

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 09 December 2015

Elxon, 350 Euston Road, London NW1 3AW

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrea Bonzanni	(AB)	EDF Trading
Andrew Pearce	(AP)	BP Gas
Anna Shrigley	(AS)	Eni
Charles Ruffell	(CR)	RWEST
Dora Ianora	(DI)	Ofgem
Francisco Gonçalves	(FG)	Gazprom
Graham Jack	(GJ)	Centrica
Julie Cox	(JC)	Energy UK
Lucy Manning	(LM)	Gazprom
Marshall Hall	(MH)	Oil & Gas UK
Nick Wye*	(NW)	Waters Wye Associates
Phil Lucas	(PL)	National Grid Transmission
Richard Fairholme	(RF)	E.ON
Steve Nunnington	(SN)	Xoserve
Thomas Grove	(TG)	Centrica

**via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0541/091215>

The Workgroup Report is due to be presented at the UNC Modification Panel by 18 February 2016.

1.0 Review of Minutes and Actions

1.1 Minutes (10 November 2015)

The minutes of the previous meeting were approved.

1.2 Actions

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

Update: In preparation. **Carried forward**

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

Update: Provided and published for this meeting. PL drew attention to the revised 'Absolute Residual Imbalance Costs' (reduced) figure, noting that one terminal had been split, and reiterated the basis (data, figures) on which the analysis had been performed.

A suggestion that further analysis might be done using periods of higher volatility than had been experienced over the last few years (to assess potential impacts), or an additional year prior to the two currently used, was considered and briefly discussed. It was concluded that this would not add much value to the position and would not be pursued. It

was suggested that it be clearly noted that the estimates were produced at a time of low volatility. **Closed.**

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

Update: Completed. **Closed.**

1001: MH and Shippers to investigate compiling evidence with regard to the 5-5 and 6-6 Gas Day data from the Terminals and scaling factors with regard to the aggregation data.

Update: Work is continuing. **Carried forward**

2.0 Amended Modification(s)

2.1 Modification 0541

None provided. No discussion.

2.2 Modification 0541A

None provided. No discussion.

2.3 Modification 0541B

Prior to considering the draft revised modification provided by FG, attention was drawn to a short paper outlining National Grid NTS' views in respect of the presentation "Explaining how long and short imbalances work with application of Option A Gas Day algorithm" made by Gazprom at the previous meeting. PL gave a brief overview of National Grid NTS' interpretation of the points covered, and FG responded with further detail and explanation of Shippers' perceptions in respect of uncontrollable factors, the unpredictability of what the imbalance might be, etc.

MH pointed out that there was an intrinsic variability in hydrocarbon flows from hour to hour, minute to minute, and explained in more detail. Upstream parties provide data to the best of their ability on factors which affect the flows but it is not always predictable, and, for various reasons, not all information can be known by all parties (potentially indirectly affected) at all terminals. The risk rises if there is more than one Shipper and it takes gas from more than one field. Option A increases the risk of variability, as does the differing times.

Some example scenarios were talked through. There might be a particular exposure for parties who trade. TG observed there was no process that could be put in place to minimise/reduce exposure. It is unpredictable and uncontrollable, unless there was some dramatic release of sensitive information at terminal level, whereby all Producer information should be known to all Shippers otherwise parties would continue to be affected by factors without their full knowledge, and therefore outside their control, effectively preventing them from taking any appropriate mitigations. Processing contracts and planned/unplanned maintenance contribute additional variations in flows.

Imbalance scheduling, overrun charges and the impacts on the liquidity of the market were briefly discussed. Shippers may have to take measures which ultimately result in the passing on of extra costs to customers. Capacity overrun charges at certain points and in certain circumstances could be quite considerable and could limit trading.

PL reiterated National Grid's perception that to have to rework charges twice over (its balancing, rerunning of) was inefficient. It was observed that to have a split Gas Day was also inefficient. From these discussions it was clear there were probably two different strands for debate and examination relating to inefficiency - one for National Grid NTS and one for the market.

FG noted DI's advice that it should be clearly indicated/demonstrated why such unpredictability upstream is different to downstream.

Draft Amended Modification

FG had provided a further draft for consideration and explained the changes he had made following the previous meeting.

It was suggested that it would be helpful to have worked examples to illustrate how it might work and to demonstrate the effects of timeshift overruns if applied, etc. Diagrams would help to make clear what any consequences might be. It was felt that these would be best included in the Solution section 'for illustrative purposes'.

Participants noted the explanatory paragraphs in the Solution; on balance it was believed to be more appropriate to remove any potential references to defined terms or to specific requirements that might make the production of Legal Text unduly difficult. A Solution with Business Rules and illustrations (that clearly explain how the Solution works) was felt to be a preferred way forward.

