

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

Friday 28 November 2014

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

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Andrew Corkhill	(AC)	Eni
Andrew Sanders	(ASa)	Perenco
Anna Shrigley	(AS)	Eni
Charles Ruffell	(CR)	RWEst
Danielle Stoves	(DS)	Interconnector UK
Fergus Healy	(DH)	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
Neville Henderson	(NH)	BBL Company
Nick Wye	(NW)	Waters Wye
Pavanjit Dhesi	(PD)	Interconnector UK
Richard Miller	(RM)	Ofgem
Roddy Monroe	(RMo)	Centrica Storage
Simon Witter	(SW)	Eni

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0501/281114>

1. Introduction and Status Review

Opening the meeting, LJ gave a brief overview of the discussions around alternative modification 0501C undertaken at the November UNC Panel meeting. He informed those present that Panel members had given a clear instruction that no slippage in the timeline is allowed otherwise it would be nigh on impossible to comply with the EU deadline and obligations.

LJ then advised that the Workgroup Report must be completed and submitted to the January 2015 Panel by no later than 07 January 2015. The aim of this meeting is to seek to incorporate 0501C into proceedings, and as a consequence, it is more to do with planning a workable way forward at this stage.

1.1 Minutes

MH pointed out that an action had been inadvertently omitted from the 05 November meeting minutes (*please see 0501 1101 below*). Thereafter, the minutes of the previous meeting were approved.

1.2 Actions

0501 1101: National Grid NTS (MH) to provide an assessment of the potential impact of 0501C in terms of IT impacts and delivery timelines.

Update: MH provided a brief overview of the initial view from Xoserve in terms of impacts and timelines explaining that he expects that some aspects of the information provided would change as Workgroup discussions develop providing more detail and understanding of proposed changes to develop an impact assessment.

FH noted that a reasonable proportion of 0501C is based around the provisions of 0501A and that these (related) elements should be relatively easy to develop. However, the remaining elements would require further consideration. One possible option to consider would be 'splitting' 0501C system development requirements into transitional and enduring solutions, either of which may or may not require manual workarounds.

MH explained that whilst there could be several possible options, Xoserve are already time and resource constrained due to other major industry initiatives currently being developed (Project Nexus etc.) and as a consequence, may only be able to provide a high-level view of systems impacts and associated costs.

When asked, MH confirmed an initial view that over the last few years there had been little to no overruns at the Bacton ASEP but warned that history is not necessarily a good indicator. **Closed**

2. **New Modification: 0501C – Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including a capped capacity return option and an aggregate overrun regime**

2.1 **UNC Mod 501C presentation**

AS provided an overview of the presentation explaining that it is aimed towards providing clarity around the rationale behind 0501C.

When asked, AS provided a detailed explanation around the proposed capacity utilisation priority order pointing out that it caters for any overrun capacity requirements and also confirmed that the residual capacity fungibility proposal(s) seek to preserve current values.

In considering the impact on other processes (slide 4) a detailed debate took place during which it was confirmed that where National Grid buy back capacity the fungibility rights die. However, where capacity transfers carry over the existing rights continue – in short this is the same as current provisions. MH suggested that further consideration of buy back of bundled capacity 'knock on' aspects would be needed in due course whilst FH suggested that whilst the principles appear sound, Xoserve systems would be impacted due to the complexity of trading capacity entitlement.

In asking whether or not Eni had validated 0501C (especially the capacity utilisation aspects) against the previous use-it-or-lose-it modification 0485 'Introduction of Long-term use-it-or-lose-it mechanism to facilitate compliance with EU Congestion Management Procedures', LJ reminded everyone present that it is important that the integrity of 0485 is not compromised or undermined. FH also highlighted that whilst the UKCS ASEP considerations are important, it is how we deal with the IP ASEP aspects that is crucial (i.e. relating to potential congestion issues at the IP ASEP).

Discussions then focused on how best to value any residual capacity, with some parties believing that the 'market' would drive the process and others believing that it is really linked to a parties desire to offload residual capacity – a clear consensus was not achieved with some parties continuing to believe that any decisions should be based around the price – MH suggested that further consideration would be required. It was also suggested that this is not necessarily a major concern as UNC Modification 0500 'EU Capacity Regulations – Capacity Allocation Mechanisms with Congestion Management Procedures' would address these types of issues, although FH felt that having unbundled residual capacity remains a concern and remarked that even though National Grid would

be happy to take unbundled before bundled, the real issue sits at the Shipper side – again it was suggested that further consideration would be required.

