

Change Overview Board (COB) Minutes Monday 04 July 2016

Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andy Baugh	(AB)	RWE npower
Angela Love	(AL)	ScottishPower
Joanna Ferguson	(JF)	Northern Gas Networks
Jon Dixon*	(JD)	Ofgem
Mark Jones*	(MJ)	SSE
Martin Baker	(MB)	Xoserve
Paul Waite*	(PW)	EDF Energy
Phil Lucas*	(PL)	National Grid NTS
Steve Mulinganie*	(SM)	Gazprom
Vicki Spiers*	(VS)	ES Pipelines

*via teleconference

Copies of meeting papers are available at: <http://www.gasgovernance.co.uk/COB/040716>

1. Introduction

LJ welcomed all to the meeting.

2. Review of Minutes

The minutes of the meeting held on 04 April 2016 were approved.

3. Planning

3.1 Change Horizon

The schematic was displayed and MB presented an overview of the current landscape, drawing attention to the main changes made in the previous Quarter. The potential movement/position across zones of a number of items was then considered on an individual basis.

Zone 1

General Election 2020 - No change.

Gemini Rewrite - No change.

Beyond EU 3rd Energy Package - No change.

GB Shale Gas - It was noted that there would in the future be alternative sources of gas - JF gave an example of work being done on a hydrogen project - and it was suggested that this item might be appropriately renamed to 'Alternative Sources', rather than create a separate item for each alternative. It was observed that different sources

might require different arrangements and there may be associated varying systems impacts. It was queried if there was a DECC report that might assist and inform the COB in its oversight of these areas. JF volunteered to establish what was available.

Action COB 0701: *Alternative Sources of Gas* - JF to establish if there was any appropriate report that might assist and inform the COB in its overview of potential and/or impending changes.

Settlement Evolution - No change.

PAF Evolution - No change.

Zone 2

UK Membership of EU - Following the June 2016 referendum outcome ('Leave') impacts will need to be considered. It was noted that Great Britain at present remains committed to the Single Energy Market. It was suggested that this item be appropriately renamed and repositioned in the '2-5 years' column/'policy undefined' zone.

Contact Management - No change.

Tariffs Reform (EU) - EU reforms were briefly discussed, in light of the referendum outcome. As a Single Energy Market, regulatory reforms were likely to have to be implemented. Further clarity was required, and it was proposed to leave 'as is' for the present.

Next Day Switching (NDS) and Central Registration - No change.

Zone 3

Nexus/UKLP Delivery Date - This had now been deferred to a replanned 'window' between 01 February 2017 and 01 April 2017. It is anticipated that the new implementation date will be announced by 01 August 2016.

National Grid Gas Distribution Separation - This was anticipated to come into effect on 01 October 2016. A communication had been issued to Shippers (27 June 2016, from Sue Higgins) highlighting relevant UNC Modifications and areas where Shippers needed to more closely engage. It was believed there were no Central Systems impacts. MB advised that the Invoicing process/operational arrangements were being checked (for impact minimisation). MB indicated that he would update the 'one pager' to reflect the current position.

FGO Part 2 - No change.

Energy Market Investigation - MB presented key points in his presentation (see 4, below).

UK Link Release 2 - This had been added and will be monitored.

RAASP - This had been added and will be monitored.

PSR - Referring to the recently issued conclusions, MB advised that changes to 'needs codes' would be in June 2017, however in light of the change to the Nexus delivery date and dependencies with other codes this might need revisiting. JD noted the concerns expressed, advising that Ofgem was aware of this, and that its Policy Team needed to take a view. Following a brief discussion it was agreed to leave PSR in its current position on the Change Horizon and review in October.

Performance Assurance Framework (Initial) - Noting the CMA's conclusions, LJ advised that the first Performance Assurance Committee (PAC) meeting had been held and work had started on the Performance Assurance Framework Administrator (PAFA) tendering process. It was suggested the deliverable date be moved out to end of Q2 2017.

DCC Day 1 - No change.

EU Reform 2 - No change.

Other areas for consideration

Timeline - Observing that time has moved on, LJ suggested that this now needs to be revised and that most items should be repositioned further to the left. MB suggested re-setting the time windows to: <1 year, 1-2 years, 3-5 years and 5+ years. This was agreed.

