

European Network Code Workshop



Gas European Network Codes Update
Chris Logue, European Policy Manager (Gas)

Afternoon Gas Agenda

- Capacity Allocation Framework Guideline & Gas Target Model (1250 – 1305)
 - ACER capacity allocation mechanisms (CAM) FG: key provisions, process update
 - Gas target model: CEER public consultation
- Capacity Allocation ENTSOG Network Code Process (13:05 – 13:55)
 - Capacity Allocation Methodologies (CAM) progress update
 - ENTSOG public consultation on draft network code
 - Detail of Network Code and potential GB impacts
- Initial Q&A (13:55 – 14:10)

Afternoon Gas Agenda Continued

- **Balancing Framework Guideline (14:10 – 14:20)**
 - Key provisions in FG, process update
- **ENTSOG Balancing update (14:20 – 14:30)**
 - High level overview of Balancing work group, including work under taken to date by ENTSOG
- **Other Guidelines/Codes 14:30 – 14:40)**
 - Congestion management procedures (CMP) guidelines: process update
 - Tariff structures
 - Interoperability
- **Final Q&A (14:40 – 15:00)**
- **Conclusions and Summary (15:00 – 15:10)**
- **Close (15:10)**

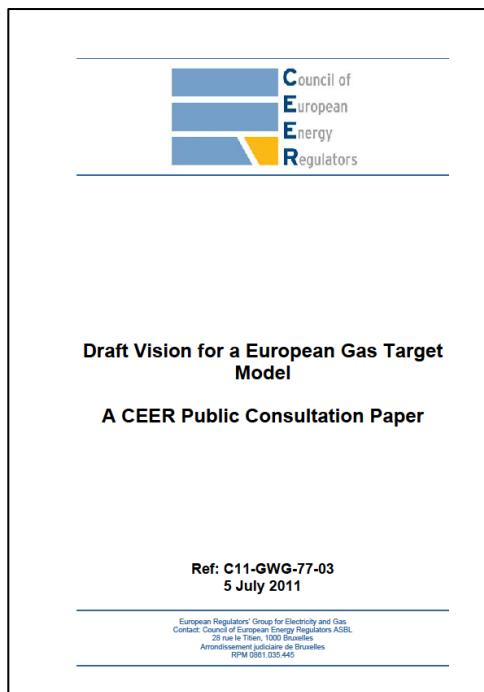


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ACER's Capacity Allocation Framework Guideline and CEER's Gas Target Model

Martin Crouch, Partner, European
Strategy

CEER's Gas Target Model consultation (1)



