
UNC Workgroup 0661R Minutes
Reconciliation and Imbalance Cash Out Prices
Thursday 08 November 2018
at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Andrew Knowles	(AK)	Utilita
George MacGregor	(GMG)	Utilita
John Welch	(JW)	Npower
Louise Hellyer	(LH)	Total
Mark Jones*	(MJ)	SSE
Mark Palmer*	(MP)	Orsted
Mark Rixon*	(MR)	ENGIE
Phil Lucas	(PL)	National Grid NTS
Steve Pownall	(SP)	Xoserve

Apologies

Mark Carolan	(MC)	Ofgem
<u>Sallyann Blackett</u>	<u>(SB)</u>	<u>Eon</u>

* via teleconference

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0661/081118>

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

1.0 Introduction and Status Review

Rebecca Hailes (RH) welcomed all to the meeting.

1.1 Review of minutes (01 October 2018)

Phil Lucas (PL) and Steve Pownall (SP) submitted changes to the minutes from 01 October 2018. Rebecca Hailes (RH) showed onscreen version 3.0 of the minutes from the previous meeting. PL and SP explained the amendments with some clarification of wording and some new wording around the materiality for individual shippers and clarification for Action 1007.

The Workgroup approved the minutes with the changes made.

2.0 Review of Actions

Action 0802: Utilita (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 NTS.

Update: George MacGregor (GMG) confirmed that shippers' offtakes are included. RH showed on screen the Action 0802 update document which shows the update to this action on pages 8 and 10. This document is published and can be viewed here: <http://www.gasgovernance.co.uk/0661/081118>. It was confirmed that Action 1003 and Action 0802 are linked. **Closed**

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.

Update: It was confirmed that no other solutions have been put forward.

The Workgroup discussed this Action and noted that no other potential solutions have been suggested thus far. SP commented that one option might be for Shippers to move their Class 4 meter portfolios to Class 2 and/or Class 3 or, a new hybrid meter class. SP suggested that with the advent of smart metering, Ofgem has a key driver to encourage suppliers to move from the Class 4 product. it should be straightforward for Ofgem to be able to put forward the recommendation of moving class 4 meters in to class 2. However, for Ofgem to consider this, they will want to know what the materiality is.

As a further potential solution, it was suggested that the Exit Close-Out could potentially be extended from D+5 to ~~DM~~+15 (this would align to the gas Entry allocation Close-Out). ~~also be similar to the electricity market~~.

The Workgroup agreed that Solution C from the Request would be a considerable change to implement:

Solution C proposes to introduce a new process after the reconciliation process to balance the books using SMPB and SMPS. This is similar to Solution A but does not happen in real time but after the event.

It was agreed that there are other options to be explored, and, looking at it more laterally the cost to the industry should be considered. ~~PL said there would clearly be a financial consequence of having one imbalance cashed out.~~

Louise Hellyer (LH) commented that there is still an industry issue with moving meters in-to Cclass 2 and suggested that the issues around this need to be resolved before consideration of moving to Cclass 2 for this modification is considered, e.g. hampering competition; faster switching. These are issues that should be get addressed but the industry is not really ready yet.

AK clarified he is happy to consider better, cheaper, quicker solutions if he knows what they might be. The Workgroup agreed that the solution should be linked to the problem. LH said that once the materiality question is solid has been addressed, the workgroup needs to be able to show that at least a few solutions have been considered.

RH summarised that Utilita will put forward the preferred solution for the modification. Once the materiality is settled, this action should be revisited. **Carried forward**

Action 1001: National Grid NTS (PL) to investigate in the context of trading and selling, if the lower sell price could be higher than SAP and vice versa?

Update: PL provided a presentation that supports actions 1001 and 1002. He talked through UNC TPD F which is specific to system clearing, balancing charges and neutrality.

When asked, PL confirmed that, ~~in terms of a short price, the System Operator (SO) can trade on that short price, however the protection has been built in to the UNC wording; it states that the 'marginal price would be the default price'. If it is higher, the highest offer prices would set the marginal price.~~ there will always be a marginal price because if there is no trading undertaken by the SO on that day there is a fallback which is a default marginal price. **Closed**

Acton 1002: National Grid NTS (PL) to supply data on the residual balancing for 2016/2017 and 2017/2018.

