

UNC Workgroup 0541/A/B Minutes
Removal of uncontrollable UNC charges at ASEPs which include
sub-terminals operating on a 06:00 - 06:00 Gas Day

Wednesday 02 September 2015

31 Homer Road, Solihull B91 3LT

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Andrew Pearce	(AP)	BP Gas
Anna Shrigley	(AS)	ENI
Charles Ruffell	(CR)	RWEST
Dan Donovan	(DD)	Xoserve
Dora Ianora*	(DI)	Ofgem
Francisco Gonçalvez	(FG)	Gazprom
Graham Jack	(GJ)	Centrica
Guy Hannay-Wilson	(GHW)	Chevron
Guy Witton*	(GW)	Chevron
Jeff Chandler	(JC)	SSE
Justin Goonesinghe	(JG)	National Grid NTS
Julie Cox	(JC)	Energy UK
Mads Neilson*	(MN)	DONG
Nick Wye	(NW)	Waters Wye Associates
Sophia Eng*	(SE)	EDF Trading
Steve Nunnington	(SN)	Xoserve
Terry Burke*	(TB)	Statoil
Thomas Grove	(TG)	Centrica
Tim Walls*	(TW)	Conoco Phillips

*via teleconference

Copies of all papers are available at: www.gasgovernance.co.uk/0541/020915

The Workgroup Report is due to be presented at the UNC Modification Panel by 19 November 2015.

1.0 Introduction and Status Review

LJ welcomed all to the meeting.

2.0 Minutes (06 August 2015)

The minutes of the previous meeting were approved.

3.0 Consideration of the Gas Day Working Group Report (provided by Waters Wye)

NW provided the Gas Day Working Group Report document for background information. He explained this document had been produced under the DECC working group to look at the effects of the options and the potential mitigating solutions that could be put forward. The paper looked at regulation, the subsequent effects on balancing, explored the ex-ante and ex-post approach and provided a recommendation.

4.0 Proposers Response to Initial Representation from National Grid NTS

AP provided a collective response from the proposers to National Grid's initial representation. He explained the system clearing balance risk, the Shipper exposure and likely charges.

AP clarified that Shippers will be exposed to an increased system clearing imbalance risk through no fault of their own. The Workgroup discussed the statement that Shippers who do not have input allocations at the affected NTS entry point may incur additional financial risk. AP explained the opposite would happen, National Grid NTS would be smearing the negative/positive impacts of synthetic imbalance charges. It was believed that none 6-6 terminal Shippers could be benefiting from the proposed arrangements as well as being impacted.

JG explained that the gas day imbalance is a real imbalance. NW suggested this is an accounting issue, as the actual flows will not be changing. It would be an inappropriate accounting translation when the gas is going to arrive within the next hour.

NW added that Shippers will have no control or any knowledge of what imbalance may occur and it is an unreasonable situation to expect Shippers to become exposed to risk they can not control. DI questioned the difference compared to other elements such as the weather variable, which is also out of Shipper control, and why this would be different to downstream. NW explained the Shipper allocation process and that the allocation is outside of their control where as weather can be responded to. He emphasised a Shipper cannot in any way pre-determine the allocation. DI enquired if some extrapolation could be undergone using algorithms. TG explained that it is not possible for Shippers to know what other Shipper parties are doing. FG challenged if Shippers are not going to know what the result is going to be why should the algorithm apply.

JC explained that upstream contracts have built in tolerances; if/when these tolerances are close to the edge parties may face an imbalance after the day.

NW's view was that the change to gas day placed a new risk on Shippers, which they have no control over. He emphasised there is no downstream contract to control the risk, there are many unknown variables and Shippers will not be able to make any compensatory actions to try and reduce the impacts as the information will only be known after the event.

It was clarified that Shippers who undertake one-day trades will not be exposed to imbalance risks but will in effect see the day reduced to 23 hours. Shippers who undertake two-day trades will be exposed to imbalance risks.

JC enquired about the current trading volume breaches to better understand the extent of the issue. She believed it would be worth making sense of the costs and benefits. It was believed that this information could not be determined, since only the final volume data is available and not the total traded volume.

LJ reminded parties of the process for assessing the modification. He explained that the scope of the Workgroup is not to challenge if the modification is right or wrong but to consider if the modification is feasible and what the impacts would be upon implementation. He highlighted that parties will have an opportunity to express any other view during the consultation phase and asked the Workgroup to concentrate on assessing the impacts of the proposals.

