

**Energy Balancing During Operation of a Supplier Undertaking
Summary of Outcomes
Friday 05 November 2021
via Microsoft Teams**

Phil Hobbins (Chair)	National Grid
Helen Bennett (Secretary)	Joint Office
A Clasper	Cadent
A Mann	Gazprom Energy
A Neild	Storengy
A Pearce	BP
A Shrigley	ENI
C Aguirre	Pavilion Energy
C Logue	National Grid
C Ramsay	Ofgem
C Sykes	Shell
C Whitehouse	Shell Energy
C Wright	Exxon Mobil
D Addison	Xoserve
D Donovan	Correla on behalf of Xoserve
D Fittock	Corona Energy
D Lond	National Grid
D Mitchell	SGN
D Tickner	Octopus
F Cottam	Correla on behalf of Xoserve
G Hoggan	ScottishPower
H Seaton	Ofgem
J Cox	Energy UK
J Matthews	Crown Gas
J Oyinlola	Ofgem
J Wilson	Crown Gas
K Rhodes	ConocoPhillips
L Hellyar	Totalenergies Gas & Power
L Slokar	Ofgem
M Jones	SSE
M Rixon	Observer (Independent Consultant)
N Sisman	Sisman Energy Consultancy
N Webb	Petronas Energy
N Wye	Waters Wye Associates
P Lucas	National Grid
R Fairholme	Uniper
R Johnstone	Utilita
S Blackett	E.ON Energy

S Blackler	E (Gas and Electricity) Ltd
S Brentnall	ENSEK
S Britton	Cornwall Insight
S Mulinganie	Gazprom Energy
T Burke	Equinor
T Hammond	United Gas & Power
T Saunders	Northern Gas Networks

Key Points/Decisions

1. Welcome

P Hobbins welcomed all to the Workshop and explained that Ofgem have neither accepted or declined the urgency status for Modification 0789 but have advised that their preferred way forward is for Industry to collaborate and debate potential solutions; PH clarified this is the reason why this is a National Grid Gas (NGG) Workshop rather than something through a more formal route under UNC governance, this Workshop is outside of normal UNC governance.

This meeting today is the first of four Workshops, which will be ran to try to work, at pace, to achieve the objective set by Ofgem.

P Hobbins explained the Workshop will include setting a baseline understanding of the issues; considering potential alternative proposals; discussion will hopefully lead to a preferred option that the majority can see implementation for.

P Hobbins clarified the proposed Agenda for the Workshop today.

2. Opening remarks – Ofgem

C Ramsay (Ofgem) thanked everyone for convening at short notice and advised that H Seaton will continue to work with Industry.

C Ramsay advised it is important to recognise this is stepping outside of the usual process and that Industry are seeing this as a crisis response that has seen *Modification 0788 (Urgent) - Minimising the market impacts of 'Supplier Undertaking' operation*, being taken forward and managed through to conclusion.

C Ramsay explained that this situation is still challenging, Ofgem wanted to take advantage of this small window of breathing space to bring Industry together to collaborate and debate potential solutions which led to Ofgem taking the opportunity of stepping back from urgency status decision to have wider discussions and allows the consideration of alternatives and other perspectives.

D Fittock clarified that whereas he understands the need to get discussions underway, he expressed his dissatisfaction that Modification 0789 was not passed by UNC Panel to give it due governance.

3. Opening remarks – National Grid

C Logue introduced himself and advised he recognises the Workshops will be working at pace and asked for participants to not necessarily look for perfection, any solutions that are identified will need to review and there will be a need for compromises on all sides.

C Logue noted that NGG are seeking a pragmatic solution that can be implemented swiftly and mitigates some of the risks that industry is facing.

4. Workshop logistics

P Hobbins explained the proposed way the Workshops will work, there are four Workshops planned over the coming week, Workshop 4 is contingency. The circulated plan of topics to cover each day is likely to change and the agenda for Workshop 2 will become clearer as the agenda for this Workshop (Workshop 1) is concluded.

The aim for this Workshop will be to focus on the problem statement and have a thorough discussion on Modification 0789 and potential alternatives.

P Hobbins explained that NGG will Chair each of the Workshops and Joint Office will prepare high-level minutes summary of discussion and an action log. The minutes summary and the action log will be published on the Joint Office website meeting page and circulated the following day.