Cross-Code use of the Change Horizon - LJ reported that this useful document (the Change Horizon) had been proposed to other Code Administrators as a very good starting point to begin to meet Workplan requirements under the CMA conclusions.

Updates/Revisions - MB will update the Change Horizon and any appropriate 'one pagers' and republish.

4. CMA's Final Decisions

4.1 Xoserve

MB reported on the key points. At the top level all was consistent with the previously published Remedies document.

Nexus - Depending on systems readiness and Ofgem's satisfaction, implementation can be later than 01 February 2017. Responding to questions regarding the successful exit of market trials, JD believed this to be a level below putting any date in the Licence. Ofgem was looking at being more prescriptive around exit criteria and the demonstration of the meeting thereof.

Single Centralised Online Gas Enquiries Service (SCOGES) - GTs are now ordered to provide Price Comparison Websites/Third Party Intermediaries (PCW/TPI) access to this database (now known as Data Enquiry Service (DES)).

Licensing of Code Administration services - DECC to initiate legislative programme; further clarity regarding certain aspects/interpretations.

Submission of NDM Supply Point Reads to Xoserve by Suppliers - Work is ongoing to check if UNC is compliant (percentage, timeframe, etc).

Performance Assurance Framework - Establishment is in hand and progressing.

MB reminded there is a duty to follow up on the CMA conclusions. MB will provide an update on progress and potential additions to the Change Horizon will be considered (as appropriate) at the next meeting in October.

4.2 Ofgem's Response

JD reported that Ofgem was not able to give a substantive response to the CMA remedies as yet; a high level letter is expected to be issued in a couple of weeks' time (no surprises are anticipated - more clarity on interpretations and timelines). Attention was drawn to Dermot Nolan's (Chief Executive of Ofgem) comments that Ofgem expected to implement all recommendations.

A Programme plan was expected to be provided by October (JD will liaise with MB).

5. Policy Updates

5.1 Ofgem Overview

JD reported that Ofgem was working to 2019 date, whereas the government remained focused on 2018. It is all still very vague in terms of actual objectives, delivery times, etc. Consideration has to be given to what is viable, and clarity is anticipated in the PSR decision shortly.

DCC delivery 1.2 August; 1.3 not clear yet. There should be no conflict in terms of IT resources now that Nexus is being deferred.

5.2 Settlement Evolution

In response to Action COB 0101 (*Settlement Evolution* - JD to produce a first draft definition document that is designed to prompt discussion) JD had provided a 'straw man' presentation ('2020 gas settlements: discussion'), offering some independent (not to be interpreted as Ofgem's view) initial thoughts on potential options. It was noted that Ofgem's internal focus was on electricity, not on gas, so this area is only really discussed under the context of Nexus.

JD outlined some assumptions that might be made for 2020, observing that the benefits case and drivers were different than those for electricity.

The CMA remedies were reiterated; the CMA was focused on accurate cost allocation (including reduced scope for gaming) and reduction of Unidentified Gas. Under its review, settlements were seen by the CMA as an area of 'harm'. Supplier Licences might be modified, unless improvements can be demonstrated/achieved through other means, e.g. UNC Modification. There was an order on Suppliers to submit a meter read at least annually for 'dumb' meters - this might possibly be in line with/encompassed by existing UNC Modification 0570 (negating need for an order). The aspiration of 100% submissions is unlikely; reasonable exemptions could be identified (JD gave some example scenarios) and the Performance Assurance Committee (PAC) would be in place to oversee performance and exercise some control. If satisfactory measures could be achieved through a UNC modification before the end of the year then there may be no requirement for it to be put into the Supplier Licence.

