

**Project Nexus**  
**SET 3 Workgroup Minutes**  
**Wednesday 23 March 2011**

at the National Grid Office, 31 Homer Road, Solihull

**Attendees**

Bob Fletcher (Chair)	(MiB)	Joint Office of Gas Transporters
Mike Berrisford (Secretary)	(HC)	Joint Office of Gas Transporters
Fiona Cottam	(FC)	Xoserve
Joel Martin	(JM)	SGN & Transporters
Jonathan Wisdom	(JW)	RWE npower
Karen Kennedy	(KK)	Scottish Power
Lorna Lewin	(LL)	Shell
Michael Payley	(MP)	Xoserve
Michele Downes	(MD)	Xoserve
Peter Thompson	(PT)	Customer Representative
Phil Blackman	(PB)	British Gas
Stefan Leedham	(SL)	EDF Energy
Steve Mullinganie	(SM)	Gazprom
Steve Nunnington	(SN)	Xoserve
Tom Young	(TY)	E.ON UK Ltd

\* via a teleconference link

**1. Introduction**

MiB welcomed all to the meeting.

**1.1. Review of minutes from previous meeting**

The minutes of the previous meeting were approved.

**1.2. Review of actions**

**Action SET004:** Xoserve (FC) to start the development of the business rules for Approach 2 and 3.

**Update:** BF advised that this would be covered under item 2.1.3 below.

**Closed**

**Action SET005:** Xoserve (MP) to amend the process maps in line with discussions.

**Update:** BF advised that this would be covered under item 2.1.1 below.

**Closed**

**2. Scope and Deliverables**

*Copies of the various presentation materials are available to view &/or download from the Joint Office of Gas Transporters web site at: <http://www.gasgovernance.co.uk/nexus/230311>.*

**2.1. Further Consideration of Settlement Requirements**

**2.1.1 As-Is Demand Attribution Process presentation**

MP provided a brief overview informing those present, that minor changes had been made to the process map since the 02 March 2011 SET 2 meeting. It had then been the subject of an internal Xoserve review and he is now seeking sign off at this meeting. When asked, approval was given.

### 2.1.2 Draft Settlement Process presentation

FC opened by providing a high level overview of the basic layout and content of the presentation before indicating that she expects the various process maps to change as the detailed discussions on the Business Rules Document (BRD) develop.

#### Manage NDM Demand Attribution

Asked if there was an option to consider splitting the balancing adjustment and allocation elements that flow through into the commodity invoice thereby improving transparency, FC responded by confirming that currently the high-level principles propose undertaking any balancing corrections at portfolio, rather than at a more detailed level. This is one of the main reasons why consideration of Invoicing is 'parked' until later in the project timeline. However, she would be happy to capture the point for consideration at a later date.

In considering LDZ Shrinkage (based on volume models), parties debated whether or not the allocation to LDZ/shipper would/could move to later in the process, although it was acknowledged that this could possibly have price control implications. This was not necessarily seen as a criticism of the current models, more a reaction to the potential provision of improved granularity of information. SL felt that there are two issues here, firstly should the model(s) be reviewed and secondly at what position are it/they applied. In response, BF pointed out that this was a matter for the Shrinkage Forum to consider. In the end it was agreed to leave the process map as it stands and add a new item to 'cover' the allocation of LDZ Shrinkage on the issues log.

#### Manage Settlement of Periodic Readings

In considering possible read frequencies, PT wondered if, in light of the drive towards provision of more accurate information, should we consider moving away from annual to a form of more frequent reads. FC suggested that monthly maybe replaced by weekly at some point. Additionally, whilst the proposals are aimed at a transitional arrangement, ultimately read frequencies could be changed to further enhance accuracy. SM suggested that obligations reflecting the type of (smart) equipment in situ could be developed.

Moving on to look at step 1.4 – Perform Logic Check, FC pointed out that this is similar in nature to the current clerical style checks performed by Xoserve. When asked if estimated or consumer reads could be provided, FC advised that current thinking proposes utilisation of actual reads although this could possibly change during development of the business rules.

