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Guidance Notes

to the

Spanish AVB Appendix (Version 1.0) to the EFET General Agreement concerning Delivery and Acceptance of Natural Gas

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Introduction

The Spanish AVB Appendix is designed to provide trading terms at the new Virtual Balancing Underground Storage ("*Almacenamiento Virtual de Balance*" or "AVB") for title transfers of natural gas in underground storage (UGS) in Spain. The AVB, together with the Virtual Balancing Tank ("*Tanque Virtual de Balance*" or "TVB"), which regroups LNG tank capacity in the regasification plants, and the already existing PVB, comprise now the three virtual balancing areas in the Spanish gas system as of 1 April 2020, further to the publication in January 2020 of the new CNMC Balancing Circular 2/2020.

The AVB regroups into one single virtual storage the sum of the total capacity available in the three UGS facilities in Spain (i.e. Serrablo (Huesca), Gaviota (Bizkaia) and Yela (Guadalajara)). Therefore, the delivery point for in-UGS natural gas transfers is no longer a physical UGS but a virtual trading point at the AVB.

The rationale for this virtual storage service is to optimize the usage of the aggregate underground storage capacity available at the three UGS so that there are no preferred installations (overcrowded, with higher liquidity) over other less preferred ones (underused, with lower liquidity), and, as a result, increased transparency and overall liquidity.

In substance, AVB transactions are alike PVB/TVB transactions, for the following reasons:

- they are title transfers of natural gas at a virtual trading point inside a virtual balancing area;
- with identical notification rules as TVB/PVB transactions (if parties notifications do not match, then the notified quantity will be zero, so the “lesser rule” does not apply);
- with alike standardized platform-based daily balancing price calculation as TVB, broadly based on: (i) the weighted average price of Enagas (Spanish TSO) buys or sales, as applicable, of AVB imbalance volumes at balancing platform after applying a haircut, or, in the absence of actual sales/buys by Enagas, the PVB daily imbalance price, (ii) plus, the value of the applicable tariffs required to withdraw the excess natural gas, if positive imbalance, or the tariff required to inject the shortfall natural gas from PVB to AVB, if negative imbalance;
- alike daily correction of imbalance position to zero at end of gas day (unlike in the past that there was no correction of physical imbalance position by TSO, so the user’s imbalance could potentially continue for days, attaching daily penalties, until eventually corrected by user);
- negligible physical risk (unless there is some extraordinary event affecting the normal operation of a majority/totality of the tree USG facilities, which is rather unlikely); and
- no off-spec issues as natural gas is already inside the system.

As a consequence, this AVB Appendix follows substantially the terms of the PVB/TVB Appendix.

Explanation of Specific Provisions in the Spanish AVB Appendix which differ from the PVB Appendix

1. Clause 7: Invoicing and Payment

Market standard payment terms for in-UGS transactions are shorter than natural gas due to deliveries being discrete single deliveries that tend to involve a more significant contract quantity, compared to pipeline natural gas deliveries that tend to be flat or distributed evenly every day over a certain delivery period, typically a month. Hence, the in-UGS market standard payment period is ten (10) Business Days after delivery in order to settle the more significant outstanding monetary amount promptly after each discrete delivery.

Therefore, the EFET standard terms have been amended in the AVB Appendix to provide two options: 1) Option A, with pipeline gas payment terms in M+1 and 2) Option B, with in-UGS market standard payment terms, with Option B being the default option, if no express election is made in the AVB Appendix. The idea is to still preserve an option for those parties that, for some reason, would prefer to stick to pipeline natural gas M+1 payment terms.

2. Clause 8.1.5 and 8.1.6 in Annex 1- Defined Terms

“Negative Imbalance Price” and “Positive Imbalance Price”, are new defined terms that cross-refer to the corresponding concepts contained in article 8.7 of the Balancing Circular 2/2020, as amended, so that parties are back to back with the regulated imbalance price at AVB. The only deviation, is that for purpose of positive imbalances, the regulation provides that if there is capacity available at AVB, there will new capacity contract generated by the TSO (currently, at twice the regular tariff), in respect of, some or all, the imbalance excess volume, depending on free capacity available. Since this “new generated capacity contract” would be somehow random (i.e. if UGS utilisation is low it would be more likely to apply, while if utilisation is high, it would be unlikely to apply) and complicate calculation, with the need to open traders’ books, and the challenge to allocate a portion of this new generated capacity contract to the individual imbalance at stake (for example, if user is part of a balancing group or suffers several imbalances caused by different counterparties on the same gas day), it has been discarded for purpose of calculating the applicable Positive Imbalance Price due under the AVB Appendix.

This is consistent with the TVB and PVB Appendix, where also a “flexibility” service, if any, contracted by the non-defaulting party, is discarded for purpose of calculating the applicable imbalance charges under the TVB/PVB Appendix, so that the same formula applies to any party to a standard EFET TVB/PVB/AVB Appendix. In summary, for purpose of the AVB Appendix, it is assumed that there will not be any new generated capacity contract by the TSO in the event of positive imbalance at AVB when calculating the corresponding imbalance price in accordance with article 8.7 of the Balancing Circular 2/2020, as amended. Therefore, the full default quantity will be multiplied by the applicable imbalance price.