LJ queried whether this would then be a cross-code modification and for SPAA to consider also, as the UNC is only an obligation on Shippers, not Suppliers. JF pointed out that this sort of objective is subject to 'fragmented governance', and that there was a greater divergence now between Shippers and Suppliers, which was widening. There would be concerns that a cross-code approach might delay achievement in the anticipated timescales. It may be best to see what could be achieved in the most pragmatic way. AL described UNC Workgroup 0570's most recent discussions. JD reiterated the need to enforce the CMA remedies, but noted that instilling hard/fast targets would be at the expense of flexibility. LJ suggested aiming to implement UNC Modification 0570 with a workable level of read submission (rather than spend undue time now assessing the optimum desired performance) and then review actual performance at PAC. SPAA should be requested to look at this area and engage with Suppliers regarding any complementary changes that may be required. JD reiterated that the CMA would need to see some firm progress being made, to be convinced that it does not need to invoke Licence changes. JF added that SPAA changes could be identified once more detail is available.

Referring next to the order on Suppliers to submit a read at least monthly for

smart/AMR Monthly, JD believed this would require more thought than for 'dumb' meters, to avoid any perverse incentives and the incurring of extra costs, etc. It could be a separate modification with a 'sunrise' provision. JF outlined some identifiers, adding that others were under consideration. LJ pointed out that access to good reliable data means that parties should use it - should it be put into Code sooner rather than later? JD said that while he did not disagree with that, it might be depend on having the PAC in place and operating. LJ said that parties need to know that certain obligations were coming, and work would need to begin very soon if a UNC modification was envisaged to be in place for April 2017. There needs to be a clear statement of intent as to how the industry is embracing the CMA's requirements. JD's view was that this modification needed to be separate from the one for 'dumb' meters.

JD then referred to the recommendation on Ofgem to ensure that a Performance Assurance Framework was established within 12 months of the CMA's report. A Code change was not necessarily needed, but perhaps it was better to have a modification(s) to tighten up settlement rules - an evolving position was seen to be required, and further work will be needed to refine the Performance Assurance arena.

Focus then moved to looking at reducing the settlement window (last looked at in gas in 2011, as part of UNC Modifications 0395/0398). JD observed that at that time Ofgem had concluded that, whilst industry should aspire to further shorten the settlement window, prevailing (2013) data and processes were not sufficiently robust to support 2-3 years (UNC 0395) and therefore accepted UNC 0398, a 3-4 year code cut off. This now seems to be a long cut-off period if a read is coming in every month. Comparison tables (dated from the earlier modifications) between gas and electricity were illustrated. It was noted that on the electricity side there was a proposal to reduce the BSC settlement window down to seven months once smart meters are prevalent.

JD then put forward some potential options for consideration when looking to reduce the gas settlement window, depending on what the industry might want to achieve. These included:

- Accepting alignment with agreed electricity settlement period
- Recognising and aligning to the minimum time that can be supported by monthly smart/AMR reads
- Determine an appropriate window based on good accountancy practice (i.e. when to finalise an accounting period).

Some potential benefits might be identified, to include:

- Back office/administrative efficiencies
- A reduction to the risk of encountering historic and/or large reconciliations
- Reduced finance costs (reduced credit cover requirements)
- A reduction in the amount of Unidentified Gas (a reduced widow might provide a more informative view as to the cause/source of UG).

JD noted other considerations as being:

- A reduced ability to reconcile discovered error (i.e. offtake meter errors)
- Scale of residual legacy metering (dumb meters) might reduce the degree of benefit.

When considering the take up of daily metering, JD believed the CMA remedy of monthly submission of Smart/AMR read seems to fall somewhere between Nexus settlement Classes 3 and 4. There might be an option to further incentivise a take up of Class 3 (monthly batch submission of daily reads), perhaps through further differentiation of UG allocation factor, for instance.

JD outlined potential benefits, as being a quicker reconciliation (i.e. less 'short term

pollution' of genuine UG; reduced UG (earlier identification of problems, with PAF incentives then focused to address; a faster realisation of energy efficiency savings; possible positive network efficiencies; and scope for innovative/more granular (cost reflective) cash out pricing.

Other considerations to take into account might be that there could be efficiency gains from fewer settlement classes, and the scale of residual legacy metering (would low volume arrangements negate savings).

Concluding, JD reiterated that these points were provided to prompt debate and were not to be construed to be official Ofgem policy.

AB referred to workgroups held by Elexon, which had looked at reducing the settlement window, and suggested that there might be learning points from their output. JD indicated that he had a report on this that he perhaps could circulate to parties.

