

UNC Workgroup 0501 Minutes
Treatment of Existing Entry Capacity Rights at the Bacton ASEP
to comply with EU Capacity Regulations

Tuesday 03 June 2014

ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrew Pearce*	(AP)	BP Gas
Anna Shrigley	(AS)	ENI UK
Antony Miller	(AM)	Centrica Storage
Charles Ruffell	(CR)	RWEst
Danielle Stoves	(DS)	Interconnector UK
David McCrone	(DM)	Ofgem
Erika Melen	(EM)	Scotia Gas Networks
Francisco Goncalves*	(FG)	Gazprom
Graham Jack	(GJ)	Centrica
Isabelle-Agnes Magne*	(IM)	GDF Suez
Jeff Chandler	(JC)	SSE
Julie Cox	(JCx)	Energy UK
Kevin Brown	(KB)	Petronas
Kirsten Elliott-Smith	(KES)	Cornwall Energy
Lesley Ramsey	(LR)	National Grid NTS
Malcolm Montgomery	(MM)	National Grid NTS
Marshall Hall	(MHa)	Oil & Gas UK
Matt Hatch	(MH)	National Grid NTS
Nick Wye	(NW)	Waters Wye Associates
Ric Lea	(RL)	Gazprom
Richard Fairholme*	(RF)	E.ON UK
Richard Miller	(RM)	Ofgem

*via teleconference

Copies of all papers are available at: www.gasgovernance.co.uk/0501/030614

The Workgroup Report is due to be presented at the UNC Modification Panel by 20 November 2014.

1.0 Outline of Modification

LR introduced the modification and explained its purpose and intent. To ensure CAM/CMP procedures are only applied at Interconnection Points (IPs), the existing Bacton ASEP will need to be split into two separate ASEPS: Bacton UKCS ASEP and Bacton IP ASEP. Existing UNC processes would continue to apply at the new Bacton UKCS ASEP, and the CAM/CMP process will apply at the new Bacton IP ASEP.

2.0 Initial Discussion

LR gave a presentation reiterating the main principle, and outlining how the reallocation process was envisaged to work, what actions were expected to be taken, and the proposed timescales for Bacton reallocation.

LR illustrated the requirement to split existing holdings between the two new ASEPs and explained the principle. Following the reallocation of existing capacity between the two Bacton ASEPs, Users will hold the same amount of NTS Entry Capacity in aggregate (at the two new Bacton ASEPs) as they currently hold at the existing Bacton ASEP and will be liable for the same costs at the two new Bacton ASEPs as they currently are at the existing Bacton ASEP (under the current charging methodology). The proposed timeline for the reallocation process at Bacton was displayed.

LR explained the changes to the obligated levels at the Bacton Entry Point. The Ofgem Open Letter suggested values; for Bacton UKCS it would be 481.4 GWh/d and for Bacton IP it would be 1302.0 GWh/d. The final values in the Transporter licence could be different, but the Ofgem Open letter values have been used in the examples.

For a period, whilst the reallocation process is taking place, some processes will be suspended. JCx queried how Day Ahead processes might run over the 'transition' days 31 October and 01 November. MH believed that for Day Ahead the new split would be in place on 31 October.

It is proposed to issue an Invitation letter in June, following the February 2015 AMSEC and March 2015 QSEC auctions) requesting that Users signal how they want their existing registered NTS capacity at Bacton to be reallocated between the two new ASEPs. The letter will contain details of the User's current capacity holdings at the existing Bacton ASEP, and a pro forma for the User to indicate the quantity of capacity to be allocated at each of the new ASEPs. The NTS Entry Capacity requested at the two new ASEPs should be equal to the existing holdings held at the Bacton ASEP for each relevant period. The completed pro forma should be faxed back to National Grid NTS by the given date. An example of existing holdings (QSEC auctions 2016/18) was illustrated.

LR explained the reallocation. If the Initial Capacity Reallocation fully reallocates all the existing Registered NTS Entry Capacity to the two new ASEPs then National Grid NTS will reallocate on a User's behalf as per the User's request. The User will not be required to undertake any actions. MH added that National Grid's Operations team would be actively checking on progress, and explained that it will be an offline process kept simple and fax-based, with the final data loaded into Gemini around September/October by National Grid NTS.

LR confirmed that the letters received back would be aggregated and compared to baseline. If Users do not respond by the required date then the default will be reallocation between the Bacton UKCS ASEP and the Bacton IP ASEP in the same proportion as the Obligated levels at the two ASEPs. LR presented examples. NW queried that if the aggregate quantity was above either of the two new baselines would Shippers be informed of the amount? MH agreed to consider what information can be signalled back to Shippers after initial allocations.

Action 0601: *Aggregated User Quantity requested above baseline - Consider what information can be signalled back to Shippers after the initial reallocation window.*

JCx suggested that opportunities should be provided for parties to surrender capacity. MHa believed there were two different products and questioned if there was one or two EUIPs. MH confirmed that under Modification 0500 to introduce CAM one was being proposed, and surrender under Modification 0501 was not included.

DM referred to Ofgem's 'minded to' approach to Licence changes/decisions to facilitate CAM, under which a single IP ASEP was proposed. The treatment of existing contracts was briefly discussed. CAM applies to existing contracts and DM encouraged parties to seek advice on contractual issues if there was reason to dispute this view, and observed

that parties were free to raise a UNC modification for the Authority to consider/make a decision. MH reiterated that National Grid NTS was not considering making changes to Modification 0501.

