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**UNC Workgroup 0605S Agenda**  
**Amendments to TPD Section K - Additional Methods to Procure and**  
**Dispose of Operating Margins Gas**  
**Thursday 02 February 2017**  
**Elxon, 350 Euston Road, London NW1 3AW**

**Attendees**

Chris Shanley (Chair)	(CS)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Amrik Bal	(AB)	Shell
Angharad Williams	(AW)	National Grid NTS
Anna Shrigley	(AS)	Eni UK
Charles Ruffell	(CR)	RWE
Colin Hamilton	(CH)	National Grid NTS
David Cox	(DC)	London Energy Consulting
David Eastlake*	(DE)	CVSL
Debbie Brace	(DB)	National Grid NTS
Gerry Hoggan	(GH)	ScottishPower
Graham Dickson	(GD)	Interconnector UK
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
Jen Randall	(JR)	National Grid NTS
John Costa	(JCo)	EDF Energy
Justin Goonsinghe	(JG)	National Grid NTS
Lee Harrison	(LH)	Xoserve
Lucy Manning	(LM)	Gazprom
Marine Valls*	(MV)	Storengy
Nick Wye	(NW)	Waters Wye Associates
Osama Rashed	(OR)	ConocoPhillips UK
Phil Hobbins	(PH)	National Grid NTS
Rebecca Hailes	(RH)	Joint Office
Richard Fairholme	(RF)	Uniper
Samuele Rapetto*	(SR)	EDF Trading
Sean Hayward	(SH)	Ofgem
Steve Britton	(SB)	Cornwall Energy
Steve Nunnington	(SN)	Xoserve

*\*via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0605/020217>

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 February 2017.

## **1.0 Introduction and Status Review**

### **1.1. Review of Minutes (05 January 2017)**

The minutes of the previous meeting were approved.

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## 1.2. Review of Actions outstanding

**0101:** PH to clarify the following:

- a) With regard to Operating Margin related trading, what trading platforms can be used and what licence restrictions/limitations might apply to this activity;
- b) Publishing requirements with regard to NTS trades (current/proposed);
- c) Details of any related incentives and clarity on which party(ies) bears the costs in the event of a trading error made by National Grid NTS.

**Update:** Responding to (a), DB advised that the trading platforms available were brokered markets, Over the Counter (OTC) and trading exchanges, e.g. ICE Endex.

Responding to (b), DB outlined the current publishing requirements, and confirmed that it was the intention to continue with these. An example of the Actual Procurement Guideline Report 2015/16 was displayed for information. DB described the content.

Responding to (c), DB confirmed there were no incentives for Operating Margins gas, and that any trading errors (very low in probability) would be borne by Shippers. **Closed**

A discussion ensued. GJ reiterated that he did not see why National Grid NTS should not bear any costs as a result of its own mistakes; the same principle should apply to National Grid NTS as it does for Shippers. JCh added his support to GJ's view - costs resulting from National Grid NTS' own errors should not be smeared across Shippers.

PH pointed out that it was continuing the status quo; it is recovered through the Weighted Average Cost of Gas (WACOG) calculation, where National Grid NTS are neutral. GJ was concerned this modification may set a precedent. He did not believe that to maintain the status quo regarding this area was the correct thing to do.

PH pointed out that National Grid NTS carries the financing costs of the gas it carries in store.

CS asked if there had been any trading errors with regards to Shrinkage gas procurement (where the volumes are far higher) and this was briefly discussed. JCh pointed out that the volume for Operating Margins Gas itself may be small, but a one digit error can significantly magnify the effect and the risk.

**NEW Action 0201: National Grid NTS (PH) to clarify if any manifest/trading errors (shrinkage) have been apparent, to ascertain potential level of Operating Margins trading risk going forward.**

## 2.0 Amended Modification

The modification had been amended following the last Workgroup meeting.

DB gave a brief outline of the context and the proposed revised Solution, detailing the changes required to the UNC.

The legal text and commentary were reviewed; DB explained the changes made.

JCh reiterated the strong concerns that Shippers will pick up costs for any errors made by National Grid NTS. It was suggested that any mistakes on exchange trading should be borne by National Grid NTS itself. PH believed that this would involve a much bigger change to wider financial arrangements and was outside of the scope of this Modification 0605S.

Shippers were concerned from the points of view both of principle and risk. The same discipline that applies to Shippers should also apply to National Grid NTS.

CS observed that the UNC allows for these SO activities to take place, and suggested this concern needs to be captured as part of a wider review of the SO incentives. The SO incentives are the normal mechanism to agree the risk and reward between NTS and Shippers but it was noted there was not currently an incentive for Operating Margins.

### 3.0 Completion of Workgroup Report

The draft report was reviewed.

CS noted the concerns raised in discussion, and it was agreed that the report would be submitted to the February UNC Modification Panel, together with a request for an extension (to be returned to the Workgroup for a further month).

### 4.0 Next Steps

The Workgroup Report will be submitted to the February UNC Modification Panel for its consideration.

Assuming the request for an extension is to be granted, at its next meeting the Workgroup will consider the information provided in response to Action 0201 and revisit the concerns expressed by Shippers, review any amendments made to the modification/legal text, and revise its report.

### 5.0 Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Time/Date	Venue	Workgroup Programme
Thursday 02 March 2017	Elexon, 350 Euston Road, London NW1 3AW	<ul style="list-style-type: none"> <li>Review Action 0201</li> <li>Review amended modification/legal text</li> <li>Development/Completion of revised Workgroup Report</li> </ul>

**Action Table (as at 02 February 2017)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	05/01/17	2.1	PH to clarify the following: a) With regard to Operating Margin related trading, what trading platforms can be used and what licence restrictions/limitations might apply to this	National Grid NTS (PH)	<b>Closed</b>

			<p>activity;</p> <p>b) Publishing requirements with regard to NTS trades (current/proposed);</p> <p>c) Details of any related incentives and clarity on which party(ies) bears the costs in the event of a trading error made by National Grid NTS.</p>		
<b>0201</b>	02/02/17	1.2	National Grid NTS (PH) to clarify if any manifest/trading errors (shrinkage) have been apparent, to ascertain potential level of Operating Margins trading risk going forward.	National Grid NTS (PH)	<b>Pending</b>