AL believed it to be sensible to reduce the settlement window and thereby help to bring more certainty to the market.

JF drew attention to an anomaly in the Licence Standard Condition 15, which she read out; this appeared to constrain what data could be obtained/used for settlement purposes by transporters, and might need reviewing/addressing. JD indicated that he would look at this - it might be an unforeseen drafting consequence - and take forward to see if it could be easily fixed.

Noting the importance of getting things moving and progressing before 2020, JD then invited parties to provide views by correspondence, following which the 'straw man' will be revised and revisited at the October meeting.

Action COB 0702: 2020 Gas Settlements - All parties to provide views to JD via correspondence prior to the October meeting.

6. Review Terms of Reference (ToR)

No comments had been received prior to the meeting.

The ToR was then reviewed in greater detail and LJ made onscreen revisions as amendments were suggested.

The revised draft will be circulated for review/comment with a view to approving at the next meeting (10 October 2016).

7. Issues for discussion

None raised.

8. Review of Outstanding Actions

COB 0101: Settlement Evolution - JD to produce a first draft definition document that is designed to prompt discussion (for meeting on 04 July 2016).

Update: See 5.2, above. **Closed**

COB 0102: EU Reform/Gas Quality Standards - PL to establish if National Grid NTS anticipated any impacts on the Central Services Provider's systems.

Update: PL confirmed that no impacts were anticipated. **Closed**

COB 0401: 'Supplier objections' - MB to discuss with AB to define more clearly and

review at the July meeting its potential inclusion on Change Horizon.

Update: MB affirmed that the review was continuing to the timeline set out in Ofgem’s Work Programme. The review is an external dependency for the Switching Programme - policy decision to be reflected in design for Central Registration Service. Switching Programme design work assumes that objections would be pre-loaded in an “objections database”. **Closed**

COB 0402: Terms of Reference (ToR) - All parties to review the ToR, and provide any comments to the Joint Office (by 23 June 2016), for consideration at the July meeting.

Update: See 6, above. **Carried forward**

9. Any Other Business

None raised.

10. Diary Planning and Agenda for the next Meeting (10 October 2016)

It is anticipated that the following items will be addressed at the next meeting:

- Change Horizon - Update (*Xoserve*)
- Implementing CMA remedies
- Policy updates (*Ofgem*)
- Beyond 2020 Gas Settlement
- Revised Terms of Reference - approval
- Issues for discussion
- Review of Outstanding Actions (*All parties*).

Meeting papers and/or other items for discussion should be submitted by Thursday 29 September 2016 to the Joint Office at: enquiries@gasgovernance.co.uk.

Unless otherwise notified meetings and updates will take place as follows:

Time/Date	Venue	Programme
10:30, Monday 10 October 2016	Consort House, Prince’s Gate Buildings, 6 Homer Road, Solihull B91 3QQ	• See 10, above.

Action Table – Change Overview Board (04 July 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
COB 0101	11/01/16	2.1	<i>Settlement Evolution</i> - JD to produce a first draft definition document that is designed to prompt discussion.	Ofgem (JD)	Closed

Action Table – Change Overview Board (04 July 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
COB 0102	11/01/16	2.1	<i>EU Reform/Gas Quality Standards</i> - PL to establish if National Grid NTS anticipated any impacts on the Central Services Provider's systems.	National Grid NTS (PL)	Closed
COB 0401	04/04/16	3.1	<i>'Supplier objections'</i> - MB to discuss with AB to define more clearly and review at the July meeting its potential inclusion on Change Horizon.	Xoserve (MB)	Closed
COB 0402	04/04/16	8.1	<i>Terms of Reference (ToR)</i> - All parties to review the ToR, and provide any further comments to the Joint Office (by 29 September 2016), for consideration at the October meeting.	All parties	Carried forward
COB 0701	04/07/16	3.1	<i>Alternative Sources of Gas</i> - JF to establish if there was any appropriate report that might assist and inform the COB in its overview of potential and/or impending changes.	Northern Gas Networks (JF)	Pending
COB 0702	04/07/16	5.2	<i>2020 Gas Settlements</i> - All parties to provide views to JD via correspondence prior to the October meeting.	All parties	Pending