

Review Group 0178 Minutes

Friday 25 January 2008

Elxon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	(JB) Joint Office of Gas Transporters
Mike Berrisford	(MiB) Joint Office of Gas Transporters
Brian Durber	(BD) E.ON UK
Chris Warner	(CW) National Grid Distribution
Fiona Cottam	(FC) xoserve
James Crump	(JC) Ofgem
Joanna Ferguson	(JF) Northern Gas Networks
Joel Martin	(JM) Scotia Gas Networks
John Welch	(JW) RWE Npower
Karen Kennedy	(KK) ScottishPower
Mark Jones	(MJ) SSE
Mark Linke	(ML) Centrica
Mitch Donnelly	(MD) British Gas Trading
Nigel Nash	(NN) Ofgem
Sallyann Blackett	(SB) E.ON UK
Simon Trivella	(ST) Wales & West Utilities
Stefan Leedham	(SL) EDF Energy
Steve Taylor	(STa) Centrica

1. Introduction and Status review

1.1 Minutes from previous meeting

Chair (JB) advised members that N Nash's comments had inadvertently been misquoted and presented a 'marked up' version of the minutes on screen for approval. Thereafter, the minutes of the previous meeting were approved.

1.2 Review of Actions from previous meeting

Before considering the outstanding action items, JB asked, and KK confirmed, that she is keeping M Clarke of ScottishPower 'in the loop' to ensure that the iGTs are kept informed on progress within RG0178.

Action RG0178/008: CW informed members that he had identified the areas of the UNC which are contingent on the I&C/Domestic categorisation, as follows:

- TPDG 2.8.1(b), 2.8.4(b) and Annex G3, along with
- TPDJ 3.5.2 & 3.5.3.

Furthermore, he will provide a copy of the summary to the Joint Office for publication.

Chair (JB) asked, and members agreed, to close the action.

Action: Closed

Action RG0178/009: Chair (JB) suggested that as work is ongoing in this area the action could be closed.

Chair (JB) asked, and members agreed, to close the action.

Action: Closed

Action RG0178/010: Chair (JB) informed members that both E.ON and EDF Energy will be providing presentations on the possible ways forward under item 2.3 below,

Chair (JB) asked, and members agreed, to close the action.

Action: Closed**2. Review Group Discussion****2.1 Identification of Areas of the UNC Contingent on the I&C / Domestic Categorisation**

Members agreed that this matter had already been covered under the 'Review of Actions from previous meeting' item above.

2.2 Consideration of Regime Changes**E.ON presentation**

SB provided a brief SSP as Domestic only presentation, a copy of which is available to view or download from the Joint Office web site at:

<http://www.gasgovernance.com/Code/Reviews/RG0178/25Jan08/>

SB opened by informing members that the pink line on the SSP I&C profile graph represents sites that have daily reads via the Demand Estimation NDM Sample. Continuing, SB informed members that she believes that the reconciliation graph demonstrates that I&C and Domestic sites in the same load band operate differently, which is the opposite to the EUC assumption that they operate in a similar manner. She pointed out that, of the sample reads taken, none would have failed the current (filter) validation process. FC suggested that this might be misleading, as the sample reads are within the specified boundaries anyway. MD believed that a consideration of costs should also be included.

On the Reconciliation graph, NN enquired as to what value the 'y' (vertical) axis represented, to which SB advised it relates to reconciliation volume whereby (minus) - 40 is the bottom end of the 95% confidence limit and the top end is represented by the upper (approximately 70) line(s). FC added that this reflects the fact that, on some days an I&C site would be up, and on other days it would be considered to be down, in respect of under/over allocation. Typically variations would occur between weekends and weekdays, due to the difference between I&C and Domestic consumption patterns. SB stated that any financial impact would depend on the difference in gas prices between those days.

In discussion, FC agreed to take an action to provide gas cost analysis (between weekdays and weekends) for consideration at the next meeting.

FC went on to suggest that if the group advocate a split of the EUC band 1, then problems will be encountered when looking to separate the I&C and domestic profiles and thereafter, how RbD would be applied.

Both SL and MD suggested that the real issue is related to identifying the cost of making the change and the reward for doing it (cost v's benefit analysis).

SB acknowledged that the fact that the 95% confidence limit lines are close together at the top of the reconciliation graph data field, but further apart at the bottom end, would suggest that some form of statistical bias is present. Furthermore, SB believes that adopting a new approach would go some way towards reducing this bias.

