – Initial Thoughts on Process

- Create new points in Gemini:
  - Bacton UKCS ASEP and
  - Bacton EU IP
- Write out to individual Shippers
  - Ask them to decide where they want their existing Bacton rights post split to be
  - Principle is to allocate only up to new obligated levels
  - If aggregate requirements less than obligated, allocate in full
    - Else second invitation – again allocate in full if below obligated level
    - Else need to pro-rate back to obligated level (and allocate surplus to 'other' point)
- Reallocation process to run after March 2015 QSEC is allocated
  - To be completed by September 2015

Initial Draft Timeline for Bacton Reallocation Process

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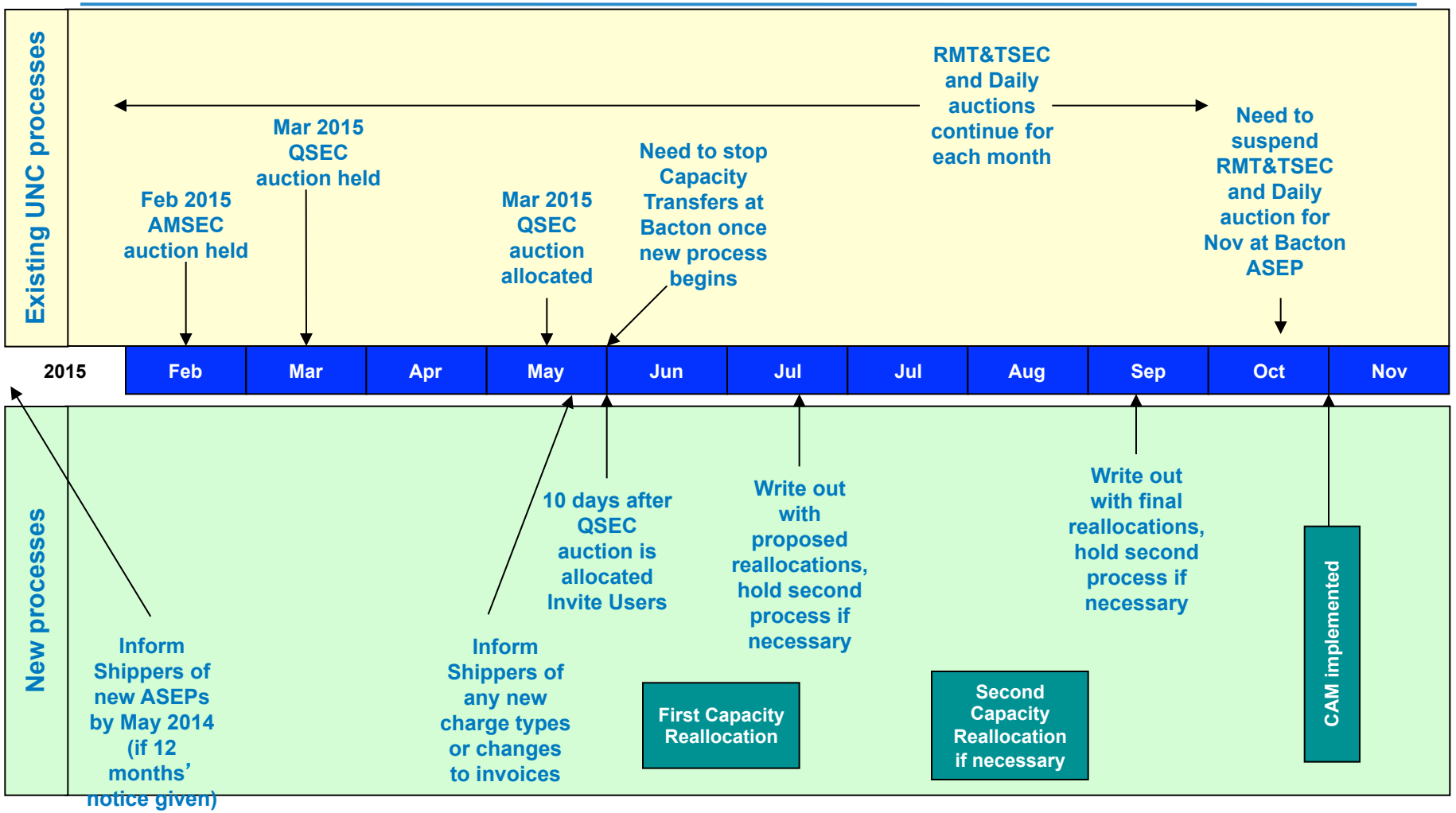

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One or Two UNC Mods (CAM/Bacton split)?

- Initial investigation of a 'Bacton split' mod indicates that some of the capacity definitions from the CAM mod itself will need to be introduced by this mod
  - e.g. need to create NTS Interconnector Entry Capacity (and all the UK Link processes for this, e.g. invoicing) as this is what Shippers will get at the Bacton EU IP
  - is it efficient to replicate all the definitions in both mods or can some be referenced?
- However, we need to recognise that there are dependencies between the two mods and that neither one can work without the other
  - Industry views sought?