



Publishing date: 19/01/2015

Document title: 4a - 20150115_ACER minutes of OGUK hearing on 5 Dec 2014_forPC

We appreciate your feedback



Please click on the icon to take a 5' online survey and provide your feedback about this document

**ACER hearing of Oil & Gas UK
on the UK Gas Day amendment request**
5th December 2014 from 12:00 to 15:00 CET
ACER, Trg Republike 3, 1000 Ljubljana, Slovenia

MINUTES OF THE HEARING

No	Participating Organizations
1	Oil & Gas UK (OGUK), upstream industry association
2	BP Gas Marketing
3	ConocoPhillips Europe
4	Waters Wye Associates, Gas Forum
5	National Grid
7	Department of Energy & Climate Change (DECC)
9	OFGEM, NRA
10	CER, NRA
11	BNetzA, NRA
12	CNMC, NRA
13	CRE, NRA
14	ACER, Gas Department

1. Presentation and agreement on the agenda of the hearing

The agenda of the meeting was agreed and the topics discussed in the agreed sequence.

Agenda	
1	Introduction by ACER
2	Possible solutions / alternatives to the NC CAM amendments (OGUK presentation) <i>Open to all participants</i>
3	Fact finding session on the amendment request and ACER questions (OGUK presentation) <i>Open to the parties and NRAs/ACER only</i>
4	Conclusions & next steps

The objective of the meeting was to give OGUK an opportunity to present evidence for its amendment request.

2. Possible solutions / alternatives to the NC CAM amendment

In order to comply with the Network Codes on Capacity Allocation Mechanism (“NC CAM”) and Gas Balancing in Transmission Systems (“NC BAL”), the UK downstream gas day has to be shifted to 5:00-5:00 UTC winter time as provided for in Article 3(7) of the NC CAM. The change must be implemented by the deadline of 1 October 2015 for the NC BAL and 1 November 2015 for NC CAM. It should be noted that whilst the NC CAM does not directly apply to the Upstream (Article 2.1), it impacts the Upstream in its interaction with the downstream market.

All participants were provided with an update on two proposed interim solutions for the GB market. According to OGUK, these alternatives do not represent a permanent solution but an attempt to find a temporary ‘second best’ outcome in the GB market which minimises the costs and risks of changing the downstream Gas Day. They continue to be discussed under the leadership of DECC (Department of Energy and Climate Change, UK) with the Gas Day Industry Workgroup (GDIW), involving upstream producers, terminal operators (“TOs”), shippers including non-producing ones, National Grid (TSO), the Claims Validation Services Limited (CVSL) (the interface between upstream and downstream) and Ofgem (NRA). The alternatives discussed by the GDIW cover interim solutions for the upstream producers and downstream shippers to be able to cope with the Gas Day change from 6:00 to 6:00 local time to 5:00 to 5:00 UTC.

OGUK brought forward that towards the end of 2013, it became clear to the UK gas upstream industry that interim measures at entry points are needed for a part of the UK gas market, as by the time of the implementation deadlines foreseen by NC BAL and NC CAM some members of the upstream UK and Republic of Ireland industry will still be operating on the current gas day time due to both the complexity of the upstream industry and high costs of implementation upstream.

The GDIW was set up in October 2014 to find an interim solution by the end of 2014. The third meeting of the GDIW was scheduled for the 9 December 2014. (Discussions continued at a fourth meeting on 12 January 2015, and the next is scheduled for 27 January). The work is focused on finding ways to reconcile the 5 to 5 UTC schedule with the current 6 to 6 schedule and to align the UK to the requirements of the NC CAM. The discussions are intended to find a pragmatic way to operate in the GB system with two different Gas Days at minimal cost, disruption, and risks while keeping the integrity of the NTS¹ operations.

