

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

**Wednesday 23 January 2019**

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

**Attendees**

Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Andrew Knowles	(AK)	Utilita
Edward Fyfe*	(EF)	Scotia Gas Networks
George MacGregor	(GM)	Utilita
Imran Shah*	(IS)	British Gas
John Welch*	(JW)	npower
Louise Hellyer	(LH)	Total
Mark Carolan*	(MC)	Ofgem
Mark Jones*	(MJ)	SSE
Mark Palmer*	(MP)	Orsted
Mark Rixon*	(MR)	ENGIE
Phil Lucas	(PL)	National Grid NTS
Sallyann Blackett*	(SaB)	E.ON
Steve Britton*	(SBr)	Cornwall Energy
Steve Pownall	(SP)	Xoserve

\* *via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0661/230119>

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

**1.0 Introduction and Status Review**

RH welcomed all to the meeting.

**1.1 Review of minutes (08 November 2018)**

RH provided a set of amended minutes for approval. Some further refinements were made to the published minutes to clarify the proposal is looking to utilise something other than System Average Price (SAP) for reconciliation.

PL also provided some comments on the minutes, and additional amendments were noted.

The minutes of the previous meeting were then approved.

**2.0 Review of Amended Request / Discussion**

RH noted that no formal amendments had been submitted for the Request however GM confirmed some draft amendments had been provided at the November meeting and he requested that the version he provided on 06 November is now published.

In support of assessing the materiality of the issue, GM provided the Workgroup with two spreadsheets which had been produced with the support of Total and Xoserve. He thanked both Total (LH) and Xoserve (Fiona Cottam) for all the support provided in producing the spreadsheets.

The analysis had been undertaken to understand the basis of the reconciliation.

GM explained when looking at a transaction to transaction level, the materiality of the issue can be disguised when using aggregated data. To undertake a full analysis on the materiality there would need to be an understanding on what every party is doing. However, the aggregated level of data, with the NDM estimation algorithm and the analysis, does show how prices are affected.

LH explained that the industry data is available at AQ band level and gives a reasonable guide on what the overall percentage change is. She confirmed that the spreadsheets partially assess the materiality at an aggregated level.

PL asked for clarity on the timeframe. LH confirmed the data is monthly since the beginning of Project Nexus for total allocation, reconciliation undertaken to date, and Unidentified Gas (UIG). LH reported in summary the analysis indicated that since the start of Project Nexus, NDM reconciliation has been a net average of 0.38% per month at NDM allocation.

GM provided Xoserve's formulation of the second spreadsheet:

#### Step 1

Summarised the original national Unidentified Gas (UIG) at the point of Allocation Close-out (i.e. D+5) for post-Nexus months up to November 2018. This data was taken from an extract of Gemini.

#### Step 2

Summarised all meter point reconciliations processed up to and including billing month November 2018, from the "Reconciliation by Month" report, which is published on Xoserve.com UIG page (public domain).

The analysed meter point reconciliation is by the "Supply Month", i.e. the original month of allocation being reconciled: a reconciliation processed in November '18 could relate to a period of original allocation back to June '17.

It was noted that the report phases reconciliation energy back to the original Supply Months based on the standard reconciliation process, which assumes that actual energy follows the same pattern as the original allocation. For NDM sites, this is the best estimate available, as there is no better information available on patterns of usage between meter readings. Pre-Nexus energy is excluded from the report.

The Reconciliation processes do not currently calculate actual energy at a daily level: the lowest level of detail is currently a calendar month.

#### Step 3

Calculated a monthly position for each Supply Month's UIG, i.e. how that UIG energy has "evolved" with meter point reconciliation. It was noted that the Reconciliation by Month report shows the primary reconciliation position at meter point level: the UIG reconciliation ('rec') is the equal and opposite of the monthly total.

