

European Update



5 January 2017

1. General Update

Code Status Update

Code	Current Status	Implementation date
CAM amendments	EP/Council Scrutiny UNC MOD 598 raised	EIF 1 April 2017 (tbc)
Incremental Capacity	EP/Council Scrutiny UNC MOD 597 raised	EIF 1 April 2017 (tbc)
Tariffs (TAR)	EP/Council Scrutiny	Applicable from EIF[April 2017] tbc, October 2017, 31 May 2019.
Transparency (TRA)	EP/Council Scrutiny	Applicable from 01 October 2017, First publication May 2018

2. EU Code Updates

EU Tariffs Code Update

January 2017

EU Tariff Code: Process Steps

- **Mid-Nov 2016 – mid-Feb 2017:** Council and EU parliamentary scrutiny
- **6-8 March 2017:** EC - formal adoption and publication of TAR NC (~ 3 week process)
- **26-28 March 2017:** Entry into Force 20 days after publication
 - This should be after annual auction on 6 March
 - It shall be before allocation of QSEC auction

ENTSOG Activity: Implementation WS

- 1-day workshop to take place shortly after publication
 - TAR WS will only take place after scrutiny by EU Parliament and EU Council
- Goal of WS is to discuss the whole contents of TAR NC
- Both EC and ACER shall also present at WS
- Tentative date for WS is **29 March 2017**

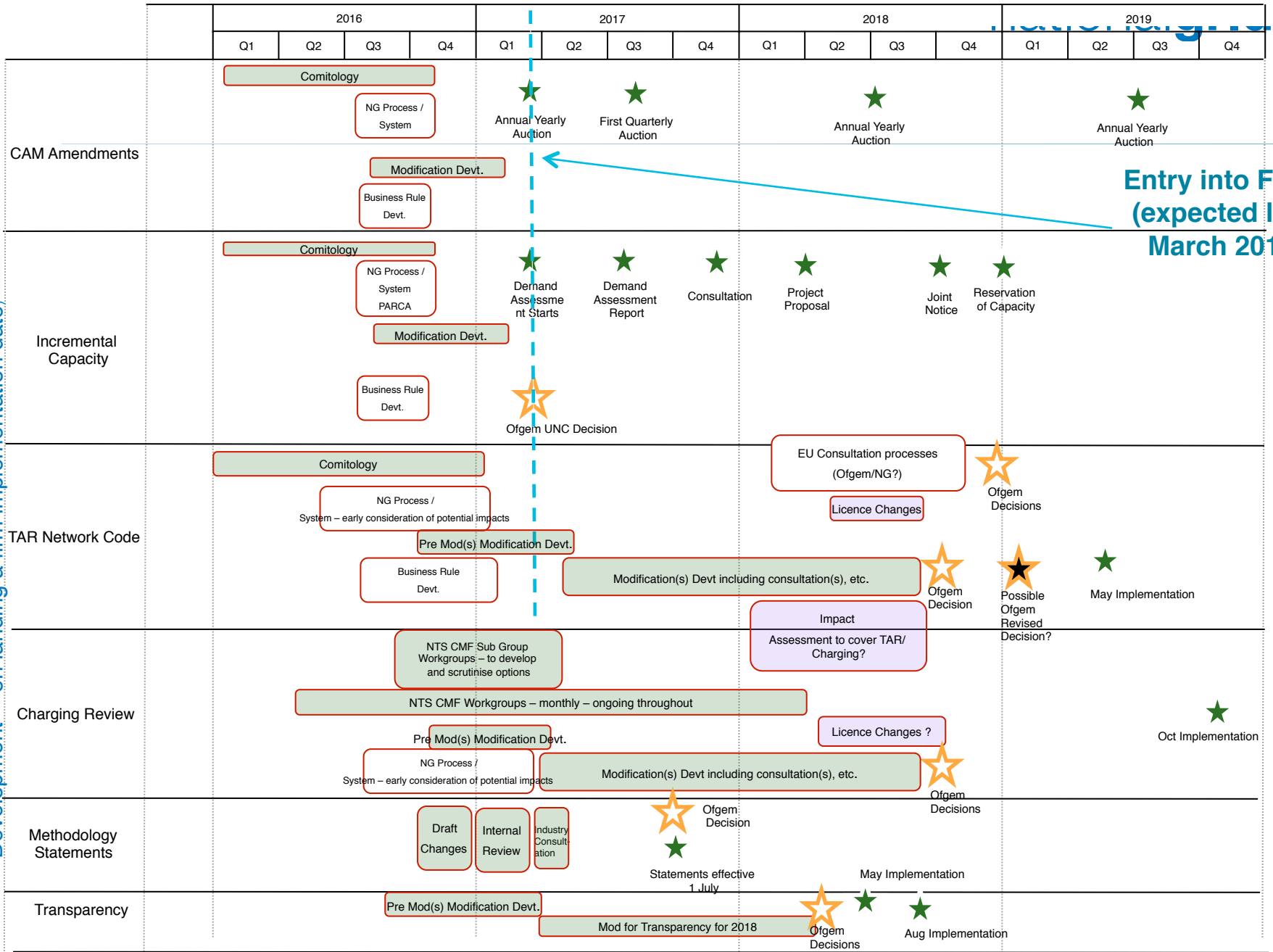
ENTSOG Activity: Implementation Document