The number of options has been reduced to two: Option 1: Scaling or Exit Allocation and Option 2: which comprises exit allocation and a new linepack flexibility service. For the time being, both options are being discussed². It was claimed by OGUK that the vast majority of GDIW members, including UK-based pan-European shippers, recognised that Option 2 is a better outcome since they anticipate that it minimises any additional commercial risks to NTS shippers.

The issues around these two options are as follows:

- 1) **Scaling or Exit Allocation:** OGUK claimed that under this option the Claims Validation Services Agreement (CVSA)³ requires an amendment in order to offer a new service for shippers that allows sub-terminals to remain operating 6 to 6 UTC. The option seeks to scale the 6 to 6 UTC (for upstream) to 5 to 5 UTC (for downstream) by an allocations agent (CVSA or NG). To achieve the scaling option, OGUK claimed that a new contract with the allocations agent is needed as well as the building of an (IT) system (at ~£ 2 million roughly estimated costs). It is unknown at this point whether the necessary systems can be built prior to October 2015. It was claimed by OGUK that the scaling may produce uncontrollable risks to shippers when the apportioning of volumes is carried out, hence it could reduce the willingness of shippers buying gas at terminals not shifting to the uniform Gas Day to trade at the NBP. Shippers will be exposed to both daily imbalance charges and scheduling charges to the magnitude of the difference between their 6-to-6 volumes and their 5-to-5 volumes. These charges will be recurring and unpredictable. This option is considered to be more viable in the timescale available than the linepack flexibility service option mentioned below by National Grid, the TSO.
- 2) **Linepack option:** This option is considered an add-on to the Scaling option described above. In order to be able to remove the risk to shippers of imbalance charges and scheduling charges, a linepack flexibility service would be introduced, designed using the NC BAL provisions. The linepack flexibility service has not been foreseen so far in the national implementation plans, so additional implementation measures would have to be taken. The question remains whether this new service could be introduced at all for the sub-terminals keeping the 6 to 6 schedule. It was claimed by the upstream producers present at the hearing that the system costs are around ~£ 3 million, due to the need to sign new agreements, system and billing changes. A charging methodology for this service would have to be introduced and approved by Ofgem. OGUK claimed that the implementation timeline for this solution may require more time than 1 October 2015 (the date National Grid intends to implement the change to the Gas Day). According to OGUK, the solution requires either National Grid or CVSL to operate the scaling option and National Grid to manage the

¹ National Transmission System (UK)

² The meeting of GDIW of 9 December decided to discuss the Scaling first, as it is a precondition for Option 2; as reported by OGUK and Ofgem to the Agency.

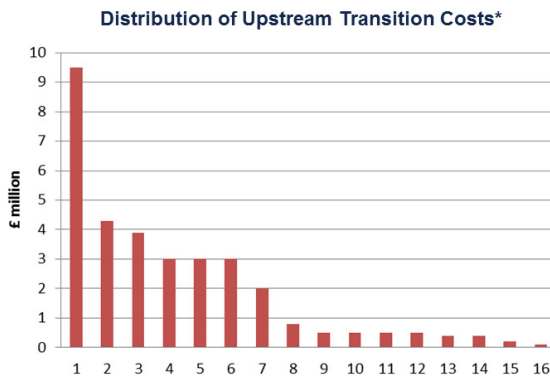
linepack flexibility regime; for the time being it is unclear whether the option is feasible. The linepack service option was considered to be less realistic by both the TSO and upstream producers due to its complexity, costs and the delays it may cause.

The parties to the submission criticised that the solutions foreseen are of temporary nature and not permanent ones, and hoped that the amendment proposed could provide such an outcome. The parties clearly outlined that the best way would be to retain a single 6-6 Gas Day for the whole of the UK.

