

UNC Modification Panel
Minutes of Meeting 282 held on
Tuesday 07 December 2021
via teleconference

Attendees

Voting Panel Members:

Shipper Representatives	Transporter Representatives	Consumer Representatives
D Fittock (DF) Corona Energy M Bellman (MB) ScottishPower and on behalf of D Morley (DM) Oorlagh Chapman (OC) Centrica R Fairholme (RF) Uniper <i>from</i> <i>09:23</i> S Mulinganie (SM) Gazprom Energy	A Travell (AT), BU-UK D Lond (DL) National Grid NTS D Mitchell (DM) SGN G Dosanjh (GD) Cadent R Pomroy (RP) Wales & West Utilities T Saunders (TS) Northern Gas Networks	S Hughes (SH) Citizens Advice E Proffitt (EP) Major Energy Users' Council

Non-Voting Panel Members:

Chairperson	Ofgem Representative	Independent Supplier Representative
W Goldwag (WG), Chair	H Seaton (HS)	(None)

Also, in Attendance:

- D Wilkinson (DW), EDF Energy
- E Rogers (ER), Xoserve - CDSP Representative
- H Moss (HM), Cornwall Insight
- J Cox (JC), Energy UK
- K Elleman (KE), Joint Office
- L Slokar (LS), Ofgem
- M Bhowmick-Jewkes (MBJ), Joint Office
- P Garner (PG), Joint Office
- R Hailes (RH), Joint Office

Record of Discussions

282.1 Introduction

The UNC Modification Panel Chair (WG) welcomed all attendees to the Extraordinary Panel meeting, explaining that the meeting has been arranged to discuss whether Modification 0791 – *Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking* meets the Urgency criteria and to discuss potential consultation questions, as suggested by the Authority.

282.2 Note of any alternates attending the meeting

M Bellman on behalf of D Morley.

282.3 Record of apologies for absence

None.

282.4 Consider New Modifications

a) Modification 0791 – Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking

WG advised that Ofgem have requested the UNC Modification Panel to provide a view on whether Modification 0791 meets the Urgency criteria and recommend questions to be included in the consultation.

WG invited D Lond (DL) to introduce this Modification.

DL explained this Modification is a replacement for Modification 0789 - *Energy Balancing Arrangements During the Operation of a Supplier Undertaking to Transporters* and it introduces new arrangements to enable National Grid NTS (National Grid) to procure gas where, following the termination of a Shipper User providing shipping services to one or more Gas Suppliers, no new Shipper User is appointed and one or more of the Suppliers acts in accordance with its deed of undertaking until such time a new Shipper User is in place.

DL explained that Modification 0789 had been raised when Contract Natural Gas Limited (CNG) was failing as a Shipper User and the aim of the Modification had been to mitigate the impact of this failure on the gas market. DL noted that whilst the CNG failure had now been largely dealt with, this Modification is being raised with the aim to mitigate any similar scenarios in the future, as another Shipper failure is likely to have significant commercial impacts on the industry, for both the market and industry parties, leading to a potential exposure of over £800m.

E Proffitt (EP) indicated that the number of Urgent Modifications being raised recently was surprising. EP noted that this Modification did not appear to meet the Urgency criteria, advising that he believed the total risk with CNG's termination appeared to be around 6 mcm (Million Cubic Meters) and this was not a particularly large volume for National Grid to be concerned over.

DL responded to EP stating that EP's calculation of the volume at risk from CNG's termination was not accurate and this was much higher than 6 mcm. DL added that even if the total figure was 6 mcm, it was still a significant volume that would have led to a substantial financial exposure for the industry.

S Mulinganie (SM) advised that the Energy Balancing and Credit Committee had been monitoring the situation with CNG very closely over the past month and noted that if CNG had been terminated as soon as they failed, the exposure for one month to the industry would have been around £90m, which then would have to be neutralised across the rest of the market. SM confirmed that he believed this Modification met the Urgency criteria.

D Fittock (DF) noted that from a governance perspective, this Modification should not have to go through any further Workgroups as it had already been developed sufficiently through the discussions for Modification 0789. DF added that he believed the Modification was ready to be issued for consultation and that the industry were also cognisant of the solution being proposed. DF stated that considering this, alongside the current material risk to the gas market, he believed this Modification met the Urgency criteria.

SM agreed with DF's view.

