

## UNC Workgroup 0661R Minutes Reconciliation and Imbalance Cash Out Prices

Wednesday 22 August 2018

at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

### Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
George MacGregor	(GMG)	Winchester Gas
Imran Bannister	(IB)	Winchester Gas
James Hill*	(JH)	EDF Energy
Lorna Lewin	(LL)	Orsted
Mark Bellman	(MB)	Scottish Power
Mark Jones*	(MJ)	SSE
Mark Palmer*	(MP)	Orsted
Phil Lucas	(PL)	National Grid NTS
Rhys Kealley*	(RK)	British Gas
Richard Fairholme	(RF)	Uniper
Sallyann Blackett	(SB)	E.ON
Steve Pownall	(SP)	Xoserve

\* *via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0661/220818>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 March 2019.

### 1.0 Outline of Modification

George MacGregor (GMG) introduced the Request 0661R and explained it aimed to seek a method of incentivising Shippers to purchase the correct amount of gas for Non-Daily Metered (NDM) sites, in advance of the gas day and support de-risking Shipper imbalance costs relative to NDM reconciliation costs.

He explained the Central Data Service Provider (CDSP) estimate Shippers' daily offtakes using the NDM Deemed Allocation and that the Shippers provide their daily NDM nomination information to the CDSP via UKLink. He said the CDSP calculate the difference between this nomination and the NDM Deemed Allocation and the Shipper is then subject to an Imbalance Payment.

He noted that the imbalance payments pay out the difference between the Shipper's Nomination and the NDM Deemed Allocation at System Marginal Sell Price (SMSP)/ System Marginal Buy Price (SMBP).

He explained the Shippers can then submit actual NDM meter reads into UKLink. The difference between the actual meter reads and the NDM Deemed allocation is then calculated and a reconciliation payment is made to the Shipper. These payments are made at System Average Price (SAP).

The fact that different system prices are used for these calculations creates a financial disincentive for Shipper's to submit accurate forecasts. Purchasing over or under a shipper's NDM Deemed allocation creates artificial winners and losers, due to the usage of different system prices in the Imbalance and Reconciliation processes.

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GMG also said that he had presented this Request 0661R to both the Distribution and Transmission Workgroups.

Phil Lucas (PL) observed that in fact National Grid submits NDM nominations on behalf of shippers as per UNC TPD C1.5.1. These nomination quantities are determined by utilising NDM Supply Meter Point Demand as per UNC TPD H2. On this basis, shippers do not provide the daily NDM nomination information.

PL also reflected that Imbalance charges (termed 'Clearing Charges' as per UNC TPD F2.3.1) are based on the overall difference between inputs (UDQI) and outputs (UDQO), including trades, for an individual User (UNC TPD E5.1.1), not for the difference between the nomination and allocation position for a particular component (e.g.: NDM) of a User's portfolio. Clearing Charges are set at the System Marginal Prices to maintain the commercial incentive (as opposed to an absolute obligation) for shippers to balance their inputs and outputs.

## 2.0 Initial Discussion

### 2.1. Issues and Questions from Panel

The following questions were raised by Panel as detailed below:

*Clarification and provision of evidence that the issue is material;*

A lengthy general discussion took place in relation to the materiality and it was agreed that more detail would be included within the Request Workgroup Report to provide the necessary clarity and context. Rebecca Hailes (RH) agreed to add this into the required section of the Request Workgroup Report, as directed by the Request Workgroup with regards to content as discussions progress over the next few meetings.

Further discussions took place regarding the overall definition of the correct amount of gas and the imbalance process and the fact that Unidentified Gas (UIG) needed to be included in the Request itself. GMG confirmed he would add UIG into the Request.

Sallyann Blackett (SB) made reference to the absence of DN representation and expressed a view that as DNs have an interest in the NDM reconciliation that takes place on their networks, they should consider attending this Request Group. SB believed that balancing was a DN Code responsibility however PL noted that National Grid NTS had the role of managing residual balancing activities and was responsible for the balancing of the Total System on a daily basis. Richard Fairholme (RF) commented, the balancing behaviour did have a direct impact on the DNs. It was agreed that the Terms of Reference would be amended to reflect this, as detailed below.

*Clarification and confirmation of the scope in the Terms of Reference for review at the September 2018 Panel meeting*

A lengthy general discussion took place in relation to the overall scope of the Terms of Reference and it was agreed that for simplicity purposes the scope presently should be kept to NDM reconciliation only, because if the scope were to encompass all imbalance and reconciliation, it would be too vast and the scope would need to be changed considerably.

GMG and Imran Bannister (IB) both agreed to keep the scope narrow and only focus on the NDM reconciliation for the purposes of the Request. RH also said that any change of scope within the Request would mean that it would have to be re-submitted to Panel again. Steve Pownall (SP) said that storage issues should also be noted from a storage injection and imbalance perspective.

A general discussion then took place regarding incentivised gas and the reconciliation volume of gas in relation to pricing. Mark Bellman (MB) suggested that from an imbalance aspect to get the NDM reading in D+5, but he said this would not be practical from a pricing angle and RF agreed and said that the pricing aspect should be avoided, as once again, this would require a scope change.

