

UNC Workgroup 0501/0501A/0501B/0501C Minutes

Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations

Wednesday 07 January 2015

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

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Andrew Corkhill	(AC)	Eni
Andy Giles	(AG)	GDF Suez E&P Ltd
Anthony Miller	(AM)	Centrica Storage
Anna Shrigley	(AS)	Eni
Charles Ruffell	(CR)	RWEst
David Tennant	(DT)	Dentons
Debra Hawkin*	(DH)	TPA Solutions
Fergus Healy	(FH)	National Grid NTS
Graham Jack	(GJ)	Centrica Energy
Greyham Davis	(GD)	National Grid NTS
Jeff Chandler	(JC)	SSE
Marshall Hall	(MHa)	Oil & Gas UK
Matthew Hatch	(MH)	National Grid NTS
Nick Wye	(NW)	Waters Wye
Nigel Sisman	(NS)	Observer
Richard Fairholme*	(RF)	E.ON UK
Richard Miller	(RM)	Ofgem
Simon Witter	(SW)	Eni

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0501/070115>

1. Introduction and Status Review

1.1 Minutes

Both SW and RM provided a brief overview of their respective proposed amendments to the previous meeting minutes (11 December) during which no one present raised any concerns. Thereafter, the minutes of the previous meeting were approved.¹

1.2 Actions

0501 1201: Ofgem (RM) *in respects of LTUIOLI* – to provide confirmation of its preferred LTUIOLI order.

Update: RM explained that the matter is still being discussed with the likes of ACM, although Ofgem's internal view is that they remain indifferent on which LTUIOLI order is

¹ Post meeting note: a revised version (v2.0) of the 11 December 2014 meeting minutes was published on the Joint Office web site following this meeting at: <http://www.gasgovernance.co.uk/0501/111214>

preferable, as they believe that it is up to Shippers to decide. However, RM went on to add that whilst an industry wide update would be provided in due course he also anticipates that the wording contained within the guidance document would 'cover off' the matter, but only at a high-level. FH pointed out that including the wording in the guidance document provides additional flexibility over and above that of including the matter within a UNC modification. **Closed**

0501 1202: Ofgem (RM) *in respect of LTUIOLI* – to provide a view on whether or not a re-declaration process for Short Haul is needed once Bacton is split.

Update: As with 0501 1201 above, the requirements for this action would be 'covered off' within the guidance document. **Closed**

0501 1203: National Grid NTS (MH/FH) to provide a view on whether or not a re-declaration process for Short Haul is needed once Bacton is split.

Update: MH explained that he had double checked with his Operations team colleagues who have confirmed that the matter is in hand and that once the Bacton split is completed a one-off redesignation process (post reallocation) would be run.

FH once again highlighted that the process relates to one Entry Point but several Exit Points and all that Shippers need to do is inform National Grid NTS as to which entry point of the two new Bacton ASEPS that they require Short Haul to be applied. In discussing how the process is expected to cater for Shippers who wish to flow at both BBL and Interconnector, GD explained that an Entry Point could only be named once. Additional clarification on how various aspects of the split are expected to work would be provided nearer the time. **Closed**

0501 1204: National Grid NTS (FH) to provide a view on potential for double counting where a party has residual capacity at UKCS and Bacton IP ASEP (i.e. the capacity would be utilised at the point where it is first held, then would only be available to utilise at other ASEP if not fully utilised at the first one).

Update: FH explained that having considered the matter, he does not believe that there is a potential double counting issue. **Closed**

0501 1205: National Grid NTS (FH) in regard to *Suppression of overruns* - to consider whether or not they might be able to provide an invoice that comes already corrected from National Grid NTS.

Update: FH advised that the issue boils down to the potential volumes (numbers of occurrences) involved with a manual workaround process being utilised for low volumes although there may be a need to generate an ad-hoc invoice to resolve charges. **Closed**

0501 1206: Eni (AS/AC/SW) & National Grid NTS (MH/FH) to consider the discussion points raised within the Workgroup and continue to work together with a view to developing a suitably amended version of Modification 0501C.