Moving on to consider the capacity overrun example 1, discussions centred around potential overrun concerns with FH suggesting that managing the overruns is not really the main issue, it is understanding whether the associated (overrun) charge applies under what scenario, also the tracking of the residual capacity aspects which are the difficult bit, as it would appear that 0501C requires tracking of the Users entitlement and residual capacity rights and this is where the complexity sits. In short, FH remained concerned that 0501C has the potential to have a significant impact upon capacity rights and entitlements that would necessitate extensive and potentially costly systems development as trying to link capacity trades with entitlements is difficult – some parties questioned the value of developing a costly solution when we are only witnessing a small frequency of occurrences. It was acknowledged that industry perception of value and usage could be crucial.

AC wondered whether or not some form of moratorium on transfers would possibly be a workable option. GJ wondered whether or not one option could be to lose fungibility rights on transfers. NW noted, that the same outcome could be achieved by the holder of residual capacity flowing on behalf of another Shipper and trading the gas at the NBP (not trading the capacity). MH suggested that this potentially defers the 2nd part of 0501C, however he would discuss the matter in more detail with Xoserve to ascertain a view – he also suggested that there could be some potential PRISMA impacts to consider.

LJ pointed out that these matters would need to be considered in more detail when assessing the relevant objectives section of the Workgroup Report (and any subsequent amendment to the modification(s)).

Moving on to consider the 'Rebate for bundled products – Example 1 – IP ASEP fully utilised' (slide 7), discussions centred around how the proposals seek to avoid double payments but cater for rebates (on the National Grid Bundled component only) – Eni indicated that they would be more than happy to discuss the matter in more detail offline with National Grid representatives. When asked whether there would be any potential interconnector impacts, MH provided a brief explanation of how the bundled / unbundled aspects are expected to work and also pointed out that any unbundled capacity would be available for sale by TSOs. FH went on to point out that at the UKCS ASEP there would be no capability to surrender capacity. It was also noted that when Shippers buy capacity at the ASEP, they do not necessarily know what they actually wish to flow and where, whilst some parties suggested that not allowing a party to buy unbundled capacity at the IP in the 1st instance would be the correct approach to adopt. NW strongly advocated that this is definitely NOT a sterilisation of capacity concern, as he sees these proposals are little different to current provisions, in terms of the 'bottom line'. At this point RM drew a diagram on the flipchart to help explain Ofgem's concern relating to the scenario where a residual UKCS capacity holder decides in the short term that they want to flow on IP (via one of the interconnectors) and no unbundled interconnector capacity is available. In such a scenario the Shipper must buy bundled capacity. If the Shipper wants to flow on the IP only, then in order to get the rebate for 'buying Bacton capacity twice' the capacity not being used should be made available at the next auction. FH was unclear on how the Day Ahead Capacity and rebate mechanism would actually work in practice. Responding, several parties suggested that this is no different to current practises around holding capacity at an ASEP and not flowing it – in essence, in the new regime there would be an artificial commercial capacity position at the Bacton IP. However, RM noted that currently Shippers would not get a rebate on capacity they did not use and this is how UNC 0501C is different. MH reminded everyone that the CAM principle is that you have to offer bundled capacity – as a consequence, a regulatory view on CAM aspects associated with RM's model (concerns) might be needed in due course.

MHa suggested that one option might be to allow the purchase unbundled capacity at the Interconnector – he requested that Ofgem discuss the matter in more detail with ACER.

RM noted that this Workgroup is working to resolve the issue so no need to discuss with ACER.

At this point, DS also drew a flipchart diagram to highlight her concerns relating to the 'matched capacity' process between National Grid Gas (NGG) and the Interconnector potentially excluding a Shipper from the process. MHa remarked that ACER are also interested in this point as this appears to be a 'unique' issue related to EU provisions and UK flexibility aspects. LJ suggested that these concerns seem to beg the question of why seek to split the Bacton ASEP in the first place, and is this really needed to comply with CAM requirements. Responding, RM advised that Ofgem had considered various options but concluded that the split is the preferred option. GJ noted that one of the disregarded options was discriminatory.

