

UNC Workgroup 0737 Minutes
Transfer of NTS Entry Capacity from an abandoned ASEP
Tuesday 06 October 2020
via Microsoft Teams

Attendees		
Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Adam Bates	(AB)	South Hook Gas
Anna Stankiewicz	(ASt)	National Grid
Bill Reed	(BR)	RWE
Colin Williams	(CW)	National Grid
Daniel Hisgett	(DHi)	National Grid
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Jeff Chandler	(JCh)	SSE
Jennifer Randall	(JR)	National Grid
John Costa	(JCo)	EDF Energy
Julie Cox	(JC)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Laura Johnson	(LJ)	National Grid
Lucy Manning	(LM)	Grain LNG
Nick Wye	(NW)	Waters Wye Associates Ltd
Richard Fairholme	(RF)	Uniper
Ricky Hill	(RH)	Centrica
Sinead Obeng	(SO)	Gazprom
Steve Pownall	(SP)	Xoserve
Terry Burke	(TBu)	Equinor
<p><i>Copies of all papers are available at: https://www.gasgovernance.co.uk/0737/061020</i></p> <p><i>The Workgroup Report is due to be presented at the UNC Modification Panel by 17 December 2020.</i></p>		

1.0 Outline of Modification

Nick Wye (NW) introduced the Modification and explained the proposal seeks to allow the transfer of sold NTS Entry Capacity at an “abandoned” entry point (a donor entry point) to a recipient entry point where there remains unsold entry capacity at the nominated recipient entry point.

Where the entry capacity booked at the donor entry point is classified as Existing Capacity, the protections afforded to this entry capacity will remain post-transfer i.e. the contracted auction price will be honoured and the Transmission Services Entry Revenue Recovery Charges (RRC) will not be applied.

NW provided a presentation and further explained that the Modification differs from the transfer of Entry Capacity via the Trade & Transfer Methodology because under the Trade & Transfer Methodology such transfers are only allowed where all obligated entry capacity at the recipient Aggregate System Entry Point (ASEP) has been sold.

NW explained that an Abandoned ASEP will be a new classification which could be an Upstream planned project that has not materialised and/or where supplies at an existing ASEP have discontinued.

NW clarified that where a User holds entry capacity at an ASEP, the User will continue to pay for a service it can't use and that the current arrangements have the potential to discourage investment in new supply facilities, due to User Commitments underpinning incremental capacity.

David O'Neill (DON) asked if there was an example of such an ASEP. NW explained these have the potential to be terminals where gas may no longer be available, or where capacity has been booked but little development made with the project.

NW went onto to explain that in order to allow this new type of transfer of capacity from an abandoned ASEP to an alternative ASEP there is no other option other than to create a Modification and change the UNC to allow it. NW explained that all Users holding entry capacity at the "donor" ASEP will be required to offer up all of their capacity for transfer to classify the ASEP as abandoned.

Julie Cox (JC), enquired how would several users know at an ASEP if the ASEP is going to be abandoned before the transfer window is opened. NW explained he had made an assumption that if a project has not been forthcoming all users would be notified. However, NW confirmed that this aspect could be looked into, to provide some form of notice.

Bill Reed (BR) asked if the ASEP would still exist after it has been abandoned. NW clarified that the capacity at that ASEP would be abandoned, however the ASEP may still be connected and not decommissioned.

Laura Johnson (LJ) asked about the possibility of the ASEP wanting to buy capacity at a future date.

NW explained the process of calculating the transfer Exchange Rate, and that National Grid would calculate the relevant Exchange Rate for each transfer request in line with the existing methodology set out in the Entry Capacity Trade & Transfer Methodology. Existing Contracted Capacity held at the donor ASEP will be transferred to the recipient ASEP with the same protections maintained i.e. not subject to prevailing prices or Revenue Recovery Charges.

BR asked if there could be any FCC associated with the sites and where the liability for the charges would lie. NW explained if there is a displacement, in the event of moving capacity from the donor to the recipient, if there is additional capacity there would be no direct impact, however if there is a displacement, this is covered within the detail of the Modification, and there would be a redistribution of unrecovered capacity.

DON asked the Workgroup to consider and capture within the Workgroup Report, the impacts of this Modification along with some form of analysis. DON suggested this should include an assessment against Article 35 for Existing Contracts and any contractual implications, and that the Workgroup should provide a legal view on this. Workgroup discussed whether this would be feasible.

BR wanted to better understand the status of the ASEP. NW explained that the ASEP may not have been physically abandoned; it is simply an abandonment of the capacity. Upon further discussion NW agreed to consider the terminology being used and the release of capacity not going to be used.

NW explained a number of scenarios for accepting/rejecting a transfer of capacity and using the methodology to calculate the rate of exchange using in the current substitution methodology. The examples are contained within the Modification.

JC wanted to understand how Users will know they have met the 3:1 criteria.

It was suggested that a flow chart may assist understanding the end to end process and the exchange of information between parties.

BR asked about Existing Contracts, noting that if capacity been sold and contracts are in place with a 1:1 exchange rate, would the payments in effect change the existing contract? NW agreed to consider the implications for Existing Contracts.

