

**UNC Workgroup 0432 Minutes
Project Nexus – gas settlement reform**

Tuesday 04 December 2012

at 31 Homer Road, Solihull, B91 3LT

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
Alex Ross	(ARo)	Northern Gas Networks
Alison Jennings	(AJ)	Xoserve
Anne Jackson*	(AJa)	SSE
Andy Miller	(AM)	Xoserve
Chris Warner	(CW)	National Grid Distribution
Cesar Coelho	(CC)	Ofgem
Darren Lindsay	(DL)	E.ON UK
Dave Corby	(DC)	National Grid NTS
David Mitchell	(DM)	Scotia Gas Networks
Elaine Carr*	(EC)	ScottishPower
Emma Lyndon	(EL)	Xoserve
Emma Smith	(ES)	Xoserve
Erika Melen	(EM)	Scotia Gas Networks
Fiona Cottam	(FC)	Xoserve
Gareth Evans	(GE)	Waters Wye Associates
Gareth John	(GJ)	Corona Energy
Huw Comerford	(HC)	utilita
Jon Dixon	(JD)	Ofgem
Julie Varney	(JV)	National Grid NTS
Lorna Lewin	(LL)	Dong Energy
Mark Jones	(MJ)	SSE
Michele Downes	(MD)	Xoserve
Mike Lapper	(ML)	National Grid Distribution
Naomi Anderson	(NA)	EDF Energy
Peter Thompson	(PT)	Customer Representative
Steve Mullinganie	(SM)	Gazprom
Tabish Khan	(TK)	British Gas
Tim Davis*	(TD)	Joint Office of Gas Transporters
Zoe Murphy	(ZM)	RWE npower

* via teleconference link

1. Introduction

BF welcomed all to the meeting.

1.1 Review of Minutes

A request to provide additional clarity around the delivery dates within paragraph 5, in item 2.0, on page 2 of the minutes was made by JV, as follows:

Insert 'May/June 2013' at a suitable point in the existing text.

Please note: a revised set of minutes for the 06 November 2012 meeting have subsequently been published.

Thereafter, the minutes of the previous meeting were accepted.

1.2 Review of Actions

Action 0432 11/01: All parties to consider, and identify where possible, any licence objective(s) that they believe provision of better AQ information would support.

Update: BF explained that this would be covered during a review of the draft Workgroup Report under item 2.0 below.

Closed

Action 0432 11/02: Joint Office (BF) to raise the profile of the Project Nexus Workgroups concerns relating to the allocation methodology with the DESC members.

Update: BF explained that the Workgroup's concerns relating to the allocation methodology had been relayed to the DESC members who would be considering the matter at their next meeting scheduled to take place tomorrow, Wednesday 05 December 2013. FC added that she is hopeful that a conclusion would be forthcoming by the end of January 2013.

Closed

Action 0432 11/03: All parties to consider providing a view as to their respective anticipated product line (options 1 to 4) take up including associated timelines and to also consider if they believe an additional and separate legal text meeting would be appropriate.

Update: Both BF and CW confirmed that as preparation of legal text would be a complex affair, additional and separate legal review meetings would/could prove beneficial. CW also advised that further information should become available around February 2013 time.

AM informed those present that he had already received one (positive) response, proving it can be done, so could other parties please endeavour to provide their information on anticipated product line take up.

Carried Forward

2. Discussion

PN UNC Workgroup – Settlement topic presentation

MD provided a brief overview of the presentation with the main focus of the discussions undertaken, centring on the final 'Issues' slide.

The Workgroup continued to accept the principle that unidentified gas shall be apportioned to all supply points in all of the four product types. In considering whether or not a consumption (allocation scaling adjustment) or AQ (reconciliation scaling adjustment) based approach (or both) would be preferable, GE voiced his major concern about the potential AQ associated impacts on larger sites, as the moment at which a 'snapshot' is taken could have significant effect on a Shippers portfolio. Whilst GE also believes that individual shares may not be accurately reflected (i.e. exposed), SM anticipated that the majority of larger sites would fall into Product Lines 1&2. FC suggested that if the Workgroup opts for the consumption based solution, larger sites could experience more volatility, especially when bearing in mind that not all consumption elements will be resolved by D+5, leaving some to flow into reconciliation.

Asked whether or not the expectation is that by 2015 the volume of unidentified gas would be lower, FC suggested that this might prove to be the case. However, she also suggested that the industry would need to continue to review the matter, whilst working towards an improved future. GE observed that the aim should be to

ensure that any costs are evenly (and fairly) distributed across the industry as a whole.

When asked, FC agreed to a new action on Xoserve to provide some worked up examples based around both the proposed consumption and AQ based solutions to assist parties to understand the consequences and potential impacts upon the larger sites. However, she pointed out that any examples provided would not include cost information.

