

Project Nexus
High Level Allocation 4 Workgroup Minutes
Wednesday 24 February 2010
National Grid Office, 31 Homer Road, Solihull

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office of Gas Transporters
Mike Berrisford (Secretary)	(MiB)	Joint Office of Gas Transporters
Alan Raper	(AR)	National Grid Distribution
Christian Hill	(CH)	RWE npower
Fiona Cottam	(FC)	xoserve
Gareth Evans	(GE)	Waters Wye Associates
Karen Kennedy	(KK)	ScottishPower
Lisa Harris	(LH)	Shell Gas Direct
Kevin Woollard*	(KW)	British Gas
Mark Jones	(MJ)	Scottish & Southern Energy
Michele Downes	(MD)	xoserve
Peter Thompson	(PT)	Customer Representative
Russell Summerville	(RS)	Northern Gas Networks
Sallyann Blackett	(SB)	E.ON UK
Sean McGoldrick	(SMc)	National Grid NTS
Shirley Wheeler	(SW)	xoserve
Stefan Leedham	(SL)	EDF Energy

Apologies

Chris Warner	National Grid Distribution
David Watson	British Gas
Steve Nunnington	xoserve

* *via a teleconference link*

1. Introduction

BF welcomed all to the meeting.

1.1 Review of Minutes

The minutes of the 08 February 2010 meeting were accepted.

In response to a question from PT, members briefly revisited the subject of meter readings being a fundamental requirement in any future system in order to facilitate dispute resolution etc. This was not a view that was shared by all, as many variables such as contractual arrangements, have a significant bearing.

In summary, members acknowledged that the current Transporter & Supplier Licence obligations are not expected to significantly change in the 'new world', in relation to this matter.

1.2 Review of Actions

Action ALLO005: xoserve (FC) to amend the draft H/L Business Rules (Principles) document in line with suggested changes in time for consideration at the next meeting.

Update: BF informed members that a revised copy of the draft high level business rules had been published on the Joint Office web site.

Closed

Action ALLO006: xoserve (FC) to develop some (current) process maps aligned to the high level principles discussed earlier in this meeting and to the issues identified in earlier meetings in time for consideration prior to the next meeting.

Update: BF informed members that a presentation relating to the current process had been published on the Joint Office web site and will be discussed later in the meeting under item 2.3 below.

Closed

Action ALLO007: All members to consider the (current) process maps aligned to the high level principles and identify issues, and how the proposed solution addresses those issues, in time for consideration at the next meeting.

Update: BF informed members that following publication of the presentation on the Joint Office web site, members have had sufficient time to consider the requirements.

Closed

2. Scope and Deliverables

Copies of all the presentation materials are available to view &/or download from the Joint Office web site at: <http://www.gasgovernance.co.uk/nexus/240210>

Please note: the following items were taken out of sequence during the meeting.

2.1 Review of Draft High Level Business Rules

SL suggested, and members agreed that this item should be 'covered' as part of the consideration and preparation of the workgroup report under item 3.1 below.

2.2 Risk Monitoring

FC informed members that no new risks have been logged since the previous meeting.

When asked, members agreed that this item had been sufficiently discussed elsewhere in this meeting.

2.3 Allocation Current Processes presentation

FC informed members that she had mapped out the current processes and linked these back to this group's proposed solutions to ensure that where ever possible all root causes have been identified, although it is by no means and exhaustive list.

The two process flow maps are presented at a high-level and deliberately avoid identifying who does what (i.e. swim lane level).

Before the Day – Nominations

FC pointed out that the sand coloured boxes represent the feedback received from previous discussions. She suggested that the initially low DM estimates maybe a reflection of the cautious approaches adopted by some shippers allied to differing processes. However, it is observed that estimates become more accurate during the course of a day.

FC noted that the proposed future process will see shippers undertaking their own NDM estimations.

After the Day – Allocations

Once again focusing on the feedback boxes, FC highlighted that comments received suggest the possible adoption of separate profiles for I&C and Domestic sites. SL wondered whether or not, in the event of provision of more accurate profile information for both SSP & LSP, you would expect to observe energy moving between the two during reconciliation. In support, FC suggested that in the event where standard scaling factors are employed at the allocation stage(s), there will still be energy transfer. She went on to point out that more detailed reconciliation discussions will take place within that workgroup in due course.

