

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

**Monday 30 September 2013**

**at Consort House, 6 Homer Road, Solihull B91 3QQ**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Alex Ross-Shaw	(ARS)	Northern Gas Networks
Andy Miller	(AM)	Xoserve
Chris Warner	(CW)	National Grid Distribution
Colette Baldwin	(CB)	E.ON UK
Dave Corby	(DC)	National Grid NTS
Ed Hunter	(EH)	RWE npower
Elaine Carr	(EC)	ScottishPower
Fiona Cottam	(FC)	Xoserve
Huw Comerford	(HC)	Utilita
Jonathan Kiddle*	(JK)	EDF Energy
Jon Dixon*	(JD)	Ofgem
Julie Varney*	(JV)	National Grid Transmission
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE
Michele Downes	(MD)	Xoserve
Robert Cameron-Higgs*	(RCH)	first utility
Steve Mulinganie	(SM)	Gazprom
Sue Cropper	(SC)	British Gas
Tabish Khan	(TK)	British Gas
Tim Davis*	(TD)	Joint Office

\* 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 07/01:** Joint Office (MB) to publish a draft Workgroup Report.

**Update:** BF suggested that it would be prudent to now plan in some additional meetings to enable both consideration of the relevant objectives, cost benefits analysis and User Pays aspects of the modification (an amended modification is anticipated in the near future) and thereafter development of the Workgroup Report. **Closed**

**Action 0432 07/02:** All parties to provide feedback on the draft Workgroup Report.

**Update:** During a brief discussion around preparation of the Workgroup Report (WGR), BF and TD advised that it would need to include a benefits case and also a clear modification implementation timetable, which may be difficult bearing in mind that the modification would need to be implemented before we can do the system changes anyway. Additionally, AM pointed out that if the WGR was ready in time for submission

to the November Panel, this would come at the risk of potentially jeopardising commencement of the design and build considerations.

CW took the opportunity to remind those present that the suite of Project Nexus modifications are aimed at providing an enduring regime and there would be a need to develop some additional modifications to cover transitional requirements in due course. He asked parties to note that in his opinion, this Workgroup's role does not simply end with the sign off of the current suite of modifications (0432, 0434, 0453 and 0440).

During the continued discussion around potential transition requirements, AM suggested that there could be several aspects to consider such as, iGT (Change of Supplier) cut-over, RbD and non-effective dates to name but a few – Xoserve intends providing a list of potential transition topics in due course (possibly within the next few months). AM then asked parties to provide their thoughts on what should be included within the list at the earliest opportunity. TD highlighted his concerns around what impact the ongoing transitional work would potentially have on the provision of a meaningful modification timetable within the WGR inline with the Code of Practise requirements. When asked, JD indicated that he supported TD's concerns and noted that the effective date of the legal text may be different to that of the system implementation. Additionally, he sees a potential benefit in establishing some form of Steering Group / Committee to oversee the management of change and therefore believes that we may need a non-specific authority approval date referenced within the WGR. JD agreed to a new action to seek a view from the Ofgem Stakeholder Group members regarding what impact the ongoing transitional work would potentially have on the provision of a meaningful modification timetable within the WGR inline with the Code of Practise requirements, and provide feedback in due course. Moving on, CW also highlighted that as the September Panel had requested provision of formal legal text (and as a consequence the clock is ticking) he would welcome any guidance on what Ofgem would be looking for – a new action was placed against JD to provide an Ofgem view on what would be expected to be 'covered' around the various implementation timelines and effective dates within the legal text.

AM went on to suggest that we would need the business rules approved for inclusion in Code before building the system to reduce any potential risk exposure. He pointed out that the previous RGMA changes were related to a licence obligation requirements and therefore, there was little perceived risk in the modification(s) being rejected, which is not necessarily the case for the Project Nexus modifications. Some parties felt that this is more of a theoretical than actual risk. In response, JD acknowledged the concerns whilst suggesting that without fettering Ofgem's ability to reject any of the Project Nexus modifications, it all depends upon the content and quality of the modification and benefits case.

In trying to bottom out the WGR timeline issue, TD reminded everyone that the WGR requires provision of an implementation date / effective date and lead time indication (supported by an explanation for the lead time) to comply with both the Modification Rules and Code of Practise requirements. Some felt that all that was needed would be an 01 October 2015 implementation date inserting into the legal text and should this date seem likely to slip, a new modification could / would be raised. **Closed**

**Action 0432 09/01: Ofgem (JD) to seek a view from the Ofgem Stakeholder Group on what they believe the impact the ongoing transitional work would potentially have on the provision of a meaningful modification timetable within the Workgroup Report (taking into account the Code of Practise requirements), and at the same time provide some guidance to CW on what might be expected within the legal text.**

**Action 0432 09/02: All parties to consider what WGR timeline information would be deemed suitable and how best to address this issue and provide their views at the next meeting.**

## 2. Review Legal Text Update

Opening discussion, CW provided a quick update on progress to date by advising that he anticipates publishing legal text in accordance with the Panel timescales following the September Panel request for formal text – should anyone have any issues or concerns please let him know sooner, rather than later. It was noted that the Ofgem feedback on implementation / effective dates could have an impact as well.

