

UNC Workgroup 0582S Minutes

Amendments to reflect separation in legal ownership of NTS and National Grid owned LDZs to facilitate the sale of National Grid's Gas Distribution Business

Thursday 26 May 2016

at Consort House, 6 Homer Road, Solihull. B91 3QQ

Attendees

Andy Clasper	(AC)	National Grid Distribution
Bob Fletcher (Chair)	(BF)	Joint Office
Chris Warner	(CW)	National Grid Distribution
Colette Baldwin	(CB)	E.ON UK
Colin Blair*	(CBI)	ScottishPower
Dave Addison	(DA)	Xoserve
David Bryne	(DB)	National Grid Distribution
David Mitchell	(DM)	Scotia Gas Networks
David Tennant	(DT)	Dentons
Edd Hunter	(EH)	RWE npower
Fraser Mathieson	(FM)	Scotia Gas Networks
Gareth Evans*	(GE)	Waters Wye Associates
Jon Dixon*	(JO)	Ofgem
Karen Visgarda (Secretary)	(KV)	Joint Office
Kirsten Elliott-Smith*	(KES)	Cornwall Energy
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE
Naomi Nathanael	(NN)	Plus Shipping
Phil Lucas	(PL)	National Grid NTS
Richard Pomroy	(RP)	Wales & West Utilities
Steve Mullinganie	(SM)	Gazprom
Steve Nunnington	(SN)	Xoserve
Suchitra Hammond*	(SHa)	Ofgem
Sue Higgins	(SH)	National Grid Distribution

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0582/260516>

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 June 2016.

1.0 Outline of Modification

CW introduced the modification and overviewed the detail in the '*Amendments to reflect separation in legal ownership of National Grid NTS and Distribution Networks (DNs) to facilitate the sale of National Grid's Gas Distribution Business*' presentation'. He described the various changes that would be required in relation to the Gas Distribution Sale and explained the NewCo would now be known as 'National Grid Gas Distribution Limited'. He then moved on to explain the associated and limited impacts this sale would have on the Industry. CW high-lighted these changes, which would include; Asset and Licence transfer, the Hive-across arrangements for 01 October 2016, and changes in relation to Credit Risk.

He explained the previous Blackwater Project in relation to the DN Sale in 2005, had much of the same internal work, as this particular modification, so a large percentage of the work, had already been previously carried out during that sale process and shouldn't be contentious.

DT further explained that from a Legal perspective, new rules were being developed regarding the 'Rights and Obligations and Transitional Rules. RP asked what would be the new process in relation to the Shippers Lawyers and Legal teams and associated timelines. DT explained there would be a new Shipper Framework Agreement, which would be the same as the existing agreement, which all Shippers would need to sign prior to the separation 01 October 2016.

CW high-lighted that the changes to the 'Changes in Credit Risk Provisions' were going to be addressed via a separate modification, which would run in parallel with modification 0582S.

SH then provided a broader context to the sale via the presentation entitled 'National Grid Gas Distribution Sale, Context for UNC Workgroup', explaining that she had worked on the previous DN Sale in 2005 and reiterated CW comments on the similarity of the process to be followed, highlighting it was preparation for a change of ownership, moving from one legal entity to another.

Moving on, she overviewed the Ofgem Consultation issues that had been raised, which were currently being addressed, which included the following:-

- **Joint Office of transporters**
 - No change to existing obligations or resourcing
- **Backstop Meter Provider of Last Resort (BMPOLR)**
 - NG to retain BMPOLR obligation
 - No change to contracts with suppliers or delivery of service
 - Services continue to be provided by National Grid Metering Limited – not part of sale
- **0800 Gas Emergency Call Centre activity**
 - Low risk option – remain within the existing organisational structure already undertaking the activity (Distribution based at Hinckley)
 - Service to be provided by the same personnel and using the same emergency number
 - HSE has agreed in principle to the change although there will need to be changes to the National Grid safety case and creation of a NG Distribution Safety Case
- **Xoserve**
 - NGG's shares in Xoserve in respect of Distribution will pass to the new NG Distribution company

SH then overviewed the following areas that had been raised by Stakeholders in relation to the sale.

Transparency of costs and benefit to the consumer

- No change to the existing RIIO price controls; which will be preserved
 - Consumers will continue to be protected and share in the benefits of the RIIO GD1
- **Knowledge and skills of the new Gas Distribution company**

- Existing Gas Distribution staff to transfer to the new company
- Assessing support service requirements to ensure required skillset transfers over
- **Implications for Highways Work (ETON system)**
 - Systems and processes to transfer to the new Gas Distribution company
 - NGG will ensure the continuity for the processes which remain within NG
- **National Audit Office (NAO) Report**
 - Focus is more on the regulators processes to ensure benefits of comparative competition realised

Overviewing the timeline schematic, SH explained that this was an indicative timeline from Ofgem and the consultation process was still taking place, with further a consultation period to be undertaken in July to September, with the consent provided for the asset transfer to take place on or around 01 October 2016.