No report is proposed at the end of the Workshops; rather the output will be used to support justification for any further UNC modification proposal(s).

5. Problem Statement

P Hobbins provided an overview of the problem statement which is shown on slide 7 of the material provided.

During discussions the following key elements were considered (by exception):

- D Lond clarified the option of Modification 0788 is available to anyone that can put shipping in place at short notice.
- It was questioned why a complete solution is needed if affected Suppliers can voluntarily use Modification 0788. P Lucas advised there are processes that are now being set in place with Xoserve and Distribution Networks to facilitate the amendments to the deed of undertaking, of which there is some lead time before that happens and 0788 is voluntary.
- The benefit of getting all the Supply Points transferred to a new shipper at the earliest opportunity was noted but there might be a period where that might not be the case.
- Problem is that the System Marginal Price (SMP), by exposure on those Suppliers, could force a domino effect.
- P Hobbins noted that the primary effect for NGG is through balancing neutrality; NGG, as the Residual Balancer may always be on the buy side of the market.
- Addressing the example provided in Modification 0789, it is assumed that NGG are buying every day, D Lond advised there is a need to assume that Shippers do balance to demonstrate the potential impacts, whilst Shippers will be slightly long or slightly short in reality. It was noted that this scenario has already happened this year but not explicitly reported.
- When asked if it can be shown that high SMPs impact trading prices, NGG advised there is no view on that at this point.
- It was suggested looking at the evidence of market prices and where the Linepack was, (highlighted at the Ops Forum), if procuring gas, parties can pay a much higher price depending on the time of day and where it is being brought.

6. GB Regime Balancing Principles

DL introduced the principles and what the Shipper role and NGG role is.

- When it was noted that the context of the Shipper role is to meet their own requirements, D Lond clarified that anything proposed is going to require compromise from all parties.
- D Lond explained the diagram shown on Slide 10 of the material and clarified that Additional Daily Quantity is what Modification 0789 proposes.

7. Modification 0789 – recap of proposal & interaction with 0788

Existing Arrangements

P Lucas provided a detailed understanding of what the current existing arrangements are, what this proposal is and the interaction it has with Modification 0788.

- There was a suggestion for more stringent measures to be added to the Supplier Licence condition that requires “all reasonable efforts” to be made by a supplier to find a new shipper within 25 working days. It was noted that the time taken for new Shipping arrangements to be agreed can be lengthy.

Issues

P Lucas provided an overview of the issues experienced as a Residual Balancer:

- D Lond confirmed that in the scenario of 'do nothing' the SMP would be likely to be driven higher. If pushing the SMP buy price high, whilst it incentivises Shippers to balance it also drives additional costs into the market for all participants.
- It was suggested that the TSO should have a very small role to play because the balancing regime incentivises Shippers to be balanced, suggesting that the System should usually be very close to balance most of the time.
- It was noted that it is fundamental to ensure every Supply Point is associated with a Shipper.
- The concern is, regardless of if the Supplier pays its balancing charges or not, there could be a physical impact.
- D Lond noted, on the OCM, trades are settled at D+2; neutrality is up to 75 days later which means there is potentially a funding issue for the neutrality bank account.
- P Lucas reminded participants that the fundamental issue to resolve is who is best placed to conduct the procurement.

0789 Proposal

P Lucas provided an overview of the proposal and clarified that currently NGG (the Residual Balancer) procures the shortfall in delivery volume where no shipper is in place for a portfolio of supply points. NGG are proposing that all shippers are incentivised to procure gas not the Residual Balancer.

Process

P Lucas provided a comparison of the current process vs Modification 0789 and the difference between Modification 0788 and 0789.

- A comment was made, when referencing Shippers, that an LNG Shipper does not have a demand profile.
- A new Gemini account would be required for National Grid to enter trades against each shipper, which would also be approved by National Grid.
- A participant questioned the calculation of each individual shipper share and asked if an indication can be given as to what to expect on a D-1 level and what type of swing there would be - that level of granularity is what is required.
- It was suggested that Business Rules should be developed. The detail of how this will physically work is missing.
- A question was raised regarding dormant Shipper accounts in Gemini that are there but not sending any nominations, would they be allocated with the requirement to procure gas? P Lucas confirmed that if they are not utilising Entry or Exit flows, they would get 0% of the uplift.