TD suggested that it would be better to have an amended modification before completion of the WGR so that we can ensure that the text within the WGR is reflective of the latest version of the modification. He also highlighted the fact that the legal text is very specific in stating that it relates to the business rules contained within the BRDs (currently all BRDs apart from Settlement are baselined), as at a specific date. However, a number had been updated and re-baselined so that the version numbers did not align with the modification.

In discussing concerns relating to the Shipper Agreed Reads (multiple amendments) process and the BRD definitions, it was felt by some that the legal text should identify (cross reference) the business rules within the respective BRDs to which it relates, to ensure that there are no gaps that could remain unresolved. With regard to the agreed reads issue, AM suggested that a subtle tweak to the BRD wording would be sufficient. Responding, CW confirmed that the amended modification, (hopefully due sometime in week commencing Monday 07 October) would be 100% clear as to which BRDs relate to the modification and that this would be true for all Project Nexus modifications in due course. BF also suggested that some form of governance process would be required in future to ensure that any changes to the BRDs are managed appropriately. There was a view expressed for the BRDs to be appended to the modification to which they relate, to avoid any confusion. BF agreed to review how the documents and text should be published ready for consultation.

Moving on to consider the potential User Pays position, a great deal of debate took place centred around differing views on whether or not the modification is a User Pays modification, as currently it simply states 'to be decided' which is not sufficient for the development of the WGR – some parties, Ofgem included, are of the view that Project Nexus funding has already been catered for within the DN Price Control arrangements whilst others (National Grid NTS) remain very concerned that Gemini costs have been excluded. When asked, AM confirmed that whilst the modification clearly identifies that changes to the Gemini system would be required within Project Nexus, to date no estimate of the Gemini costs had been made. JV once again stressed her concern and asked that it be made clear within the modification that the Price Control funding did not include Gemini changes, and therefore in her eyes (and National Grid NTS's) the modification should be a User Pays modification.

TD suggested that perhaps the (amended) modification would need to state for example a 95% non User Pays and 5% User Pays (for Gemini changes) breakdown. He reminded the proposer that should any aspect be deemed to require elements of Shipper funding then an accompanying Agency Charging Statement (ACS) (clearly identifying what proportion is being funded by Shippers) would be required in support of the modification. AM advised that at this point in time he believes that it is extremely difficult to quantify a Rough Order of Magnitude (ROM) figure for the Gemini elements. Some parties suggested that if this is indeed a funding issue, then it would be down to National Grid Distribution and NTS to address how Gemini changes are best funded.

In seeking to avoid unnecessary delay to the progress of the suite of Project Nexus modifications, SM suggested that it might be appropriate to consider raising a separate modification, to address the Gemini issues and concerns.

CW indicated that he would take on board the various views provided today and discuss the Gemini funding matter with his Transporter and National Grid NTS colleagues, whilst also looking to amend the modification to include business rules cross referencing within the legal text and User Pays considerations.

In attempting to summarise the discussions, TD highlighted that addressing the relevant objectives aspect of the modification / WGR would be a large piece of work with the main issue being how best to build a convincing benefits case(s) which would then enable Ofgem to approve the modification(s) – based on the current benefits case he doubts that this is a suitable basis on which to justify the relevant objectives as currently costs appear to outweigh the benefits !

**Action 0432 09/03: National Grid Distribution (CW) to consider what Gemini change (ROM) costs may be required for inclusion within an amended modification.**

Modification 0432 Project Nexus Gas Settlement Reform, benefits case consultation report presentation

AM provided a brief review of the report during which it was suggested (and agreed) that the ongoing benefits identified within Section 1 – Cost benefit case summary, should be predicted over either an 8 or 10 year, and not the proposed 5 year period.

Moving on to consider Section 5 – Consultation responses, there was some disagreement over the output of the Waters Wye Ltd 'Impact of UNC Modification 0432 (Project Nexus) on GB gas market' report at which point SM pointed out that the report was commissioned by ICoSS and not this Workgroup, and furthermore, he believed that any views provided would have been considered and that no adverse comments had been received following the issuing of the report.

AM advised that he would now amend the document inline with today's discussion and seek a view from Ofgem over the possible extension to the benefits (case) period beyond the current 5 years, to possibly 8 or 10 years. He also expects to provide an updated copy of the document for consideration at a later meeting and in time for appending to the WGR.

In closing a new action was placed against the Joint Office (BF) to commence drafting the relevant objectives for discussion at the 16 October meeting.