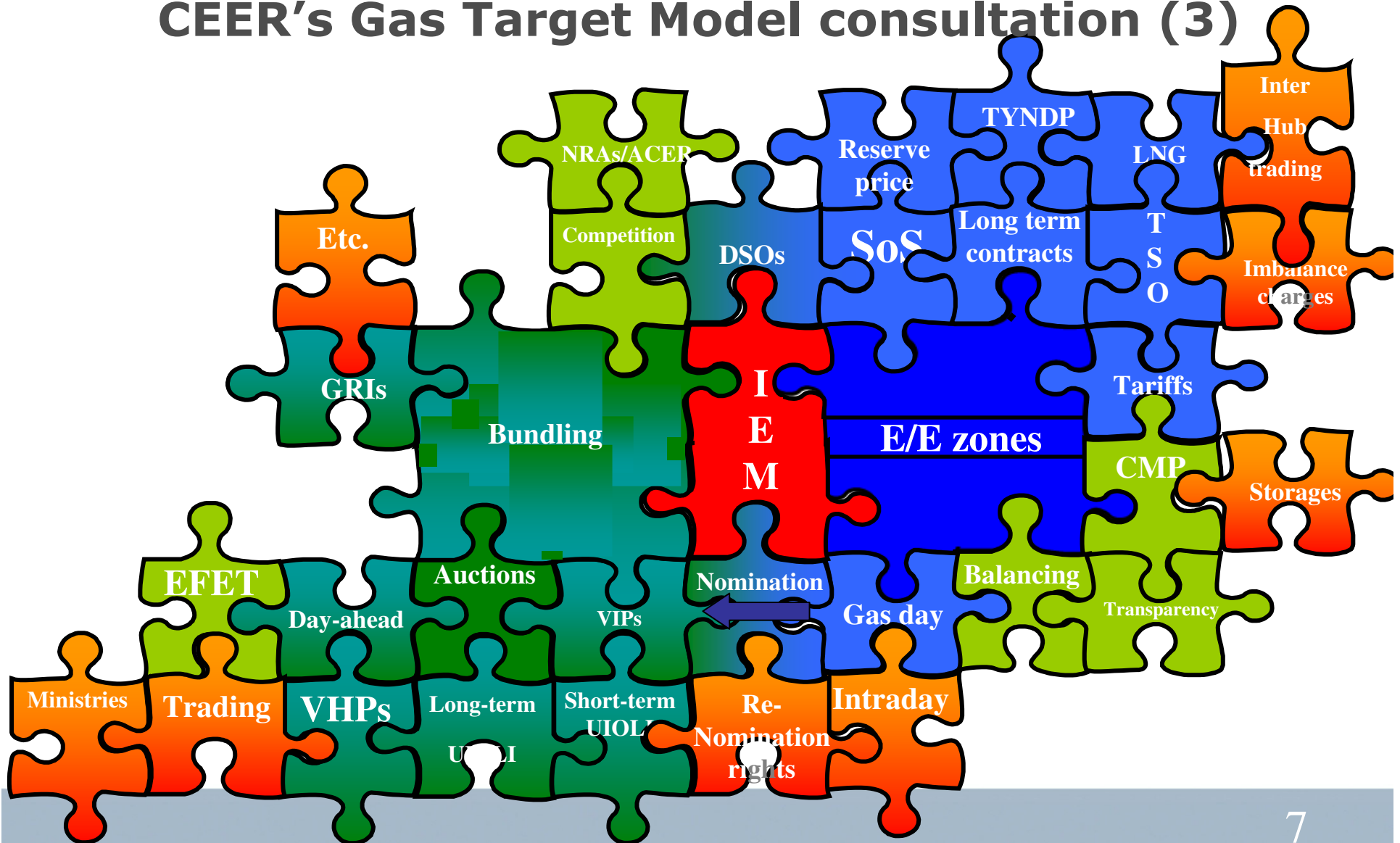
- September 2010 Madrid Forum invited European regulators to commence this project
- CEER call for evidence in 2010
- 4 public workshops organised by CEER (one in London)
- A range of position papers, including an Ofgem-commissioned study by LECG
- CEER consultation from 11 July to 20 September

The consultation document is available at www.energy-regulators.eu

CEER's Gas Target Model consultation (2)

- **Enabling functioning wholesale markets**
 - how to structure entry-exit zones?
- **Connecting functioning wholesale markets**
 - reference to ongoing Capacity Allocation (CAM) and Congestion Management (CMP) work
 - Options for implicit allocation of capacity to be explored by TSOs and market participants
- **Ensuring secure supply and economic investment**
 - ACER to develop proposals to use coordinated long-term auctions to trigger investment
- **Pricing of transmission capacity**
 - what reserve price to set for short-term capacity?
- **Interaction with electricity markets**

CEER's Gas Target Model consultation (3)



ACER's Capacity Allocation Framework Guidelines

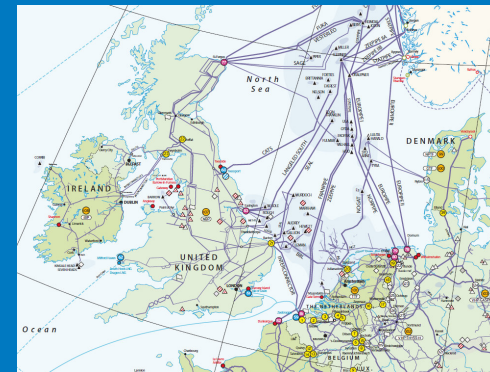
Process

- December 2010: ERGEG pilot concluded
- January 2011: European Commission invited ENTSOG to draft Network Code
- ACER consultation on Framework Guidelines closed on 2 May 2011
- ENTSOG consultation closes on 3 August

Content

- Scope: interconnection points, existing capacity
- Auction based capacity allocation
- Bundled products
- Harmonised capacity products (gas day 5am-5am)
- Single booking platform
- Sunset clause for existing contracts
- Some capacity reserved for short-term products