Moving on to consider the future role of the AUGE, SM believed that shrinkage discussions and considerations could/would influence views on whether the AUGE is need going forward – one suggestion put forward was that any future role could encapsulate fulfilling an (independent market overview) audit type requirements such as performance assurances, validation etc. CC suggested that care would be needed especially relating to the potential scale of reconciliation and smearing aspects. AR suggested that the role could/would be similar in concept to that undertaken in an RbD Audit, whilst CW advised that until the role of the AUGE in future is clarified, legal text preparation could not be completed.

AR advised that any change to the AUGE role may require an amendment or renegotiation of the contract as the proposed audit is outside the AUGE's scope.

CC believed that we might consider a slightly different approach, in so far as we could continue the rollout and introduction of Project Nexus and then look at resolving/addressing the future role of the AUGE. Responding, MD pointed out that this would not necessarily work, as the various BRD's currently recognise the need to resolve unidentified gas issues. FC advised that the point at which we move away from the current allocation mechanisms would/could potentially form the point at which the last AUGE report would be produced – as a general rule of thumb, Q4 2015 with the last statement being April 2015. At the same time, it was acknowledged that the BRD drafting is not 100% clear on this matter as currently written.

SM suggested that care would be needed in managing the 'cutover' point from the current AUGE arrangements to the future Audit (validation) style arrangements. AM pointed out that the Workgroup does not necessarily need to resolve the actual details here and now, as it is planned to consider 'cutover' issues in more detail in due course. FC then suggested that from a day-to-day calculation (maths) and mechanism perspective, this would be satisfied within Project Nexus, so other than considering the audit aspects, the matter could be 'de-linked' from Project Nexus delivery concerns.

When asked, those parties in attendance agreed that for legal text preparation purposes bullet point two would be deemed to apply and that the currently BRD descriptions would also continue to apply prior to further consideration at a future meeting. In closing, SM suggested that as far as legal text preparation purposes are concerned, a broad general clause that recognises that some form of an audit role is required going forward would prove beneficial.

(draft) Workgroup Report discussion

As part of the review of the draft report BF made on screen changes in accordance with the points raised.

The Workgroup undertook an on screen review of the draft report and started by focusing attention on **Section 4 Relevant Objectives**. Opening, JV explained that having sought a view, she believes that the identified impacts for objectives a) Efficient and economic operation of the pipe-line system, b) Coordinated, efficient and economic operation of....., and c) Efficient discharge of the licensee's obligations should all be set to read as 'None' – a view supported by those

present. Thereafter, it was agreed to leave objectives d) Positive, e) None, f) None & g) None, as currently set.

Moving on to look at the factors to consider, AM confirmed that work on the reconciliation variance benefits case is ongoing and that a benefits opportunity document (in support of the UNC settlements reform modification) would be published in due course – probably February 2013. However, he questioned whether variance data at an aggregated level provided any meaningful information. When asked if this ‘links in’ with the previous Corona market edging considerations, AM confirmed it did.

SM explained that he thought the ‘original’ agreement was for Corona’s Traders to provide an aggregated market edging view (p/therm), especially as he remains concerned about parties considering this on an individual basis. In response, AM advised that Xoserve believe that they are not in a position to provide any guarantees on potential market benefits as they see this as being an industry requirement. SM remained concerned that the previously agreed approach was not being followed through, especially when the level of granularity remains a concern – in his view an aggregated view on the position is crucial. AM pointed out that in aggregate reconciliation variance is 5%.

Some parties wondered whether the answer lay in the industry considering various scenarios (4%, 3% or 2% etc.) as this could prove to be a beneficial way of progressing this matter. Another alternative suggested was to use SAP on the day values as a basis for assessing reconciliation variance positions. AM once again voiced his concern around Xoserve being asked to provide a market view and thinks the industry would be better served if individual parties consider this matter. Responding, SM believed that whilst obtaining individual views could/would be beneficial, these should sit alongside a ‘market view’. He went on to suggest that perhaps ICoSS could provide the necessary information (assuming Corona Traders do not and the data resides in the public domain anyway). A new action was placed on GE and SM to ensure that ICoSS consider providing a view on utilising an aggregate market price, at their 13 December 2012 meeting and thereafter report back to this Workgroup at its next meeting. It was suggested that should anyone be interested in attending the ICoSS meeting that they should liaise with either GE or SM.

When asked whether Ofgem would prefer ‘quick and nasty’ or a more extensive VAR information provision, CC reminded people that it is expected that post Project Nexus, some parties may win or lose on an individual basis, but the market would balance out. Furthermore, he is not expecting parties to expend undue time and resources (i.e. 3 to 4 months work) in obtaining the necessary information, but he would expect them to give due consideration to the volatility, risk and edging aspects and impacts. He does not really see this as a granularity issue, but rather the fact that parties should seek to provide reasonable indications. In short, Ofgem do not have an issue with provision of either individual or aggregated (market) based information, the key is whether the information is representative or not. AR wondered whether perhaps parties should consider providing their information to Ofgem to see if it is deemed as suitable.