NN asked if it is the profiling or the reconciliation aspects that would potentially deliver benefits, to which SB suggested that it is a 'trade off' between potential profile gains and a reduction in the reconciliation accuracy. Furthermore, she believes that it

is better to treat I&C as LSP in future. NN enquired if the assumption was that all parties would need to treat their I&C and domestic sites as one and the same, to which SB confirmed that to be a correct assumption. MD wondered how this would translate into a customer benefit, to which BD stated that it has the potential to reduce costs. Chair (JB) sought clarity by suggesting that where I&C sites are under-charged, and domestic sites overcharged, costs would 'flow through' to the relevant customers and if this is the case, this will need to be addressed. However, NN believed the real focus should be on what is causing the misalignment of costs. MD reminded members that under the current arrangements, erroneous costs are 'smeared' across the RbD Market sector.

BD pointed out that dealing with the effects of RbD is an issue for consideration outside this group and his ideal would be to have no RbD. He viewed the work of this review group as moving a step closer to removing RbD. It also moves nearer to aligning the market to the legislative framework.

When SB confirmed that she was proposing retaining both the SSP & LSP definitions, CW advised members that this matter will need serious consideration.

SB closed by stating that E.ON's view is that everything I&C gets 'flagged' as such and all domestics and 'unflagged' sites are to be defined as such. .

EDF presentation

SL provided a brief Alternative Solution presentation, a copy of which is available to view or download from the Joint Office web site at:

<http://www.gasgovernance.com/Code/Reviews/RG0178/25Jan08/>

With regard to the 'threshold approach', CW suggested that this moves away from the current Code requirements and as a consequence, is a potentially major but not insurmountable, consideration – it constitutes a fundamental regime change. NN added that it suggests different settlement rules for both I&C and domestic profiles. CW is of a view that, the fundamental issue will be what constitutes I&C &/or domestic.

NN suggested that if the Shipper was obliged under the UNC to allocate the correct profile, was there any reason why they could not choose between Individual Meter Point Reconciliation and RbD for a site?. Members were concerned that this may incentivise parties to move sites out of RbD to avoid incurring the RbD charges.

MD expressed a concern that the RbD imbalance would be spread over fewer sites, thereby increasing costs for sites that remain in RbD.

FC referring to the presentation given on 12 December 2007, stated that, assuming that all the SSP Market Sector Code 'blanks' are domestic sites, the proposal looks at around 2.9% non domestic SSPs moving to a different EUC band.

When asked about the differences between the two proposed solutions, SL advised that broadly speaking they achieve the same end result, however Solution 1 retains the SSP & LSP categories, whilst Solution 2 moves to I&C and Domestic categories for RbD purposes.

Action RG0178/011: xoserve (FC) to provide gas cost analysis (between weekdays and weekends) for consideration at the next meeting.

2.3 Possible Ways Forward

Chair (JB) ran through the work programme questionnaire by exception only.

Licence Requirements

Chair (JB) suggested that with regard to CW's earlier suggestion and comments on the licence requirements, this does not appear to be an issue and therefore questions 1 and 2 can be ignored. Members agreed with this statement.

Portfolio Management

3a Members commented that organisations that run both types of portfolio (Domestic/Non Domestic) under one Shipper i.d. present a specific problem. SB suggested that this was related to a different risk profile. When asked, BD confirmed that E.ON define their I&C and Domestic as per their licence.

4a FC informed members that from an xoserve process perspective, their processes only reference the market sector flag for 'failure to supply gas', believing that their (xoserve's) system treats 'blanks' (blank market sector flag) as domestic sites regardless of size. MD suggested that in the absence of a flag, this provides maximum protection under the domestic banner.

4b WWU (ST) advised the members that a UNC modification proposal will be raised shortly endeavouring to make populating of the 'Market Sector Flag' mandatory.

MD indicated that he would be inclined to answer no to questions 4a and 4b.

In summarising the portfolio management area, JB wondered if this division of opinions indicates that there are potentially two types of Shipper, one which does not have a problem, and one which perceives a problem but is unable to quantify it. No attendee disagreed with this summary.

Domestic/Non Domestic Flag (i.e. Market Sector Code)

5 MD informed members that his business processes align to his Supplier licence obligations, but acknowledged that being a Supplier, it is far easier for him to manage both his portfolios.

6 The consensus amongst the members present was that they would utilise the 'Market Sector Code' data should it be available.

