

**UNC Request Workgroup 0683S Minutes
Offtake Arrangements Document (OAD) Review Updates – Phase 1**

Wednesday 05 June 2019

at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Darren Dunkley	(DD)	Cadent
David Mitchell	(DM)	SGN
Guv Dosanjh	(GD)	Cadent
James Abrahams	(JA)	National Grid
Leteria Beccano	(LB)	Wales & West Utilities
Louise McGoldrick	(LM)	National Grid NTS
Shiv Singh	(SS)	Cadent
Stephen Ruane	(SR)	National Grid NTS

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0683/050619>

The Workgroup Report is due to be presented at the UNC Modification Panel by 18 July 2019.

1. Introduction and Status Review

Bob Fletcher (BF) welcomed everyone to the meeting and explained that this Workgroup meeting would run in conjunction with Workgroup 0646R.

1.1. Approval of Minutes (09 May 2019)

The minutes from the previous meeting were approved subject to a minor typo in the attendee list – the initials for Mike Berrisford were showing as KJ.

2. Review of Outstanding Actions

Action 0403: Cadent (SS) to check with lawyers if Legal Text can be drafted based on criterion 3 of Section B3.1.1 and B3.6 in relation to the Request for Removal of Assets.

Update: Shiv Singh confirmed that an update would be provided at the next meeting. Louise McGoldrick (LM) suggested that it would be helpful if any comments or advice from Dentons could also be circulated. **Carried Forward**

New Action 0601: Cadent (SS) to circulate any comments or advice from Dentons.

Action 0501: Reference Site Services Agreements - Cadent (SS) to ensure a statement is added within the Modification to cover off 'SSP views'.

Update: SS confirmed that the Modification has been amended but not formally submitted as an amended Modification at this stage. He agreed to circulate the draft updated Modification following the meeting for review prior to the next meeting. **Closed**

Action 0502: Reference an LDZ to LDZ Recitals Template - Cadent (DD) to look to create a new LDZ to LDZ Recitals Template for consideration at the next Workgroup meeting.

Update: Darren Dunkley (DD) explained that he adopted previous conventions and there will be minimal changes to the template. He confirmed that the previous supplemental will be superseded. A brief discussion took place on whether there would be 3 separate documents as

presented and the pros and cons of having one document versus 3 separate documents. It was highlighted that if the templates were to stay within the main OAD document then a UNC Modification would be needed to make subsequent changes, but this would not be needed if the templates were added as an ancillary document. BF clarified that it would be preferable if the OAD should contain the high-level detail with the detailed business rules contained within the ancillary documents. Any changes could then be taken forward through the Offtake Committee.
Closed

New Action 06024: Workgroup to provide comments on the *LDZ to LDZ Recitals Template*.

New Action 06032: Cadent (DD) to remove all references in the OAD to recital annexes and replace them with the specific document titles for the recitals and supplemental agreements.

Action 0503: Reference Supplemental Agreement Document Section 4 amendments – Cadent (DD) to consider what changes might be required to the document in light of Workgroup discussions and feedback.

Update: DD confirmed that all the areas highlighted at the last meeting such as legacy statements had been removed and he would circulate an updated document. **Carried Forward**

Action 0504: Reference An 'Affected Party' – Cadent (DD) to consider removing bullet 5 relating to any impact to the gas flow from operator to operator from within the Modification.

Update: DD confirmed that this will be done as part of the amended Modification changes so this item was carried forward. **Carried Forward**

Action 0505: Reference *Asset Removal Process* – Cadent (SS) and (DD) to review all sections of the Modification and Subsidiary Document to ensure the process reads as the 'Redundant Asset Process' and remove bullet points and references to health, safety and credible risk.

Update: Discussed as part of agenda item 5.0 **Closed**

3. Consideration of Amended Modification

Shiv Singh (SS) explained that there has been a delay to the development of the Legal Text due to a prioritisation of resources to support *Request 0630R - Review of the consequential changes required in UNC as a result of the Ofgem Switching Programme* and a request for a one-month extension may be needed. BF highlighted that the August agenda was busy due to a high number of Workgroup Reports reporting that month so suggested that Panel is likely to extend reporting to September.

4. Consideration of Legal Text

Discussion of this agenda item was deferred to the next meeting.

5. Consideration of Lease Agreements and other options and Updating Supplemental Agreements (SAs)

Removal of Redundant Assets Process

Workgroup had a lengthy discussion in relation to Action 0505 and the OAD Offtake Subsidiary Document – Removal of Redundant Assets Process including decommissioning clauses; tripartite sites; and how the process would work in practice, particularly in relation to cost allocation for removal of assets.