- ENTSOG producing and Implementation Document
- Document on TAR NC shall be in two parts
 - What to implement
 - When to implement
- Document to be published prior to Workshop

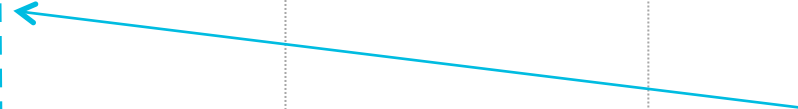
Indicative Timeline

↑ Approx. 18 month prior to implementation (dependent on landing a firm implementation date)

↓ System Development



Entry into Force
 (expected late
 March 2017)



EU Tariff Code: Simplified implementation timeline (with no pause for EU consultation) v3

	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018
EU Processes																								
Prepare consultation																								
Consultation																								
Publish responses																								
ACER views																								
NRA Motivated Decision																								
UNC Processes																								
Analysis - Options development via NTSCMF																								
Draft UNC Modification Discussions																								
Initial UNC Modification raised (including Panel)																								
Workgroups for further analysis, development, potential refinement																								
Final UNC Modification																								
Consultation on final MOD (including Panel's)																								
Ofgem decision																								
Licence changes (TBC)																								
Develop Licence changes																								
Consult on Licence changes																								
Decision on Licence changes																								
Additional assessment (e.g. Impact Assessment) (TBC)																								
Ofgem Impact or additional assessment																								
Consult on Impact or additional assessment																								
Respond on Impact or additional assessment																								

UNC mod process with simultaneous Mon & EU consultations

INTERACTIONS BETWEEN CAM AND TAR NC

CAM/TAR: Floating payable price for existing annual yearly entry

- **TAR NC 25 (1):** *Where and to the extent that the transmission system operator functions under a non-price cap regime, the conditions for offering payable price approaches shall be as follows:*
 - a) *for cases where only existing capacity is offered:*
 - i. *the floating payable price approach shall be offered;*
 - ii. *the fixed payable price approach **shall not be allowed***
- This applies from **1 October 2017**
- Applicable Daily Rate for Annual Yearly Entry will have to be aligned to that for Exit
 - i.e. adjusted price for year of use

CAM/TAR: Floating payable price for existing annual yearly entry

- **EID B2.1.5(I): “NTS Auction Price”** means the Reserve Price plus the NTS Share of the Auction Premium;
- **EID B2.1.6:** For the purposes of TPD Sections B2.11 and B3.12, subject to paragraph 2.1.7, the Applicable Daily Rate in respect of Interconnection Point Capacity allocated in an Auction is the NTS Auction Price

CAM/TAR: Floating payable price

for existing annual yearly entry same as exit?