ST added that WWU believe that they are unable to comply with their licence obligations without implementing a market sector flag modification referred to under 4b above. He informed members that the GDNs are frustrated that inconsistencies exist in the definitions for Domestic/Non Domestic sites and the consequential inaccurate data (Market Sector Flags) that this delivers. The non compliance risk is the 'driver' for the new modification proposal. The other DN members present supported this view.

RbD Effects (assuming all non domestic sites would be individually reconciled)

8 MD indicated that he believes that without UNC modification proposal 0194 "Correct Apportionment of NDM Error – Energy", there is a real risk that a significant amount of costs may be placed upon a smaller number of Suppliers.

To illustrate the impacts on Meter Point Reconciliation processes, FC provided a summary of an analysis of recent meter read performance on the 380,000 I&C SSP sites, which suggested that these sites would generate an additional 81,500 meter point reconciliations per month, which would equate to an increase of approximately 41% in monthly reconciliation transactions. This figure assumed little change in read performance for these sites, once they move to meter point reconciliation.

Additionally, if the other part of E.ON's proposal were also implemented, the 59,000 sites which would move out of meter point reconciliation and into RbD attracted an average of 12,700 reconciliations per month last year, saving around 6% of the current transaction volumes if they were to be removed. Thus, the 'one-

way' option would increase workload by 41% and the 'two-way' option would increase workload by a net 35% of transactions.

FC agreed to take an action to provide the statistical analysis to support her estimated figures at the next meeting.

NN enquired as to how xoserve's costs are allocated out to the industry, to which FC advised that it is via the Transporter Charges which the Transporters pass on in their transportation costs. ST pointed out that 'User Pays' is more about the accurate allocation of costs. MD confirmed that a potential 40% increase in Meter Point Reconciliations would impact upon his resourcing costs.

SB indicated that she believes that there is scope to improve allocation, suggesting that DESC could look into changing industry profiles.

SL asked whether xoserve could estimate the costs associated with the increase in transactions. FC explained that this proposal is currently targeted for inclusion in UK Link Replacement 2012 and that it would be very difficult to model costs when the future systems and validation processes have not yet been designed.

Chair (JB) then asked members to consider where the discussions had left the workgroup and how do E.ON wish to proceed. Do they in fact wish to look at less costly options, to which MD suggested that profiling improvements within RbD is an option.

Following a brief discussion, ST agreed to take an action to 'sample' the I&C/Domestic 'blanks' to ascertain the proportion of non blanks involved.

Action RG0178/012: xoserve (FC) to provide the statistical analysis to support her estimated figures for Meter Point Reconciliations at the next meeting.

Action RG0178/013: WWU (ST) to sample the I&C/Domestic 'blanks' to ascertain the proportion of non blanks involved, and provide an update at the next meeting.

3. Diary Planning for Review Group

3.1 Workplan

Chair (JB) provided a brief overview of the workplan and suggested that regardless of whatever solution is proposed, it should be assumed that in future the market sector flag items would be populated and therefore not be considered in any cost benefit analysis.

4. AOB

None.

APPENDIX A.

ACTION LOG - Review Group 0178

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0178/008	12/12/07	2.2	National Grid (CW) to identify areas of the UNC which are contingent on the I&C/Domestic categorisation	National Grid (CW)	Update provided. Closed
RG0178/009	12/12/07	3.1	All to consider potential regime changes for discussion at January 2008 meeting	All	Update provided. Closed
RG0178/010	12/12/07	3.1	EON (SB) and EDF (SL) to present possible ways forward at January 2008 meeting.	EON (SB) and EdF (SL)	Presentation provided. Closed
RG0178/011	25/01/08	2.2	xoserve (FC) to provide gas cost analysis (between weekdays and weekends) for consideration at the next meeting.	xoserve (FC)	Update due at February meeting.
RG0178/012	25/01/08	2.3	xoserve (FC) to provide the statistical analysis to support her estimated figures for Meter Point Reconciliations at the next meeting.	Xoserve (FC)	Update due at February meeting.
RG0178/013	25/01/08	2.3	WWU (ST) to sample the I&C/Domestic 'blanks' to ascertain the proportion of non blanks involved, and provide an update at the next meeting.	WWU (ST)	Update due at February meeting.

* Key to action owners

SB Sallyann Blackett, E.ON UK

FC Fiona Cottam, xoserve

ST Simon Trivella, Wales & West Utilities