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Guidance Notes

to the

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

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Introduction

The Spanish TVB Appendix is designed to provide trading terms at the new Virtual Balancing Tank ("Tanque Virtual de Balance" or "TVB") for title transfers of in-tank Liquefied Natural Gas ("LNG"). The TVB, together with the Virtual Balancing Storage ("Almacén Virtual de Balance" or "AVB"), which regroups underground storage capacity, 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 TVB regroups into one single virtual storage tank the sum of the total capacity available at the tanks of all the six regasification plants in Spain (ie, Barcelona, Bilbao, Sagunto, Huelva, Cartagena, Mugardos) therefore, the delivery point for in-tank LNG transfers is no longer a physical tank in a regasification plant but a virtual trading point at the TVB.

The rationale for this virtual storage service is to optimize the usage of the aggregate storage capacity available at the six regasification plants 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 addition, the new TVB virtual area puts in value the storage capacity as an independent service, which in the past was only implicit or part of the “regasification capacity” service.

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

- they are title transfers of an energy product (LNG and natural gas, respectively) at a virtual trading point inside a virtual balancing area (TVB and PVB, respectively);
- with identical notification rules as 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, broadly based on: (i) the weighted average price of Enagas buys or sales, as applicable, of TVB imbalance volumes at balancing platform after applying a haircut (currently, +-3%), or, in the absence of actual sales/buys by Enagas, the PVB daily imbalance price, (ii) plus, twice (currently, the tariff value is multiplied by 2), the value of the applicable tariffs required to regasify the excess LNG, if positive imbalance, or the tariff required to virtually liquify the shortfall natural gas from PVB to TVB, 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 in-tank LNG 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/totally of the six regasification plants, which is rather unlikely); and
- no off-spec issues as LNG is already inside the system.

As a consequence, this TVB appendix follows substantially the terms of the PVB appendix.

It is also important to note that the TVB Appendix is meant to be used for TVB deliveries starting on 1 October 2020. The reason for this is that the Circular 2/2020 has staggered its implementation in two milestones, (i) 1 April 2020, with implementation of the new balancing regime in respect of TVB negative imbalance only and (ii) 1 October 2020, with implementation of the new balancing regime also in respect of TVB positive imbalances. Hence, until 1 October 2020, the new balancing regime will not be fully implemented at TVB. Notwithstanding, during this short interim period until 1 October 2020, the published TVB Appendix may be of benefit to market participants, as a reference, when adapting their existing contractual arrangements.

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

1. Clause 7: Invoicing and Payment

Market standard payment terms for in-tank LNG transaction are shorter than natural gas due to deliveries being discrete single deliveries in a month that tend to involve a more significant contract quantity, compared to natural gas deliveries that tend to be flat or distributed evenly every day over a certain delivery period, typically a month. Hence, the in-tank LNG 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 TVB Appendix to provide two options: 1) Option A, with the EFET standard payment terms and 2) Option B, with in-tank LNG market standard payment terms, with Option B being the default option, if no express election is made in the TVB Appendix. The idea is to still preserve an option for those parties that, for some reason, would prefer to stick to EFET standard terms.

In addition, since in-tank LNG is a different commodity to natural gas, and companies may often organize their LNG business and accounting separately from their natural gas business, an option is also given as to whether to net payments that may be due on the same date, same currency, across both products (particularly if Option A above is elected). The default is, therefore, not to net across different products, reflecting the market prevailing standard, unless an express election to net is made in the TVB Appendix.

2. Clause 8.1.6 and 8.1.7 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 so that parties are back to back with the regulated imbalance price at TVB. The only deviation, is that for purpose of positive imbalances, the regulation provides that if there is capacity available at TVB, there will be a self-generated capacity contract (currently, at twice the regular tariff), in respect of, some or all, the imbalance excess volume, depending on capacity available. Since this “self-generated capacity contract” would complicate calculation, with the need to open traders’ books, and the challenge to allocate a portion of this self-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 TVB Appendix. This is consistent with the 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 PVB Appendix, so that the same formula applies to any party to a standard EFET PVB Appendix or TVB Appendix, as applicable. In summary, for purpose of the TVB Appendix, it is assumed that there will not be any self-generated

capacity contract in the event of positive imbalance at TVB when calculating the corresponding imbalance price in accordance with article 8.7 of the Balancing Circular 2/2020.