CAM Draft Network Code Update



Matthew Hatch, Senior Commercial Analyst

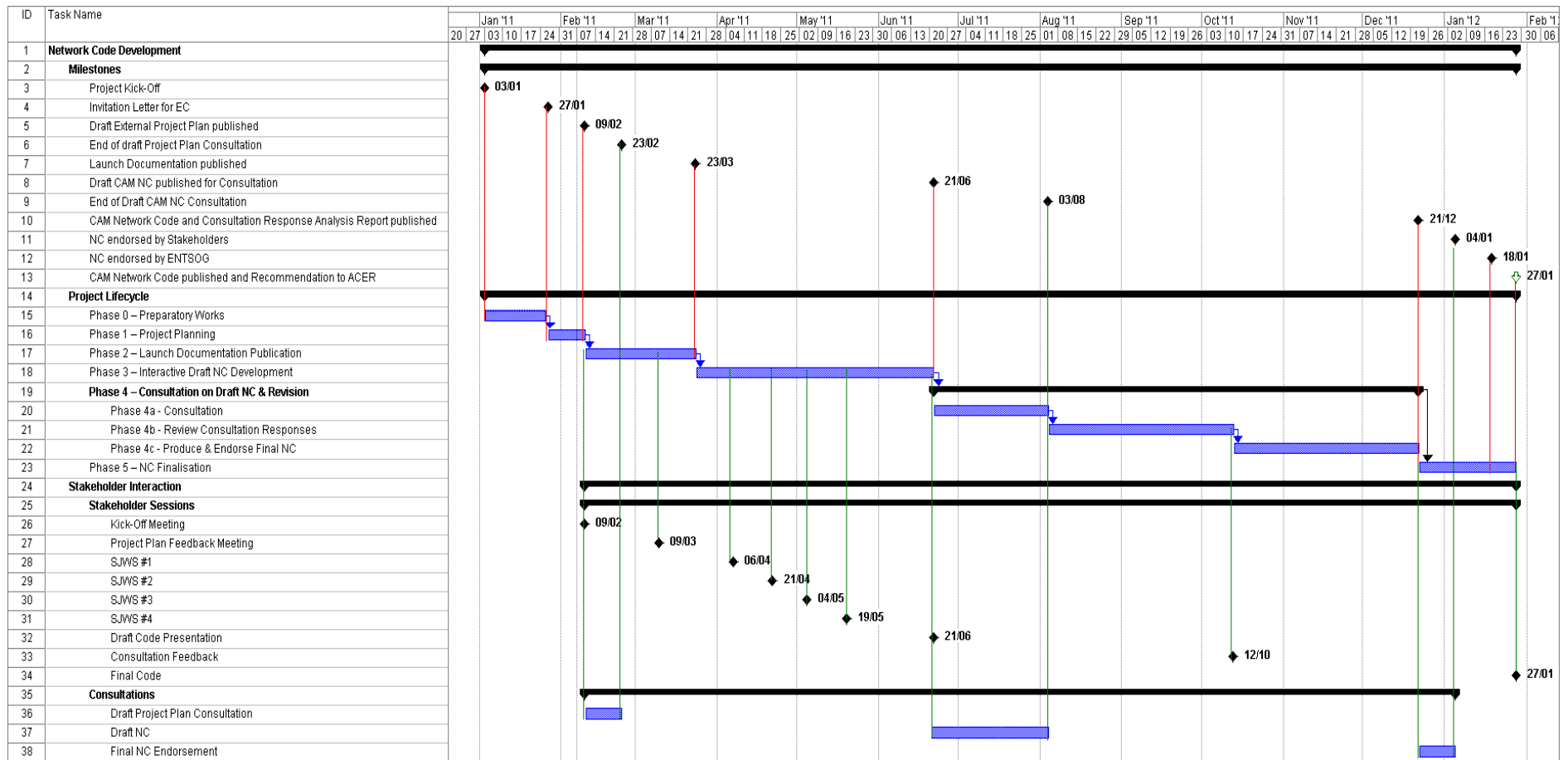
Content

- An overview of:
 - Timelines
 - ENTSOG Draft CAM process
 - Draft CAM Network Code – Overview & Potential GB impacts
 - Summary & GB Stakeholder involvement

CAM General Project plan

- Network Code Development period divided into 5 phases:
 - Project Planning
 - Launch Document
 - Interactive Code Development
 - Consultation of Draft Code
 - Network Code finalisation