Update: PL provided some graphical information which shows the National Grid Balancing Action Days, between 2013 and 2018 and the general trend between 28% and 46% National Grid goes into the market as a Residual Balancer. This information was also provided showing activity pre-nexus and post-nexus. **Closed**

Action 1003: Utilita (GMG) to investigate if the Shipper Offtake representation was required or valid in the process.

Update: It was confirmed that Action 1003 and 0802 are linked. The updated for this action was provided in Action 0802. **Closed**

Action 1004: Utilita (GMG) to include Unidentified Gas (UIG) in the overall process and to clarify what the supplier needs to include between the meter reads. **Update:** GMG explained he has added UIG to the 0661R Issue Summary and looked at how UIG should be considered. RH showed the Summary document onscreen and GMG highlighted to the Workgroup the amendments that have been made, starting on page 12 and concluding with a 'plain English' summary:

Summary

- An LDZ's Unidentified Gas levels are calculated by applying shrinkage to the metered LDZ Daily Input Quantity and subtracting the aggregate of Users' AUGGE Table adjusted UDQOs. This gives the total level of UIG in an LDZ. It takes the total metered input, subtracts known offtakes and any remaining quantity is classed as Unidentified Gas.
- The total level of Unidentified Gas in an LDZ is then apportioned to Users according to the ratio between a User's adjusted UDQOs and the aggregated of all adjusted UDQOs. This gives each User their share of Unidentified Gas in an LDZ.
- Adding together a User's Unidentified Gas across every LDZ gives the amount to be used in a User's Imbalance Calculation.

GMG summarised that he can't see any issues with regards to this Request and the link to UIG.

LH asked for confirmation and explained that as the NDM and UIG are generally offset, UIG reconciliation is redistributed based on SAP, ~~as this proposal is looking to remove SAP,~~ which would create a conflict.

In response to this, GMG suggested that UIG reconciliation would have to be factored in as part of solution C. It was suggested that this could be building complexity in to the calculation. If solution C is the proposal, the same would have to be applied to UIG.

The Workgroup considered this approach and agreed that, for ~~S~~solution ~~option~~-C, the reconciliation should stay at SAP. **Closed**

Action 1005: All to consider the impacts to DNs throughout the proposed process as defined in the Request.

Update: It was confirmed that DN transportation costs are included in reconciliation. This needs to be considered based on the solution option that is taken forward. **Closed**

Action 1006: Utilita (GMG) to confirm how the percentages are split in relation to the volume in each scenario.

Update: To explain the data within the spreadsheet provided, it was confirmed that:

- 15% is the share of the total allocation taking in to account every LDZ
- 10% is related to the Shippers reconciliation amount on their allocation being over or under inflated by 10%

There is also an Average Monthly Risk shown.

PL mentioned that what is being shown is the theoretical amount of risk based on between 1 and 10%, but what is missing is how far out are the NDM reconciliations. **Closed**

New Action 1101: GMG and LH will liaise offline to identify how the method might be applied to see if the 1 and 10% is a correct ballpark assessment.

This will give the workgroup the best view of materiality.

Action 1007: Xoserve Steve Pownall (SP) to look at the balancing volumes (at [M+15 Close - Out](#)) compared to the Industry reconciliation volumes by gas flow month and then convert them to a cost by investigating the difference between SAP and SMP.

Update: SP provided a '[materiality](#)' presentation ~~to and explained that this should help~~ the Workgroup ~~with the materiality.~~

~~SP He began by explained ing that~~ Xoserve had ~~ve~~ considered the action against the period June 2017 (Nexus go-live) to August 2018 and that ~~it they~~ had ~~ve~~ looked into utilising the existing monthly report, which is post-Nexus reconciled billable energy against a target of 100% reconciliation – for Class 3 and Class 4 (NDM) meters.

SP ~~then~~ showed the Workgroup a graph which ~~identified shows~~ what allocation had ~~s~~ been reconciled up to August 2018 against the target of 100%. The graph, on slide 3 of the presentation material provided for the meeting, shows that between July 2017 and August 2018, the [monthly](#) reconciled billable energy ~~has ranges moved~~ from 93.03% down to 27.24% [for the most recent months.](#)

There followed a lengthy discussion which covered analysis; materiality; cost of the solution; commercially sensitive analysis; significant change to the industry and impacts to systems across the industry.