The actual technical and administrative aspects of step 1.7 are yet to be determined.

Some felt that a 'utopian' position would possibly involve separate service provisions for both smart and dumb meters, although it was acknowledged that this view was unlikely to be supported by the Authority. It was noted that care would be needed in proposing any change to the dumb regime with the question of whether or not you would wish to operate two regimes being posed. FC believes that a single regime with in built flexibility to cater for both types of meters is the preferred option, as a SMART meter, which fails to provide a

reading has to be catered for. Furthermore, she suggested that in a world where reconciliation is based on readings, a back-stop mechanism would be needed to support this – a point also considered under the recent AMR discussions.

Summing up, FC identified that the key aspect is that we would utilise reads that flow into reconciliation and that SMIP impacts would need to be considered when new information becomes available.

#### Manage Settlement of Batched Daily Readings

FC opened by advising that this reflects approach 3 on the previous SET2 timeline presentation and is basically a crib of the AMR process, but includes some weaknesses that would need resolving at some point. The example provided is similar to the previous map but undertaken on a more frequent (monthly readings) basis.

The process proposes that allocation runs continuously, with the batch(es) of reads utilised to facilitate reconciliation, although the actual detail is yet to be determined. SM pointed out that this is a mid point solution where daily data would flow through on a rolled up monthly and NOT a daily basis. SL added that the process mitigates some of the technological and cost issues associated with the potential battery life limitations.

SL wondered if there would be any benefit in providing aggregated readings. This was a view that did not meet with universal support and furthermore FC pointed out that there would be issues around the logical / completeness check aspects of such a provision when considered with daily allocation and settlement.

Looking at the various steps in more detail, it was noted that the issue of what to do where no readings are provided is to be considered in due course whilst step 1.5 parameters would need to be determined. Step 1.8 could provide a mechanism to estimate consumption and thereafter derive a reading.

SL informed the group that their approach might be to adopt a monthly read submission moving to a weekly read submission, their end game aim being a daily read submission.

#### Manage Settlement Regime and Read Frequency

Relates in part to switching between a dumb and a smart meter. Questions asked as to whether or not this process is/was really viable. The option of a next day switching provision was seen as being the optimal solution. PT also pointed out that currently changes in AQ drive read frequency changes. Continuing, FC reminded those present that we are still at the requirements gathering stage.

In acknowledging the benefit of being able to change the frequency of reads, SM indicated that he would not want to be forced into a position where he would need to reconfirm on a daily basis. SL added that in his view, reconfirmation only builds in further possible delay. FC pointed out that Xoserve would need to know what (service type) volumes are involved to be in a position to monitor the process and profiles. When asked if this applied to all read frequency 'switches', FC confirmed it did. There was a general feeling amongst Shippers that a change of regime or read type should be achieved without a reconfirmation in future.

In debating the lead time provisions, some felt that one business day could work, but FC reminded parties that the potential impact upon allocation would need to be considered - the key aspect being daily read v's daily allocation. FC pointed out that daily allocation based on readings is not on the table for domestic sites.

Concluding, FC suggested that in general terms cost benefit considerations would be crucial to selection of a preferred option.

**New Action SET006: Xoserve (FC/MD) to add a new item to the issues log to capture the concerns surrounding the allocation of LDZ Shrinkage.**

### 2.1.3 Draft Business Rules Document Development

MD provided an overview of the draft settlement business rules that triggered some detailed discussions. She pointed out presently these are a work in progress and not in the usual format. Items identified by [ ] are to be agreed.

#### Supporting points

In considering the 'Out of Scope – Market Sector' items parties debated whether or not NDM CSEPs should be excluded from the settlement discussions. FC cited governance and funding issues as being reasons why it had been excluded. SM suggested removing any reference and thereby avoiding any political issues. In the end, consensus was to capture a new issues log item to give consideration to the future CSEP management and administration requirements.

SM wondered if an indication of future 'end game' aspirations / principles should/could be included in the 'Drivers' listing. One suggestion was to refine the list to include only those items identified as being necessary to support the interim allocation processes.

