

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

Wednesday 05 November 2014

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

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alison Chamberlain	(ACh)	National Grid NTS
Andrew Corkhill	(AC)	Eni
Andrew Sanders	(ASa)	Perenco
Anna Shrigley	(AS)	Eni
Antony Miller	(AM)	Centrica Storage
Charles Ruffell	(CR)	RWEst
David McCrone	(DM)	Ofgem
David Tennant	(DT)	Dentons
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JC)	SSE
Lesley Ramsey	(LR)	National Grid NTS
Lucy Manning*	(LM)	Interconnector UK
Malcolm Montgomery	(MM)	National Grid NTS
Marshall Hall	(MHa)	Oil & Gas UK
Matthew Hatch	(MH)	National Grid NTS
Nick Wye	(NW)	Waters Wye
Simon Witter	(SW)	Eni

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0501/051114>

The Workgroup Report (0501, 0501A, 0501B) is due to be presented at the UNC Modification Panel by 20 November 2014.

1. Introduction and Status Review

1.1 Minutes

The minutes of the previous meeting were accepted.

1.2 Actions

No actions outstanding.

2. Proposed Draft Alternative Modification 0501C

As discussed at the previous meeting Eni intend to raise a modification to address what it perceives as the loss of value to capacity holders (that it believed would occur under Modification 0501), and to propose equitable treatment of capacity holders at the Bacton ASEP. SW gave a presentation setting out the main issues that it believed were apparent when splitting the ASEP at Bacton and were not addressed under Modification 0501. Eni argued that the loss of fungibility and the creation of a competing ASEP where the structure, cost/value of a long term booking is fundamentally different, constituted an erosion of the value of the original

product. SW explained this perception in more detail, then went on to outline the intent and purpose of Eni's draft modification which was the establishment of an equitable position (by giving all market participants equal rights to re-determine the appropriate price for IP ASEP entry capacity on the new terms following CAM implementation); the maintenance of fungibility between the two new ASEPs before and after 2018; and to enable the Bacton split whilst minimising negative impacts on the value of already contracted long term capacity rights.

SW then explained how this might be done under this proposed modification. JC queried the term 'full refund', pointing out capacity was booked in advance of being invoiced. AC clarified that "full refund" meant 'just capacity return', and explained the maximum envisaged for return would be set according to the Licence direction on baselines.

SW reiterated that the proposed product (under Modification 0501- reallocated capacity) was perceived to be very different to the original product and had created exposure to a new threat of substitution and long term capacity holders needed to feel they were being treated equitably.

DM observed that capacity was protected from substitution for IPs on exit, but that there is no such protection for entry capacity within the current entry capacity substitution methodology. He gave an example, whereby UKCS had an incremental signal and was sold out that the efficient use of spare capacity would be to substitute unsold capacity from the IP to UKCS. GJ stated that capacity can be purchased 15 years out which would block any substitution e.g if a user were to book one year only in the future. MH responded that this may be captured by CMP measures if that capacity were to be not utilised and Ofgem may look at such behaviour. JC observed that capacity at the Interconnector is a bundled unit (when sold). GJ asked at what point does capacity become bundled and DM responded that it became bundled at the point of sale via PRISMA. GJ asked if it was ever unbundled. MH gave an example of when it could perhaps be, but did not believe that to be the actual intent. Referring to the UKCS being oversold, AS gave another example of how unbundling may occur and have an impact on the amount of capacity made available in the next round. MH commented that sold capacity would not be substituted; capacity was never bundled until the auction; only unsold capacity can be substituted and any substitution was permanent. Further scenarios were discussed. MH added that in the entry substitution methodology there is a 'hook' that before capacity could be substituted away from an IP National Grid would have to write to Ofgem first making reference to the EU Regulation obligations. It would then be up to the Authority to then approve or not the substitution. NW asked how capacity could be substituted away if National Grid was required, under CAM to make available to network users the maximum unsold technical capacity. MM believed there might be a timing issue and indicated that the Substitution Methodology review was taking place in a months' time.

Reference was made by MHA to a fiscal review relating to physical resources and security of supply. There will be a need to revisit gas storage relating to UKCS in the future. There might be legitimate concerns that Modification 0501 would make it difficult to proceed with offshore developments in the future in terms of UKCS.

MH reiterated that Modification 0501 dealt only with sold capacity, and there was a limit as to what it could do in a wider context. The Licence deals separately with the baseline, and it really comes down to setting the baseline correctly.

AM commented that all of the modifications and the Licence changes were to be considered at once by Ofgem as late as April 2015.

MH reiterated concerns that this delay may bring and the potential risk to the EU implementation.

AS reiterated her concerns at the perceived loss of value and service, and the two regimes that would apply at different ASEPs. It was a very complex situation and there was more than one impact to be measured; choosing a different split would not resolve perceived issues.

Focus then returned to the presentation (slide 5) and SW elucidated Eni's concerns in respect of Modification 0501 (reduction in product value, loss of flexibility, cross subsidy, unfair competitive advantage of an IP over UKCS, adverse effects on long term system planning/running and security/diversity of supply, negative perceptions leading to inhibition of development of new entry capacity).

NW commented that the Tariff Code and Ofgem's review would give a better view of impacts on capacity holders but these changes were a couple of years away. ACo observed that exceptional circumstances call for exceptional measures - the split and its impacts on capacity holders could not be ignored. SW then presented a graphic illustration of the concerns regarding the split and how these might be addressed through an equitable approach providing an ability to return capacity as under Modification 0501A, but limited to 73% at the IP, and with a minimum of 27% being retained at UKCS ASEP.

