

UNC Workgroup 0753 Minutes
Removal of Pricing Disincentives for Secondary Trading of Fixed Price NTS System Entry Capacity
Tuesday 02 March 2021
via Microsoft Teams

Attendees		
Rebecca Hailes (Chair)	(RHa)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Andrew Pearce	(AP)	BP
Anna Stankiewicz	(ASt)	National Grid
Bill Reed	(BR)	RWE
Chris Wright	(CW)	ExxonMobil
Colin Williams	(CW)	National Grid
Daniel Hisgett	(DHi)	National Grid
Dave Bayliss	(DB)	National Grid
David Mitchell	(DM)	CIA
Debra Hawkin	(DH)	TPA Solutions
Jeff Chandler	(JCh)	SSE
Jennifer Randall	(JR)	National Grid
Julie Cox	(JCx)	Energy UK
Kirsty Ingham	(KI)	ESB
Kieran McGoldrick	(KG)	National Grid
Laura Johnson	(LJ)	National Grid
Lauren Jauss	(LJ)	RWE
Nick Wye	(NW)	Waters Wye Associates Ltd
Nigel Sisman	(NS)	Sisman Energy Consulting
Nitin Prajapati	(NP)	Cadent
Paul Brennan	(PB)	Waters Wye
Pavanjit Dhesi	(PD)	Interconnector UK
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	Hewitt Home & Energy Solutions Ltd
Samuel Dunn	(SD)	Interconnector
Terry Burke	(TBu)	Equinor

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0753/020321>

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 April 2021.

1.0 Outline of Modification

Nick Wye (NW) explained this Modification had originally been raised requesting an urgent status, however this has been rejected and Panel had agreed that this Modification should be given a 2 months' evaluation period by the Workgroup.

NW then provided an overview of the Modification proposal as detailed below:

Why Change?

The application of RRC's to transferred Existing Entry Capacity has resulted in:

- *Users "sleeving" gas through Existing Capacity held by Users holding such capacity, where possible. This undermines the trading of capacity.*
- *In some cases, this is not possible where Users have no option but to purchase secondary capacity and incur RRCs, for example:*
 - *Where the original holder of Existing Capacity has withdrawn from the UNC.*
 - *Where an infrastructure owner (e.g., storage or LNG regas) has contracted with a third-party User to acquire Existing Capacity, but the same User cannot sleeve gas on behalf of infrastructure customers due to confidentiality etc...*
 - *Where a wider transaction (e.g., acquisition of upstream assets) has resulted in Existing Capacity being transferred to the purchaser and the seller is unable/unwilling to provide sleeving services*
- *The above not only undermines the secondary trading market but is discriminatory in terms of which Users hold Existing Capacity and which Users are exposed to the RRC as a result of the relationship between the transferor and the transferee*

Legal Case

- *Following implementation of Modification 0678A, the application of RRCs to transferred Existing Capacity is in breach of:*
 - *Article 22 of Regulation (EC) 715/2009 – Trading of capacity rights*
 - *Article 1 of same – setting non-discriminatory rules for access to the NTS*
 - *Article 13 of same – Tariffs for access to networks*
 - *NGG Licence SSC A6 – shippers gaining commercial advantages from preferential of discriminatory arrangements*
- *In short, the dual regime for RRC on Existing Contracts, as applied by the UNC following the implementation of Modification 0678A:*
 - *is not applied in a non-discriminatory manner.*
 - *does not facilitate efficient gas trade and competition.*
 - *restricts market liquidity in capacity rights.*

Commercial Case

- *The impacts on the market have been set out above under 'Why Change'*
- *Quantifying the impact is only possible if the circumstances surrounding each transfer are known.....not publicly available*
- *At a high level, revenue recovery from sales of entry capacity during October and November were 45% below forecast due predominately to optimisation of Existing Contracts*
- *The number of Users and the volumes of capacity which are unable to utilise "sleeving" services are unknown albeit anecdotally there are numerous cases*
- *The charging regime has resulted in discriminatory arrangements where the same product (Existing Capacity) held by Users is subject to different charges (RRC).....this undermines competition*

Options

- *Change to the UNC treatment of transferred Existing Capacity in relation to the application of RRCs*

NW suggested that the Modification should be implemented in an expedient manner to allow a speedy correction for the Industry.

Paul Brennan (PB) provided a brief overview in relation to the Network Code being a framework agreement in relation to booking capacity within TAR NC under Article 35 and the definition of 'existing contracts' and 'new contracts' under UK law.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

2.1.1. Consider Consequential Impacts

NW said that he was unable to comment on the consequential impacts, as the entry charges were assumed by the Shipper who had to identify any impacts on the NVP which was impossible to quantify. He said he would provide some narrative on regarding this matter to be encompassed within the Workgroup Report.

Legal Text

Colin Williams (CW) said he had overviewed the Legal Text and that there was the need for an allowance of two things post implementation in relation to what the past recipient tells them and, in the future, both recipients would need to report to National Grid to sense check any mismatches as these would be automatically rejected. So, he proposed an amendment to the definition Article 1 2.2 (f).

Rough Order of Magnitude (ROM)

Laura Johnson (LJ) confirmed the ROM request had been submitted and that Xoserve has confirmed this would be available for the April meeting.

Relevant Objectives

Rebecca Hailes (RH_a) provided an on-screen review of the specific Relevant Objectives; c) and g).

Bill Reed (BR), Nigel Sisman (NS) and Anna Shrigley (AS) all questioned the transfer process regarding transferring capacity within c).

Richard Fairholme (RF) also questioned the charging arrangements within g).

2.2. Terms of Reference

RH_a drew attention to the Individual Terms of Reference and these were approved by the Workgroup participants.

As matters have been referred from Panel a specific Terms of Reference will be published alongside the Modification at: <https://www.gasgovernance.co.uk/0753>

3.0 Next Steps

RH_a confirmed that her aspiration for the next meeting to be held on 06 April 2021 was:

- Completion of the Workgroup Report

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 06 April 2021	5pm Thursday 25 March 2021	Via Microsoft Teams	Detail planned agenda items. <ul style="list-style-type: none">• Completion of the Workgroup Report.