Looking at the 'Goals', parties questioned the use of the term 'fully established DCC'.

MD advised that the assumptions made under item 6, are based around the proposed interim arrangements.

SL informed those present that at a recent National Grid Gas Forum meeting, their smart metering team had suggested that an energy (local CV) based solution would be suitable. FC reminded those present that this had already been heavily debated within the AMR arena and as a consequence discounted. This new information is a possible cause for concern as it conflicts with the current Nexus view. She went on to agree to a new action to investigate what had presented by National Grid, and ascertain on what grounds it has based its proposals.

When asked about additional items, parties suggested identification of a more accurate means for allocation of unallocated gas.

Moving on to item 7 - 'Constraints', FC believes that the D+5 window reflects the NG NTS correction window period.

BF suggested adding improvements in meter reading processes into item 10 'Benefits'.

## 2. Business Rules

Moving on to item 12.1 - 'Gas Nominations', FC proposed deferring consideration of nominations until such a time as the allocation aspects become clearer.

Moving on to consider the possibility of a negative balancing correction factor, SL questioned if this could/would ever happen, suggesting that a minimum scaling value of zero is more viable. However, it was acknowledged that during the interim period, negative (scaling) values could/would be expected. FC pondered the question of what would happen with potential financial imbalances at an LDZ level if the value were not allowed to go negative at D+5. SM suggested that in most cases errors such as these can be traced back to DM read issues. In acknowledging that ultimately a business rule to cover such eventualities would be required, FC agreed to take a new action to ensure that a new item is added to the issues log to facilitate future consideration of whether or not, a negative (scaling) value should be allowed and under what circumstances would it be used. At the same time, Xoserve will look to identify any potential examples of where a (current) scaling factor could/would go to a negative value.

When asked, FC confirmed that the +1% balancing correction (smear) was post deduction of shrinkage. i.e. total offtake minus shrinkage.

In considering the 'Estimation Methodology for GFD+1 Allocation', SL indicated that he could not support a methodology that proposed a 'jump' (step) between Nominations at D and Allocations at D+1 – in effect two methodologies. FC suggested that further consideration is required and would welcome any suggestions for a robust, stand-alone solution. KK suggested that perhaps an AQ based solution would be workable for the interim arrangements. JW asked where discussions had reached with regard to the matter of cash-out and balancing issues associated with allocation. In the end, it was agreed to place an action on all parties to consider what is required for a new estimation and nominations methodology.

In considering 12.2 and the maximum planned interval for submission of readings, it was suggested that the current LSP (annual) must read trigger (once every 2 years, unless monthly read) could be utilised for SSPs in future. (Ref: TPDM paragraph 3.6).

In examining the 'must read' requirement, SL suggested that product costs would/could influence the selection of either a weekly or monthly frequency, whilst SM believed that must read charges would incentivise parties to adopt the appropriate behaviours. FC suggested that in a smart world, one of the potential DCC services would/could allow GTs to 'pull' a must read direct from the DCC. SM suggested that it maybe becoming an issue surrounding how you would define a 'must read', how you would then obtain the read, followed by how you would then communicate said read between parties. He firmly believes the underlying principle should be if you purchase a product, you also undertake the associated obligation and where the GT has thereafter to obtain a 'must read' (i.e. you fail your obligations), you should be charged accordingly. This was not a universally supported view, with some believing that a back-stop date provision was sufficient to incentivise parties. Furthermore, in an ideal RbD less world, the incentive should be to submit your reads in the first instance. FC remarked that views would be heavily

influenced by parties respective portfolio sizes. The consensus was that further consideration of this matter is required.

Moving on, FC pointed out that sometime in the near future we would need to revisit the high-level nominations principles and consider whether or not the current ALPs, DAFs and WCFs would/could apply in future, which may invoke DESC consideration of the matter as well. It was noted that the electricity market operates a 'use it, or lose it' based approach energy purchases which may not be suitable in the gas arena.