The following points were made in discussion:

- a. LM suggested Workgroup consider the OAD obligations in relation to asset removal for a scenario where there is a de-commissioned site and where the assets have not been removed. This process has been established in OAD and there should be no cross over with redundant asset removal which should be for specific reasons.
- b. DD clarified that the Modification is proposing a process to enable an operator to make a request to another operator at a shared site in relation to the removal of non-operational, redundant or mothballed assets.

- c. A brief discussion took place in relation to Ross on Wye and Winkfield where tri-partite arrangements are in place. In the example of Ross on Wye Cadent is the landowner and there is a lease agreement in place between National Grid and Wales and West Utilities (WWU). DD asked if the leases have been re-negotiated? Leteria Beccano (LB) indicated that discussions had taken place between their legal teams and National Grid in relation to the leases. She was not clear how WWU operate within these tri-partite arrangements as the lease is between parties who do not own the land.

LM stated that the landowner cannot sell the land and leave in place lease arrangements between different organisations, so she is seeking internal clarification as to how the transfer should have been documented. Similarly, there is a lease arrangement in place at Winkfield between SGN and National Grid – LM said she would check this as to Cadents link to this site.

LM suggested that discussions continue off line as these were specific issues to resolve and not general rules for OAD.

The question was then asked about implications for redundant assets – if the asset poses a health and safety issue, the asset be left in place at the Site Users discretion – particularly where they have a lease as the land is allocated to them for the life of the lease. SS clarified that the lease arrangements would take precedence over the process set out in the OAD. He added that the Modification and Legal Text would clarify that the arrangements of any lease agreement would need to be followed first. SR reminded Workgroup that the OAD Offtake Subsidiary Document – Removal of Redundant Assets Process includes some avoidance of doubt clauses “2.9.1 to 2.9.3):

- 2.9.1 if a lease agreement is in place the requirements and conditions within must be taken into account first;
- 2.9.2. if one operator requests another to remove or maintain an asset where the need is based upon health or safety reasons, this cost should be solely at the expense of the asset owner;
- 2.9.3. for all other requests covering the removal or relocation of operational assets, these requests should follow the requirements as set out under OAD Section B.

New Action 06043: Cadent (SS) to clarify in the Modification solution that the process for removal of assets relates to operational sites only for the removal of redundant assets.

- d. DD also mentioned the site at Churchover, highlighting that the terminology ‘live operational site’ cannot be used– as this is an example of a decommissioned site which might or might not be returned to an operational site in future. For a ‘live’ site the supplemental agreement should be in place for this process to apply. He suggested that further consideration was needed by the Workgroup.

New Action 06054: Cadent (DD) to review paragraph 2.9 of the OAD to check if there are any conflicts in relation to current leases and the Modification. Also, to check that clauses 2.3 to 2.5 (OAD Offtake Subsidiary Document – Removal of Redundant Assets Process) align to the Business Rules in the Modification.

- e. Workgroup reviewed Section B3.1.1 of the Modification in relation to the request for removal of assets

- f. Cost allocation – a lengthy discussion took place on the costs of removal of assets. National Grid were not supportive of the 50:50 approach proposed by Cadent as it was an arbitrary figure with no basis for why the costs for the removal of assets should be shared equally between parties as it did not clearly define where the benefit resided. DD clarified that the Modification is proposing that the costs are identified and agreed in advance (see page 10). National Grid raised concerns about the approach suggesting that each case should be considered individually and whilst it is not likely to be a frequently used process there have been a number of examples or scenarios to consider so more thought is needed on how cost should be attributed if at all. He also suggested that it could be a material issue to put in place an appropriate funding mechanism which is fair to impacted operators and also consumers both up and downstream.

DD suggested that National Grid need to define the inputs to help define a funding methodology, however, LM asserted that previously National Grid had indicated no support for a methodology but equally a 50:50 split is also too arbitrary to be supported. In addition, it is difficult to budget for costs.

BF encouraged Workgroup to consider a way to define the value balanced against the costs incurred to work out the value. He suggested that Workgroup need to identify other options to the Cadent proposal if it cannot be supported or consider raising an alternative Modification.

Other points made during deliberation included:

- The length of time the asset has been in place,
- Depreciation of asset.
- Whether the asset still works.
- Cost of the project.
- Cost of maintaining the asset could be used a way of allocating cost contribution for removal.
- Savings incurred by not removing the asset
- Purchasing more land - DD indicated that some sites are land locked so it is not always possible to acquire more land.
- Least overall cost to the consumer.