- **EID B2.1.7***: In relation to NTS Exit (Flat) Capacity allocated (for any Gas Year) in an Annual Yearly Auction:
 - a. *it is acknowledged that the reserve price for such Gas Year in the prevailing Transportation Statement (as at the Auction Information Time) is indicative, and the final reserve price for such Gas Year is determined in the Transportation Statement prevailing at the start of such Gas Year;*
 - b. *the Starting Price for the Auction shall be determined on the basis of the indicative reserve price;*
 - c. *the NTS Auction Price will be determined (at the time of holding the Auction) based on the indicative reserve price, subject to paragraph (d);*
 - d. *for the purposes of determining (at the time at which such amounts fall due for payment) the Applicable Daily Rate of the Capacity Charge, and other amounts payable pursuant to this Section B, the NTS Auction Price will be redetermined as the final reserve price plus the NTS Share of the Auction Premium*

*This section of the EID will be amended as a result of UNC Mod 598 that will remove the link to the indicative price.

CAM/TAR: Floating payable price for existing annual yearly entry

- Existing Annual Entry shall require a UNC Mod to introduce text consistent with **EID 2.1.7**
- Treatment of payable price approach at non-IPs to be discussed at NTSCMF

CAM/TAR: Incremental capacity

- Introduces concept of a “Mandatory Minimum Premium” (TAR NC Art 33)
 - May be used to enable positive economic test outcome where “*allocation of all incremental capacity at reference price would not generate sufficient revenues*” to pass test
 - May be applied to incremental release in both auctions and alternative allocation mechanisms

CAM/TAR: Incremental capacity

- Mandatory Minimum Premium (MMP) shall have to be included in **EID**:
 - Added to definition of Auction Premium
 - **Reserve Price + share of Auction Premium + MMP**
 - *N.B. There are currently no plans to use auctions for incremental*
 - New definition of Applicable Payable Price required for Alternative Allocation Mechanism
 - **Reserve Price + MMP**

TAR NC: Incremental capacity

- What about incremental capacity at IPs where the “fixed payable price may be offered”?
 - If alternative allocation mechanism used, or
 - Project is listed as a “project of common interest”
- “fixed payable price approach” isn’t same as current concept of “fixed” price

TAR NC: Incremental capacity

- TAR NC Art. 24(b): fixed payable price approach

- $P_{\text{fix}} = (P_{R,y} \times \text{IND}) + \text{RP} + \text{AP}$

- *Where $P_{R,y}$ is reserve price when auctioned; IND is a form of indexation; RP is a risk premium, and AP is the auction premium if applicable*

- TAR NC Art. 33(2): reserve price is indicative and “*based on projected investment and operating costs*”,

- Reserve price proportionally adjusted once capacity commissioned to reflect **actual investment costs**

TAR NC: Incremental capacity

- TAR NC Art. 17(2): no reconciliation is allowed where fixed payable price used
 - All risks related to under- or over- recovery covered by the Risk Premium, RP
 - This effectively adjusts the TSO allowed revenue and may require the Price Control to be reopened
 - National Grid does not propose to offer incremental capacity using the fixed payable price approach

GB Charging Review

- Requirements from TAR NC currently under review
- Sub-group looking at reference price methodology
 - Choice and focus of RPM part of the NTSCMF and NTSCMF Sub-group discussions
- Current assumptions for Charging Review include
 - UNC consultation concurrent with EU consultation
 - ACER influence is minimal/relatively quick to accommodate
 - UNC Mod(s) raised **~April 2017?**
 - **Target date December 2018 to complete** (align with charges published in 2019)
 - <http://www.gasgovernance.co.uk/ntscmf>

EU CAM Modification Update 0598

CAM Mod 0598 - Update

- **Mod 598 - Amendments to Capacity Allocations Mechanisms to comply with EU Capacity Regulations**

- Four Development WGs held to date (15th Nov, 2nd, 13th and 20th Dec)
 - Workgroup progressing well and to planned timescales