LJ reminded everyone that the industry has moved on as knowledge has developed and wondered whether or not having four separate modifications all trying to comply with CAM is the sensible approach – the main concern being how do we expect the industry to fully understand and appreciate the impacts of this very complex issue when they look to submit their respective consultation responses – he asked parties to remember that the underlying principle has always been minimal impact associated with EU changes.

NW felt that Centrica Energy's 0501A solution is possibly the most preferable option, although it would require an Ofgem decision to do it. LJ then suggested that the 0501C proposals extend way beyond the CAM solutions (keep it simple) approach.

GJ suggested that a healthy secondary market (trading at the NBP) could potentially offset some of the voiced concerns and that this was already practice in the industry with Shippers managing this via bi-lateral contracts.

Moving on to briefly discuss the additional slides (10 – 13) included in the latest version of the presentation, AS advised that these are National Grid's slides and that GD would now provide an overview.

Focusing attention on the 'Constraint management – nominations' slide, LJ enquired if the workgroup believe that they can answer the highlighted query ("*should ASEP specific overrun prices apply after any capacity interchange has been completed*") and whether 0501C is going to state something related to this. In noting that Eni would need to consider the matter in more detail, AS suggested that interchanged capacity relates to fungibility aspects and is not necessarily restricted to simply 0501C, but affects all of the 0501 suite of modifications.

New Action 0501 1102: National Grid (MH) and Eni (AS) to discuss what constitutes constraint management and provide feedback in due course.

2.2 Amended Modification 0501C

In recognising that it is highly likely that 0501C would be amended in response to the Workgroup discussions, further consideration was deferred.

3. Workgroup Report

3.1 Summary Review of Modification Changes (0501, 0501A and 0501B)

Consideration deferred.

3.2 Consideration of Legal Text (0501, 0501A, 0501B and 0501C)

Consideration deferred.

3.3 Development of Workgroup Report

In reviewing the draft Workgroup Report on screen, LJ noted that 0501C aspects would need to be added in due course. He then provided a brief summary of what is required within the key sections of the report, as follows:

Why Change ? – may have some 0501C related tweaks added in due course;

Solution – Only Proposers can amend their respective parts of this section and 0501C aspects would need to be added – in order to achieve this Eni would need to provide supporting Business Rules (within their amended modification). An action was placed on Eni to ensure suitable BR's are provided within an amended version of Modification 0501C. FH cited one example of where 0501C required an action but was silent on what happened in the event the first action did not happen and Eni agreed to ensure their BRs are complete for all eventualities;

User Pays – as it is looking likely that a significant proportion of 0501C system developments associated with 0501C would fall under the User Pays, if this is not completed correctly, Ofgem could well reject the modification(s) – views remained divided as to whether or not 0501C is a UP modification on the grounds that it is seeking to comply with EU Regulations.

MH reiterated that in raising their EU Regulation related modifications, National Grid has endeavoured to adopt a minimum impact approach and believes that 0501C goes way beyond that CAM / EU remit.

MH went on to advise that he is looking to provide a (very) high-level view on (0501C) system development, costs and timelines at the 11 December meeting. LJ provided a brief explanation of the CACoP requirements for costs assessment and how it is expected to link into the Panel consideration of any high-level (rough) view of costs. AS voiced the concern that an Ofgem decision on any of the suite of modifications should not be based purely on costs.

In highlighting the fact that Transporters had raised their modifications based on Ofgem's view on splitting Bacton, LJ believes that Eni would need to approach the User Pays question very carefully and if they are going to state that 0501C is NOT User Pays, then they would need to provide evidence to support that view;

Relevant Objectives – during a detailed discussion, LJ explained that the approach is to evidence how each modification furthers the Relevant Objectives, supported by a 'balanced' case showing both positive and negative Workgroup views and/or supporting statements. However, he pointed out that full agreement amongst Workgroup participants may not be possible, that this is not unusual and has been dealt with fairly in the past. At this time, this section is looking weak and would need further development. In short, it boils down to what is the information required in order to enable a full and effective consultation ahead of Panel and Ofgem making informed decisions.