AP highlighted there may be a conflict between the 3rd Energy Package and the Balancing code. He explained that if the balancing code was followed to the letter parties would be in breach of the 3rd Energy package. He confirmed that an external legal opinion had been sought and the legal opinion suggests parties will be in conflict. JC asked if this stems from the fact that there are small adjustments to SAP to create SMP Sell. She believed that, if there are no balancing actions, it will be cost reflective.

NW acknowledged balancing charges are an incentive to target Shippers, but it is not appropriate if this incentive is misaligned or there is no manoeuvrability. He emphasised that the cost incentives need to be correctly aligned.

JG suggested the workgroup needed to consider if the imbalance charges are removed would the incentive to balance be removed. AP clarified that Shippers are not suggesting

the removal imbalance charges across the board. NW explained that this is only suggested for what can be controlled and cannot be controlled. FG believed Shippers cannot be out of balance in theory for simply 1 hour when comparing the gas days, this is in essence a synthetic imbalance.

JG explained system operations have to make decisions on imbalances and line-pack and it will be difficult for system operators to determine what is a real imbalance and a synthetic imbalance.

The Workgroup discussed the incentives to balance further. FG believed there would still be an incentive to balance but Shippers shouldn't be deemed to be out of balance within the hour. It was suggested that National Grid NTS needed to articulate the hour imbalance, how NTS will be out of balance, the significance of the imbalance and if there are any mitigating actions.

The Workgroup discussed the different decisions, which are made throughout the gas day and the requirements to maintain line-pack. The Workgroup also considered controllable and uncontrollable imbalances, it was agreed there was a distinct difference in the imbalance.

JC believed that National Grid NTS will have information to take a view and everything is not going to drop to zero. NW explained that National Grid NTS would not be undertaking any actions within the hour; the balancing actions will not take place until the end of the day.

It was agreed that National Grid NTS should articulate how the system could be out of balance and how the imbalance would be managed.

Action 0901: National Grid NTS to articulate how the system could be out of balance and how this would have to be managed.

AP enquired if there would be a negative impact on competition or a disincentive for new entrants as a result of the costs associated with the synthetic, or uncontrollable, imbalance. NW enquired about possible cross-subsidy for 6-6 terminals subsidising 5-5 terminals and if it is correct to charge an hours energy neutrality. The Workgroup considered the overall effect of any cross-subsidy; if the direct cost is significant enough to justify a modification; if there would be a deterrent to participate in beach trading or new entrants due to the scaling. The Workgroup believed this would depend on the point of view on the barrier to entry. LJ suggested that new entrants would be able to price for any additional risk at the point they enter the market. He suggested the real impact would be on competition as it could drive prices up. The Workgroup agreed to assess and capture views on the effects on competition and the incentives to balance.

The Workgroup considered the draft Gas Day Working Group Response to National Grid Letter provided by BP. The Workgroup briefly considered the document drafted by BP lawyers, which revisited some of the key themes previously discussed.

LJ suggested using the content of the document to incorporate into the Workgroup Report and including the views expressed in National Grid NTS' letter along with the counter arguments. GJ was also keen to include a legal view from Ofgem; DI hoped to provide this.

LJ suggested the Workgroup explicitly considers the issues identified in National Grid NTS' initial representation and response within the Workgroup Report. FG also wanted to see a legal view before the report was presented to Panel, in case there are any show stoppers. DI would endeavour to provide a legal view in time for the Panel's consideration. NW suggested DECC may have a view and agreed to liaise with DECC to obtain some views on the modifications.

LJ encouraged parties to provide any counter views for inclusion in the Workgroup Report.

The Workgroup considered the Modification 0541 Costing Model, Excel spreadsheet provided by BP, which was essentially the 'do nothing' cost impacts. AP explained the spreadsheet functionality.

The 1st example was an illustration over two days and what the shipper typically sees after the day, with no imbalance.

The 2nd example was an illustration of what the imbalance charges would be, with nominations, buying, and some scaling.

The Workgroup discussed the SMP buy and SMP sell rates. DI enquired how beach traders trade up and if they make short-term trades, do they negotiate price, and what the flexibility is. TG explained that trades could be done over different trading periods, traders trade with traders, and traders trade with producers. NW explained that traders de-risk everything they can, in essence they prefer complete control and any risk on the balance sheet makes them nervous. He suggested there could be a dis-incentive to trade, he clarified it wont prevent trades but there could be a dis-incentive to trade due to the risk of being out of balance.