P Garner (PG) noted that the Joint Office had been liaising at length with both National Grid and Ofgem, including discussing the timelines for the Modification, to ensure the Modification had the longest possible consultation period, allowing parties to share their organisations considered views.

R Pomroy (RP) stated that he was satisfied from listening to the discussions so far that the Modification sufficiently met the Urgency criteria.

R Fairholme (RF) joined the call, apologising for the delay. WG reprised RF of the discussions so far. RF was not able to participate in the vote as he had arrived too late.

WG noted that it appeared that Panel Members largely agreed this Modification met the Urgency criteria.

Panel Members then determined (13 Panel votes were available for the determinations):

- Modification 0791 meets meet the Urgency Criteria by majority vote. (11 out of 13)

WG informed the Panel Members that as the Urgency Criteria had been satisfied, Panel needed to consider the questions to include in the consultation, as per Ofgem's request, inviting Panel Members to share their views.

Please see the key points raised below:

- DF stated a question around the trigger levels would be beneficial.
- SM suggested a question seeking whether the proposed figures were justified , noting that there were no perfect figures.
- R Hailes suggested the following questions:
 - *Do you believe the trigger for commencement of the role at xxx is appropriate? If not please justify your answer.*
 - *Do you believe the trigger for ending of the role at yyy is appropriate? If not please justify your answer.*

- M Bellman (MB) suggested adding 'Do you have an alternative figure and why is this more appropriate' to the question. RH amended the question to read:

Do you believe the trigger for ending of the role at yyy (based on abc rationale) is appropriate? If not please justify your answer.

- SM stated that the exit criteria is based on clear principle and based on the smallest clip size, whilst the entry point is more difficult to pin down. SM suggested further clarification should be sought when asking the questions, noting that the question should include clarity that "yyy" is based on the minimum trading volume.
- RP stated that he had asked National Grid a number of questions, including whether it was within the remit of their licence to take on the proposed role and whether there was a potential conflict of interest in doing so. SM questioned whether these questions should form part of the consultation as National Grid has already discharged the obligation of the residual balancing role.
RP noted that it was important to understand which role was being fulfilled by National Grid and the impact on the system marginal price. DL clarified that National Grid's queries had already been answered.
RP agreed and advised that it did not appear that Panel believed these questions needed to be added to the consultation and withdrew them.
- RF stated that if he had joined the meeting on time, he would have wanted to discuss the governance process of the Modification and whether/how it could be expedited without entering the Urgency process. WG explained that the Modification had essentially been expedited through development of Modification 0789 prior to its withdrawal and was thus being recommended for Urgency status. RF accepted this explanation.
- MB suggested the following question:
 - *Do you believe that in para 6.3.4 "on an economic basis" i) has a legal definition and ii) provides insufficient protection to industry iii) could have any unintended consequences. Please provide an explanation of each response.*

MB said that the economic impact of this Modification could be unexpected and suggested it should be considered. RH noted that the phrase "on an economic basis" was part of the Modification Legal Text commentary rather than part of the Legal Text itself. MB accepted this but added that if National Grid's actions were not economic, the industry needed to consider how to protect themselves from its consequences. A Travell (AT) agreed with this view.

- SM suggested that perhaps the question should be around whether National Grid's actions were efficient rather than economic as the expectation was that National Grid would procure energy for the market as efficiently as possible.

SM and MB discussed this point and agreed perhaps both questions need to be asked in order to capture any unintended consequences from this proposal.

- H Seaton (HS), the Ofgem Representative noted that Ofgem had considered a number of questions, such as the impact to the market and the industry parties as part of Ofgem's Impact Assessment for this Modification.

HS added that whilst Ofgem were keen to make a decision on this Modification as soon as possible, if an Impact Assessment was required, it may likely delay the process.

PG clarified the next steps and the likely timetable for this Modification:

- Ofgem will be sent the Modification Panel's recommendations today (07 December 2021)
- Ofgem to make their decision on Urgency by 08 December.
- Consultation issued to industry by 09 December.
- Consultation close out date midday 24 December. PG noted, any late submissions will be marked as such and will not be included in the Final Modification Report (FMR).
- Joint Office to publish the FMR by 06 January 2022.
- Extraordinary Panel to be held on 12 January with FMR issued to Ofgem afterwards on the same day.