LJ also suggested that Eni would need to demonstrate why they feel that 0501C needs to go above and beyond the other alternatives in satisfying the minimum CAM / EU requirements.

MHa suggested, and the meeting agreed, that a tabulated representation of views would / could be beneficial;

Implementation – LJ explained the rationale behind this section and suggested that perhaps it should also include a 'what if' consideration.

RM pointed out that Ofgem's decision on the 0501 suite of modifications would be heavily dependant upon the proposed Licence changes and should there be any slippage in the Licence or UNC modification(s) timeline, then this could fall foul of the UNC modification timings to start the reallocation process (i.e. 10 days after the closure of the QSEC Auction). MH advised that should this happen National Grid would need to consider raising an Urgent Modification to address the matter. When asked whether or not it would be simpler to defer the QSEC Auctions, FH explained it is not just the timing around the QSEC auctions which is the problem as it also involves issues around compliance with the EU Regulations that come into effect on 01 November 2015 – it was acknowledged that the Workgroup can not advocate a process whereby we encourage a party to break the law and as a consequence advocating a breach of CAM requirements is a non-starter. LJ pointed out that Ofgem could send the UNC

modifications back to Panel directing them to change the text. The Panel could then make the changes and send back to Ofgem. This process could be done very quickly by means of an emergency Panel meeting. MH pointed out that National Grid NTS would need to consider any Panel decision outcome and re-assess whether or not they had sufficient time to run the process – this would inevitably involve dialogue with interested parties.

LJ pointed out that the Workgroup would also need to consider what would be proposed should the full system not be available in time (i.e. transitional arrangement considerations).

Legal Text – LJ advised that to date, there has been no formal Panel request for legal text for 0501C and should one be provided at the December Panel meeting, Transporters would have 15 business days to provide it and as a consequence, Eni need to urgently finalise their business rules.

MH advised that he would be discussing the 0501C legal text development with Dentons and whether or not the current amended modification provides sufficient information to move forward on this piece of work. However, whilst waiting for the Eni business rules to be developed he would be asking Dentons to start work on the simpler aspects of the 0501C legal text. MH then explained that he would be looking to assist Eni in progressing 0501C.

Finally, MH advised that National Grid would be asking Denton’s to examine all modifications in this suite to ensure that the legal text remains aligned from a textual point of view rather than changing any principle content.

Recommendation – LJ explained that this takes the form of a Workgroup consensus view together with any specific questions participants felt should be asked during the consultation, before reminding those present that the Workgroup Report would be submitted to the 15 January 2015 UNC Panel for consideration.

New Action 0501 1103: Eni (AS) to consider the discussion points raised within the Workgroup and ensure that suitable BR’s considering both the ‘what if’ and ‘what if not’ considerations (i.e. detailed provision of complete rules) are provided within an amended version of Modification 0501C.

4. Next Steps

When asked those present indicated that they understood what is needed to progress the suite of modifications going forward.

5. Any Other Business

None.

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 Thursday 11 December 2014	Eni, Eni House, 10 Edbury Bridge Road, London. SW1W 8PZ	Business Rules Systems Impacts User Pays Relevant Objectives inc. justification Amended Modification

<p>10:00 Thursday 11 December 2014</p>	<p>Eni, Eni House, 10 Edbury Bridge Road, London. SW1W 8PZ</p>	<p>Business Rules Systems Impacts User Pays Relevant Objectives inc. justification Amended Modification Suggested Legal Text – progress Development of the Workgroup</p>
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Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0501 1101	05/11/14	2.	To provide an assessment of the potential impact of 0501C on the Bacton ASEP.	National Grid NTS (MH)	Closed
0501 1102	28/11/14	2.1	To discuss what constitutes constraint management and provide feedback in due course.	National Grid NTS (MH) & Eni (AS)	Update to be provided.
0501 1103	28/11/14	3.3	To consider the discussion points raised within the Workgroup and ensure that suitable BR's considering both the 'what if' and 'what if not' considerations (i.e. detailed provision of complete rules) are provided within an amended version of Modification 0501C.	Eni (AS)	Update to be provided.