ENTSOG CAM Project Plan



Stakeholder Engagement

- **9th February** **Initial stakeholder meeting** ✓
- **9th March** **2nd stakeholder meeting** ✓
- **6th April** **SJWS 1** Bundling ✓
- **21st April** **SJWS 2** Auctions ✓
- **4th May** **SJWS 3** Within day and Interruptible ✓
- **19th May** **SJWS 4** Wrap up ✓
- **21st June** **Draft network code presentation / launch** ✓
- **19th July (pm)** Tariff (CAM Code)
- **20th July** Additional SJWS – Auction ‘game’

- **3rd August** **Draft network code consultation closes**
- **12th October** **Consultation feedback session**
- **27th January 2012** **Final code to ACER**

Key CAM Documents

- Project Plan
- Launch Document
- All stakeholder (SJWS) meeting material
- Draft CAM network code, supporting document & consultation response available from ENTSOG @
 - http://www.entsog.eu/publications/index_g_cam.html

L 211/36 EN Official Journal of the European Union 14.8.2009

REGULATION (EC) No 715/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 13 July 2009
on conditions for access to the natural gas transmission networks and repealing Regulation (EC)
No 1775/2005
(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 95 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Economic and Social Committee ⁽¹⁾,

Having regard to the opinion of the Committee of the Regions ⁽²⁾,

Acting in accordance with the procedure laid down in Article 251 of the Treaty ⁽³⁾,

Whereas:

(4) A second set of common rules entitled 'the Second Guidelines for Good Practice' was adopted at the meeting of the Madrid Forum on 24 and 25 September 2003 and the purpose of this Regulation is to lay down, on the basis of those guidelines, basic principles and rules regarding network access and third party access services, congestion management, transparency, balancing and the trading of capacity rights.

(5) Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas ⁽⁴⁾ provides for the possibility of a combined transmission and distribution system operator. The rules set out in this Regulation do not therefore require modification of the organisation of national transmission and distribution systems that are consistent with the relevant provisions of that Directive.

■ EC Regulation 715/2009 on conditions for access to the natural gas transmission networks

■ Article 16 – Principles of capacity allocation

- The transmission system operator shall implement and publish non-discriminatory and transparent capacity allocation mechanisms

ERGEG Framework Guideline



- Entsog Code based on ERGEG version of the FWG
- In parallel ACER CAM FWG being consulted upon

Revised Pilot Framework Guideline on Capacity Allocation Mechanisms

E10-GWG-71-03
7 December 2010

Council of European Energy Regulators (CEER)
200 rue de Tivoli, 1200 Brussels
Avenue Louise 1205 Brussels
CEER 2010 003 410

ENTSOG Draft CAM Network Code

■ Overview

- In principle similar to GB Entry arrangements however:
 - Will have impacts to current arrangements
 - Guideline & Code relate to Interconnection Points only

■ European wide focus

- National Grid Gas NTS active in ENTSOG Capacity Group
- Many other TSOs represented
- Other countries promoting different arrangements (TSOs, Users, Regulators)
- Compromises are needed throughout this process

FWG & Draft CAM Code

- Regulation & Framework Guideline ‘similar’ to GB regime
 - Market mechanism
 - Auctions
 - Different products Ann,Qtr,Mth,Daily,W-day
 - Durations Long term – Short term
 - Transparent
 - Market information
- CAM Code ‘similar’ to GB regime
 - What's new?
 - Bundling capacity at IPs
 - Joint TSO capacity sales
 - Removal of flange booking / trading
 - Sunset clause

FWG & Draft CAM Code

■ Focus on key issues

- Different rules for IPs
- UNC Code change
- Sunset clause
- Bundling (ASEPs)
- Enduring Exit
- Auction design
- Incremental capacity
- Incentives
- Interoperability (CET)
- Other 3rd package Codes (and CMP provisions under 2nd package)
- Implementation timelines

ENTSOG Draft CAM Network Code

- Key concepts:
 - Standardised Capacity products
 - Standardised Capacity allocation
 - Description of cross-border capacity allocation
 - TSO Cooperation

ENTSOG Draft CAM Network Code

■ **Application of Network Code**

- EU Cross border IPs & interconnections between adjacent entry-exit systems
- *GB – Entry capacity booked at aggregate (ASEP) level whilst IPs at single point level – ASEP concept and current bookings?*
- Apply to all existing capacity at IPs and capacity made available by capacity increase e.g. enhanced capacity calculation, oversubscription and capacity surrender. Will apply to capacity freed up by expiry of contract
- *GB – Incentive arrangements, CMP provisions and possibly the sunset clause*
- *GB – Joint TSO and [Regulator] provisions on IP point specific matters (incentives, baselines) etc*
- Does not apply to capacity allocated via open seasons, but capacity allocation will have to be consistent with the Code provisions
- *GB - Entry arrangements consistent, Enduring Exit?*
- Sets out minimum requirements
- *GB -TSOs able to offer more but difficult to run same arrangements across the EU*
- Does not cover other Code areas
 - But has needed to ‘consider’ other aspects