J Cox (JC) asked when was the earliest this Modification could come into effect, assuming Ofgem made their decision by the end of January and with a nine-week lead time for implementation.

DL explained that National Grid would like this Modification implemented as soon as possible, noting that they were already liaising with Xoserve to ensure this was possible. DL also noted a longer review of this issue is required post-Christmas and requested collaboration from the industry and Ofgem to ensure this was possible, adding that this proposal was only a short-term solution, and an enduring solution was required.

SM asked if Ofgem's questions could be included in the Panel Questions for consultation. PG agreed and advised that the final list of Panel Questions for consultation, including Ofgem's questions would be issued to Panel Members for review and approval by midday today.

WG invited E Rogers' (ER) views. ER advised Xoserve had been working closely with National Grid to develop the solution for this Modification and noted that they will be carrying out a Central Systems impact assessment. ER added that whilst Xoserve did not foresee any major challenges, the tight timescales, particularly around Christmas could be a potential issue. However, ER noted that Xoserve will keep National Grid and the industry apprised of any updates through the relevant DSC Committees. DL thanked Xoserve for their support.

JC asked if National Grid could undertake their role without the offline tool. DL explained that the offline tool is being developed at present so National Grid can be in the best possible place for implementation, adding it would probably not be required until eight weeks after the Modification was implemented.

JC noted this was not clear in the Modification and asked if this can be clarified so Shippers can understand the timeline better. DL noted there is an illustration of the timescales in the Modification itself, with the clarity being sought, in the solution and offered a separate discussion with JC to discuss any concerns.

WG noted that using the Urgency procedures on a regular basis, created difficulties and suggested that Panel Members needed to consider another option to raise expedited Modifications without the stringency of the Urgency procedures.

SM highlighted the following suggestion which he had previously raised as a suggestion to Panel:

During a National Emergency, as declared by the Authority, all Modifications that seek to mitigate the impact of the National Emergency will be considered as Self Governance Modifications. If such Modifications are approved for implementation by the Panel the implementation date will be no less than 1 day following said approval.

SM stated that in a “National Emergency” customers are put at risk and the industry faces significant exposure, that gets smeared across all industry parties. However, once the emergency passes, things go back to business as usual processes, and the underlying issues are not addressed.

PG advised that the expedited Modification process would be discussed at the next Governance Workgroup, scheduled for 05 January 2022, inviting all interested industry parties to attend the meeting.

Panel Questions:

1. Do you believe the trigger of 10,000,000 kWh for commencement of the CPoSD role is appropriate? This figure of 10,000,000 kWh is considered to be a reasonable threshold for action to be taken separately to residual balancing, given that the average absolute shipper imbalance on days when no residual balancing trades were undertaken by National Grid NTS over the period 01/10/20 to 30/09/21 was 13.3GWh/day and was 13.1 GWh/day over the same period when the system was short of gas. If not, please justify your answer - do you have an alternative figure and why is this more appropriate?
2. Do you believe the trigger of 100,000 kWh for ending of the role of the CPoSD is appropriate? A minimum volume of 100,000 kWh is proposed because this is approximately the minimum trade quantity available on the OCM. If not, please justify your answer.
3. Considering the new role for National Grid NTS of CPoSD and the need for economic and efficiency in decision making, do you believe that the wording in the commentary (see below) relating to UNC Section D 6.3.4 "on an economic basis"
 - i. has a legal definition,
 - ii. provides sufficient protection to industry or not and
 - iii. could have any unintended consequences or not?

Please provide an explanation for each response.

New paragraph 6.3.4	And when purchasing gas under paragraph 6 National Grid NTS will aim to do so on an economic basis.
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4. Do you have any views on an appropriate monitoring and audit process for this new CPoSD role?

The Ofgem Representative proposed the following additional questions:

5. What is the likely impact on consumers, industry, and the market if the status quo for Shipperless sites was maintained this winter (the status quo being National Grid NTS procuring the gas for Shipperless sites through Residual Balancing)? Please justify if you think it is necessary to have an alternative solution in place.
6. What is the likely impact – both positive benefits and negative consequences/risk – of Modification 0791 and the Contingency Gas Procurement Arrangements on consumers, industry, and the market?
7. What do you see as the costs and/or risks of National Grid NTS operating in markets outside of the OCM in this manner?

282.5 AOB

None.

282.6 Date of Next Meeting

10:00, Thursday 16 December 2021, by teleconference