SH said any comments and feedback should be sent to the email address:-

Box.GDxhaveyoursay@nationalgrid.com

A lengthy general discussion then ensued and RP asked why a TSO would want to provide a Back-Stop Metering service when it had no LDZ meters, what was the rationale behind this thinking. SH said that in order to keep change to the minimum, a separate Metering Licence was not going to be developed, as the metering part of the business was not for sale. SM then asked if this was Ofgem's thought process, what would happen if something went wrong from a Shipper perspective, then they would have to contact the Transporter, and this area would not naturally sit with the Transporters. Both SM and CB proposed that this did not fit in the NTS arena, and they had concerns that National Grid NTS did not have an interest in the Domestic sized Metering, how would they be accountable if something went wrong. SH explained that the rationale behind this decision was to have one licence for the distribution part of the business and metering was managed through a different NG business i.e. National Grid Metering which would undertake the metering activities for National Grid.

CW moved on to overview the Workgroup Report and DT focused on the specific changes from a Legal perspective, including the Transition document, drawing attention to the amendments and proposed changes.

SM requested clarification in relation to the Credit Risk changes and the potential associated impacts from a financial perspective, as to how these changes would impact on the Shippers. CW explained that the Credit Risk related modification would be raised in time for the June Panel, and due to the complexity involved, he was not sure if it would be treated as Self-Governance. He explained the complexity was surrounding the Value of Risk (VAR) and how that would be calculated from a NG NTS and NG Distribution perspective, post Hive-across. There would be a reduced VAR for each business and Shippers would need to allocate credit to each, as invoices issued prior to hive-across would become due in October 2016. In relation to this, CW explained there was a risk that the Transporters could be in 'breach' of UNC on 01 October 2016 and the proposed Credit modification was to provide transitional rules to ensure the continuity.

SM requested specifics on how the Credit Risk would be split across each business and how would this be managed so that Shippers did not need to put in place additional security to manage transition and to meet the needs of an NG structural change. SH said she was preparing a document to explain this. CW proposed all the Shippers Credit teams review the draft modification provided and it would be beneficial if they could provide comments prior to the next meeting. He also said he would arrange for a Credit Manager to be present at the next meeting to explain in depth the complexities and impacts. It was

suggested that the Shippers Finance Managers should attend the next meeting on 23 June 2016 to address any issues or concerns.

DT then overviewed the changes in the Transition Document including the Transportation Adjustments, in relation to the invoicing. SM wanted to know from a historic reconsolidation perspective if this impacted on his credit cover from the TSO relationship, as he could be exposed by having to have two separate financial splits for credit. SM requested assurance that the Shippers would not be liable for any of exposure of this kind. CW agreed to take this action and provide feedback at the next meeting.

DT then continued to overview the Code Communications, Invoicing, Transportation Charges and Modification Rules sections in the Workgroup Report. BF proposed a commentary table to be added to assist in the understanding of the Legal text, CW agreed this would be added.

GE asked in relation to the Shipper Framework Agreement, what would happen if a Shipper did not sign the contract or had a dormant licence prior to 01 October 2016. DT said previously this had not presented an issue, as the all Shippers had been and would be given, in this instance, a long lead-time with which to sign. He also said if there was no signature, then there would be no contract in place between the Shipper and NG Gas Distribution. GE said that there was not formal mechanism in place to address this issue, should it occur. SM also said that the Shippers were already registered anyway, so how would that be managed in a non-signatory situation. SH said this would be dealt with on a case by case basis and addressed regarding the specific circumstances, and she reiterated that this issue had not arisen previously and that NG had an active stakeholder process in place to manage this situation. SM said this was not a satisfactory answer and he wanted confirmation in writing that there would be no 'knock on' effect to parties who have signed, cause by other Shippers not signing, together with any costs incurred by the industry due to this issue. DT agreed to make investigations and provide feedback accordingly.

Action 0501: National Grid Distribution (CW) to investigate the Credit Limits affects of the proposed Credit Risk modification to confirm no credit risk from a historic reconciliation perspective.

Action 0502: National Grid (CW) to provide a detailed and comprehensive response regarding the risks of a Shipper not signing the contract.

General discussion took place surrounding whether Modification 0582S should be self-governance. SM proposed that it should not be and CB also suggested that both this modification and the proposed Credit Risk modification should run in parallel, as they are both intrinsically linked.

2.0 Initial Discussion

2.1. Initial Representations

None received.

2.2. Workgroup Report

BF confirmed that Panel had asked for the text by the 10 June 2016 and that the legal text was already incorporated. He noted some participants concerns that this modification and the Credit Risk Modification run in parallel, and be submitted for consultation together, and he updated the draft Workgroup Report.

3.0 Next Steps

BF confirmed that the modification would be discussed next on 02 June at the Transmission Workgroup and that the Workgroup report would be published following this meeting.

4.0 Any Other Business

None.

5.0 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 Thursday 02 June 2016	Elexon, 350 Euston Road, London NW1 3AW	Detail planned agenda items. <ul style="list-style-type: none"> Development of Workgroup Report

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0501	26/05/16	1.0	National Grid Distribution (CW) to investigate the Credit Limits affects of the proposed Credit Risk modification to confirm no credit risk from a historic reconciliation perspective.	National Grid Distribution (CW)	Pending <i>Transferred to Distribution Workgroup 23/06/16</i>
0502	25/05/16	1.0	National Grid (CW) to provide a detailed and comprehensive response regarding the risks of a Shipper not signing the contract	National Grid Distribution (CW)	Pending <i>Transferred to Distribution Workgroup 23/06/16</i>