Update: BF advised that an amended modification had been provided following the 11 December 2014 meeting. **Closed**

0501 1207: Ofgem (RM) to provide a simple (yes or no) high-level view on whether the modification should qualify for User Pays status.

Update: BF reminded those present that the issue of whether or not the modifications should qualify for User Pays charges had been discussed at several previous Workgroup meetings. He pointed out that should the Workgroup require it, the Panel could be asked to seek views on User Pays eligibility aspects – in essence it boils down to how the prospective proposers of the 0501 suite of modifications view the question of User Pays. BF also pointed out that ultimately it is Ofgem who would have to approve the associated Agency Charging Statement (ACS) in due course.

It was acknowledged that a Workgroup consensus on User Pays is highly unlikely and as a consequence, this fact should be recorded within development of the Workgroup

Report. **Closed**

0501 1208: All Proposers to consider how their respective modifications would further the relevant objectives and be ready to provide their views for inclusion within the Workgroup Report at the 07 January 2015 meeting.

Update: BF thanked all the proposers for providing their views and explained that these had been included within the (draft) Workgroup Report which is to be considered elsewhere during this meeting. **Closed**

2. **Workgroup Report**

2.1 **Summary Review of Modification Changes (0501C)**

SW provided a brief high level summary of some of the key elements of the most recent round of amendments to 0501C (v3.0 dated 22 December 2014) which have been undertaken in response to discussions undertaken at the 11 December 2014 Workgroup meeting.

The main areas of change being:

- Removal of residual capacity rights aspects;
- Maximum return changes;
- Various business rule changes including splitting invitation response and scalability aspects;
- Residual capacity transfer timeline changes;
- ASEP capacity considerations;
- Default capacity rule for transferring;
- Default surrender rule (invitation via PRISMA);
- UKCS ASEP – non residual before residual process;
- Charges and rebate process principle (similar to 0262 'Treatment of Capacity affected by Force Majeure' trade and transfer provisions) – added for clarity purposes, and
- User Pays justification enhancement.

2.2 **Consideration of Legal Text**

2.2.1 **Draft 0501C Legal Text Review**

DT explained that work remains ongoing on the legal text for 0501C although he did have a working copy available for the Workgroup to consider. The expectation is that the legal text associated with 0501C would be finalised prior to formal consultation on the modifications taking place (following a potential decision to issue to consultation at the 15 January 2015 UNC Panel meeting).

During a brief onscreen review of the draft 0501C legal text, DT explained that it is based on the 0501A legal text with additional 0501C changes overlaid on top. He went on to advise that the changes focus on front end 'tweaks' supported by a new dedicated 0501C paragraph 6. It was also pointed out that 're-allocated capacity' is referred to in preference to 'residual' in order to avoid confusion over various Code related processes.

The main focus of the discussions, were as follows:

- Rationale behind new titles and transitional regime title explained by DT;
- Para 1.1(a) – it was agreed that reference to maximum amount is not needed here as it only applies to para 1.4(b);

- It was suggested that whilst para 1.2(l) defines the 'maximum amount', perhaps it would be better if this was a simple reference to licence consultation outcome for Bacton, rather than enshrining a percentage in Code – change agreed;
- Typo in para 1.4(b) identified;
- Paras 1.4(c)(i) & (ii) – discussion around using and/or, but in the end it was agreed to leave 'as-is';
- Para 1.5 – change ref to read as '1.3(c)(ii) and not 1.3(b)(ii);
- Para 1.7(b) – DT explained that this reflects default rule discussions (scaleback to maximum amount);
- Para 1.7(c) – avoids reallocation of exact residual amounts – DT to reconsider after SW explained how 0501C already 'covers this off';
- Para 1.11(c)(ii) – possible incorrect reference(s) – DT to double check;
- Para 2.1 – DT explained that this captures the shorter (Quarterly NTS Entry Capacity) window requirements;
- In briefly discussing the 0501C changes relating to the daily issue of reallocation invitation (initial round only) timings, MH advised that NG NTS had provided a couple of example tables to be considered elsewhere in the meeting;

Before moving on to consider the new paragraph 6 provisions, DT advised that the approach is based around the premise that if the legal text works in concept, then the defined terms should provide supporting clarity.