SP observed that the EU Balancing Code (*post meeting note: this is EU Regulation 312/2014*) prescribed the pricing of shipper imbalances on a day (i.e. at marginal prices) which would constrain change to this aspect. PL noted that post Brexit, the EU Balancing Code requirements will be replicated in GB legislation. SP suggested that perhaps GMG could investigate how other EU Countries address this area (e.g. Denmark), GMG said he would investigate this matter.

Further discussions ensued on the topic of imbalance, totals, trades and the validation process, specifically the volume of the trades. Rhys Kealley (RK) asked what the Market Operator verification process entailed and what happened if this was deviated against? PL said he would provide detail on this.

**New Action 0801: National Grid NTS (PL) to provide detail on the Market Operator verification process, together with overview of balancing procedures.**

GMG also agreed to provide clarification of how a Shipper interacts with the balancing process, specifically where its forecast of NDM offtake varies from the NDM nomination provided by National Grid.

**New Action 0802: Winchester Gas (GMG) to provide clarification of how a Shipper interacts with the balancing process, specifically where its forecast of NDM offtake varies from the NDM nomination provided by National Grid.**

It was agreed that all Request Workgroup participants should familiarise themselves with the various solution options suggested and provide feedback to the Workgroup on any other potential solutions.

**New Action 0803: ALL to familiarise themselves with the solutions presented and provide feedback to the Workgroup on any other potential solutions that could be explored as an alternative solution.**

SP asked if Ofgem had been made fully aware of the content and context of the Request and GMG said that he would contact Ofgem directly.

**New Action 0804: Winchester Gas (GMG) to contact Ofgem and make them aware of the content and context of the Request 0661R.**

## **2.2. Initial Representations**

None received.

## **2.3. Terms of Reference**

As matters have been referred from Panel, a specific Terms of Reference v1.0 was already published alongside the Modification at <http://www.gasgovernance.co.uk/0661> after August's Panel meeting.

Workgroup updated the document to reflect a balanced view from the discussions during the meeting, focusing especially on the scope of the review and agreed v2.0 would be circulated to the group for comments. It was agreed RH would incorporate these where possible and then publish and submit the resulting document to September Panel.

## **3.0 Next Steps**

RH confirmed that the updated Terms of Reference would be published and submitted for the September Panel.

She explained that she would update the Request Workgroup Report following the conversations and comments discussed during the meeting and circulate it to all meeting participants. She further noted that the Request was due to report to Panel in March 2019.

RH proposed the next Workgroup meeting would be held on:

Monday 01 October 2018 at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Two further dates for consideration beyond this (to be agreed at the next meeting) are:

*Monday 05 November 2018 Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA – Provisional*

Or

*Thursday 08 November 2018 Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA – Provisional*

Or

*Tuesday 27 November 2018 at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA – Provisional*

Or

*Thursday 29 November 2018 at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA – Provisional*

#### 4.0 Any Other Business

None.

#### 5.0 Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Monday 01 October 2018	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Detail planned agenda items. <ul style="list-style-type: none"> <li>Review of Actions</li> <li>Review of Amended Request</li> <li>Consideration of Alternative Solutions</li> <li>Review of Impacts and Costs</li> <li>Review of Relevant Objectives</li> <li>Consideration of Wider Industry Impacts</li> <li>Development of Workgroup Report</li> </ul>
<i>Provisional</i> 10:30 Monday 05 November 2018	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<i>This meeting will be confirmed on 01 October 2018</i> Detail planned agenda items. <ul style="list-style-type: none"> <li>To be confirmed</li> </ul>
<i>Provisional</i> 10.30 Thursday 08 November 2018	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<i>This meeting will be confirmed on 01 October 2018</i> Detail planned agenda items. To be confirmed
<i>Provisional</i> 10:30 Tuesday 27 November	Radcliffe House, Blenheim Court, Warwick Road,	<i>This meeting will be confirmed on 01 October 2018</i>

2018	Solihull B91 2AA	Detail planned agenda items. To be confirmed
<i>Provisional</i> 10:30 Thursday 29 November 2018	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<i>This meeting will be confirmed on 01 October 2018</i> Detail planned agenda items. <ul style="list-style-type: none"> <li>To be confirmed</li> </ul>

**Action Table (as at 22 August 2018)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>0801</b>	22/08/18	2.1	National Grid NTS (PL) to provide detail on the Market Operator verification process, together with overview of balancing procedures.	National Grid NTS (PL)	<b>Pending</b>
<b>0802</b>	22/08/18	2.1	Winchester Gas (GMG) to provide clarification of how a Shipper interacts with the balancing process, specifically where its forecast of NDM offtake varies from the NDM nomination provided by National Grid.	Winchester Gas (GMG)	<b>Pending</b>
<b>0803</b>	22/08/18	2.1	ALL to familiarise themselves with the solutions presented and provide feedback to the Workgroup on any other potential solutions that could be explored as an alternative solution.	ALL	<b>Pending</b>
<b>0804</b>	22/08/18	2.1	Winchester Gas (GMG) to contact Ofgem and make them aware of the content and context of the Request 0661R.	Winchester Gas (GMG)	<b>Pending</b>