The workgroup considered adding the illustration to the Workgroup Report to demonstrate the time shift effect. LJ suggested the spreadsheet could be expanded to demonstrate what will happen with the three examples.

FG provided a further Cost Benefit Analysis spreadsheet, which looked at the flows for every sub-terminal. FG provided a summary of the spreadsheet to show the effects of the modifications, which was currently believed to be of the order of £400k per annum. FG agreed to conclude the spreadsheet and either compress or separate it by terminal for publication. A summary table would be required for inclusion in the WG Report.

Workgroup also considered the Modification 0541 Cost Benefit Analysis Methodology document provided by Gazprom, which summarised the key points for the spreadsheet.

Action 0902: Gazprom to conclude the Option B Cost Benefit Analysis spreadsheet and compress per terminal.

Action 0903: Gazprom to provide a summary of the information contained within the Option B Cost Benefit Analysis spreadsheet for the Workgroup Report.

Action 0904: National Grid NTS to refresh the DECC Working Group analysis (October 2014 – July 2015).

It was suggested a diagram is produced to try and demonstrate the effect on Shippers who are either long or short. And to consider for those shippers who are long if the receiving money is sufficient. GHW also wished to understand the pricing methodology around SAP. It was agreed the Workgroup Report should explain why SAP is relevant for imbalance positions. FG explained the price differentiation between the SAP prices and imbalance prices.

Action 0905: Shippers to provide an illustrative view on imbalance effects on Shippers (model showing some shippers short, some shippers long).

Action 0906: Summary on the use of SAP prices to be articulated for the Workgroup Report.

5.0 Development of Workgroup Report

LJ provided a proposed format for the Workgroup Report. He requested that National Grid NTS consider and provide more information on the likely costs of implementation and further consideration is given on the justification for User Pays and how it should be charged to industry participants.

Action 0907: National Grid NTS to consider and provide justification for User Pays.

LJ requested if any parties had any contributions to provide these.

SN confirmed that detailed business rules would be required to allow Xoserve to consider the required systems changes. NW believed ex-post would be the simplest option. SN explained from a Xoserve perspective the simplest option would be a post invoice correction due to the timings involved.

NW believed it wouldn't be efficient to build business rules for all 3 modifications; he suggested the Workgroup should take a view from Xoserve on the simplest option.

NW summarised the main intent for each modification:

0541 - is primarily about manipulating the UDQI, The Claims Validation Agent (CVA) will have 6-6 data which will become 5-5. National Grid NTS will be presented with a UDQI and will need to work out the individual shipper imbalance. DD explained that the system can over-ride the UDQI but can only have one UDQI– this option corrects 6-6 to 5-5. The difference between 5-5 and 6-6 is not required for this option. This option could also work outside of the system. There were no perceived costs for this option; the work required was for the file flow for an input allocation into Xoserve. JG explained that the data would flow from IGMS to Gemini. The definition of the input into the balancing code needs to be considered. NW believed this was the simplest system option but most difficult in terms of legalities, hence the need for an early Ofgem/DECC view. This option would correct the invoice before it is issued and wouldn't show how the figure is derived.

0541A – is primarily using the 5-5 UDQI data as currently however prior to the imbalance charges being levied the system will calculate the synthetic imbalance. For this solution the data that needs to be made available will be the 5-6 and 6-6 hour bars, with some further calculations. The 5-6 data/volume will need to be stripped out (ie. the imbalance taken out of the system – and the charges set to zero). This option corrects the invoice within same month. DD explained this would need to be an end-of-month process. He explained the 4 day close out window and that it would be challenging to undertake manual adjustments within the 4 day window for every user and every terminal. 2 hours would be required for each adjustment. Consideration would need to be made on systemising the process and cost. LJ asked could an adjustment figure be provided to adjust at source. Could the same effect be made working out what the adjustment is. JC explained the need to consider over-runs. DD confirmed the system is currently not able to recognise an adjustment. Xoserve currently gets the 5-5 data and an adjustment figure for Xoserve to apply. The system cannot cope with two values at the moment. Clear business rules would be needed for Xoserve to understand the potential system changes required and then assess how long it would take to develop and assess the cost of changing systems. Xoserve would need to understand all the data feeds. This option corrected the invoice within same month. NW believed this was the most compliant but most difficult to achieve option.