Eni was seeking to address the adverse effects of the key issues it perceived under Modification 0501, and was trying to recompense the perceived loss of value. This would only apply to existing holdings (everything that exists after the final QSEC next year). A discussion ensued. GJ raised concerns regarding fungibility, and MH raised concerns regarding potential impacts on the Nominations regime; Eni's proposal would have to be looked at from a Nominations perspective to assess any implications.

SW restated the advantages of Eni's proposals. ACo observed that the existing overrun charges would not be incurred provided the individual holders allocations were below their aggregate capacity entitlement and take account of the historic bookings. It was clarified that under Modification 0501A the capacity return could potentially be up to 100%, but under Eni's proposal the capacity return was proposed to be capped at e.g. 73%.

Noting that Modifications 0501, 0501A and 0501B had no system impacts and would be ready to proceed whichever might be approved, MH drew attention to the fact that there may be system issues associated with Eni's proposal, and these were not likely to be minor changes. Xoserve would not be able to deliver in time for GB to be compliant, and this may be problematic. System impacts would have to be identified, assessed and quantified. NW suggested that perhaps a workaround might be possible. The timescales for getting in any change were discussed. DM reiterated Ofgem's timeline for the Licence changes. MH reiterated his concerns that, assuming Eni's proposed modification to be approved, it would not be possible to deliver the whole modification in the timescales available; non system elements of the split could be delivered, but there was no function for historic data or for addressing rebates, etc. There may also be charging impacts to consider that Gemini would also have to accommodate. ACo believed 2018 would be the earliest timeframe for any rebates. MH explained what capacity sales could be made from Day 1 (01 November 2015) and system impacts/issues would require close consideration and a good understanding of how critical and problematic these might be in terms of the timescales available. There may well also be User Pays impacts associated with Eni's proposal that needed to be considered in the workgroup.

3. Workgroup Report

The best approach to the management of the continuing progress of the three existing modifications whilst taking account of the likelihood of Eni's proposal being formally submitted as a modification to the November UNC Modification Panel (and potentially being deemed as either an alternate or a separate modification) was then discussed in detail.

It was noted that for Eni's proposal, information regarding costs, system impacts, and legal text would be required, and whether it was fully developed in terms of detail for workgroup development in the timescales available for a January Modification Panel.

3.1 Review Amended Modification 0501B

AM gave a short presentation outlining the amendments made to the modification, and illustrating with a number of worked examples (A, B and C). These were reviewed and discussed.

Of particular concern was an identified issue of potential liability to a User if it was unable to meet its trade. Scenario C was considered, and MH explained his view of the contractual position. Whilst he understood the need to safeguard the final transferee's position, the UNC cannot legally bind a separate trade/contract between Shipper A and Shipper B, notwithstanding they might both individually be Users under UNC.

ACh explained the approach (first prorate - a quantity will be allocated to the UNC User; then recreate the trade on the system - to the extent that the registered quantity was available). Under Modification 0501A it will be honoured to the highest extent possible. A brief discussion ensued on the effects on transfer contracts; even if a party did not have the capacity, it may be liable to its counterparty. Modification 0501B was trying to address the risk that if a trade was broken, the Transferor is not liable. ACo believed it to be wrong for Shippers to have to accept the breaking of a contract because of circumstances outside their control.

DT suggested it would be worth looking at standard and bi-lateral contracts to see what the impacts might be.

It was noted that Modification 0501A does not consider multiple contracts/transferees. GJ explained what was envisaged under Modification 0501A and would consider a revision to include multiple trades.

AM proposed to revise Modification 0501B, and its associated legal text.

National Grid NTS, as text provider for these modifications, will liaise with both Proposers to revise the legal text to cover multiple transferees and an appropriate scaling down process such as a pro rata mechanism.

3.2 Consideration of Legal Text

Modification 0501

DT drew attention to and explained the changes made since the previous meeting.

Modification 0501A

Observing that the majority of changes made were identical to those of Modification 0501, DT drew attention to the changes made specifically in relation to Modification 0501A, i.e. additional text included at paragraphs 1.6(c) (ii)(iii) and at 1.12.

The legal text will now be finalised for Modifications 0501,0501A and 0501B.

Modifications 0501,0501A and 0501B - Business Rules

Referring to the presentation made at the previous meeting (21 October) LR drew attention to the timelines and confirmed that the system should update within 10 Business Days of the end of the process timeline for each individual modification, but that this would now need to be reconsidered if it would remain appropriate for Eni's proposal.

3.3 Development of Workgroup Report

Following the day's discussions it was noted that the modifications and legal text would be amended. The Workgroup Report would be completed to take account of today's proposed amendments to the modifications.

4. Next Steps

Eni will formally submit its potential new modification.

The Proposers of Modifications 0501, 0501A and 0501B and the legal text provider will consider what further amendments should be made to the respective modifications and provide revised modifications and text as appropriate, following which the Workgroup Report will be finalised and submitted to the November Panel.

On the assumption that the UNC Modification Panel will decide that Eni's potential new modification to be either an alternate (Modification 0501C) and assigned for further development to this Workgroup 0501, or should be considered as a separate modification, it was deemed prudent to arrange further Workgroup meetings to prepare for either eventuality.

5. Any Other Business

None raised.

6. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00 Friday 28 November 2014	Energy Networks Association, 6 th Floor Dean Bradley House, 52 Horseferry Road, London SW1P 2 AF	<i>To be confirmed</i>
10:00 Thursday 11 December 2014	<i>To be confirmed</i>	<i>To be confirmed</i>
10:00 Wednesday 07 January 2015	Energy Networks Association, 6 th Floor Dean Bradley House, 52 Horseferry Road, London SW1P 2 AF	<i>To be confirmed</i>

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
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