

# Pre-Modification



6 April 2017

# Capacity Conversion

Business Rules Development for UNC modification

## Business Rules for modification

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- The rules are still in a relatively early stage of development and so should be viewed accordingly. They contain a number of assumptions and options at this stage
- ENTSOG's model on the capacity conversion mechanism is also out for consultation currently and so changes may be driven from an EU level
- Suggest review either following slides or draft modification to review/discuss rules

## Business Rules devt. (1 of 3)

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- Ex-post mechanism
- For annual, quarterly and monthly auctions
  - Duration of capacity product submitted for conversion must match auction product. e.g. can convert quarterly tranches of unbundled capacity after quarterly auction
- Assume legacy only (legacy = pre-CAM)
  - Legacy meets intent, and is in line with ENTSOG model
  - Legacy means mechanism will naturally fall away at future date
- Pre-requisite: unbundled capacity is either not offered [or gets sold out] on the other side of the IP

## Business Rules devt. (2 of 3)

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- Validation rules - what unb. capacity can be 'converted'?
  - Entitlements – blind to how capacity was acquired (trade, auction, legacy, non-legacy etc.); or
  - Registered holdings – easy to distinguish legacy / non-legacy; won't account for trading
- Capacity transactions (end result)
  - Old debit (unbundled capacity) + new debit (bundled capacity) + new credit (reimburse + reduce capacity entitlements); or
  - Old debit (unbundled capacity) + new debit (adjusted price) + (zero priced) capacity entitlement adjustment
- Net price for new (bundled) transaction limited to any premium. New reserve price to be re-imbursed

## Business Rules devt. (3 of 3)

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- How does NG manage cash flows
  - TBC but need to maintain NG neutrality in process
- Want to aim for relatively simple solution, however some system change likely