It was clarified that, for Xoserve to effectively assess 0661R materiality will require the development of a complex report. SP confirmed ~~that~~ Xoserve ~~would~~ ~~ill~~ need a Change Proposal to look at ~~the~~ ~~is~~ piece of work and reiterated the significant size of ~~this~~ ~~e~~ ~~piece~~ ~~of~~ ~~work.~~

It was also confirmed that the initial data provided in the [0661R R](#) request was not from Utilita for commercial reasons. The Workgroup ~~then~~ discussed the possibility of Utilita providing actual data based on ~~its~~ ~~their~~ own profile, noting however the commercial sensitivity. It was suggested at this point that an option might be that Shippers could complete their own analysis, and then Xoserve could anonymise the information provided.

Whilst informing the Workgroup of the Change Proposal procedure, SP advised the priorities that Xoserve are currently working on, e.g. ~~Faster switching~~; UIG Taskforce, [Central Switching Services \(CSS\)](#) and [EU-GB Charging](#).

AK asked for clarification of the Change Proposal process and what is involved; PL highlighted that, if a CP was raised, Xoserve currently have UIG and Faster Switching which are higher priority.

A suggestion was made for Utilita to contact Ofgem to seek advise on how to provide the materiality analysis if it is only Utilita that is providing the data.

RH summarised a way forward highlighting that:

- PL has suggested that the discussions held today, with regards to materiality, need to be [included](#) ~~put~~ in the workgroup report.
- The Change Proposal route will have timescales issues, due to other priority areas
- Utilita can revisit the information provided in appendix C – can this be re-looked at – can Workgroup examine whether this is showing materiality or not.
- Further points for the Workgroup to consider mentioned in the material provided by SP include:

Electricity

- Meter reconciliation/settlement is a sub-function of energy balancing and balancing/settlement effectively close-out at the same time (up to 14 months)

Gas

- Energy balancing and meter reconciliation/settlement are separate, sequential processes
- Daily energy balancing will close-out at Month+15

- Meter reconciliation /settlement (for Class 4) may take up-to 3-4 years post Gas Day

It was agreed that this action should now be closed as SP has delivered what was requested. Any more detail to convert in to a cost looking at this route will require a change proposal.

Closed

Action 1008: Utilita (GMG) to amend the Shippers nomination terminology in the graphs, schematics and appendices.

Update: GMG has completed this. **Closed**

Action 1009: Utilita (GMG) to consider if the proposed Solution C would encourage meter read and submissions and to confirm the suggested funding arrangements.

Update: GMG explained that there has been some resistance to the potential for the second financial neutrality process, he confirmed that any costs owing would be shared across all shippers.

The Workgroup confirmed they would like to see a process flow/document of Solution ~~Option~~ C which would be then feed in to the makings of the draft modification. **Carried forward**

Action 1010: Utilita (GMG) to investigate the other European Countries' processes relevant to the request, including 'cash out' arrangements.

Update: GMG has contacted European Network of Transmission System Operators for Gas (ENTSO-G) and now has connection with the right person, he confirmed he has put some detailed questions across which relate to the Request. Arjan Kleine is the ENTSO-G contact and GMG is now awaiting a response. SP suggested contact is made with EASEE-gas, with regards to the meter point reconciliation. **Carried forward.**

3.0 Review of Amended Solution C Examples

No amendments made as yet. Update expected at next meeting.

4.0 Consideration of Alternative Solutions

It was suggested that the original solutions should be put in to the Workgroup Report and annotate why they are not being taken forward.

Below are the solutions explored and identified during the development of this proposal.

- Solution A (1) proposes using SMPB and SMPS for the reconciliation calculations.
- Solution A2 proposes using SAP for all imbalance prices, i.e. both the reconciliation calculations and the imbalance calculations.
- Solution B proposes to make SMPB and SMPS the same. This would make it the same as the electricity model
- Solution C proposes to introduce a new process after the reconciliation process to balance the books using SMPB and SMPS. ~~This is similar to Solution A but does not happen in real time but after the event.~~

~~The two solutions that are now being considered are A1 and C.~~

Utilita indicated it was looking to the Workgroup to develop Solution C.