ACER was informed by OGUK about the expected preferences of the UK industry regarding the proposed move to the 5-5 UTC gas day. The understanding is that about 50% of entry terminals (interconnectors, regasification terminals, storages, mainly modern and new facilities with simple upstream structures, the ones connected with Norway) could move to the 5 to 5 UTC regime. The other 50% of the upstream industry would not move due to the complex offshore infrastructures created, where multiple production platforms with complex ownership structures operate together, some of them close to the end of their production lifetime. Among this latter group of terminals, those with a secure long-term future could possibly be influenced in time to change their gas day, but only if their major upstream users agree to do so. (See below the terminal operators ranked along their perceived costs to change the Gas Day.)



Upstream costs of changing Gas Day



Source: O&GUK member survey (Aug 2014)

* O&GUK members only, excluding shippers, DNOs and TSOs

- Costs of change throughout gas chain but concentrated in upstream
- Survey of O&GUK members of 'one-off' transition costs of upstream change, as requested by DECC
- 16 respondents, covering about 75% of UK upstream gas flows
- Total estimate of £33m, comprising legal costs, IT costs and metering changes
- Gross estimate of £40-50m (€50-60m), excludes any contingencies
- Some respondents cited need to halt offshore operations to implement metering changes
- One operator unsure whether it was technically feasible to change existing system

The hearing continued with a high level discussion of financial transition costs, longer-term economic costs and a risk assessment.

According to OGUK, the costs to align upstream production and the terminal operators with the uniform CAM Gas Day involve changes of:

- **IT systems**
 - Concerns: offshore platforms; gas gathering centres and the terminals and in particular their metering systems. (e.g. meter validation, telemetry equipment, necessary verifications by DECC authorities).
 - In particular, offshore fiscal meters require longer lead time needed to approve the changes in the meters with the tax authorities or specialised agents.
 - Furthermore, complex systems of allocation (across fields and across producers/ terminals) could require a big system change with longer implementation lead times (than 1 October 2015) and possibly high costs (although OGUK brought no further evidence to the hearing). Onshore and offshore agreements regarding the allocation of gas and the timing of transactions shall have to be reviewed and in many cases revised (capacity nominations/outages/interaction with oil, where gas is jointly produced with oil).
- **Commercial Agreements:**
 - Concerns: revision of the commercial agreements, which trigger legal costs and could lead to lengthy re-negotiation of contractual clauses;
 - In particular: production allocation, gas lifting, transportation, processing and gas sales agreements require revision, but may concern as well other field-level upstream agreements;
 - Claims validation agreements have to change.
- **Metering costs:**
 - If all offshore facilities (platforms and pipelines) gathering output from 140 fields are obliged eventually to move to 5-5 UCT, then offshore meters will have to be modified to the new gas day, either remotely or in some cases through physical manned intervention offshore. This cannot be done simultaneously across the entire UK Continental Shelf and may not be achievable at some older facilities.

OGUK claimed that the relative costs are the highest at terminals and systems serving complex, multi-company operations with low (decreasing) production volumes (mainly independent upstream producers). Parties estimated total upstream cost to be at least £40-50 million (€50-60 million) (but provided no further evidence). These costs could not be passed on to their customers (downstream or upstream).

In the context of risks, according to Oil & Gas UK:

- The two Gas Days could create a new, additional balancing risk at the interface between upstream and downstream;
- Changes to the agreed CVSA could undermine the basis for legal title to gas entering the NTS from the UK continental shelf and may create renewed commercial disputes. Producers may move and sell at the beach to avoid these risks, which is claimed to potentially negatively affect the NBP liquidity.

3. Fact finding session on the amendment request and ACER questions (closed session)

Further progress was made in understanding the particular concerns of the parties requesting the amendment. One terminal operator explained what system and contract changes are necessary to follow up on the Gas Day change.

Under this estimation commercial changes would be required to all the following:

1. Gas lifting agreements;
2. Gas Sales agreements;
3. Condensate sales agreements;
4. Transportation and processing agreements;
5. Gas Allocation Agreements.