# European Update



6 April 2017

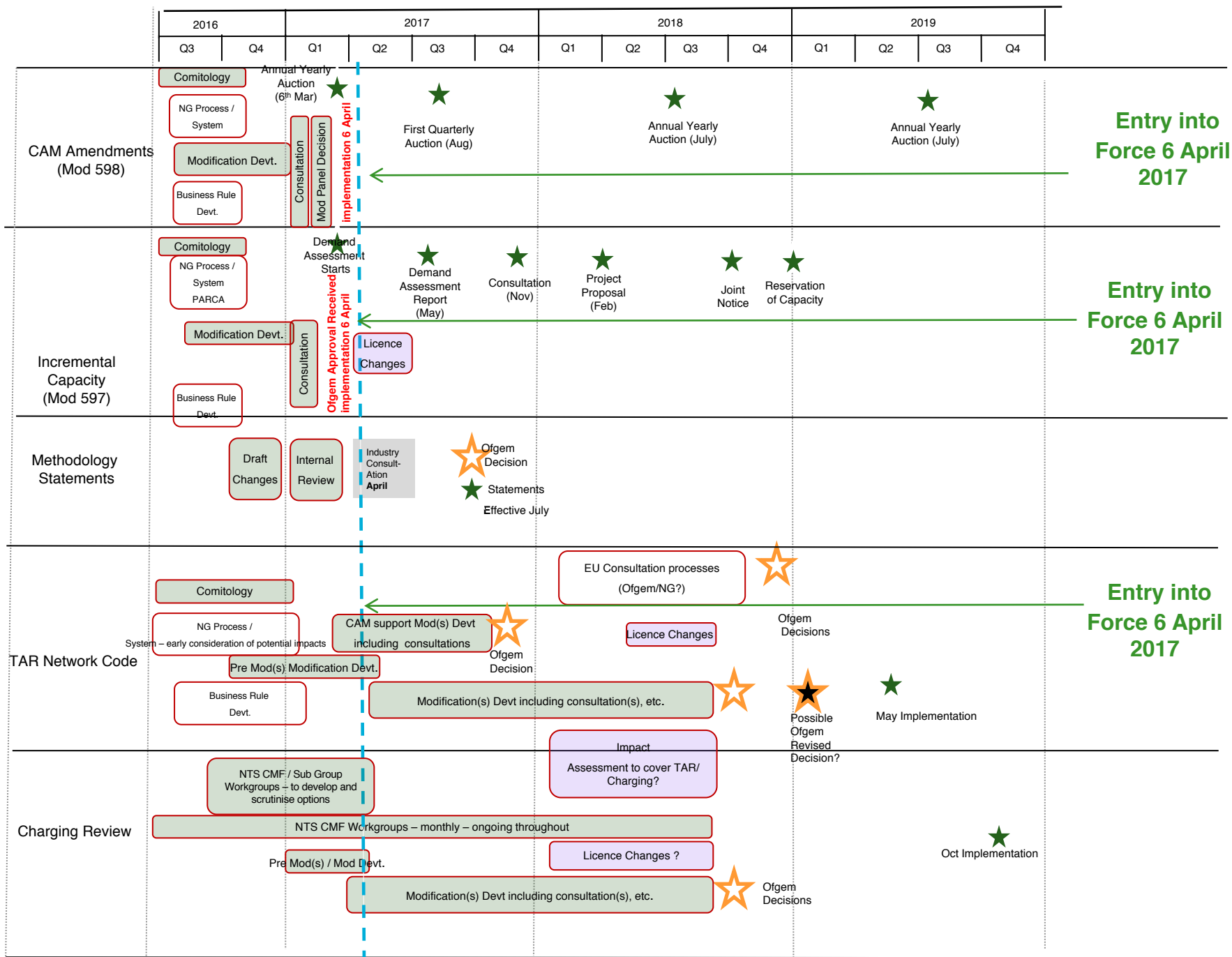
# 1. General Update



## Code Status Update

Code	Current Status	Implementation date
CAM amendments	Regulation published in EU Journal UNC MOD 598 (approved)	EIF 6 April 2017
Incremental Capacity	Regulation published in EU Journal UNC MOD 597 (approved)	EIF 6 April 2017
Tariffs (TAR)	Regulation published in EU Journal	Applicable from EIF 6 April 2017, October 2017, 31 May 2019
Transparency (TRA)	Regulation published in EU Journal	Applicable from 01 October 2017, First publication May 2018

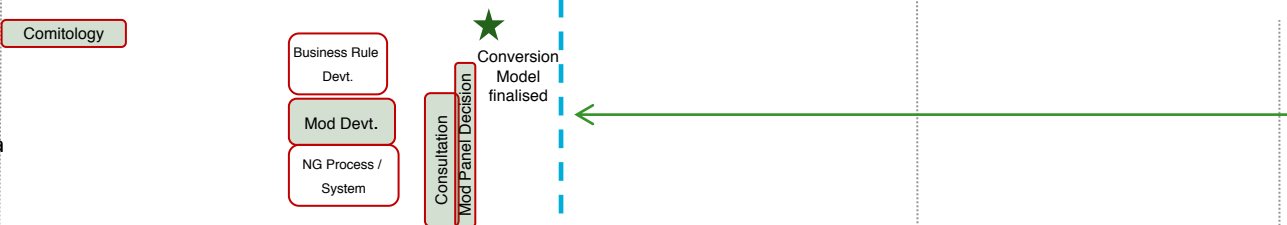
# Draft Indicative Timeline – National Grid Gas



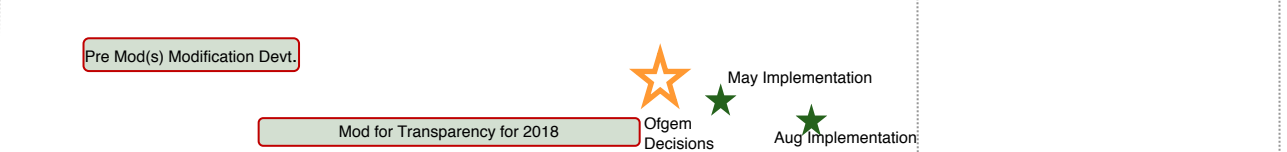
# Draft Indicative Timeline – National Grid Gas

2016		2017				2018				2019			
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

CAM Amendment  
Capacity Conversion  
(Mod xxx)



Transparency



## 2. EU Code Updates

# EU CAM Code update

## EU CAM NC Amendment

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- **17 March 2017:** CAM NC amendment published in Official Journal
- *COMMISSION REGULATION (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing (EU) Reg No 984/2013*
  - <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:072:FULL&from=EN>
- **Entry into Force = 6 April 2017**

