

Impact of EU Network Codes on the Gas Market

Gas & Electricity Workshop
3rd July 2013

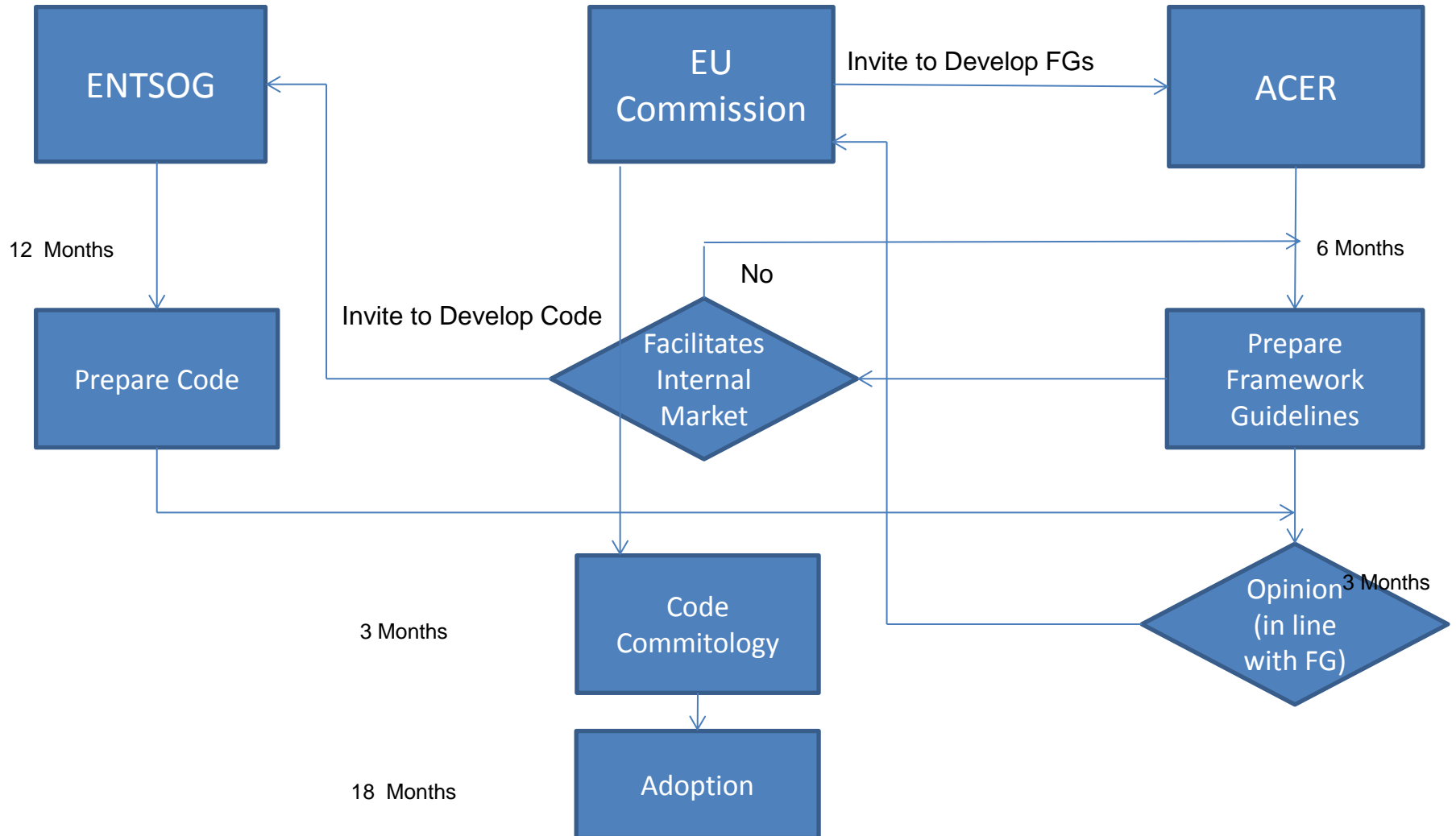
Presentation Overview

1. Regulation 715/2009
2. Congestion Management Procedures (CMP)
3. Capacity Allocation Mechanisms (CAM)
4. Balancing
5. Interoperability
6. Tariffs

EU Regulation 715/2009

- The establishment and implementation of the EU Network Codes is a requirement under REGULATION (EC) No 715/2009 on conditions for access to the natural gas transmission networks.
- Article 8 requires Network Codes to be developed in 12 separate areas, including:
 - Congestion management rules
 - Capacity allocation
 - Interoperability rules
 - Balancing rules
 - Transmission tariffs
- Will apply at **Interconnection Points** across Europe