Physical Changes would be required to:

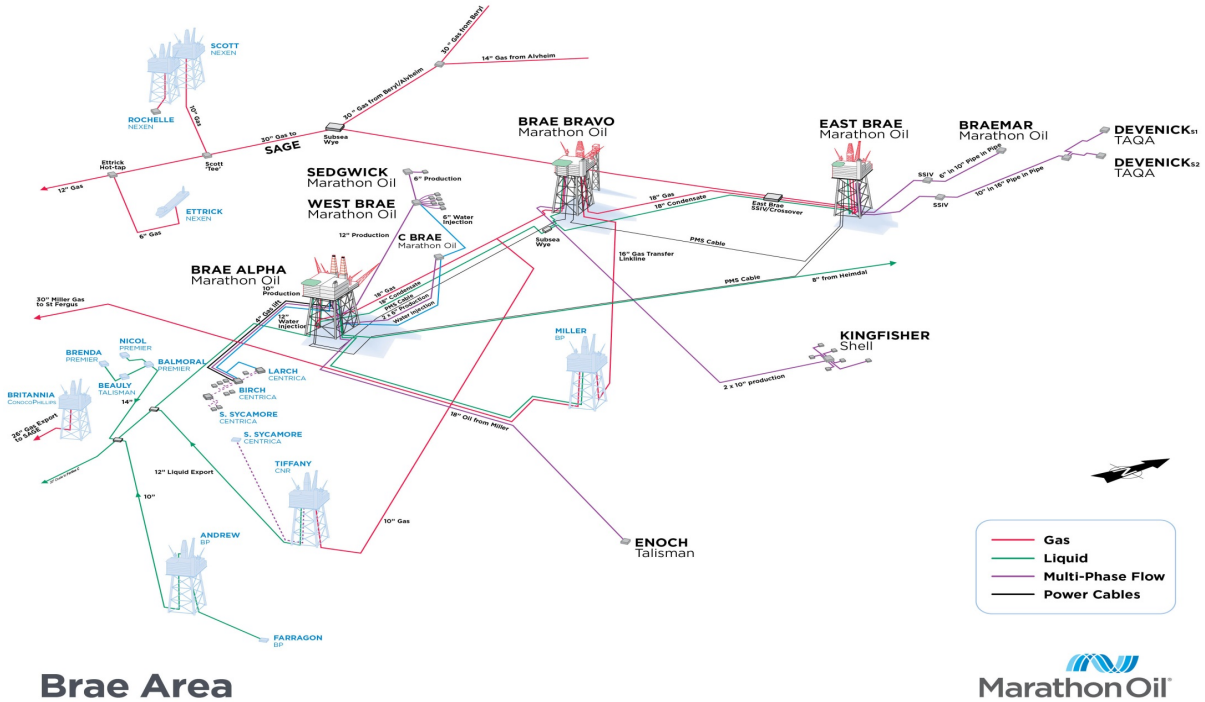
1. The physical metering for both manned and unmanned installations;
2. Terminal metering;
3. Terminal allocation systems;
4. Offshore gathering Platforms allocation systems;
5. Headquarters electronic information systems (well allocation programs, bulletin boards, data feeds)

In case of joint oil / gas production conflicts with a 12 hour oil day should be considered.

Overall, OGUK estimated that for these terminals in total over 600 counterparty approvals are required, additional software developed, purchased and tested. As IT companies to carry out this work are scarce, terminals will be waiting to employ the same systems companies to carry out the amendments. It is estimated that a 3 to 4 years of implementation lead time would be necessary for the implementation of the uniform Gas Day.

OGUK estimated (without concrete references) that the total costs would break down into 40% for IT expenditure, 40 % for legal charges and 20 % for metering software applications. The breakdown of the costs was estimated without contingencies, and may be larger. (See also submission, which gives the absolute figures without the type of costs.)