# ENTSOG Activity: Implementation Workshop

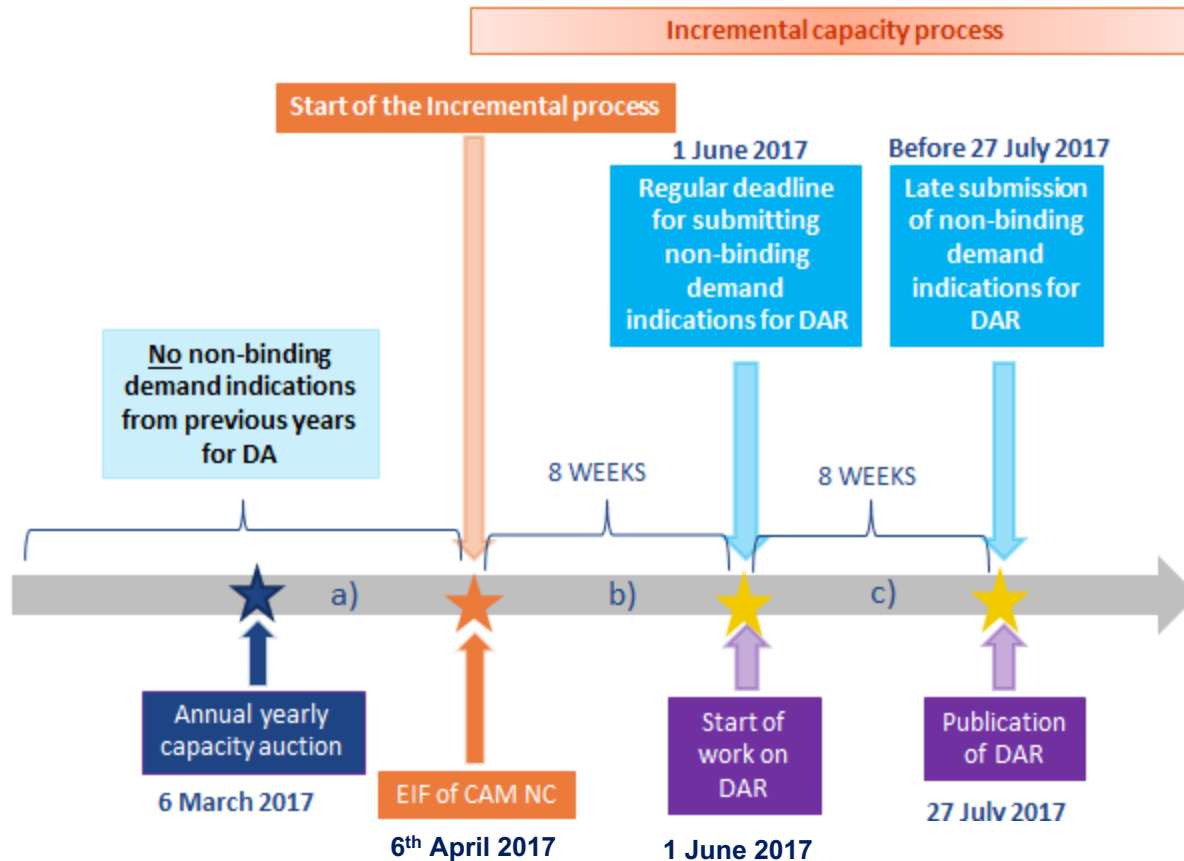
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- Workshop held in Brussels on **28 March 2017**
  - Materials can be found here:  
<http://www.entsog.eu/events/workshop-for-the-cam-nc-amendment#welcome>
  - Description of the INC process
  - Overview of all changes in the CAM NC amendment
  - Introduction of ENTSOG capacity conversion model