SM went on to point out that the issue of liquid v’s static AQ’s may also impact upon reconciliation variance considerations, as he sees potential risk in trading against a spurious market AQ. AM added that parties need to carefully consider their Product 3 & 4 uptake, whilst PT suggested that there are clearly potential tensions between liquidity, market edging and opportunity. At this point two new actions were assigned – the first being on Xoserve (AM) to provide a copy of their (draft) report for publication alongside these minutes and the second (follow up) action being for all parties to consider the proposals outlined within the (draft) Xoserve report. Continuing, CC suggested that one of the main advantages of

Project Nexus in future is that parties would have the option of selecting Products 1 through to 4.

In briefly considering the Agency Charging Statement (ACS) requirements, AR confirmed that the actual funding arrangements (inc. future Xoserve aspects) could have an impact and that this would be considered in due course. AM suggested that one option would be to adopt a default ACS based around consumption or an AQ based solution.

Moving on to quickly review **Section 6 Legal Text**, CW advised that development of legal text is ongoing and that National Grid Distribution have scheduled one or more internal meeting(s) to progress the matter. It is now anticipated that draft legal text may be available by the end of January 2013, although actual Project Nexus Workgroup consideration would not take place before February 2013 with final scrutiny of any legal text, taking place in March 2013.

CW went on to advise that UNC changes and impacts are being considered as part of the development of legal text and information would be forthcoming in due course and thereafter included within the overall Nexus Project Plan development. Whilst he is happy that a consensus view on the future role of the AUGE had seemingly been reached, he pointed out that there is still some Demand Estimation considerations and issue to address. At this point he also believes that it is too early to look to formally book legal text review meetings. Additionally, he is hopeful that DESC feedback could/would be integrated into the ongoing legal text development. Supporting this, AR suggested that in accepting that the business rules (BRD's) are a good starting point, he also sees no reason why (subject to a timely DESC delivery) the feedback could not be incorporated – it was noted that the actual DESC algorithms do not necessarily need to be included within the legal text. BF then went on to advise those present that DESC Technical Workgroup would be meeting on Wednesday 05 December 2012 to consider this matter.

3. Any Other Business

None.

4. Workgroup Process

4.1 Agree actions to be completed ahead of the next meeting

The following new actions were discussed and assigned:

New Action 0432 12/01: Waters Wye Associates (GE) and Gazprom (SM) to ensure that ICoSS consider providing a view on utilising an aggregate market price, at their 13 December 2012 meeting and thereafter report back to the Project Nexus Workgroup at its next meeting.

New Action 0432 12/02: Xoserve (AM) to provide to the Joint Office a copy of their (draft) Settlement Reform Cost Benefit report for publication alongside the (04 December 2012) minutes.

New Action 0432 12/03: In conjunction with Action 0432 12/02, All parties to consider the proposals outlined within the (draft) Xoserve report and provide feedback at the next meeting.

5. Diary Planning

The following meetings are scheduled to take place:

Title	Date	Location
Project Nexus Workgroup (inc.	08/01/2013	National Grid, 31 Homer Road, Solihull, West Midlands. B91

Project Nexus Workgroup (inc. 0432 & 0434 Workgroups)	08/01/2013	National Grid, 31 Homer Road, Solihull, West Midlands. B91 3LT.

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0432 11/01	06/11/12	2.	To consider, and identify where possible, any licence objective(s) that they believe provision of better AQ information would support.	All	Update provided. Closed
0432 11/02	06/11/12	2.	To raise the profile of the Project Nexus Workgroups concerns relating to the allocation methodology with the DESC members.	Joint Office (BF)	Update provided. Closed
0432 11/03	06/11/12	2.	To consider providing a view as to their respective anticipated product line (options 1 to 4) take up including associated timelines and to also consider if they believe an additional and separate legal text meeting would be appropriate.	All	Update to be provided in due course. Carried Forward
0432 12/01	04/12/12	2.0	To ensure that ICoSS consider providing a view on utilising an aggregate market price, at their 13 December 2012 meeting and thereafter report back to the Project Nexus Workgroup at its next meeting.	Waters Wye Associates (GE) & Gazprom (SM)	Update to be provided in due course.
0432 12/02	04/12/12	2.0	To provide to the Joint Office a copy of their (draft) Settlement Reform Cost Benefit report for publication alongside the (04 December 2012) minutes.	Xoserve (AM)	Update to be provided in due course.
0432 12/03	04/12/12	2.0	In conjunction with Action 0432 12/02, All parties to consider the proposals outlined within the (draft) Xoserve report and provide feedback at the next meeting.	All	Update to be provided in due course.