- Agreed that the Modification will now only:
 - Contain the auction / calendar changes
 - Annual Yearly Capacity Auction to move from March to July (from 2018)
 - Four Annual Quarterly Capacity Auctions to be held during each capacity year (1st Quarterly Auction August 2017)
 - Will not cover TAR changes
 - Confirmed that the March 2017 **IP** Annual Yearly Capacity Auction should be concluded prior to Entry into Force of the EU Tariff Code and therefore not impacted by Tariff changes
 - First **IP** Annual Yearly Capacity Auction impacted by TAR NC is July 2018

CAM Mod 0598 - Update

- Amended to a Self Governance Modification
 - However, the default implementation date for Self Governance Mods is 16 days after panel decision to implement, and the Entry into Force is expected late March 2017
 - Agreed that NG NTS would notify the JO the implementation date once the entry into force is confirmed
 - Publication in EU Journal anticipated between [6th – 8th] March with a 20 day notice period of EIF [26th – 28th March]
- Draft Workgroup Report developed including draft Legal Text
- Next Development WG planned for 13th January 2017
 - Workgroup Report to be updated together with Legal Text
- Modification to be submitted to 19th January Modification Panel
 - The consultation period (currently planned for 19th January to 9th February) is then aligned with Modification 0597 (CAM Incremental)

CAM Mod 0597 - update

- **Mod 597 – Rules for the Release of Incremental Capacity at Interconnection Points**
- Four Development WGs held to date (15th Nov, 2nd, 13th and 20th Dec)
 - Workgroup progressing well and to planned timescales
- Summary of discussions so far:
 - Introduction of new CAM processes to broadly replace the current PARCA phase 1
 - Agreement on continued use of PARCA phase 2 as much as possible when it comes to how NG NTS allocates capacity
 - Workgroup examined a range of topics e.g.
 - How the CAM process interacts with other long term allocation processes
 - Checking if the current security fee calculation would remain fit for purpose
 - How the economic test would work

CAM Mod 0597 - update

- It should be noted that some of these topics were discussed for context but will ultimately sit outside of the UNC Mod e.g.
 - Economic Test will be added to the Capacity Release Methodology Statements (2017 update) for entry and exit
 - The Applicable Payable Price will be subject to a further modification to be raised in [April/May]17
 - 10% withholding rule is a matter of ongoing discussion with Ofgem

- Draft Workgroup Report developed including draft Legal Text

- Next Development WG planned for 13th January 2017
 - Workgroup Report to be updated together with Legal Text

- Modification to be submitted to 19th January Modification Panel
 - The consultation period (currently planned for 19th January to 9th February) is then aligned with Modification 0598 (CAM Amendments)

Future Topics

Future Topics

Topic Area	Provisional Date
Tariffs Code	Monthly updates
Transparency requirements	Monthly updates
CAM Amendment	Monthly updates
Incremental	Monthly updates

Mod 0600S: Amend obligation for the acceptance of EPDQD revisions made after D+5

Angharad Williams, National Grid NTS

5th January 2017

Context

- UNC states no revisions to the Entry Point Daily Quantity Delivered (EPDQD) will be made after D+5
- National Grid NTS accepting late revisions to ensure accurate shipper allocations
- If late revisions no longer accepted, will have adverse impact on shipper allocations
- Therefore UNC needs to be aligned to reflect current practices
- Propose revised obligation, so EPDQD amendments can be accepted after D+5, but inclusion of new reporting obligation for late amendments

Proposed Revised Solution

- UNC Changes:
 - Retain the D+5 deadline
 - Amendments permitted up to 10:00 on M+15
 - Amendments submitted between D+5 and 10:00 on M+15 will be accepted at the discretion of National Grid
 - National Grid reserves the right to investigate revisions submitted after D+5, and may use the results of this to propose improvements to the timely and accurate revision of amendments in future
- Non-UNC Changes:
 - Update generic Network Entry Agreement (NEA) template
 - When existing contracts opened for amendments include EPDQD revisions
 - Engage with all system entry points to inform of change to code
 - Process improvements (see slide 6)