ENTSOG Draft CAM Network Code

■ Standardisation of Communication

- Ensure interoperability between Users IT systems and TSOs
- Standard communication procedures, coordinated IT systems and compatible electronic on-line communications
- Data exchange formats & protocols
 - ENTSOG to develop a Data & Solutions Handbook
- *GB – Changes to current TSO (and User) IT systems likely*
- More alignment of an EU wide communication procedure
- *GB – Other member states already use a standard*

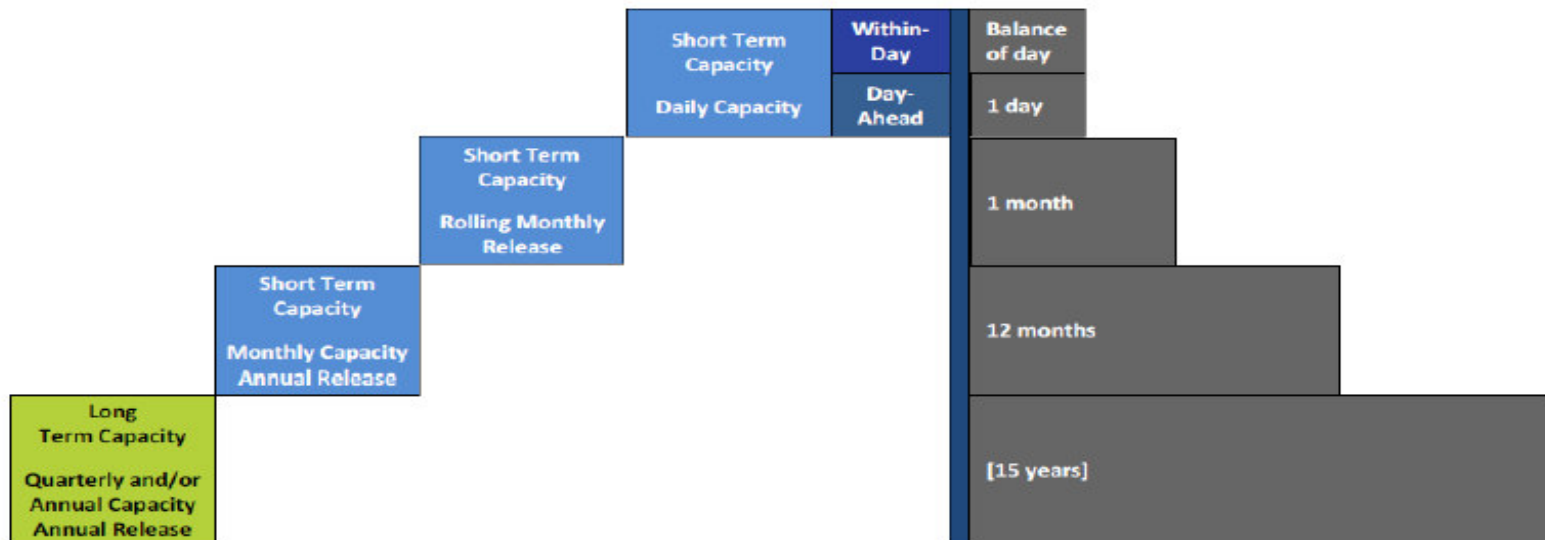
ENTSOG Draft CAM Network Code

■ Allocation of Firm Capacity

- The same auction design will apply at IPs and run simultaneously
- *GB – different timelines*
- Available capacity will be offered as bundled
- *GB – obligated & non obligated capacity & incentives*
- Need to offer differences either side of IP as unbundled (until contract the other side of IP ends)
- *GB – Licence baselines, differences either side of IP?*

ENTSOG Draft CAM Network Code

- Standard Products
- *GB - Concept same as Entry but differences in the detail design*



For LT - Users favoured Quarterly

ENTSOG Draft CAM Network Code

■ Key Differences from GB

- Applied booking unit either *kWh/h* or kWh/d
- *No incremental*
- Product definition Long term = > 12 months / Short term = < 12 months
 - *MSEC (annual monthly) 18 months = Medium term / Short term = day ahead and within day*