0541B – primary extrapolates the 5-5 data and 6-6 data similarly to 0541A however instead of correcting the UDQI this would involve a post neutrality charge adjustment. There would be a cash-flow impact with this option. It was perceived that this option could use current systems but further investigation would be required.

SN explained that for all solutions parties would need to consider what data or supporting data they would require in invoices.

DI enquired about the use of reasonable endeavours in the Solution, which is referenced in the TPD Section C component.

Action 0908: Proposers to reconsider the reasonable endeavours element of the modifications.

Action 0909: Shippers to consider what data or supporting information they would require for the invoices.

LJ suggested an offline meeting with proposers and Xoserve to thrash out the details of the business rules would be required ahead of the next WG meeting.

6.0 Next Steps

LJ believed at least one month possibly a further two months might be required after formulating the business rules to conclude the Workgroup Report. LJ suggested the Workgroup consider the requirement for a Panel extension in October.

It was agreed to proceed with a monthly meeting schedule, with the intention of having a set of business rules to consider at the October meeting and consider the potential costs and legal text in November.

7.0 Outstanding Actions

0801: *Working group report on the allocation mismatch* - Provide for publication.

Update: Post meeting note provided within the 06 August minutes. Working Group report published at <http://www.gasgovernance.co.uk/0541/020915>). **Closed**

0802: *Initial Representation* - Proposers to provide their responses.

Update: AP provided a response to the initial Representation from National Grid NTS – published <http://www.gasgovernance.co.uk/0541/020915>. See item 5.0. **Closed**

0803: *Draft Business Rules* - To be provided for each solution.

Update: Consideration due 06 October. **Carried forward**

0804: *Costs/benefits* - To be quantified and provided for each solution.

Update: Consideration due 05 November. **Carried forward**

8.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00, Tuesday 06 October 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> • Cost Benefit Analysis review • Legal view on key issues and compliancy • Business Rules • System solution options • Development of Workgroup Report
10:00, Thursday 05 November 2015 (<i>within Transmission WG</i>)	ENA	<ul style="list-style-type: none"> • Cost / Benefit Analysis • Development of Workgroup Report • Consideration of Legal Text
10:00, Thursday 03 December 2015 (<i>within Transmission WG</i>)	ENA	<ul style="list-style-type: none"> • Conclusion of Workgroup Report

Action Table (02 September 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0801	06/08/15	2.1	<i>Working group report on the allocation mismatch</i> - Provide for publication.	Waters Wye (NW)	Closed
0802	06/08/15	2.1	<i>Initial Representation</i> - Proposers to provide their responses.	BP Gas (AP), EDF Trading (SE), and Gazprom (FG)	Closed
0803	06/08/15	2.1	<i>Draft Business Rules</i> - To be provided for each solution.	BP Gas (AP), EDF Trading (SE), and Gazprom (FG)	Carried forward
0804	06/08/15	2.1	<i>Costs/benefits</i> - To be quantified and provided for each solution.	BP Gas (AP), EDF Trading (SE), and Gazprom (FG)	Carried forward / Closed
0901	02/09/15	5.0	National Grid NTS to articulate how the system could be out of balance and how this would have to be managed.	National Grid NTS (JG)	Pending
0902	02/09/15	5.0	Gazprom to conclude the Option B Cost Benefit Analysis spreadsheet and compress per terminal.	Gazprom (FG)	Pending
0903	02/09/15	5.0	Gazprom to provide a summary of the information contained within the Option B Cost Benefit Analysis spreadsheet for the Workgroup Report.	Gazprom (FG)	Pending
0904	02/09/15	5.0	National Grid NTS to refresh the DECC Working Group analysis (October 2014 – July 2015).	National Grid NTS (JG)	Pending
0905	02/09/15	5.0	Shippers to provide an illustrative view on imbalance effects on Shippers (model showing some shippers short, some shippers long).	Shippers	Pending

Action Table (02 September 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0906	02/09/15	5.0	Summary on the use of SAP prices to be articulated for the Workgroup Report.	Workgroup	Pending
0907	02/09/15	6.0	National Grid NTS to consider and provide justification for User Pays.	National Grid NTS (JG)	Pending
0908	02/09/15	6.0	Proposers to reconsider the reasonable endeavours element of the modifications.	BP Gas (AP), EDF Trading (SE), and Gazprom (FG)	Pending
0909	02/09/15	6.0	Shippers to consider what data or supporting information they would require for the invoices	Shippers	Pending