Workgroup participants suggested a benefits approach for allocation based on where the costs are saved and who benefits e.g. the site owner is potentially saving money if the costs to remove the equipment are incurred by the owner of the equipment.

Another proposal was the consideration of cost thresholds and the use of a fixed split methodology used where the removal costs are small, with a different approach adopted for large scale projects where it is more likely there will be maintenance, depreciation and RAV figures to inform the cost allocation.

In summary, there was no agreement on the issue of cost allocation. The different set up arrangements add to the complexity in terms of who should pay for what. National Grid were not keen to propose a funding methodology.

New Action 06065: Workgroup participants to look at historical examples to help identify possible split cost thresholds.

- g. Service Level Agreements (SLAs) – DD suggested that SLAs were needed for the responses set out in the process flow diagram (page 7 of the OAD Offtake Subsidiary Document – Removal of Redundant Assets Process). Workgroup agreed for steps 02 and 05 that the timescale should set at 60 days or an agreed timetable between operators.

6. Development of Workgroup Report

Consideration deferred.

7. Next Steps

BF summarised the next steps as follows:

- Cadent to consider providing an amended Modification 0683S to allow comments to be provided before the next meeting;
- Consideration of draft legal text;
- Further consideration of lease agreements (and other options) and updating of the supplemental agreements;
- Consideration of Redundant Assets process; and
- Development of draft Workgroup Report (including consideration of business rules and impacts and costs etc.).

8. Any Other Business

None

9. Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Wednesday 03 July 2019	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Standard agenda, plus <ul style="list-style-type: none"> • Consideration of amended modification • Consideration of draft legal text • Further consideration of lease agreements (and other options) and updating of the supplemental agreements; • Consideration of Redundant Assets process; and • Development of draft Workgroup Report.
10:00 Wednesday 31 July 2019	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Standard agenda

Action Table (as at 05 June 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0403	11/04/19	1.0	Cadent (SS) to check with lawyers if legal text can be drafted based on criterion 3 of Section B3.1.1 and B3.6 in relation to the Request for Removal of Assets.	Cadent (SS)	Carried Forward
0501	09/05/19	2.0	<i>Reference Site Services Agreements</i> - Cadent (SS) to ensure a statement is added within the modification to cover off 'SSP views'.	Cadent (SS)	Closed
0502	09/05/19	2.0	<i>Reference an LDZ to LDZ Recitals Template</i> - Cadent (DD) to look to create a new LDZ to LDZ Recitals Template for consideration at the next Workgroup meeting.	Cadent (DD)	Closed
0503	09/05/19	2.0	<i>Reference Supplemental Agreement Document Section 4 amendments</i> – Cadent (DD) to consider what changes might be required to the document in light of Workgroup discussions and feedback.	Cadent (DD)	Carried Forward
0504	09/05/19	2.0	<i>Reference An 'Affected Party'</i> – Cadent (DD) to consider removing bullet 5 relating to any impact to the gas flow from operator to operator from within the Modification.	Cadent (DD)	Carried Forward
0505	09/05/19	2.0	<i>Reference Asset Removal Process</i> – Cadent (SS) and (DD) to review all sections of the Modification and Subsidiary Document to ensure the process reads as the 'Redundant Asset Process' and remove bullet points and references to health, safety and credible risk.	Cadent (SS/DD)	Closed
<u>0601</u>	<u>05/06/19</u>	<u>2.0</u>	<u>Cadent (SS) to circulate any comments or advice from Dentons.</u>	<u>Cadent (SS)</u>	<u>Pending</u>
060 2 <u>4</u>	05/06/19	2.0	Workgroup to provide comments on the LDZ to LDZ Recitals Template.	ALL	Pending
060 3 <u>2</u>	05/06/19	2.0	Cadent (DD) to remove all references in the OAD to recital annexes and replace them with the specific document titles for the recitals and supplemental agreements.	Cadent (DD)	Pending
060 4 <u>3</u>	05/06/19	2.0	Cadent (SS) to clarify in the Modification solution that the process for removal of assets relates to operational sites only for the removal of redundant assets.	Cadent (SS)	Pending
060 5 <u>4</u>	05/06/19	2.0	Cadent (DD) to review paragraph 2.9 of the OAD to check if there are any conflicts in relation to current leases and the Modification.	Cadent (DD)	Pending

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			Also, to check that clauses 2.3 to 2.5 (OAD Offtake Subsidiary Document – Removal of Redundant Assets Process) align to the Business Rules in the Modification.		
060 65	05/06/19	2.0	Workgroup participants to look at historical examples to help identify possible split cost thresholds.	ALL	Pending