AR reminded members that in a perfect world, populated with perfect data, there should/would be very little (reconciliation/energy) movement between SSP & LSP sites. FC highlighted that it is not just about the impact of weather sensitivity on domestic sites, as other market forces are at play.

In response to a question from SL, FC confirmed that the 'Deduct Shrinkage' step does not include CV shrinkage, as it is limited to GDN (Offtake) specific shrinkage at this stage in the process.

Root Cause Analysis (RCA)

In discussing the root cause slide, FC raised concerns surrounding the 'gap' between the responses received and the proposed workgroup solutions.

Regardless of the fact that SMIP & CCP roles and responsibilities remain unclear at this point, xoserve believe there is value in being able to identify which of the two proposed solutions delivers the best balance between cost and benefit, especially in light of the fact that the high-level principles developed within this workgroup maybe utilised elsewhere in Project Nexus discussions. Supporting this stance, SW pointed out that Project Nexus is committed to 'feeding in' to the SMIP considerations and as a consequence, believes that we do in fact, need to undertake an RCA exercise to identify the benefits and justify the proposed solution(s).

When asked what might be the Transporters' view on this approach, AR confirmed that whilst retaining an open mind, he believes that we do need to identify benefits and the associated cost of delivering them. However, he went on to point out that the current process is NOT broken. Some members did not necessarily share this view, believing that for 15 years or more, responsibility for reconciliation has sat squarely with the Shippers, necessitating the movement of large volumes of energy, which has never been an ideal solution.

AR reminded members that regardless of which of the proposed solutions adopted (daily readings with daily reconciliation for example), there will still be some reconciliation issues and it will be the 'balance' between resolving these issues and the cost to achieve this that will make or break the new process. Continuing the debate, SL confirmed that his (EDF Energy's) main cost exposure is related to energy whereby after allocation has taken place he can no longer manage to offset his/their risk by 'hedging it out'. In his view adopting a daily reading approach would help his cause whilst providing an added benefit of providing more clarity surrounding unidentified energy (unallocated gas). SB suggested that knowing the within day (DM) readings will not necessarily improve forecasting as these values vary during the day. Summarising, FC indicated that the issue of adopting either Daily Allocation or Readings will flow through to other workgroup areas as well.

When asked to identify some high-level factors, members summarised some potential benefits associated with adopting a daily allocation/readings approach, as follows:

- build in energy efficiency and demand changes, which allow shape changes through the year to be reflected quickly without having to wait for profile and AQ updates;
 - this would allow Shippers to incentivise and reward consumers whilst meeting Ofgem and governmental requirements;
- minimise the risk of profile error and reduce reliance on a sample to be reflective of the whole market – which may no longer be the case as the market sectors demand patterns change;
- allow Shippers to better match their charging regimes to their risk from allocated costs more effectively (e.g. to support flexible pricing that relates daily demand to on the day prices and therefore requires a better daily match);
- daily volumes will help to resolve issues in the current profile shapes not reflecting demand patterns at various points in the year which leads to misallocation across market sectors;
- provide clarity surrounding end-to-end costs which will allow better alignment between consumer pricing and Shipper costs;
- provide the ability to more readily identify unaccounted for gas and more clearly spread this to all parties, without it being mixed up in the scaling and RbD processes, and
- reduce risk between the before the day hedging purchases and on the day balancing activities;
 - allow risk mitigation activities to focus on weather risk. Currently there is no ability to take any risk mitigation for the allocation impacts and resulting reconciliation risks will be improved considerably by moving to daily volumes.

Before the day

- removes the DM impact on the NDM allocations, helps purchasing activities and reduces the risk of an inappropriate cross-sector subsidy;
- places incentives on Shippers to get their volumes correct for their portfolio with less impact from other Shipper inaccuracies. Potentially places the incentive for accuracy in the correct place, and
- potential improvements in portfolio volume derived from a process change.