- Para 6.3 – DT explained that this provides for the aggregate overrun rule;
- Para 6.4 – DT advised that this relates to the payment rule for NTS Entry charges.

During a brief discussion around potential unused capacity at both ASEPs, some concerns were voiced around 0501C proposals relating to the bundled capacity aspects to which AC advised that 0501C proposes that this capacity is capped across both new ASEPs and explained that the rebate is on an amount of capacity which is capped at the quantity of unutilised residual capacity. Thereafter, it was pointed out that it is preferable to use the term 'payment' rather than 'rebate' on the grounds that 'rebate' is neither a defined term, or exists elsewhere within Code (TPD Section S), it was agreed to leave wording 'as-is';

- Para 6.5 – DT explained that this would be generic to either new ASEP, and
- Paras 6.6 & 6.7 – DT explained that these relate to rules around surrender processes.

During a brief discussion, DT acknowledged that he had not fully appreciated the negative capacity aspects, whilst AC suggested that this is not a specific 0501C issue. GD provided a brief explanation on how it is envisaged that the surrender and (whole) reallocation process would work at the IP ASEP and under what circumstances bundled/unbundled capacity might become a negative value.

In summarising the debate, BF explained that some further amendments to the (draft) 0501C legal text would be undertaken in line with discussions. MH and AC to discuss further possible changes before formal submission of the final legal text for 0501C prior to the 15 January 2015 UNC Panel meeting.

2.2.2 EU Codes - Modifications 0501, 0501A, 0501B & 0501C – Legal Drafting – Explanatory Table

In making reference to this supporting legal text commentary document, MH explained that whilst it is basically complete, it might now need a few further amendments to align better with the discussions on the legal text for 0501C above. Once amended, the intention is to formally submit the commentary in support of the legal text for the whole suite of modifications.

2.2.3 Approximate Dates if QSEC Allocated 18th May Tables

In providing a brief overview of the latest (key) activity dates across all modifications, GD explained that where a stage is completed ahead of the envisaged scheduled start dates, the remainder of the calculated elapsed dates relating to that process would need to be adjusted accordingly (and as such is for information purposes).

It was agreed that these tables should be added as an appendices within the Workgroup Report.

2.3 Development of Workgroup Report

Please note that it is not the intention of these minutes to capture the detailed discussions associated with the development of the (draft) Workgroup Report but only to focus on some of the more salient points. The bulk of the discussions were captured on screen (in the form of amendments) during the review to form the basis of the final approved and published version of the Workgroup Report.

An onscreen review of the draft Workgroup Report (v1.5, dated 05 January 2015) was undertaken during which the following key discussions took place.

Section 3 – Solution

In reviewing the table identifying differences between the four modifications, some parties continued to believe that out of the four modification proposals only 0501C would introduce processes and system changes.

In discussing the User Pays (UP) aspects, there was no clear Workgroup consensus on whether or not UP applies in respect of Modification 0501C. RM advised that Ofgem anticipate providing a view on the UP matter at the January 2015 Panel meeting. In pointing out that the User Pays Guidance Document infers that there are system costs associated with 0501C, RM acknowledged that other industry documents convey a subtly different view – in short the UP question is not that straight forward to address.

In noting that Eni have their view that 0501C is not UP and other industry parties have a different view, it was suggested that the Workgroup Report should capture this fact. MH pointed out that National Grid NTS would be making a formal draft change to the Xoserve Agency Charging Statement (ACS) which would then be sent to Ofgem for a decision.

Section 4 – Relevant Objectives

MH suggested adding a preamble for 0501 relating to why it was raised in the first instance. Additionally, National Grid NTS believe that their modification satisfies relevant objective g), should the Workgroup believe that it also has a positive impact on b), they would not oppose the view.