In considering the requirement on Shippers to provide historic data to enable retrospective application of any adjustments, it was suggested that clarity in respect of timeframes was required, and how any non-compliance by Users to provide information would be dealt with.

FG noted comments and suggestions for further consideration.

3.0 Business Rules

3.1 Modification 0541

AB indicated that he would confirm internally what progress was being made.

3.2 Modification 0541A

AP advised that draft Business Rules had been produced and were currently under review by National Grid NTS, following which they would be provided to the Joint Office for publication.

3.3 Modification 0541B

The Business Rules had been largely agreed, as published for the previous meeting. LJ asked FG to ensure these were included in the Solution section of his amended modification.

4.0 Systems and Costs Update

SN advised that, due to other system build commitments, work could not start on the ROM until February 2016, with an estimated delivery in May 2016.

LJ suggested that, since this situation was unavoidable due to abnormal demands on system development, the workgroup should proceed with its assessment work and, when completed, take a view at that time on whether to submit its Report to Panel without costs.

5.0 Development of Workgroup Report

The draft Workgroup Report v0.4 was reviewed. LJ drew attention to the changes made since the previous meeting.

User Pays

LJ explained that arguments had been presented by the Proposers and National Grid NTS, for and against User Pays, and that he was going to draw a line there since the decision was outwith the UNC Modification process and there was enough information already included to inform parties of the issues. PL requested that an additional section comprising an extract from the User Pays guidelines be included. LJ felt that this was not required for the same reasons and confirmed that it would not be added to the Report.

It was recognised that more work was required relating to costs.

Relevant Objectives

LJ explained that this could only be completed once all of the impacts were clear. A placeholder for Relevant Objectives d) and g), explained against each of the Alternates, was in the draft Report.

Impacts on charges and neutrality

DI expressed concern that it could be the parties not attending these meetings that would actively experience an impact (invoicing, etc), hence the Report needed to clearly set out how *all* parties would be affected. FG will review the Business Rules to clarify how all is expected to work.

Justification for Retrospectivity

This required clear explanation/detail. It was noted that industry discussion had been ongoing for many months.

As an example for the Proposer's reference/consideration, LJ drew attention to Ofgem's Criteria for Urgency and Retrospectivity, which is available on both Ofgem's and the JO website, and Modification 0560, which included a retrospective element and had recently been approved for implementation by Ofgem.

Cost/Benefit Analysis

It was suggested that the figures quoted in paragraph 2 were conservative estimates, and should be reconsidered. It was observed that daily price volatility had been very low for the last couple of years.

FG will consider including the overall figure, and then splitting out into separate components to give a more detailed picture.

Attention was then drawn to the Scheduling Charges table on page 35, and FG explained the figures. TG observed there might be an ASEP effect to be taken into account as some elements cannot be split out. There may be a combination effect(s) across a number of terminals.

Appendices 3 and 4

FG indicated he would check the relevance of these tables, with a view to removing them or providing an explanatory narrative.

6.0 Legal Text

For Modification 0541B, draft text will be prepared. For the other Alternates, preparation will start once the Business Rules have been provided.

7.0 Next Steps

LJ confirmed the next steps.

The draft Workgroup Report will be updated to reflect today's discussions/expressions of views and republished as version 0.4 with today's date for the next review.

Proposers were reminded that the progression of the Report for these modifications was largely in their hands. LJ believed that the Impact Assessment was substantially complete, with finessing of the messages now the priority, however not much more could be done until the Business Rules were complete and then there was a further period of time needed to produce and finalise Legal Text before final conclusions on the Relevant Objectives could be reached.

Modifications 0541, 0541A and 0541B will be revised as appropriate. Additional content for the Impact Assessment in the Workgroup Report should be provided to the JO no later than 11 January 2016.

Recognising this outstanding work, LJ will request that the UNC Modification Panel agree an extension to the Workgroup's reporting date, i.e. to April 2016.

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
10:30 Tuesday 19 January 2016	31 Homer Road, Solihull, West Midlands B91 3LT	<ul style="list-style-type: none"> • Business Rules • Legal Text • Development of Workgroup Report
10:30 Tuesday 16 February 2016	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<ul style="list-style-type: none"> • Legal Text • Completion of Workgroup Report

Action Table (09 December 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
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
0904	02/09/15	5.0	National Grid NTS to refresh the DECC Working Group analysis (October 2014 – July 2015).	National Grid NTS (JG)	Closed
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	Closed
1001	06/10/15	1.0	MH (Oil & Gas UK) and Shippers to investigate compiling evidence with regard to the 5-5 and 6-6 Gas Day data from the Terminals and scaling factors with regard to the aggregation data. <i>Update 10 Nov: JG to assess how the data can be gathered.</i>	Oil & Gas UK (MH) & Shippers	Carried forward