When considering the above points, some shipper members felt that adoption of all, or some of these items would enable identification and calculation of financial benefits, which could then be brought to the attention of the Authority on a one to one basis.

In discussing RbD, FC pointed out that neither the current or future processes are likely to resolve the RbD issues. Whilst agreeing that this view maybe correct, SL indicated that from his view being able to 'target' his unknown unallocated gas/energy component will assist him to manage his costs and risks more accurately. GE suggested that the issues in this area are complex and will need further consideration outside of this workgroup. PT thought that with the introduction of greater shipper co-operation in this area, it could be a WIN, WIN situation.

In attempting to summarise the discussions so far, BF stated that he believes members are seeking more accurate allocation earlier (in the process) with the aim of reducing reconciliation later on in the process. SL pointed out that whilst SAP can be an attractive price at which to buy gas, it makes managing risks more difficult.

AR went on to suggest the real issue is related to what we are trying to achieve pre CCP, citing two possible approach phases – the first being what can we develop now (inc. transitional considerations) to bring benefits, and the second being what will be the real future requirements.

SM warned against trying to 'build' a full system capability to cater for requirements past the next five years, as it is highly likely that you will be looking to rebuild a system after five years anyway. However, he did accept that you would need to include consideration of what maybe required for the next ten years or so. Furthermore, a phased approach would provide more flexibility.

3. Workgroup Report

3.1 Preparation of Monthly/Final Report

BF presented the latest version of the workgroup report taking particular attention of the draft high-level business rules section whilst undertaking amendments on-screen in response to members' discussions and suggestions.

Following discussions, BF agreed to prepare and publish (under the 24/02/2010 meeting documentation) the final workgroup report with a view to providing members with 5 business days to provide comments/responses, before formally submitting the report to the next Project Nexus Workstream meeting, for their approval.

4. Workgroup Process

4.1 Agree actions to be completed ahead of the next meeting

It was agreed that as this is highly likely to be the final meeting of this Workgroup, therefore no new actions would be assigned.

5. Diary Planning

BF informed members that following completion of the Final Workgroup Report, and subject to no additional concerns being identified, this workgroup had now completed its work. However, should any new issues be raised, an extraordinary teleconference meeting could be convened.

The following meetings are scheduled to take place during March 2010:

Title	Date	Location
H/L AQ 1 Workgroup	09/03/2010	NG Office. 31 Homer Road, Solihull.
H/L SSP Rec 1 Workgroup	17/03/2010	To be confirmed.
H/L AQ 2 Workgroup	23/03/2010	NG Office. 31 Homer Road, Solihull.
H/L SSP Rec 2 Workgroup	29/03/2010	NG Office. 31 Homer Road, Solihull.
Workstream	30/03/2010	Teleconference.
H/L AMR 1 Workgroup	31/03/2010	ENA, 52 Horseferry Road, London.

6. AOB

SW asked members to consider whether or not any lessons could be learnt from running this 1st (of several), high-level workgroups.

In response, SL suggested that the approach had been successful because E.ON (SB) had initially taken the time to present some initial thoughts/views with which to commence considerations. Furthermore, he would volunteer to liaise with SB to prepare something similar for the upcoming High Level AQ Workgroup 1 meeting.

SW commented that xoserve felt that the process could be improved by identifying current issues at an earlier stage, rather than waiting until a solution had been identified and documenting issues to support it, as was the case with this workgroup.

SW also suggested, and members supported, xoserve preparing some high-level processes and issues to assist getting this workgroup up and running.

Appendix 1

Action Table - 24 February 2010

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
ALLO 005	08.02.10	2.2	Amend the draft H/L Business Rules (Principles) document in line with suggested changes in time for consideration at the next meeting.	xoserve (FC)	Update provided. Closed
ALLO 006	08.02.10	2.3	Develop some (current) process maps aligned to the high level principles discussed earlier in this meeting and to the issues identified in earlier meetings in time for consideration prior to the next meeting.	xoserve (FC)	Update provided. Closed
ALLO 007	08.02.10	2.3	Consider the (current) process maps aligned to the high level principles and identify issues, and how the proposed solution addresses those issues, in time for consideration at the next meeting.	ALL	Update provided. Closed