The aim of this step was to show how much energy was moving around due to meter point reconciliation each month, on a national level, to assess materiality to understand "direction of travel". This gives a view of whether reconciliation is always moving in one direction or whether it veers in one direction then the other.

#### Step 4

Graphed the results of Step 3 (separate tab) to provide a visual of how much UIG had moved each month due to meter point reconciliations. Each supply month only appears from the original month onwards, hence the jagged shape of the graph: November 17 only appears from November 17 onwards, and so on.

#### Step 5

For the total reconciliation to date for each original Supply Month, calculated the value to date of the reconciliation at average System Average Price (SAP) for the month and at either average System Marginal Price (SMP) SMP-Buy or SMP-Sell, depending on whether the net

movement was an increase in energy or a decrease. Daily prices were extracted from National Grid and flat daily averages were calculated, comparing the difference in value, as a percentage of UIG at SAP, to assess the scale of difference.

*Post Meeting Note: The spreadsheets are published at: [www.gasgovernance.co.uk/0661](http://www.gasgovernance.co.uk/0661)*

The Workgroup considered the data provided. GM noted that the materiality figure is again at an aggregated level therefore the extent to which the issue materialises for Utilita in particular becomes lost.

LH enquired about the average behaviours, and different transactions moving in different directions. It was recognised there will be winners and losers, and some shippers will behave differently within different markets.

LH challenged the behavioural assumptions and if a shipper within in an AQ band would behave significantly different to the average behaviour.

PL asked for clarity on what ultimately the spreadsheet is indicating. He asked if this is showing the total reconciliation of System Marginal Price and at which marginal rates, buy or sell?

SP believed this was specific to UIG, it is an initial assessment of UIG due to reconciliation activities, which cash out at different prices, dependent on the net movement of energy. SP pointed out this is only theoretical as UIG is not cashed out (calculated), this is simply a financial value and when it goes through reconciliation this would provide the proportional change i.e. what it might cost.

It was noted that the value is moving because the volume is moving around. SP clarified that there will be one price at settlement, and another price at reconciliation. Put very simply the difference is the change in value.

It was believed in summary that the spreadsheet analysis indicated, that since the start of Project Nexus, the average change in valuation of UIG Reconciliation volumes, when calculated as a flat average SAP compared to marginal rate, was dependent on energy volume direction and illustrated the monthly cost difference between UIG assessed for imbalance reconciliations.

SP further explained if starting at D+5 that for Reconciliation and UIG, the whole pot is UIG, until the Class 3 and Class 4 meter reads have come in. At this point UIG can be positive or negative.

RH asked GM for clarification on whether the data shown on the two spreadsheets in his view adequately illustrated the materiality as seen by Utilita.

LH suggested that the methodology used by Utilita when they internally assessed the issue as being material could be shared to allow other parties to understand the potential impacts for their portfolio too.

AK believed the ultimate aim is to change how things are done, to correct market behaviours, and encourage parties to purchase the correct amount of gas to support their customer's usage. He emphasised that there is a need to encourage the correct market behaviours.

RH suggested Utilita formulate a draft modification that they believe improves the current position and that the materially data that Utilita have, could be shared with Ofgem on a confidential basis to illustrate the materiality they have identified for their portfolio.

AK expressed concern that Utilita do not have the expertise or wider industry data or knowledge of the system to formulate a draft modification, and he had hoped the Workgroup would assist with its development. SP offered his assistance however he stressed this would be limited to providing advice and knowledge on processes, but it would not be appropriate for him to lead the industry on which particular route to take.

It was highlighted that the Request Workgroup Report can include any draft modification proposal which has been developed by the Workgroup in relation to the Request, and the

nature of a Request Workgroup is to assist with the development of any potential modifications.