# CAM Incremental



# Demand Assessment Phase



## Demand Assessment phase

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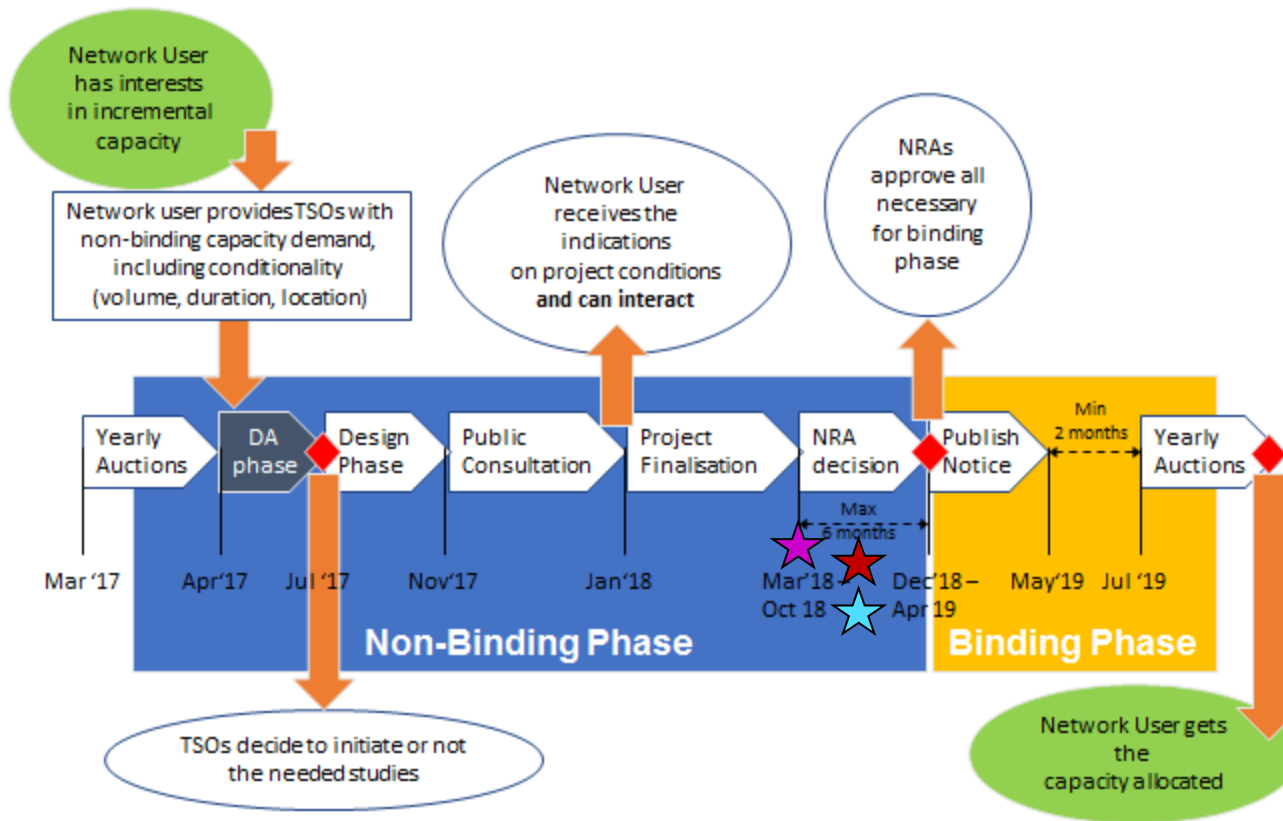
- Material (e.g. template for submitting demand indications) to be uploaded on NG website on 6<sup>th</sup> April
- Email to be sent via ENA with (link to) material on 6<sup>th</sup> April.
- Reminder e-mail will also be sent earlier in the week.
- NG operational contact for demand assessment phase will be Andrea Godden. [andrea.godden@nationalgrid.com](mailto:andrea.godden@nationalgrid.com)
- NG will co-ordinate with adjacent TSOs in producing the Demand Assessment report and can share Demand Indication information with adjacent TSOs

## CAM INC – Commercial Frameworks update

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- Modification 0597 covers rules for the demand assessment phase, design phase and NRA Approval, and allows for the use of the Alternative Allocation Mechanism (AAM)
- Rules for AAM to be included in a Project Proposal (to be approved by NRAs on a case by case basis). NG plan to make use of the PARCA framework via the AAM
- NG is drafting an AAM template to be used as part of any future Project Proposals, and also updating the PARCA contract to create an IP version
- NG plans to informally share these documents alongside the upcoming consultation review on capacity methodology statements

# ENTSOE Incremental Timeline



- ★ QSEC auction
- ★ IP Annual Yearly Auctions
- ★ July Window

# Capacity Methodology Update

# Capacity Methodologies Update

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## Statement Review:

- The consultations for the ECR, ExCR & ECTT are all due this year ( due by July 2017)
- The review of the ECR, ExCR, ECS & ExCS is required for EU CAM Amendments (UNC Mods 0597 & 0598)
- As a review of the ECTT is due this year it is proposed to follow the same timeline as the rest

## ECR & ExCR:

- A new chapter to reflect the new UNC processes for the release of incremental capacity at IPs. This is expected to:
  - Summarise the Demand Assessment Phase as method of requesting capacity and the subsequent Design Phase
  - Duplicate, where possible, the existing PARCA paragraphs relating to Phase 2 as the means of allocating capacity
  - Describe economic test
- Reference the CAM incremental process as a means of releasing IP Capacity & remove references/footnotes that state that there is no Incremental Process at IPs
- Auction calendar date changes and the introduction of four Annual Quarterly Capacity Auctions

# Capacity Methodologies Update

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## ECS & ExCS:

- Currently the methodologies do not allow for an incremental process at IPs and therefore there is no way of triggering substitution at an IP. This restriction will need to be removed as UNC Mod 0597 provides a means of triggering substitution analysis (no impact to the rules on substitution away from an IP)
- Clarify that where an applicant has requested additional Technical Interconnection Point Capacity via an IP PARCA that this can trigger a substitution proposal
- Clarify that where Technical interconnection Point Capacity has been reserved pursuant to an IP PARCA that this is not considered as substitutable capacity