- Quarterly LT Auction (90% offered. 10% withheld for Annual Monthly)
 - *Auction 1st Monday in March w.e.f 1st Oct*
 - *Duration 10 consecutive days*
 - *Window 10:00 – 16:00*
 - *Allocation results 5 days after closure*

ENTSOG Draft CAM Network Code

- **Annual monthly**
 - *Auction 1st Monday in June (march)*
 - *Max 12 months duration*
 - *Duration 5 consecutive days*
 - *Window 10:00 – 16:00*
 - *Allocation results 3 days after closure*
- **Rolling monthly**
 - *Auction 3rd Monday in each month*
 - *No Trade & Transfer concept*
 - *Duration 2 consecutive days*
 - *Window 10:00 – 16:00*
 - *Allocation results 2 days after closure*

ENTSOG Draft CAM Network Code

- **Daily**

- *Window 06:00 – 13:00 D-1*

- **Within day**

- *Window opens D-1 at 14:00*
- *Amount on offer published before auction*
- *Separate hourly auctions*
- *Incentives for additional capacity offer (inc other durations non obligated)?*
 - *Could be allocated via FCFS*

ENTSOG Draft CAM Network Code

■ Auction Algorithms

- Auction to include the firm bundled IP capacity
- Cleared price volume auction with pre defined price steps P0-[P30] applied for all products – available unsold capacity only
(except for)
- Day ahead and within day a uniform price auction is applied – user defines the price and quantity (max 10 bids)
- *GB – LT volume based auction applied to baseline quantities and incremental capacity*
- *Pay as bid applied to MT and ST capacity*
- *Different enduring Exit arrangements*

ENTSOG Draft CAM Network Code

■ Cross border capacity

- TSO will offer jointly firm bundled capacity
- On a joint platform(s)
- *GB – IT systems impacts*
- Nomination of flows via a single procedure
- *GB – IT systems and Balancing code*
- Virtual interconnection points established (where possible) after 5 years of the code coming into force
- *GB – VIPs?*

ENTSOG Draft CAM Network Code

■ Interruptible Capacity

- Not a bundled product
- Min obligation for day ahead only (where firm has been sold out)
- *GB – interruptible offered day ahead where firm still available*
- TSOs (if offered) jointly offer longer term interruptible capacity via the standard auction process
- *GB – only day ahead offered*
- TSOs align interruptible services

ENTSOG Draft CAM Network Code

- **Tariffs**
- Regulated tariff used for the reserve price in all auctions
- Avoid cross subsidy
 - Profiled booking to recover (as far as reasonably possible) allowed revenue
 - Over / under recovery mechanisms needed
 - Revenue to be split from bundled products between TSOs
- Draft CAM Code 'conditional' on Tariff outcome / reserve prices

ENTSOG Draft CAM Network Code

■ Booking Platforms

- TSOs will offer jointly firm bundled capacity for all durations including Secondary capacity on a joint platform(s)
 - defined as web based via
 - A) already existing booking platforms
 - B) a TSO or party acting on behalf of the TSO(s)
 - C) establishing a joint platform
 - D) another approach
- Entsog to establish a plan and a report to reduce platform numbers
- *GB – IT systems impacts / move to another platform?*

Summary

- **Key Summary Points**
- Engagement
- Process still open
- Potential changes to GB regime at IPs
- Multiple Code development & interaction

Initial Q&A





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ACER's Gas Balancing Framework Guidelines

Konrad Keyserlingk, Senior Manager,
European Strategy

Process

- ERGEG's pilot Framework Guidelines published in March 2011
- Commission invited ACER to draft Framework Guidelines (13 March 2011)
- ACER consultation from 12 April to 12 June

Next steps:

- ACER to publish Framework Guidelines (by 12 September 2011)
- ENTSOG to draft Network Code (12 months)
- ACER to provide opinion
- Comitology procedure

