

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

Tuesday 08 January 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 |
| Alison Jennings | (AJ) | Xoserve |
| Anne Jackson | (AJa) | SSE |
| Andy Miller | (AM) | Xoserve |
| Brendan Murphy | (BM) | Waters Wye Associates |
| Chris Warner | (CW) | National Grid Distribution |
| Colette Baldwin | (CB) | E.ON UK |
| Dave Corby | (DC) | National Grid NTS |
| Ed Hunter | (EH) | npower |
| Elaine Carr | (EC) | ScottishPower |
| Emma Lyndon | (EL) | Xoserve |
| Emma Smith | (ES) | Xoserve |
| Erika Melen | (EM) | Scotia Gas Networks |
| 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 |
| Naomi Anderson | (NA) | EDF Energy |
| Peter Thompson | (PT) | Customer Representative |
| Steve Mullingan | (SM) | Gazprom |
| Sue Cropper | (SC) | British Gas |
| Tabish Khan | (TK) | British Gas |
| Tracy Lake | (TL) | National Grid Distribution |
| Tony Franklin | (TF) | National Grid Distribution |

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 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: Opening CW explained that in respect of the last item of this action, more detail would be forthcoming during consideration of his (not yet published) 'Project Nexus Legal Text preparation – Timeline illustration' paper which would be discussed in more detail during the main Project Nexus Workgroup meeting.

AM then advised that to date, Xoserve had not received any feedback on possible product line take-up and once again invited provision of the information as soon as practicably possible. Once again debate centred on resource issues, especially when bearing in mind that many organisations have resources already tied up in responding to recent Ofgem RFI's (**Requests For Information**) – these were taking precedent over provision of information to the various Project Nexus Workgroup(s). In acknowledging that the information would be required sometime in the near future, it was agreed to carry forward the action.

Carried Forward

Action 0432 12/01: Waters Wye Associates (GE) & 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.

Update: BM explained that following discussion with his colleague, it has been concluded that ICoSS members do not have the information to hand. SM suggested that one approach could be to commission independent consultants to undertake the work. However, this could then invoke confidentiality issues. He also suggested that as the matter relates to commercially sensitive trading information it might also prove difficult for Xoserve to provide it.

JD went on to suggest that creating and agreeing a set of (3) generic base case (market price) scenarios could be one way to identify the potential benefits e.g. high, medium and low impact. Supporting this approach, SM agreed to undertake a revised action to consider developing the base case (market price) scenarios for consideration at the next meeting and whether they would be relevant. SM also pointed out that he does not expect any one of the base case scenarios to individually deliver benefits in excess of the anticipated £20 million project cost, although their combined benefits may close in on this figure over the course of time and would certainly bolster the overall project benefits case. In response to a question raised over what length of time the £20 million project cost v's benefits would be considered (annualised) over – the consensus view was that whilst this is related in part to prospective project shelf life, 5 years is not an unreasonable period to consider.

Carried Forward

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.

Update: BF advised that this action had been completed.

Closed

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.

Update: AM advised that Xoserve had issued a report to each Shipper organisation seeking feedback by 15 February.

Closed

2. Discussion

Modification 432 Gas Settlement Reform, cost benefit case information – reduced reconciliation variance presentation

AM provided a brief overview of the presentation.

In considering the various bullet points, AM advised that with regard to the provision of portfolio information, each Shipper would be provided with their respective individual positions and that this information would be issued over the next few days accompanied by a covering letter explaining how the data has been compiled – this is supplemental to the Benefits Case document previously published by Xoserve.

In considering the average reconciliation variance (-4.5%), AM explained that in general this tends to reflect LSP to SSP movement. When asked about the potential for there to be both winners and losers, AM suggested that in practise it is more a case of winners and winners, as improvements in the purchasing processes may reduce risk premiums. SM also reminded those present that parties would also be able to reduce their hedging risk as there would be more certainty around allocation. AM went on to explain that current Xoserve thinking (estimation) suggests that a 1% reduction in the (-4.5%) variance figure would approximate to £20 million, although it should be noted that Xoserve are NOT saying that this can be achieved.

CW explained that he remains of the view that there is benefit in considering aspects such as data granularity and accuracy with a view to incentivising appropriate behaviours – this was not necessarily a unanimously supported view. JD suggested that if considered, this would have to be on an end-to-end quality assurance basis.

In closing, BF reminded those present that work on the 0432 benefits remains ongoing.

3. Any Other Business

None.

4. Workgroup Process

4.1 Agree actions to be completed ahead of the next meeting

Whilst no new actions were assigned, existing action 0432 12/01 was redefined and allocated to Gazprom.

5. Diary Planning

The following meetings are scheduled to take place:

| Title | Date | Location |
|---|-------------|---|
| Project Nexus Workgroup (inc. 0432 & 0434 Workgroups) | 22/01/2013 | National Grid, 31 Homer Road, Solihull, West Midlands. B91 3LT. |
| Project Nexus Workgroup (inc. 0432 & 0434 Workgroups) | 05/02/2013 | National Grid, 31 Homer Road, Solihull, West Midlands. B91 3LT. |
| Project Nexus Workgroup (inc. 0432 & 0434 Workgroups) | 19/02/2013 | Location to be confirmed. |

Action Table

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|-------------------|---------------------------|-------------------|---|--------------|--|
| 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 & 08/01/13 | 2.0 & 1.2 | To develop three draft base case (market price) scenarios for consideration at the next meeting. | Gazprom (SM) | Update to be provided in due course. Carried Forward |
| 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 provided. Closed |
| 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 provided. Closed |