Some parties suggested that 0501B should be included as having a negative impact on relevant object b). A clear consensus view on removal of the 0501 negative comment for relevant objective b) could not be reached, with some parties suggesting that depending upon your views relating to the issue of 'hand back', this could be seen as being either a positive, or a negative point.

In considering 0501A, discussion centred around the distinction between Entry and Exit regime impacts on delivery of CAM was undertaken with some parties believing that the proposals are not necessarily CAM compliant. Furthermore, some parties perceive the

Entry proposals as being a completely new regime and the Exit proposals as being a 'fudging' of the exiting regime. – a clear consensus view was not reached on this matter.

Participants agreed that NTS Exit (Flat) Capacity was end dated at 2020 and that some are considering for a similar timetable for Entry.

When asked, AM suggested that 0501B is more consistent with the User Commitment model when compared to 0501A, although some parties considered this was a weak argument.

When asked about when 0501C restores original flexibility, why is there a need for capacity return too? SW responded by explaining that both elements are required to fully restore the value of the original product they had purchased.

The original long term product gave rights over a certain proportion of the total Bacton ASEP obligated entry capacity and allowed gas to enter the NTS completely flexibly between all the entry points within the Bacton ASEP

Under the proposed split, 72.77% of that obligated capacity will be allocated to the new asset specific IP ASEP to precisely match the technical capacities of the interconnectors. This unique new entry capacity product, sized specifically for a particular asset, has been allocated without any price signal. The price of future capacity will be determined through future CAM auctions with Interconnector users safe in the knowledge that there is no potential shortage of capacity to serve full asset flows and their capacity needs are further protected through having their own ASEP. The price of this unique new 'asset-specific' ASEP product is demonstrably zero on initial allocation to the ASEP and as such long term holders must be treated equitably on their proportion of the original obligated capacity that has been allocated to this unique new ASEP. A new product priced at zero on initial allocation is exactly equivalent to long term capacity holders handing back the capacity which then allows them to compete equitably for this unique new entry product. Thus as a first option long term holders must have the right to return up to this percentage of their long term capacity.

Further, to fully restore original value, capacity that remains after any return should continue to enjoy the flexibility of the original product which allows it to be used to flow gas through both through the UKCS ASEP and IP ASEP.

In considering residual capacity at the IP and potential fungibility related impacts, AC suggested that predicting the future remains difficult.

In considering the relevant object c) statement relating to modifications 0501A, 0501B and 0501C on page 15, FH questioned whether or not this is accurate from a National Grid NTS Licence Obligations perspective, to which GJ suggested that it is all about ensuring the avoidance of unbundled capacity in the longer term (i.e. there to speed up the bundling of capacity). When MH reminded those present that National Grid NTS's objective remains to deliver EU Regulatory changes, AC added that in his view this matter relates more to efficiency rather than National Grid's licence obligations.

Moving on to consider relevant objective d) from the perspective of 0501, FH felt it was not possible for National Grid NTS to comment on statement (a) at the top of page 16 or to attempt to speculate as to how and why Shippers previously paid what they did for capacity at Bacton. As far as statement (c) is concerned, FH remained unsure that the statement is accurate, as there is still User choice under 0501 and once again pointed out that it is exceedingly rare for National Grid NTS to release discretionary capacity, especially when this tends to be 'fixed' capacity.

Discussions once again looked to consider the impacts of 0501C proposals for residual capacity at both IPs and Interconnector UKs concerns around sterilisation of bundled capacity on the Interconnectors as a result of 0501C. AC felt that it was unlikely that parties would be able to gain through obtaining an additional rebate as the net position stays the same and the provisions seek to address the artificial second payment – in short parties still have to pay a long term price for a long term product in order to maintain

flexibility in the new world. FH suggested that this is a natural product of market circumstances and in reality both views are correct. In short there is not right or wrong and should Ofgem wish to ask the question around the degree of optionality and fungibility for consideration as part of the formal consultation on these modifications (especially 0501C), which in Ofgem's opinion, they are able to do so.