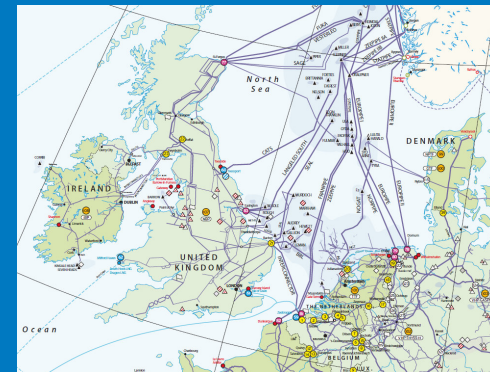
Problem identification

- Lack of access to relevant information, flexible gas and network capacity reduces shippers' ability to balance efficiently
- Fragmentation of balancing zones may create barriers to cross-border trade
- Some imbalance charges do not provide the right incentives to shippers and are potentially discriminatory
- Non-market based methods for TSO procurement of balancing services reduce market liquidity
- All of this results in TSOs doing most of the balancing instead of the market

ACER proposals

- TSOs' role limited to residual/ system balancing
- Network users to be incentivised to balance their portfolio
- Imbalance charges based on marginal price
- Harmonised daily balancing period
- Option for within-day obligations
- Non-discriminatory provision of information on system and portfolio position
- Market-based TSO procurement
- Cross-border cooperation

ENTSOE Balancing Update



Colin Hamilton, European Policy Specialist

ENTSOG Balancing - Update

- Regulation & Framework Guideline highly influenced by UK regime
 - Market based daily balancing
 - Entry/Exit system with virtual trading point
 - Daily imbalance cashout based on SMPs
- ENTSOG Balancing Code development (work streams created)
 - Genuine System Needs
 - Commercial Frameworks
 - DSO Information
 - Virtual Trading Points
 - Cross Border Cooperation
- Dialogue with European Associations
 - EFET, Eurogas, GEODE, CEDEC
- Will take learning from CAM process

TSO concern/discussion points

■ UK focus:

- Common gas day throughout EU - 05:00 to 05:00 UK time
- Renomination restrictions at interconnectors (c.f. CMP)
- Operator Balancing Accounts
- Cross-border balancing
 - Shipper led, Cross-border TSO balancing, Joint balancing platform
- Merging balancing zones

■ European wide focus:

- Can market based tools deliver a physical response when and where you want?
- Achieving sufficiently liquidity so that market based tools can be relied on?
- Lack sufficient system flexibility to accommodate intra-day linepack swings
 - Retain physical intra-day operational tools and “within-day obligations”
- Will “interim” solutions be effectively “enduring” for some regimes?

Balancing Code: ENTSOG Initial Timeline

- Develop project plan & launch documentation – **Jul/Oct 2011**
- Publication of Framework Guideline & invitation for network Code development – **Sep 2011**
- Project launch – **Nov 2011**

ENTSOG Consultation Process

- Publish Project Plan & Launch Documentation – **Nov 2011**
- Bilateral discussions – **Nov/Dec 2011**
- Stakeholder Joint Working Sessions
 - Each session may be focussed on specific themes (cf CAM)
 - 5 sessions – **Dec 2011 to Feb 2012**
- Publish First Consultation Document – **April 2012**
- First Consultation – **April/May 2012**
- Proposal refinement incorporating stakeholder opinion/support – **June/July 2012**

Balancing Code: ENTSOG Initial Timeline

- Refine draft Code – Jul 2012
- ENTSOG internal approval process – Aug 2012
- Submit Code to ACER – Sep 2012

ENTSOE Balancing Update: Conclusions

- Balancing Code will be highly informed by UK system
 - Market based daily balancing with daily cashout based on marginal prices
- Some UK issues
 - 05:00-05:00 Gas Day, restrictions to renominations rights, cross border balancing, merging balancing zones
- Wider European debate likely to be dominated by interim solutions to developing liquid traded markets, within-day obligations and physical tools
- Code development begins in earnest from September 2011 with considerable opportunities for stakeholder input