SP highlighted there were other considerations for Solution C that would need to be considered within the business rules including;

- How the new 'reconciliation' process might work;
 - Is it a Neutrality-type arrangement i.e. credits and debits are cleared down on a regular, consistent basis?
 - How are the debits/credits reapportioned – only those shippers with NDMs (Class 3 / Class 4 Meters)?
 - How is it funded?

- The NDM component should not be assumed to be the cause of a Shipper's daily energy imbalance

SP also highlighted potential commercial/financial implications arising from Solution C;

- Utilita itself would be subject to debits/credits from other Shippers' meter reconciliations on a protracted timescale e.g. up four years of additional financial risk exposure
- Increased levels of credit cover might be required
- Is this introducing a 'money-go-round' between Shippers?

5.0 Review of Impacts and Costs

Not yet considered, more information on the solution needs to be looked at before impacts and costs.

6.0 Review of Relevant Objectives

This item was deferred until more data on the potential solution is available.

7.0 Consideration of Wider Industry Impacts

More information on the solution needs to be looked at before the wider industry impacts. This item was deferred until the January meeting to allow a full review of the other associated documentation.

8.0 Development of Request Workgroup Report

RH will update the Workgroup Report and publish the latest draft.

9.0 Next Steps

RH summarised the next steps:

- Joint Office (RH) will work on the Workgroup Report
- An amendment to the Request (this would be v3.0) is expected
- Update on further actions
- Updated draft of the solution or a draft modification is expected
- Consideration of relevant objectives.

10.0 Any Other Business

None.

11.0 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 Thursday 29 November 2018	Ramada Hotel Solihull The Square Solihull	<ul style="list-style-type: none"> • Cancelled
10:30 Wednesday 23 January	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Standard agenda items

Action Table (as at 08 November 2018)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0802	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)	Closed

0803	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	Carried forward
1001	01/10/18	8.0	National Grid NTS (PL) to investigate in the context of trading and selling, if the lower sell price could be higher than SAP and vice versa?	National Grid NTS (PL)	Closed
1002	01/10/18	8.0	National Grid NTS (PL) to supply data on the residual balancing for 2016/2017 and 2017/2018.	National Grid NTS (PL)	Closed
1003	01/10/18	8.0	Utilita (GMG) to investigate if the Shipper Offtake representation was required or valid in the process.	Utilita (GMG)	Closed
1004	01/10/18	8.0	Utilita (GMG) to include Unidentified Gas (UIG) in the overall process and to clarify what the supplier needs to include between the meter reads.	Utilita (GMG)	Closed
1005	01/10/18	8.0	All to consider the impacts to DNs throughout the proposed process as defined in the Request.	ALL	Closed
1006	01/10/18	8.0	Utilita (GMG) to confirm how the percentages are split in relation to the volume in each scenario.	Utilita (GMG)	Closed
1007	01/10/18	8.0	Xoserve Steve Pownall (SP) to look at the balancing volumes (at close out) compared to the Industry reconciliation volumes by gas flow month and then convert them to a cost by investigating the difference between SAP and SMP.	Xoserve (SP)	Closed
1008	01/10/18	8.0	Utilita (GMG) to amend the Shippers nomination terminology in the graphs, schematics and appendices.	Utilita (GMG)	Closed
1009	01/10/18	8.0	Utilita (GMG) to consider if the proposed Solution C would encourage meter read and submissions and to confirm the suggested funding arrangements.	Utilita (GMG)	Carried forward
1010	01/10/18	8.0	Utilita (GMG) to investigate the other European Countries' processes relevant to the request, including 'cash out' arrangements.	Utilita (GMG)	Carried forward

1101	08/11/18	2.0	<p>GMG and LH will liaise offline to identify how the method might be applied to see if the 1 and 10% is a correct ballpark assessment.</p> <p>This will give the workgroup the best view of materiality.</p> <p>Taken from Action 1006: Utilita (GMG) to confirm how the percentages are split in relation to the volume in each scenario.</p>	Utilita (GMG) Total (LH)	Pending
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