**Action 0432 09/04: Joint Office (BF) to commence drafting the relevant objectives for discussion at the 16 October meeting.**

**Action 0432 09/05: Xoserve (AM) to seek a view from Ofgem over the possible extension to the benefits (case) period beyond the current 5 years, to possibly 8 or 10 years.**

### 3. Any Other Business

Approach to Treating Unallocated Energy in the post Project Nexus Environment

Opening, SM provided an explanation of his concerns around the proposed approach to treating unallocated (gas) energy in a post Project Nexus world. In particular the proposed solution would appear to introduce a holistic smearing of unallocated energy across the whole market in accordance with the Shippers market share by volume in the LDZ. In both Gazprom's and its larger customers views, this approach appears simplistic and assumes a consistent approach to some causes of unallocated gas (e.g. theft), whilst also changing the existing arrangements by drawing DM sites in scope (e.g. power station / large industrial sites).

In taking this overall approach we appear to be both extending scope of the parties affected and losing the benefit of having an independent expert (AUGE) determine the appropriate sharing of the energy – the point being, should the Workgroup consider including a step in the process for allocating the unallocated energy that perhaps includes a role for the AUGE in determining the relevant share of the energy in future. SM suggested that perhaps one option would be to consider the proposed Dutch solution due to be implemented 01 January 2014, whereby recovery would be via a Transportation Shrinkage style mechanism.

Responding, FC highlighted her main concern that if allocation split is determined by

the AUGÉ after the Gas Day, this could delay the determination of closed-out energy values, which would have a knock-on effect of increasing risk to Energy Balancing processes, if it took longer to reach close-out. Neither does she believe a EUC banding style approach would work as it would potentially be impacted by usage changes. AM also pointed out that currently the DM's are not excluded from AUGÉ assessments, it is simply the fact that there was little or no anecdotal evidence and therefore a zero value was / is applied as a consequence.

As debate continued, it became clear that whilst there was some sympathy, there was very little support for SM's proposal(s) with the majority of parties preferring to restrict any future AUGÉ role to the transitional period only. In recognising that there could be a role for the AUGÉ during the transitional period, SM believed that there may be value in seeking an Ofgem view on whether or not, the proposed Project Nexus simplistic approach (i.e. doing away with the AUGÉ role altogether) to the smearing of energy in the new world is appropriate and workable. In the absence of JD to provide a response, a new action was placed on SM to seek a view from Ofgem for consideration at a future meeting. In addition, SM advised he was considering raising an alternative modification to support their views.

**Action 0432 09/06: Gazprom (SM) to seek an Ofgem view on whether or not, the proposed Project Nexus simplistic approach (i.e. doing away with the AUGÉ role altogether) to the smearing of energy in the new world is appropriate.**

#### 4. Diary Planning

The following meetings are scheduled to take place during 2013:

Meeting	Date	Location
Project Nexus Workgroup (inc. 0432, 0434 and 0453 Workgroups) – <i>dedicated relevant objectives review meeting.</i>	16/10/2013	Consort House, Princes Gate Buildings, 6 Homer Road, Solihull B91 3QQ.
Project Nexus Workgroup (inc. 0432, 0434 and 0453 Workgroups) – <i>draft Workgroup Reports development meeting</i>	22/10/2013	Consort House, Princes Gate Buildings, 6 Homer Road, Solihull B91 3QQ.
Project Nexus Workgroup (inc. 0432, 0434 and 0453 Workgroups)	30/10/2013	Consort House, Princes Gate Buildings, 6 Homer Road, Solihull B91 3QQ.
Project Nexus Workgroup (including 0432, 0434 and 0453 Workgroups) – <i>completion of Workgroup Reports meeting.</i>	07/11/2013	Consort House, Princes Gate Buildings, 6 Homer Road, Solihull B91 3QQ.

**Action Table**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
0432 07/01	09/07/13	3.	Publish a draft Workgroup Report.	Joint Office (MB)	Update provided. <b>Closed</b>
0432 07/02	09/07/13	3.	Provide feedback on the draft Workgroup Report.	All	Update provided. <b>Closed</b>
0432 09/01	30/09/13	1.2	To seek a view from the Ofgem Stakeholder Group on what they believe the impact the ongoing transitional work would potentially have on the provision of a meaningful modification timetable within the Workgroup Report (taking into account the Code of Practice requirements), and at the same time provide some guidance to CW on what might be expected within the legal text.	Ofgem (JD)	Update to be provided in due course.
0432 09/02	30/09/13	1.2	To consider what WGR timeline information would be deemed suitable and how best to address this issue and provide their views at the next meeting.	All	Update to be provided in due course.
0432 09/03	30/09/13	2.	To consider what Gemini change (ROM) costs may be required for inclusion within an amended modification.	National Grid Distribution (CW)	Update to be provided in due course.
0432 09/04	30/09/13	2.	To commence drafting the relevant objectives for discussion at the 16 October meeting.	Joint Office (BF)	Update to be provided in due course.
0432 09/05	30/09/13	2.	To seek a view from Ofgem over the possible extension to the benefits (case) period beyond the current 5 years, to possibly 8 or 10 years.	Xoserve (AM)	Update to be provided in due course.
0432 09/06	30/09/13	3.	To seek an Ofgem view on whether or not, the proposed Project Nexus simplistic approach (i.e. doing away with the AUGER role altogether) to the smearing of energy in the new	Gazprom (SM)	Update to be provided in due course.

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Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			world is appropriate.		