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Other Guidelines/ Codes

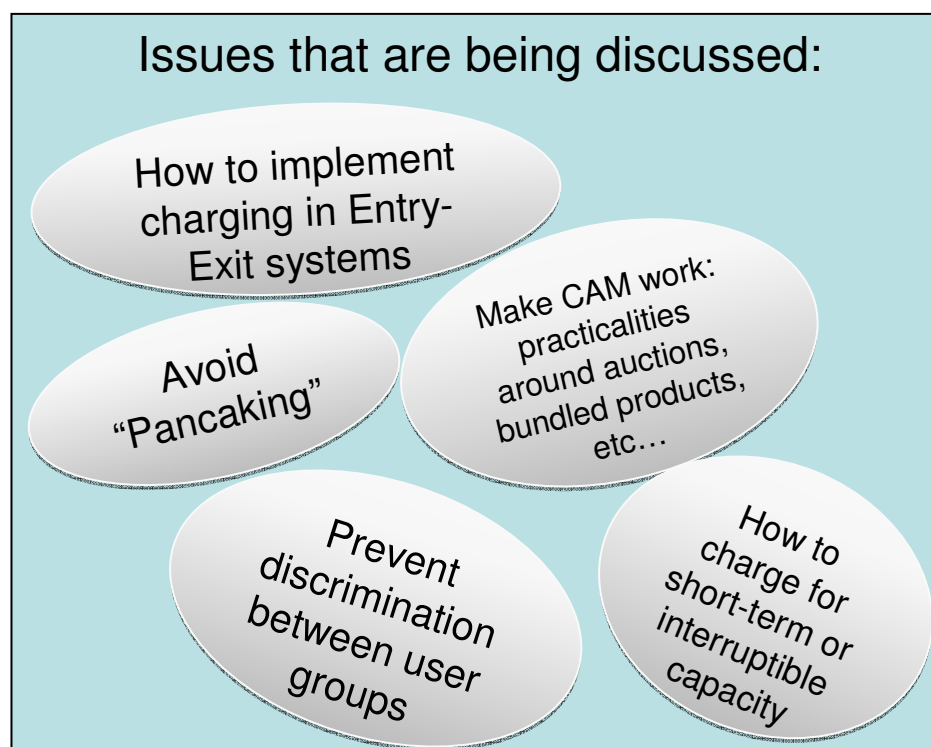
Konrad Keyserlingk, Senior Manager,
European Strategy

Harmonised transmission tariff structures

- One of the Framework Guidelines in Gas Regulation
- Discussions ongoing amongst regulators

Madrid Forum conclusions:

- Regulators to finalise their work and present results to European Commission
- Commission considers to pursue this as “Commission guidelines”



Congestion management Procedures

- Amendment of Chapter 2 of Annex 1 of Gas Regulation
- ERGEG proposal submitted to European Commission in June 2010
- Commission's proposal submitted to September 2011 Madrid Forum
- European Commission public consultation closed in April 2011 (summary of responses available at http://ec.europa.eu/energy/gas_electricity/consultations/20110412_gas_en.htm)

European Commission proposal

- Maximisation of capacity by means of transparent and clear rules on capacity calculation approved by NRAs
- Overbooking and buy back incentive scheme approved by NRA
- Surrender of capacity to the TSO approved by NRAs?
- Creation of firm day ahead capacity market by restricting re nomination rights
- Long term use it or lose it as last resort

Next step: European Commission to publish IA and commence Comitology

Interoperability Framework Guidelines

- Very initial discussions are ongoing within ACER

Next steps

- Publication of an ACER consultation on the scope of the framework guideline (Summer/ early Autumn 2011)
- European Commission will then formally invite ACER to develop Framework Guidelines

Current discussions

- What is interoperability? What specific barriers to cross-border trade exist in this context? Which ones should be addressed in the Framework Guidelines? How to manage interactions with other Framework Guidelines?

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, there is a close-up of a gas burner with a flame. In the foreground, there are wheat stalks. A large white arrow points from the solar panels towards the gas burner.

ofgem

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Final Q&A



Conclusions and Summary



Chris Logue, European Policy Manager (Gas)

Route for Stakeholder Engagement

– Network Codes (Gas)

THE POWER OF ACTION

- Numerous routes for Stakeholders to get involved in the Network Code drafting process over the 12 months cycle
- Define Code Project Plan Stage
 - Project Plan Consultation
- Code Proposal Development Process Stage
 - ENTSOG led ‘Stakeholder Joint Working Sessions’
 - Positive response from stakeholders regarding opportunities for engagement from the stakeholder joint work sessions after pilot Gas CAM process
- Code Finalisation Stage
 - Final Process Consultation, Final Stakeholder Opinion & Opportunity for associations to support or reject

Contacts

You find out the details of the latest European Energy consultations and keep up to date with the latest developments via these links:

- European Network of Transmission System Operators for Gas (ENTSOG)
http://www.entsog.eu/publications/index_g_press.html
- European Commission (EC) – Directorate-General for Energy
http://ec.europa.eu/dgs/energy/newsletter/index_en.htm
(Click on the underlined text "ask to be put on our mailing list")
- Agency for the Cooperation of Energy Regulators (ACER)
http://www.acer.europa.eu/portal/page/portal/ACER_HOME/newsbox
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