NW explained that where there is insufficient unsold capacity the transfer would not be permitted. NW re-iterated that this is not about abandoning the ASEP but rather it's about freeing up and utilising capacity not being used by that ASEP.

Debra Hawkin (DH) wished to better understand the 1:1 exchange and why some transfers could be allowed, and others not permitted for the donor and recipient. DH enquired where these was not an exact and direct 1:1 match, if an exchange could still be undertaken for a lower exchange rate, to allow some exchange, with an obligation to pay for the remaining capacity?

BR asked about a substitution process and if this would fall into the scope of this Modification. NW believed this was beyond Modification 0737 and this would be a matter for further consideration for/by the substitution methodology.

Steve Pownall (SP) confirmed that there would be some system impacts which needed to be included. NW confirmed that this had been previously noted and would be added into the Modification. NW explained that the Modification did need some further refinement.

NW went onto explain how the Modification would better achieve the relevant objectives cited:

- (a) Efficient and economic operation of the pipe-line system, and
- (d) Securing of effective competition:
 - (i) between relevant shippers;
 - (ii) between relevant suppliers; and/or
 - (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

There would be a positive impact on Relevant Objective a) by allowing the use of unused capacity and optimising capacity availability to allow it to be used and make better use of the entire system. He explained that allowing use of the capacity would allow Users holding capacity, at an abandoned entry point, not to be encumbered with costs for a service they are unable to use. Through this Modification, a User will be able to transfer capacity away from an abandoned entry point to entry points where the capacity will maintain value and either use the capacity for its own supply purposes or obtain income from the sale of the capacity to a third party. This provides Users with more flexibility around the use and location of capacity. It reflects the generic nature of the capacity product and ensures the market is able to locate capacity where it is required. This improves competition (Relevant Objective d).

NW explained that the Modification would also enhance the security of supply, by reducing the downside risks associated with the booking of capacity to support potential upstream projects.

NW suggested that the Modification may also discourage User default and ultimately User termination from the UNC where it has been burdened with costs for holding unusable capacity.

DON expressed an interest in understanding the number of cases where a termination has been undertaken when entry capacity was being held. NW explained that he would not be able to correlate or conclude that a termination has been undertaken as a result of entry

capacity being held. However, it may be possible to provide confirmation that capacity was being held by a party when that party was terminated.

The Workgroup considered whether the Modification should be assessed against the Charging Relevant Objectives as well as standard relevant objectives. CW suggested that as some of the changes may affect the charging elements within Section Y, the Modification would need to consider the charging objectives. NW agreed to include this in the next version of the Modification.

Concluding discussions, RH provided a recap of the expected additional information required by the Workgroup for the next meeting. These were for the Proposer to:

- Consider articulating the process in a flow diagram
- Consider the terminology used and the use of the term abandoned
- Consider a pre-transfer notification
- Consider the partial exchange of capacity
- Consider obtaining a legal view / impacts on Users and Existing Contracts with reference to EU Tariff Code Article 35
- Include within the Modification an assessment against the wider Consumer Impacts
- Include within the Modification an assessment of the System Impacts
- Include within the Modification some analysis around compliance
- Include within the Modification an assessment or further clarification/explanation on the efficient use of the pipeline system
- Include within the Modification an assessment against the Charging Objectives
- Consider analysis showing the number of instances where terminations have taken place and the User held capacity

CW also wished to discuss the procedural steps with the Proposer to aid the development of the business rules and legal text. Noting more detail will be needed, CW agreed to work with NW offline to progress this.

RH encouraged Xoserve and NW to also consider the potential system costs.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

UNC Panel Question: Workgroup to consider whether the Modification should be considered against charging relevant objectives as well as standard relevant objectives.

See item 1.0, the Workgroup has asked the Proposer to include an assessment against the charging Relevant Objectives.

2.2. Initial Representations

None received.

2.3. Terms of Reference

See item 2.1, as a matter had been referred from Panel a specific Terms of Reference has been published alongside the Modification at <https://www.gasgovernance.co.uk/0737>.

3.0 Next Steps

It was anticipated that NW would be providing an Amended Modification and further analysis as summarised by RH under item 1.0 ahead of the next meeting.

It was suggested and agreed that Workgroup 0737 would be incorporated into the NTSCMF Workgroup, recognising there will be some capacity impacts, that will impact some areas already being considered by the Transmission Workgroup, especially under 0705R.

4.0 Any Other Business

None.

5.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Programme
10:00 Tuesday 03 November 2020 Within NTSCMF	5pm Monday 26 October 2020	Via Microsoft Teams	Detail planned agenda items. <ul style="list-style-type: none"> • Amended Modification • Review of Impacts and Costs • Review of Relevant Objectives • Consideration of Business Rules • Development of Workgroup Report
10:00 Tuesday 01 December 2020 Within NTSCMF	5pm Monday 23 November 2020	Via Microsoft Teams	Completion of Workgroup Report

Action Table (as at 06 October 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			None		