Concerns were raised that this was a perceived change of product and this might be open to legal challenge. MHa reiterated his view that this was demonstrably a change of product that was fundamentally different – it was priced differently to what was held today (ie Entry Capacity at Bacton previously obtained as there was no requirement to specify if capacity was split). MH observed that prices of bundled/unbundled capacity would as yet be unknown and could also be affected by developments in the Tariff Code. There was a risk parties could be paying more with the introduction of the Tariff code. NW referred to oversubscription of User requests at the new Bacton points and commented that if pro-rating took place then a party might end up with something that it did not want and may then argue that this was not in line with its original purchase. GJ believed an early view from Ofgem regarding these concerns would be appropriate.

Action 0602: *Perceived Potential Change of Product* – Ofgem to provide a legal view/interpretation of this modification (for consideration at the next meeting).

MHa drew attention to wider issues. There was a tax review of the UKCS going on at the moment and a major new field was coming online in 2016. There was a degree of uncertainty regarding future flows/demand, and there could be offshore development incentives. This would argue for taking a longer-term view of the splitting of Bacton and consequential effects. NW expressed concerns that the revised capacity baselines could be less than potential future flows, and noted that a number of parties were already taking long-term positions. It was queried whether capacity could become stranded in the future between the two new Bacton points. MH confirmed there was nothing in the substitution methodology for Entry substitution as protection for IPs. JCx observed that if you start substituting you are not meeting other aspects; was UKCS Bacton maximised, ie the maximum technical capacity that can be delivered? MH indicated that baseline was within the flows seen over the last few years. MM referred to the entry capacity substitution methodology review where any concerns might be addressed. JCx believed that by releasing technical capacity and substituting away, this may not be compliant with EU Codes and gave an example. MM provided comment that this would need to be considered as part of a methodology review.

Returning to the presentation (slide 13) LR explained that where Users have signalled an aggregate level of capacity greater than the obligated level for any Months/Quarters to the two new ASEPs then National Grid NTS will issue another Bacton capacity reallocation invitation for relevant months/quarters to give Users another opportunity to indicate where they would wish their Registered NTS Entry Capacity rights to be held in future. This final capacity reallocation will then take place, with the completion of the whole process anticipated by the end of September 2015 at the latest. Examples of pro-rating were presented. JCx questioned if amounts had to be requested in 'round' numbers, ie hundreds and thousands, and not odd numbers. LR confirmed that the minimum quantity was 100,000kWh, but it was not likely that a User held less than this amount for a relevant period.

LR confirmed that Users would be liable for the same charges (at the two new Bacton ASEPs) as they currently are at the existing Bacton ASEP under the current charging methodology. A weighted average price (WAP) for the capacity for the relevant periods will be used (calculated for each User). Examples were given.

General

Shippers expressed concerns regarding the effect of the future Tariff Code in general and in relation to using the WAP calculation for Bacton - it might get more complicated and how would that work?

Concerns remained regarding termination/surrender rights. Handing back capacity would be consistent with moving more quickly to the fully bundled world.

RM questioned why use WAP when the answer was going to be the same anyway regarding the split. LR responded that because it has to be split, this was believed to be cleanest way to do this. MM added the process was far simpler if a single number was used rather than tagging individual auctions allocations and prices.

RM noted that National Grid NTS seem mindful of the current position and that developments/finalisation of the Tariff Code may require a review of the modification to be compliant. JCx reiterated the EU Code process, noting that there should be a better idea of what was happening in respect of a payable/floating price once ENTSOG has submitted the final draft to ACER. However this was likely to be circa November/December this year when this modification is already developed and possibly with the NRA to make a decision. It was suggested that further consideration should be given to the potential effects of a payable/floating price on this modification.

Action 0603: *Tariff Code developments* - Consider potential effects of a payable/floating price on this modification specifically relating to the use of WAP.

It was suggested that more detail was required in relation to auction premiums at the Bacton ASEP.

Action 0604: *Bacton Auction Premiums* – Identify if Bacton has cleared above the reserve price in previous auctions.

Modification

MH confirmed that the presentation had covered the key points contained within the modification. Shippers expressed the view that certain elements currently excluded would be better included in this modification. MM confirmed that aggregate overruns would not be included and in addition National Grid NTS had concerns regarding compliance issues under CAM.

MH reiterated that the exclusion of certain elements from Modification 0501 did not preclude other parties from raising modifications to address these areas and that National Grid NTS would happily assist any party so inclined.

Next Steps

BF summarised that Ofgem would bring forward its legal view/comments for the next meeting.

3.0 Any Other Business

None.

4.0 Diary Planning

Workgroup meetings will take place as follows:

Time/Date	Venue	Programme
10:00 Friday 11 July 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	<ul style="list-style-type: none"> Ofgem legal view
10:00 Tuesday 12 August 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed
10:00 Tuesday 16 September 2014	31 Homer Road, Solihull B91 3LT	To be confirmed
10:00 Wednesday 08 October 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed
10:00 Tuesday 21 October 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed
10:00 Wednesday 05 November 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0601	03/06/14	2.0	<i>Aggregated User Quantity requested above baseline</i> - Consider what information can be signalled back to Shippers after the initial reallocation window.	National Grid NTS (MH)	Pending
0602	03/06/14	2.0	<i>Perceived Potential Change of Product</i> – Ofgem to provide a legal view/interpretation of this modification (for consideration at the next meeting).	Ofgem (DM)	Pending
0603	03/06/14	2.0	<i>Tariff Code developments</i> - Consider potential effects of a payable/floating price on this modification specifically relating to the use of WAP.	National Grid NTS (MM)	Pending

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0604	03/06/14	2.0	<i>Bacton Auction Premiums</i> - Identify if Bacton has cleared above the reserve price in previous auctions.	National Grid NTS (MM)	Pending