A complex offshore system (from the OGUK presentation):



OGUK claimed that only towards the end 2013, as National Grid began to raise modifications to the Uniform Network Code to implement CAM and BAL, did it become apparent that the upstream would be impacted, due to the Gas Day change in the UK. National Grid however pointed out that they regularly updated UK stakeholders throughout the code development process. The Change to the Gas Day was highlighted as an issue at industry workshop in July 2011. It was formally raised as a UNC⁴ issue in November 2012 – Thereafter an update was given to the industry on a monthly basis. Ofgem commenced a series of open meetings in 2013 and National Grid formally raised its UNC change proposal in June 2013.

On the feasibility of the two gas days: one in the UK (UK keeping its gas day unchanged) and another for the continent, it was claimed by OGUK that:

1. Cross-border bundling (only at each end of an interconnector separately) is feasible for both IUK/BBL and parties requested ACER to ask confirmation from Ofgem and other NRAs on this. OGUK also claimed that there is currently no inefficiency in arbitrage possibilities through the interconnectors which is caused by the Gas day difference.
2. Gassco (Norwegian gas producer) is able to handle currently the interface of 2 gas days, while supplying both the UK and the continent, due to the linepack Gassco has in its offshore pipelines.
3. LNG regasification and Storage terminals can convert more easily to the new Gas Day, as their transition costs are limited and their operations less dependent on the Gas Day starts and

⁴ Uniform Network Code

endings. Their implementation costs cannot be compared to the situation of the upstream industry.

4. Security of supply argument: The applicants claim that if the UK is forced to operate with two different gas days upstream and downstream and shippers face an additional balancing risk, there may be a loss of NBP market liquidity with adverse consequences for the ability of the UK and NW Europe to attract uncontracted gas and LNG. Any loss of NBP liquidity would adversely affect European security of gas supply. UK gas producers too may be dissuaded from selling at the NBP by the additional risks and may increase their sale at the beach or at offshore delivery points. (Based on the OGUK assumption moving to the uniform Gas Day could create security of supply risks to the UK, due to possible loss of liquidity, as upstream operators would potentially either stop activities earlier than foreseen or decide to sell to an aggregator at the beach, thus reducing liquidity at the NBP).
5. The parties to the submission claimed a loss of NBP liquidity due to the Gas Day change. Parties explained that NBP is an important gas price determination index in NW-Europe, alongside TTF. Their view was that NBP attracts a large number of independent producers and spot gas sales. The NBP market interacts with global LNG market and has less influence from Eastern European flows as opposed to TTF. OGUK claimed that the Gas Day change could reduce the confidence of some independent producers and may move them away from the NBP.
6. Regarding the question whether impacts are minor or major, a scenario analysis would be necessary so that effects are better understood, but OGUK did not commit to provide one.
7. In the case of premature abandonment of UK Continental shelf (UKCS) fields due to the cost and complexity of altering the upstream regime to meet the new Gas Day requirements the possible reduced UKCS activity would affect the tax income of the UK government.

OGUK claimed that contrary to upstream players, the TSO (National Grid) is compensated for its implementation costs through the approved price control mechanism, which is not a tool that could be used by the upstream. The costs of implementation upstream would be borne by the terminal operators and by UK gas producers.

CVSL agents could provide ACER with the number of transactions, companies with trading arms at NBP, number of smaller operators, number of NBP contracts/ beach contracts, offshore market exits, especially for smaller operators.

4. Conclusions & next steps

Additional information will be requested by ACER based on questions sent to OGUK in the coming weeks. A public consultation might be held by the Agency on the relevant information and the amendment request prior to the Agency potentially deciding whether to submit its proposal to the European Commission, as stated in the Agency Guidance and in particular proceedings foreseen under Article 7 of the Gas Regulation.



Publishing date: 19/01/2015

Document title: 4a - 20150115_ACER minutes of OGUK hearing on 5 Dec 2014_forPC

We appreciate your feedback



Please click on the icon to take a 5' online survey and provide your feedback about this document