Code Development Process



Network Codes to EU law – current status



CMP

CMP was annexed to Regulation EC715/2009 in August 2012

CAM

Approved at Comitology meeting 15 April 2013

BAL

First Comitology meeting expected in July 2013

INT

Invitation to prepare NC received September 2012

TAR

Framework Guidelines preparation

CMP – Key Features

- Congestion Management Procedures (CMP) – required as a result of a revision to Annex 1 of EC Regulation 715/2009 as per European Commission Decision of 24 August 2012
- CMP Guidelines address the issue of contractual congestion at Interconnection Points between adjacent gas transmission systems, where Shippers cannot gain access to capacity in spite of the physical availability of such capacity.
- CMP involves a suite of four distinct mechanisms
 - **Surrender of Contracted Capacity;**
 - **Long Term Use It or Lose It;**
 - **Oversubscription and Buyback;**
 - **Firm Day Ahead Use It or Lose It.**

CMP Implementation Dates

Mechanism	Implementation Date
Capacity increase through oversubscription and buy-back scheme.	October 2013
Firm day-ahead use-it-or-lose-it mechanism.	<u>October 2016</u>
Surrender of contracted capacity.	October 2013
Long Term use-it-or-lose-it mechanism.	October 2013
Increased Transparency Requirements	October 2013

- CMP to apply at Moffat Entry Point and the South North Connected System Entry Point. Twynholm??
- CMP Rules to be implemented in the Gaslink Code by **1st October 2013**
 - Code Modification Proposal was raised on **8th March 2013**
 - Mod Proposal at Code Mod Forum of **14th March 2013**
 - Business Rules issued for consultation on **1st July 2013**

TSOs are required to publish the following information on ENTSOG's Transparency Platform:

1. instances of unsuccessful requests for firm capacity of duration one month or more;
2. instances where firm capacity of duration one month or more has cleared at a price higher than the reserve price;
3. instances where no firm capacity of duration one month or more was made available by a TSO;
4. the amount of capacity made available to the market as a result of the application of Congestion Management Procedures;



<http://www.gas-roads.eu/>

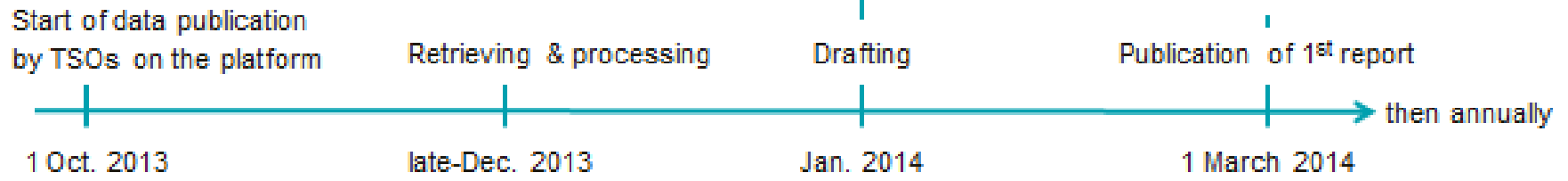
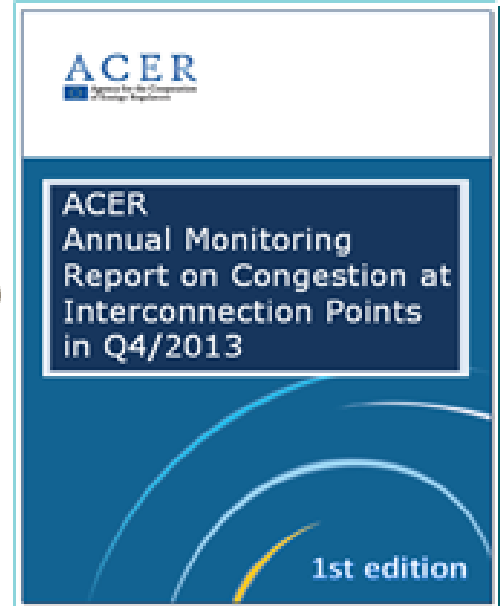
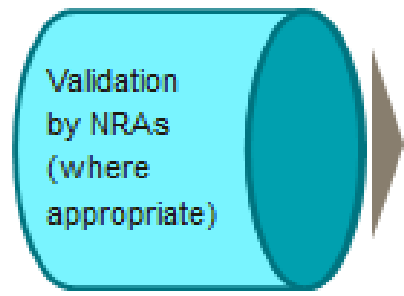
- Operated since Dec. 2009 to meet regulatory obligation on ENTSOG

CMP: ACER Monitoring Report

Developing the first ACER Monitoring Report on Congestion at Interconnection Points

Basis: IP Congestion Information
 (pursuant to section 3 of Ann. 1 R715/2009)
 published on the transparency platform:

- data on firm (≥ monthly) capacity products sold:
 - Unsuccessful capacity requests
 - Where & when auctions cleared above reserve price
 - Where & when no firm c. was offered
 - Capacity made available by CMPs



CMP: Likelihood of Congestion at Moffat?