PL believed the onus was on the Proposer to articulate the draft modification and to clearly set out what changes are required. AK expressed concern that Utilita do not have enough system knowledge to articulate some of the finer details that might be required, such as business rules and he looked to the Request Workgroup to provide some assistance. The Workgroup considered the most appropriate forum for developing the modification. PL suggested that once the modification has been formally raised, the subsequent Modification Workgroup can develop the modification further. SP suggested that the Distribution Workgroup may have the most appropriate expertise to provide Utilita with the support they needed. GM explained that the proposal had already been tabled at the Distribution Workgroup as a pre-modification but it was referred to a separate workgroup. PL suggested the reason for the referral was to better understand the materiality of the issue and possible solutions to address the issue before further consideration.

It was highlighted that ideally the Request Workgroup should sufficiently develop the draft modification which, when formally submitted, will allow the Modification Panel to determine what route the modification should take and the likely timescales required for any further assessment. It was pointed out that a standard Modification Workgroup should assess the merits of a submitted modification, considering if it can be implemented and whether it furthers the relevant objectives. However, PL believed that a Modification Workgroup was not simply about an assessment, he believed a Workgroup provides the industry an opportunity for developing modifications and solutions. PL was therefore keen to conclude the Request Workgroup Report as he believed the Workgroup was in a position to provide a recommendation on the optimum solution.

AK agreed to draft a modification and present this at the next meeting to enable the Request Workgroup Report to be concluded and submitted with an appended modification proposal.

PL explained that the draft modification would need to outline the principles of the framework and the suggested reconciliation process based on Solution C.

RH enquired if there was any information that Ofgem would find particularly helpful within the modification. MC had no strong views, however he highlighted that Ofgem would be wanting to understand the materiality of the issue.

AK stressed that Utilita would not want to share the analysis it has undertaken internally on how the reconciliation and cash-out prices impact Utilita due to the confidential nature and disclosure of commercially sensitive data. RH suggested that Utilita can provide any confidential analysis direct to Ofgem to support the need for the modification.

PL suggested Utilita look at the deliverables required and the extent of the solution that needs to be worked up. He suggested the request Workgroup Report will need a high-level overview of the options considered and identification of which is the preferred solution, building the draft modification on the recommended option.

### **3.0 Solution Review**

The Workgroup briefly discussed the pro and cons for each considered solution, it was anticipated that the resulting modification would be based on Solution C. This would introduce a new process after the reconciliation process using System Marginal Price Buy (SMPB) and Sell (SMPS) rates.

### **4.0 Development of Request Workgroup Report**

The Workgroup considered the amended Request from the 08 November Workgroup Meeting and agreed that the Request Workgroup Report would be based on this version.

The Workgroup Report was updated to capture recent workgroup discussions. It was agreed this would be considered further with a view to concluding the report when the draft modification was available.

It was agreed due the availability of meeting dates and availability of delegates to attend dates currently available that an extension should be requested to allow the completion of the Request Workgroup Report.

## 5.0 Review of Actions

**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 further solutions had been put forward. **Closed**

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

**Update:** See item 2.0. **Carried forward**

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

**Update:** PL clarified that will always be a marginal price because there is always a draft marginal price, if no trading taken place by the DNO on the day there is always a fall-back differential. **Carried forward.**

**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.

**Update:** See item 2.0. **Closed**

## 6.0 Next Steps

- Joint Office to Request an extension to the Panel reporting date.
- Utilita to draft a modification based on Solution C.
- Workgroup to finalise the Request Workgroup including the draft modification.

## 7.0 Any Other Business

None.

## 8.0 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
TBC	TBC	A further meeting will be planned in due course, The Joint Office will confirm details as they become available.

### Action Table (as at 23 January 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
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**Action Table (as at 23 January 2019)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
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	<b>Closed</b>
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)	<b>Carried forward</b>
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)	<b>Carried forward</b>
1101	08/11/18	2.0	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. Taken from <b>Action 1006</b> : Utilita (GMG) to confirm how the percentages are split in relation to the volume in each scenario.	Utilita (GMG) Total (LH)	<b>Closed</b>