One party reiterated that any hand back of capacity would to a greater or lesser extent (depending on the quantity of capacity to be returned) would increase the TO Commodity charge to all system users at all ASEP Entry points on the NTS and this needed to be highlighted, especially as non Bacton users would be impacted by this. Other considered that shippers would possibly rebook capacity and as such be less of an impact to the Commodity charge.

RM once again outlined his concerns that under the 0501C proposal, as he understands it, if a user has 10 units of residual capacity at UKCS and 0 units of residual capacity at IP and they then buy 20 units of bundled capacity (i.e. Bacton IP capacity + Interconnector capacity), then they have two main options open to them, namely

- Flow 20 units on IP (using their bundled capacity) and 10 on UKCS (using their residual UKCS capacity) – in this case the user has flowed against all its capacity holdings and would not get a rebate under 0501C, or
- Flow 20 units on IP (using the residual Bacton UKCS capacity and the interconnector capacity bought as part of the bundle) and 0 on UKCS – in this case they would get a rebate on the Bacton IP capacity they bought as part of the bundle in order to obtain interconnector capacity that was only available as bundled.

However, when the Shipper buys the bundled product in addition to holding the residual UKCS capacity it has the option to flow both 20 units on IP (using their bundled capacity) and 10 on UKCS (using their residual UKCS capacity) as per the previous bullet. But if it chooses not to flow on UKCS and only bought the bundle in order to use its residual UKCS capacity flexibly then his view is that in order to get a rebate on the capacity it is not using, National Grid NTS should somehow make that available to users. RM's point is that it does not seem appropriate that a Shipper has optionality throughout the gas flow day on both UKCS and IP capacity and if it does not use that capacity it gets a rebate for it. This differs from the current situation where a user buys capacity and does not flow against it then it does not get a rebate.

Section 5 – Implementation

MH advised that the system costs associated with implementation of 0501C had been assessed as being in the range of £415k to £490k (plus an interim offline solution circa £50k).

3. Next Steps

BF explained that following the meeting, the (final) Workgroup Report would be published following the receipt and inclusion of the agreed items and thereafter submitted to the 15 January 2015 UNC Panel for consideration. However, should any additional amendments outside those agreed to the published version after this meeting would be brought to the attention of the Workgroup for consideration.

4. Any Other Business

None.

5. Diary Planning

At this time there are no further meetings of the Workgroup planned.

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0501 1201	11/12/14	2.2.1	<i>In respect of LTUIOLI</i> - to provide confirmation of its preferred LTUIOLI order.	Ofgem (RM)	Update provided. Closed
0501 1202	11/12/14	2.2.1	<i>In respect of LTUIOLI</i> - to provide a view on an updated process relating to removal of capacity 'types'.	Ofgem (DM)	Update provided. Closed
0501 1203	11/12/14	2.2.2	To provide a view on whether or not a re-declaration process for Short Haul is needed once Bacton is split.	National Grid NTS (MH/FH)	Update provided. Closed
0501 1204	11/12/14	2.2.2	To provide a view on potential for double counting where a party has residual capacity at UKCS and Bacton IP ASEP (i.e. the capacity would be utilised at the point where it is first held, then would only be available to utilise at other ASEP if not fully utilised at the first one).	National Grid NTS (FH)	Update provided. Closed
0501 1205	11/12/14	2.2.2	<i>Suppression of overruns</i> - to consider whether or not they might be able to provide an invoice that comes already corrected from National Grid NTS.	National Grid NTS (FH)	Update provided. Closed
0501 1206	11/12/14	2.2.2	To consider the discussion points raised within the Workgroup and continue to work together with a view to developing a suitably amended version of Modification 0501C.	Eni (AS/AC/SW) & National Grid NTS (MH/FH)	Update provided. Closed
0501 1207	11/12/14	2.2.2	To provide a simple (yes or no) high-level view on whether the modification should qualify for User Pays status.	Ofgem (RM)	Update provided. Closed

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0501 1208	11/12/14	2.2.2	To consider how their respective modifications would further the relevant objectives and be ready to provide their views for inclusion within the Workgroup Report at the 07 January 2015 meeting.	All Proposers	Update provided. Closed