Year	Moffat Capacity ¹ (mscmd)	Forecast Peak Flow (mscmd)	% of Capacity utilised (Flat Flow) ²
2011/12	31	30.5	98.4%
2012/13	31	29.4	94.8%
2013/14	31	30.1	97.1%
2014/15	31	31.8	102.6%
2015/16	29	25.8	89.0%
2016/17	29	26.8	92.4%
2017/18	29	28.9	99.7%
2018/19	29	29.2	100.7%
2019/20	29	29.9	103.1%
2020/21	29	31.1	107.2%

¹ Details on the Technical Capacity; <http://www.gaslink.ie/index.jsp?p=136&n=205>.

² If Corrib is delayed one year, Moffat flow for 2015/16 will increase to 33.6 mscmd with 108.4% of capacity utilised

Table 2 - Moffat Forecasts (Gaslink 'Network Development Statement 2011/12 - 2020/21' – Table 6.2)

Capacity Allocation Mechanisms (CAM)

Current Status

- First Comitology Meeting held in Brussels on 24 January 2013.
- Second Comitology meeting was held on 15th April 2013:
 - Member States voted to approve the CAM Network Code
- Network Code now undergoing translation, and will be subject to approval by the European Parliament and Council.
- Unless any objections are received from the Council or Parliament, this version will be adopted into law (in all Member States) in August/September 2013.
- The Regulation **will apply from 1 November 2015.**

CAM: Implementation Timeline

15 April 2013:

CAM NC approved by Member States at Comitology meeting

Aug 2013:

Following approval EU Parliament & Council, CAM NC will be published in the Official Journal of the EU

Sep 2013

20 days following publication in the Official Journal of the EU, the Regulation will enter into force:

Q4 2015:

The Regulation must be implemented in all Member States no later than 1 November 2015

CAM: Key Features

Change to Gas Day

- Gas day 5am – 5am (currently 6am - 6am)

Standard Capacity Products

- Annual (up to 15 years), Quarterly, Monthly, Daily, Within-Day

Capacity Auctions

- Capacity sold via auction - level of demand determines clearing price
- Standardised EU-wide auction calendar

Bundling of Capacity

- Entry and Exit Capacity at both sides of an IP is 'bundled' together and sold as a single product

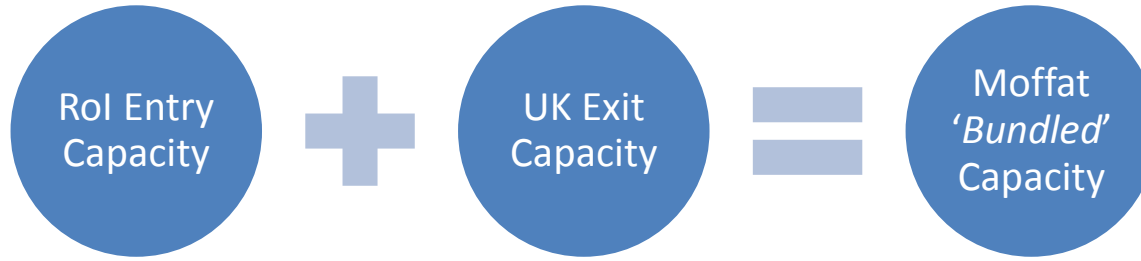
CAM: Standard Capacity Products Quotas

- **Capacity Quotas** - CAM requires minimum quotas to be reserved for ‘short-medium’ term capacity
 - **Existing Capacity - 20% Quota**
 - At least 10% of technical capacity to be offered no earlier than the auction of quarterly capacity held during the year preceding the relevant gas year; and
 - At least 10% of technical capacity to be offered no earlier than the auction of annual capacity held during the fifth year preceding the relevant gas year
 - **New Capacity - 10% Quota**
 - At least 10% of technical capacity to be offered no earlier than the auction of quarterly capacity held during the year preceding the relevant gas year;

CAM: Bundling of Capacity

What is Bundled Capacity?

Example
: Moffat
IP



Single Capacity Booking

- CAM NC provides detailed guidance re auction design etc.
- Harmonised auction process on joint capacity platform

Single Nomination

- CAM NC requires a single nomination in respect of bundled capacity

Single Allocation

- CAM NC requires a single allocation in respect of bundled capacity

Transport Contracts

- Appropriate contract model to be agreed at the IPs

CAM: Bundling of Capacity

Legacy Contracts: Bundled vs. Unbundled

- From 1 November 2015, all capacity offered for sale by the TSO must be bundled
- **How are existing ‘unbundled’ capacity contracts to be treated?**
 - Upon entry into force of the CAM Regulation (expected Aug/Sep 2013), Shippers and Gaslink shall **‘undertake reasonable endeavours’** to bundle capacity via contractual arrangements
 - Gaslink required to report on bundling progress to the CER
 - CER to report to ACER annually
 - 2 years after entry into force of the Regulation, ACER will publish a report on EU-wide bundling progress and the effect of unbundled capacity on the gas market
- Potentially require parallel booking procedures for bundled and unbundled