## ECTT:

- Removal of obsolete transitional arrangements introduced by Mod 0501

## All:

- Removal of obsolete transitional arrangements
- General housekeeping and date related amendments

# EU Tariffs Code Update



## EU Tariff Code

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- **17 March 2017:** TAR NC published in Official Journal
- *COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas*
  - <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2017:072:FULL&from=EN>
- **Entry into Force = 6 April 2017**

## EU Tariff Code – final tweaks

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- No material changes in this final version of code except some dates:
  - **Art 34:** Agency to publish report on methodologies on determining allowed revenues before **6 April 2019**
  - **Art 35:** Existing contracts protection: applies to capacity bookings concluded before **6 April 2017** with TSO to send information on bookings to NRA before **6 May 2017**

## ENTSOG Activity: Implementation Workshop

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- Workshop held in Brussels on **29 March 2017**
  - Materials can be found here:  
<http://www.entsog.eu/events/implementation-workshop-for-the-tariff-network-code-for-gas#downloads>
- Consultation on Implementation Guideline
  - Respond by **30 June 2017** to TAR-NC@entsog.eu
  - updated version of the TAR NC IDoc to be published before the second TAR NC Implementation Workshop planned for **October 2017**

# GB Charging Review

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- Requirements from TAR NC currently under review
- Sub-group have produced a series of papers on a number of topics (e.g. r/p/m, multipliers, gas vs formula year.....)
  - <http://www.gasgovernance.co.uk/ntscmf/subg>
- UNC Mod(s) raised **Late Spring 2017**
- Proposed Reference Price Methodology Model shared with industry prior to UNC Mods being raised
- **Target date December 2018 to complete** (aligns with charges published in 2019)
  - <http://www.gasgovernance.co.uk/ntscmf>

## Future Topics

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Topic Area	Provisional Date
Tariffs Code	Monthly updates
Transparency requirements	Monthly updates
CAM (Capacity Conversion)	Monthly updates

## Modification 0605S

Amendments to TPD Section K: Additional Methods to Procure and Dispose of Operating Margins Gas

## Modification 0605S - Recap

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- Gas procured for OM is held in store at a Weighted Average Cost of Gas (WACOG), which is recovered by National Grid NTS upon sale or use
- Our intent with Modification 0605S is to enable National Grid NTS to access a wider range of OM gas trading sources to achieve more competitive prices for the benefit of shippers
- At the February Workgroup meeting, support was expressed for the Modification in principle
- However, concerns were raised about potential shipper exposure associated with any OM gas trading errors made by National Grid NTS
- National Grid NTS has operated a gas trading desk for shrinkage purposes for a number of years and agreed to provide details of any historical trading errors (Action 0201)



## Action 0201: National Grid NTS to clarify if any shrinkage manifest trading errors have been apparent

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- To the best of our recollection, 5 shrinkage trading errors have occurred in the past ~10 years
  - In each case, National Grid NTS was able to rectify the errors either at cost or with a marginal (~£50) gain / loss due to market movement
  - ~500 shrinkage trades are typically conducted per year
- Frequency and materiality of shrinkage trading errors has therefore historically been low
- Such errors have been unwound with minimal cost or at no cost at all
- We therefore question whether further developing Modification 0605S to address OM gas trading errors would be an efficient use of the industry's time

## Modification 0605S

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- However, we also recognise the concern raised by shippers that if the Modification were implemented as drafted, National Grid NTS would face no commercial incentive to perform its OM gas trading activities accurately beyond its general Licence obligations
- If the industry so desires, we are therefore willing to develop additional rules as part of Modification 0605S such that National Grid NTS bears the risk of OM gas trading errors

# OM Manifest Error Issues: Initial Thoughts

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- Definition
  - 'Intent' versus 'actual'
- Types of error
  - Wrong price
  - Wrong volume
  - Wrong date
- Value determination
- Materiality threshold and liability cap
  - £50k and £1m respectively?
- OM financial adjustment mechanism
  - Procurement: WACOG adjustment?
  - Disposal: adjustment to shipper neutrality charge?
- Reporting obligation

## Summary & Next Steps

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- In our view, the likelihood and materiality of OM gas trading error risk is insufficient to warrant the development of new rules to transfer this risk to National Grid NTS
- However, we recognise that the Workgroup wishes to see National Grid NTS appropriately incentivised to perform OM gas trading activities accurately
- If the Workgroup still considers that such rules are warranted, National Grid NTS will develop proposals for Workgroup discussion
- This will be subject to the Modification Panel granting a further extension for this Workgroup

**AOB**

