

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

Tuesday 05 March 2013

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-Shaw	(ARS)	Northern Gas Networks
Alex Travell	(AT)	E.ON UK
Alison Jennings	(AJe)	Xoserve
Andy Miller	(AM)	Xoserve
Anne Jackson	(AJa)	SSE
Chris Warner	(CW)	National Grid Distribution
Elaine Carr*	(EC)	ScottishPower
Emma Lyndon	(EL)	Xoserve
Emma Smith	(ES)	Xoserve
Erika Melen	(EM)	Scotia Gas Networks
Gareth Evans	(GE)	Waters Wye Associates
Huw Comerford	(HC)	utilita
Julie Varney	(JV)	National Grid NTS
Leanne Thomas	(LT)	RWE npower
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE
Michele Downes	(MD)	Xoserve
Naomi Anderson*	(NA)	EDF Energy
Peter Thompson	(PT)	Customer Representative
Steve Mullinganie	(SM)	Gazprom
Sue Cropper	(SC)	British Gas
Tim Davis*	(TD)	Joint Office of Gas Transporters

* *via teleconference*

1. Introduction

BF welcomed all to the meeting.

1.1 Review of Minutes

The minutes of the previous meeting were accepted.

1.2 Review of Actions

Action 0432 12/01 (revised): ICoSS (GE) to develop three draft base case (market price) scenarios for consideration at the next meeting.

Update: GE provided an overview of the Waters Wye Associates document entitled 'Impact of UNC Modification 0432 (Project Nexus) on GB gas market'.

Closed

Before reviewing the document, BF advised that J Dixon, Ofgem had provided an email relating to this matter and that he (JD) was keen for those present to see this as a straw man, and how it could be improved upon.

Opening proceedings, GE explained that the document is in no way intended to be a detailed economics paper per se, and he is keen that it is seen simply as a sound starting point – in acknowledging that there are items missing from the document, GE firmly believes that their inclusion at a later date would only add strength to the benefits case.

In considering the number of daily settled sites bullet point on page 4, GE suggested that at this time the actual numbers are difficult to ascertain, whilst as far as the RbD processes bullet was concerned MD suggested, and GE agreed, that the word 'portfolio' should be replaced with 'throughput'.

In examining the conclusions section, and specifically the Short Shipper / Prudent Shipper table, MJ observed that the information implies a differential for a prudent shipper of 1.67 p/th as being the difference between the Market Price and the SMSP, but for a short Shipper quotes the SMBP as the price differential which is 50.36p/th – this begs the question as to whether or not it is more appropriate that for a short Shipper the differential should be the difference between the Market Price and the SMBP, as the Shipper has not bought the gas in the first place, so the premium paid by a short Shipper is the price difference between the SMBP and the market price and not the total SMBP. In debating the finer aspects of the question, GE advised that in his opinion the key issue relates to the timings involved alongside issues such as being unable to 'back out' of previous (commercial) decisions. Supporting these comments, SM suggested that it may be nigh on impossible to accurately quantify the figures involved as you can not completely do away with (unpredictable) market volatility related costs and risks – the uncertainty stems from not being able to accurately predict market movement which thereby impacts upon the potential commercial (exposure) risk and decision making.

In considering whether or not a 'whole market' view would be more suitable, GE agreed to amend the document to include some additional scenarios.

SM observed that if the industry is looking to delve down to a deeper level of detail then this would / could potentially stray into the commercial strategy arena which he doubts would bring any additional benefits to the table, so to speak – accepting that the document can, and will be enhanced, care is needed to pitch it at a sufficiently high level view which still identifies benefits and costs whilst allowing scope for the Workgroup to move forward. Care is also needed to avoid inadvertently uncovering various liquidity related issues.

Returning to JD's email, BF reminded those present that if they do not believe the approach prescribed by the Waters Wye document is a viable one, they need to say why and provide a view on an alternative option. It was suggested that this is the type of subject matter that would readily lend itself to an Authority Impact Assessment exercise.

A new action was placed on all parties to consider the proposals outlined within the Waters Wye Associates 'Impact of UNC Modification 0432 (Project Nexus) on GB gas market' with a view to providing feedback at the next meeting.

Closed

2. Discussion

Mod 0432 Project Nexus Settlement Reform – cost benefit case presentation

AM provided a brief overview of the presentation and explained that the consultation close out date had been extended to the end of March. In an attempt

to stimulate a better response rate, a letter is soon to be issued (in two forms – one for regular 0432 Shipper attendees, and one for non regular attendees) that provides guidance on what cost / benefits information parties should look at.

In moving on to look at the matters to be considered, AM advised that he had shared some of his suggestions around potential benefit areas with Ofgem, as a means of avoiding potential 'bounce back' of the modification (on the grounds of a lack of suitable cost / benefit information) at a later date – Ofgem's Economists are expected to seek a consistent industry wide benefit / cost assessment approach which the Workgroup would need to consider when compiling their supporting evidence. AM then asked people to note that not all benefits would be available on Day 1, as some benefits would potentially grow over time – one possibility would be to consider pro rata over the SMART rollout period. SM had a slightly different view, believing that bringing all benefits under the Workgroup Report umbrella would potentially add more value. It was noted that the Authority already has a statutory requirement to protect consumer interests so if any of the benefit / cost arguments unearth market movement related issues we should be reasonably comfortable these would be adequately catered for.