CAM: Bundling of Capacity

Potential Impacts: Gaslink

Bundling

- Introduce standard capacity products, interruptible capacity, auctions, joint capacity platform
- Transition from unbundled to bundled contracts - parallel booking procedures in interim
- Code changes, I.T. System changes,
- Cooperation with UK/NI TSOs - capacity platform, data exchange, harmonisation of contracts etc.

IP vs. Non-IP

- Different arrangements at IPs (Moffat, Gormanston) than at non-IPs (Inch, Corrib)?

Incompatibility of existing products

- Entry Point Transfer and Back-up Capacity
 - cannot trade bundled with unbundled
- IC Inventory Product - (single nomination issue)

Areas affected

- Code of Operations, Connected Systems Agreements, Moffat Agency Agreement, Interoperator Agreements, Inter-governmental Treaties (DCENR, DETI, DECC) , IT Systems etc.

CAM: Capacity Auctions General

- All standard capacity products must be sold by means of Capacity Auctions
 - EU-wide auction calendar will be published by ENTSOG each year
 - Same products sold at the same time at all IPs across EU
- 2 auction designs:
 - **Multiple round ascending clock** auction algorithm (yearly, quarterly, monthly)
 - **Single round uniform price** auction algorithm (daily and within-day)
- The **reserve price** shall be the minimum price for both auction algorithms
- Auctions will be facilitated by means of a joint capacity platform at each interconnection point

CAM Network Code Auction Calendar Example: Gas Year 16/17

TSOs shall notify network users about the amount of Technical Capacity to be offered for each year for the annual yearly capacity auctions

The Auction Calendar shall be published by ENTSOG by January

TSOs shall notify network users about the amount of capacity to be offered for each quarter for the upcoming annual quarterly capacity auction.

Rolling monthly capacity auctions shall start on the 3rd Monday of month for the following month

Annual yearly capacity auctions shall start on the 1st Monday of March

Annual quarterly capacity auctions shall start on the 1st Monday of June

Each day, the daily Standard Capacity Product for the following day shall be auctioned

2016

January

Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

February

Su	Mo	Tu	We	Th	Fr	Sa
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29					

March

Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

April

Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

May

Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

June

Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

July

Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

August

Su	Mo	Tu	We	Th	Fr	Sa
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

September

Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

October

Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

November

Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

December

Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

CAM Implementation by 2015

The Challenges

Broad scope

Code changes, including consultation with industry

Joint Booking Platform

Changes to back-end IT systems

Changes to inter-jurisdictional agreements

Moffat Agent changes

Regional cooperation

Agreement required with adjacent TSOs, Regulators, Departments at each interconnection point

CAM cannot be achieved without constructive relationships at the interconnection points

Incorporation with other EU NCs

Congestion Management Procedures

Balancing Network Code

Tariff Network Code

Interoperability Network Code

Balancing Network Code Status and Timelines



Balancing

ACER Reasoned Opinion Received January 25th 2013

- ENTSOG Code submitted to ACER on Oct 26th '12 (ahead of Nov 5th deadline)
- ACER Reasoned Opinion received by ENTSOG on January 25th 2013
- Revised Code submitted to ENTSOG Board for General Assembly approval on Feb 21st 2013
- **ACER formally recommended (on 25 March 2013)that the amended Balancing Network Code be adopted by the European Commission.**
- **The first Comitology meeting is expected in July 2013**
- Implementation date: Earliest by end of Q1 2014; Latest Q3 2014
- TSOs to comply within 12 months: Earliest Q1 2015; Latest Q3 2015

Interoperability Network Code

Current Status

European Commission invited ENTSOG to develop the Network Code on 11 September 2012

Network Code currently being developed
monthly Workgroup meetings
weekly Kernel group meetings

2 month Public Consultation period on draft NC ended on 26th March 2013

Deadline for ENTSOG's delivery of Code is 11th September 2013

Now entering a network code refinement phase

Tariff Framework Guidelines

Current Status

- Previously, the EC granted ACER a 3 month extension for the publication of the Tariff Framework Guidelines (FGs) - from 31st Dec 2012 to 31st March 2013

- On 15th March, the EC wrote to ACER requesting that more work be done on the cost allocation methodologies:
 - EC unhappy with approach to Cost-Allocation taken by ACER;
 - Limit the possibility to apply different methodologies at different points.

- EC suggested approach:
 - Establish different Cost-Allocation methodologies currently used & principles for their application: 'Bottom-up' rather than 'Top-Down'.