In discussing the treatment of reconciliation and specifically its impact on the balancing correction factors, FC suggested that further consideration of the read frequencies (minimum and maximum), including weekly options for an interim arrangements solution would be required especially as these flow through to the system design stage for both an interim and enduring solution.

In considering 12.3 and the possible submission of estimated reads (item 4, page 6) consensus could not be reached as to whether or not this was acceptable, especially when considering lead-time issues. BF remarked that differences in opinion regarding any aspects of settlement (or any other Nexus work area) could be easily addressed by the raising of an alternative UNC modification.

In considering the valid daily reads percentage [90%] of sites in a shipper's portfolio requirement, FC advised that this was simply an arbitrary figure on which to initiate discussion. However, it should be noted that this figure applies prior to the must read trigger and is all about ensuring the provision of a suitable number of reads and seeks to avoid large, late batch submissions – basically, it boils down to how far parties wish to go to protect themselves from the potential impacts of the actions of others.

It was agreed that item 14 had already been covered under discussions on the presentations in 2.1.1 and 2.1.2 above.

**New Action SET007: Xoserve (FC/MD) to add a new item to the issues log to ensure consideration of the future CSEPs management and administration requirements in due course.**

**New Action SET008: Xoserve (FC) to contact the National Grid Smart Metering Team to ascertain what their actual proposal is for the Local CV Energy based solution.**

**New Action SET009: Xoserve (FC/MD) to add a new issues log item to ensure consideration of whether or not, a negative (scaling) value should be allowed and under what circumstances would it be used and to provide examples of such an occurrence.**

**New Action SET010: All parties to consider what is required to form the basis for both a new must read process and estimation and nominations methodology.**

## **2.2. Review of the As-Is Demand Attribution Process presentation**

Covered under item 2.1.1 above.

## **2.3. Alignment of IRR requirements**

Item deferred.

## **2.4. Transitional Arrangements**

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Item deferred until the business rules are drafted.

### **3. Workgroup Report**

#### **3.1. Preparation of Monthly/Final Report**

Item deferred.

### **4. Diary Planning**

Details of planned meetings are available from the events diary on the Joint Office web site: <http://www.gasgovernance.co.uk/Diary>. Unless otherwise stated, all meetings are due to be held at 31 Homer Road, Solihull.

The following meetings are scheduled to take place during April/May 2011:

<b>Title</b>	<b>Date</b>	<b>Location</b>
Workgroup & SET4	19/04/2011	31 Homer Road, Solihull.
AMR20, 21 & 0357	04/05/2011	31 Homer Road, Solihull.
SET5	11/05/2011	31 Homer Road, Solihull.
Workgroup & AMR22	24/05/2011	31 Homer Road, Solihull.

### **5. Any Other Business**

None.

## Appendix 1

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
SET004	02.03.11	2.1	Xoserve to start the development of the business rules for Approach 2 and 3.	Xoserve (FC)	Update provided. Closed
SET005	02.03.11	2.2	Xoserve to amend the process maps in line with discussions.	Xoserve (MP)	Update provided. Closed
SET006	23.03.11	2.1.2	Add a new item to the issues log to capture the concerns surrounding the allocation of LDZ Shrinkage.	Xoserve (FC/MD)	Update due at next meeting.
SET007	23.03.11	2.1.3	Add a new item to the issues log to ensure consideration of the future CSEPs management and administration requirements in due course.	Xoserve (FC/MD)	Update due at next meeting.
SET008	23.03.11	2.1.3	Contact the National Grid Smart Metering Team to ascertain what their actual proposal is for the Local CV Energy based solution.	Xoserve (FC)	Update due at next meeting.
SET009	23.03.11	2.1.3	Add a new issues log item to ensure consideration of whether or not, a negative (scaling) value should be allowed and under what circumstances would it be used and to provide examples of such an occurrence.	Xoserve (FC/MD)	Update due at next meeting.
SET010	23.03.11	2.1.3	Consider what is required to form the basis for both a new must read process and estimation and nominations methodology.	All	Update due at next meeting.