There was some debate over whether or not the ICoSS 'Impact of UNC Modification 0432 (Project Nexus) on GB gas market' document would be a better vehicle for presenting the cost / benefit information – this very much depends on whether Ofgem believe that it is a sufficient basis on which to move forward, without fettering their decision(s). Not all parties supported this suggestion, as some still believe that there is merit in continuing with the Xoserve pre modification consultation approach. It was then suggested that perhaps one approach could be to pull together the results of both of the initiatives to present a single case.

It was acknowledged that Ofgem's 'birds eye' view of the gas industry as a whole, potentially affords them a unique perspective and understanding of the industries needs, including the cost v's benefits argument.

Legal Text Preparation update

Opening, CW advised that the legal text documents (UNC TPD Sections A, E, G and M for 0432 only at this stage) that he was about to walk through had deliberately not been formally published on the grounds that they are provided purely to give a flavour to the scale of changes involved, the work undertaken by the lawyers to date and to provide an early 'heads up'.

Several key factors are at play (in no particular order of preference), namely:

- legal text development (aligned to business rules) remains ongoing with the help of Dentons, in London;
- hopefully marked up text available for consideration of commercial aspects (inc. whether or not the legal text 'matches' the respective BRD requirements) at the 10/04/13 meeting;
- expectation is to lead with most 'mature' sections, meaning TPDE is likely to be the last to be considered;
- views welcomed on approach for reviewing legal text – as some sectional changes (TPD E, G & M for instance) are expected to be very significant and complex, should we consider undertaking a line-by-line review perhaps;
- supporting narratives would be provided alongside the legal text to aid understanding;
- a meeting with Ofgem lawyers has been scheduled for 12/03/13 to bring them up to speed and to obtain their views on the proposed changes and

possible approach to be adopted – again this is seen as a way of possibly avoiding ‘bounce back’ of the modification at a later date;

- it was felt that dedicated legal text review workshops would be beneficial;
- the four Project Nexus product lines would be known as ‘Classes’ going forward;
- the detail behind changes to TPD Section H remain unclear at this time, due to the impact of ongoing consideration of Allocation, Demand Estimation and Data issues – please note that until a preferred Demand Estimation model is selected, no UNC modification would be raised.
- the potential impact associated with the implementation / non implementation of UNC Modifications 0428/0428A would need to be assessed in due course;

In closing, CW indicated that whilst he can not guarantee this, he would make every effort to provide the marked up sections of legal text at least 2 weeks prior to the first April meeting. A new action was placed on the Joint Office (BF/MB) to ensure that a new agenda item to ‘cover’ consideration of commercial legal text review is added to the 10 and 23 April 2013 meeting agendas and the meetings are reassigned as dedicated legal text meetings.

3. Any Other Business

None.

4. Workgroup Process

4.1 Agree actions to be completed ahead of the next meeting

New Action 0432 03/01: All parties to consider the proposals outlined within the Waters Wye Associates ‘Impact of UNC Modification 0432 (Project Nexus) on GB gas market’ with a view to providing feedback at the next meeting.

New Action 0432 03/02: Joint Office (BF/MB) to ensure that a new agenda item to ‘cover’ consideration of commercial legal text review is added to the 10 and 23 April 2013 meeting agendas and the meetings are reassigned as dedicated legal text meetings.

5. Diary Planning

The following meetings are scheduled to take place:

Title	Date	Location
Project Nexus Workgroup (inc. 0432 & 0434 Workgroups)	18/03/2013	31 Homer Road, Solihull, West Midlands. B91 3LT.
Project Nexus Workgroup (dedicated legal text review)	10/04/2013	31 Homer Road, Solihull, West Midlands. B91 3LT.
Project Nexus Workgroup (inc. 0432 & 0434 Workgroups)	23/04/2013	Location to be confirmed.
Project Nexus Workgroup (inc. 0432 & 0434 Workgroups)	07/05/2013	31 Homer Road, Solihull, West Midlands. B91 3LT.
Project Nexus Workgroup (inc. 0432 & 0434 Workgroups)	20/05/2013	Energy UK Office, Charles House, 5–11 Regent Street, London. SW1Y 4LR.

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0432 12/01	08/01/13 (revised)	1.2	To develop three draft base case (market price) scenarios for consideration at the next meeting.	Gazprom (SM)	Update provided. Closed
0432 03/01	05/03/13	1.2	To consider the proposals outlined within the Waters Wye Associates 'Impact of UNC Modification 0432 (Project Nexus) on GB gas market' with a view to providing feedback at the next meeting.	All	Update to be provided at 18/03/13 meeting.
0432 03/02	05/03/13	2.	To ensure that a new agenda item to 'cover' consideration of commercial legal text review is added to the 10 and 23 April 2013 meeting agendas and the meetings are reassigned as dedicated legal text meetings.	Joint Office (BF/MB)	Update to be provided at 10/04/13 meeting.