

Representation

Draft Modification Report

0461 - Changing the UNC Gas Day to Align with the Gas Day in EU Network Codes

Consultation close out date: 27 January 2014
Respond to: enquiries@gasgovernance.co.uk
Organisation: Marathon Oil UK LLC
Representative: Paul Whitlock
Date of Representation: 27 January 2014

Do you support or oppose implementation?

Not in Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

It is our opinion that the proposed change in UNC Gas Day is not required by the EU Network Code on Capacity Allocation Mechanism (EU CAM) and that the change is only required at interconnector points (IUK and BBL). Implementation of a Gas Day change for UK's downstream gas market is above the requirements of EU CAM. The UK gas market has grown up on a 0600-0600 gas day and currently trades with mainland Europe on a different gas day. We fail to see any benefit of implementing a change in gas day. A change in the gas day will likely add complexity and risk to the market and require significant resource and cost to implement both for downstream and potentially for upstream participants.

Modification Panel Members have indicated that it would be particularly helpful if the following question could be addressed in responses:

Q1: Please provide views on the time constraints of the process and effort required to implement this modification.

Should the UK's downstream gas market change the Gas Day the interface between the upstream (which works on the existing 0600-0600 Gas Day) needs to be managed. Various consultations in the industry have been held and it has become apparent that there are three options to manage this interface. The first is to maintain the current UNC Gas Day. The second is to maintain the upstream gas day while changing the UNC Gas Day, managing the upstream/downstream interface at delivery terminals. The third is to also change the upstream gas day to the same gas day as the new UNC Gas Day. The latter two of these options both require significant modification to processes, IT systems and commercial agreements.

If the upstream does not change their gas day then terminal deliveries will be extremely difficult to validate, due to reconciling

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data over two differing periods. This will expose Shippers to potentially erroneous validations leading to an increased risk of scaling, with consequent significant misallocations of payments, resulting in disputes. The current validation system manages to achieve a very high degree of validation, with little requirement for scaling. For example in November 2013 there we believe that there were no over/under claims greater than 200,000kWh, with delivery averaging approximately 2,980,000,000kWh, it would appear that validation accuracy was better than 0.007%.

As the upstream industry has grown up on a 0600-0600 the scope of work required, if the industry is expected to change gas day, is vast. Changes to commercial agreements would need to be agreed upon. It is perhaps worth highlighting that some of the agreements requiring modification may be with parties that are not active in the downstream market. It may therefore be very difficult to reach agreement. Modifications to various IT systems would also need to be designed, tested extensively and implemented. It is our understanding that there already large IT projects underway in the industry, working to similar schedules, so IT resource for implementing this modification are likely to be in limited supply. In addition physical changes to fiscal meters at terminals and offshore platforms would need to be designed, implemented and verified by regulators.

For these reasons we believe that it would be extremely challenging for the whole industry to comply with the implementation date of 1st November 2015. If this modification is required we would urge for implementation to be deferred as long as possible.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

It is our understanding that any modification to the Claims Validation Agreement requires unanimous approval prior to implementation.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

We do not believe that there is any benefit in implementing this modification as the market currently trades with mainland Europe across different gas days.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

As the UK gas market is considered as one of the most liquid and transparent commodity markets in the world, we fail to see how implementation of this modification realises the intent of the EU Legislation in removing barriers to trade and competition.

If the upstream industry does not change gas day then Shipper will likely bear the cost of un-validated claims. We understand that work is underway to attempt to establish the likely impact of this. However, notionally even if there is only a 0.1% reduction in validation accuracy, which is a conservative view of the impact, that potentially would result in 0.1% of produced gas delivered to the UK delivery terminals being misallocated.

Considering a month with a total 89,000,000,000kWh

(approximately 3 billion therms) supplied into the NTS the exposure to validation error of 0.1% could potentially misallocate £2.1MM (at 70 pence/therm) across Shippers. The ramifications for Shippers if these misallocations are realised are significant.

We have provided input to Oil and Gas UK on our own expected costs if the upstream industry is expected to change gas day, Oil and Gas UK estimates this cost across the upstream industry to be £40-50MM. The opportunity cost of this would be felt in other UKCS projects. Operational and IT resources would be tied up in complying with this modification at the cost of other projects, which may help to improve hydrocarbon recovery from the UKCS. Commercial resource will be required to negotiate revised terms for the relevant agreements, leading to potential delay of other commercial negotiations which may be developing new fields or work to extend the life of mature assets. Ultimately it is our opinion that adding to the costs through requiring a change in gas day with no benefit to the upstream will shorten the economic life of producing assets in the UKCS to the detriment of the UK market and consumers.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

The detailed scope of work required for implementation of this modification is still not wholly understood but considering the likely impact on every aspect of the gas industry, we believe that if this modification is required its implementation should be deferred as long as possible.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.