Proposed Legal Text

1.4.2 The Transporter shall:

- (a) accept any revision to the Entry Point Daily Quantity Delivered for a Gas Flow Day which is received by it ~~amount determined to be the Entry Point Daily Quantity Delivered in respect of any System Entry Point for the Gas Flow Day may be revised~~ at any time up to and including the 5th Day following the Gas Flow Day;
- (b) have discretion as whether it accepts any revision to the Entry Point Daily Quantity Delivered for a Gas Flow Day which is received by it after the 5th Day following the Gas Flow Day and before 10:00 hours on the 15th Business Day of the calendar month following the month in which the Gas Flow Day occurs; and
- (c) reject any revision to an Entry Point Daily Quantity Delivered which it does not accept in accordance with (a) or (b) above.

~~, but no revision will be made to such quantity after the 5th Day after the Gas Flow Day.~~

1.4.3 The Transporter may investigate or enquire as to why any revision to an Entry Point Daily Quantity Delivered is made in accordance with paragraph 1.4.2 (b) (and not paragraph 1.4.2 (a)) and may use the results of its investigation to propose improvements to the timely and accurate revision of any Entry Point Daily Quantity Delivered in future.

Development of New Solution

- Meeting with CVSL to discuss issues with revision process and UNC changes
 - Feedback showed that a reporting incentive would likely be ineffective
 - Discussed further opportunities for process improvements
- Presented at Gas Operational Forum:
 - Contacted all system entry points prior
 - Received written feedback before meeting
 - Discussed issue directly with attendees
- Will continue to engage with system entry points at Operational Liaison meetings

Considerations for Process Improvements

- Taking forward:
 - Enhance the relationship between NG and CVA through regular meetings
 - Sharing monthly reports between NG and CVA
 - NG making internal process improvements
- Considered how to ensure sites give same data to NG as CVA – considering options for NEAs
- Discounted introduction of minimum threshold for revisions (5,000 kWhs)
- Will feed findings into future system automation programme

Next Steps

- Progress Mod with revised solution
- Continue to investigate and implement opportunities to improve NG and CVA processes and data
- Engage with system entry points on changes to the NEAs

Modification 0605S: Amendments to TPD Section K – Additional Methods to Procure and Dispose of Operating Margins Gas

Modification 0605S - Timeline

- Initial consideration by Workgroup 5th January
- Workgroup Report to be presented to Modification Panel on 19th January
- Draft Modification Report issued for consultation 19th January
- Consultation closes out 10th February
- Final Modification Report to Modification Panel on 13th February
- Modification Panel decision 16th February
- Self Governance Appeal Period 17th February to 6th March
- Implementation by 31st March
- The next OM Gas Reprofilling is planned for w/c 3rd April

Modification 0605S - Background

- The UNC currently prescribes National Grid NTS should run annual tenders to purchase and dispose of Operating Margins (OM) Gas
- OM Gas requirements change year–on-year e.g. quantities of gas and location
- OM Gas usage has reduced
- There have been instances where tenders have not been the most efficient or economical method:
 - Market dynamics result in less competitive prices offered through tenders; and a
 - Reduction in the number of tenders received

Modification 0605S - Proposal

- National Grid NTS licence directs that it operate in an efficient and economical way
 - We have identified other ways to deliver a more efficient and economical process such as Over the Counter (OTC) or by using an exchange (OCM etc.)
 - Historic analysis suggests a potential benefit to shippers of approximately £30k to £90k per annum which feeds through into the Closing Margins Adjustment Charge (UNC TPD Section K 4.4.5);
- Modification 0606 proposes to provide National Grid NTS with the discretion to decide whether it is efficient to run a tender or trade on the OTC or exchange

Modification 0605S

Existing	Proposed
Purchase OM Gas by tender unless for material quantities	Remove text to allow use of: Tender or Over the Counter or via exchange
Disposal of surplus OM Gas by tender	Tender or Over the Counter or via exchange

AOB



Negative Implied Flow Rate (NIFR)