New Action 01-0511: 0789 Process: Model volumes that shippers would need to buy under 0789 if a medium size and large size shipper were to fail, including application of trigger points

Interaction with 0788

P Lucas provided an overview of the diagram shown on Slide 17 which provides three scenarios showing if a shipper fails, how the procurement would be processed in the current process: Modification 0789 only and Modification 0788 and 0789.

Benefits

P Lucas provided an overview of the benefits of Modification 0789.

- When concern was highlighted, P Hobbins clarified that NGG recognise that not all Shippers are the same, they have different portfolios covering different activities.
- P Hobbins noted that, from the Residual Balancer point of view, NGG only has access to one market, (OCM) whereas Shippers can access other sources that NGG don't have access to.

- It was asked if NGG could be given access to the markets that Shippers have access to. It was noted that this was what the alternative modification to 0789 focused on.

Scenario

P Lucas provided an Illustration of how the apportionment of how the solution would work and noted the following assumptions and points to note:

Assumptions

- *Between the start and end of the Gas Day, no change in Linepack (gas volumes in the NTS) is sought by the System Operator, i.e. the operational balancing requirement is addressed by matching overall inputs and outputs for the Gas Day.*
- *Whilst the setting of a marginal price by the Residual Balancer would ordinarily be expected to prompt a commercial response from Users, in Scenario 2 and Scenario 3 it is assumed all the required 'volume response' is provided by the Residual Balancer.*

Points to Note

- *For ease of understanding, only 5 Users are shown in the scenarios. This necessitates use of relatively high individual User throughput market shares (up to 35%) whereas in reality, given the greater number of Users in the market, the highest individual User throughput market share in August 2021 was less than 14%.*

New Action 02-0511: 0789 Scenarios: Model cashflow impact on neutrality account for next meeting.

New Action 03-0511: 0789 Scenarios: NGG to produce a timeline of when trades occur and the impacts on neutrality as it happens further down the line with and without any bad debt.

D Lond explained the following cash flow example:

- if there is an action on the OCM on a Monday
 - invoice is produced Tuesday
 - Payment is required by Wednesday.
 - Recovered through neutrality up to 75 days later.
- A participant noted that some trading businesses may be facing restrictions on buying gas caused by the current high commodity prices. Currently the Industry is seeing record commodity prices, there are not many Shippers will be able to trade as freely as NGG.
 - D Lond clarified that equally, from NGG perspective, there is not a bottomless fund in terms of trading.
 - N Wye suggested it is not difficult for NGG to arrange credit with a guarantee of the money being recovered through neutrality.

8. Modification 0789 – summary of feedback from industry webinar 20 October 2021

P Hobbins suggested, as many of the topics have been commented on already during Workshop discussions, attendees review the summary of feedback.

The feedback is grouped into the following areas:

- *0788 and 0789 interaction*
 - *Credit risk*
 - *Use of markets other than OCM*
 - *Shipper ability to source additional gas volumes*
 - *Process queries*
- NGG were asked what happens with Shrinkage, noting that NGG does trade in other markets for Shrinkage, and it would be useful to know under what conditions NGG uses other markets.

9. Modification 0789 – industry views

This item was generally covered as part of the Workshop discussions under each agenda item

10. Potential alternative solution (1)

On behalf of the Proposer, N Wye introduced the Modification and noted the difference with NGG Modification 0789. He began by outlining a critique of Modification 0789 which is highlighted in the Why Change section of the Modification, noting that many of which have been discussed in Workshop today.

N Wye advised that this alternative solution suggests that NGG is best placed to source the gas that is necessary to meet the demand.

- A participant suggested the need to explore how the solutions works effectively and economically.
- P Hobbins summarised that N Wye is asking participants to comment as to whether they feel NGG is better placed to procure the gas.
- N Wye said that it is an important principle that any solution should not sit outside of UNC.
- A participant commented that NGG do have the tools that can deploy in other areas, such as, demand side response, procuring ops margins gas, which can be done in advance to secure volumes of gas when events have passed. He suggested this may be worth exploring more.
- The assumption that Shippers who want to pick up additional demand would do so under Modification 0788 was suggested.
- H Seaton asked if legal considerations have been taken into account, specifically the Gas Balancing Code. N Wye advised he will consider this.
- P Hobbins noted that any gas procurement is likely to be most efficiently done on a prompt basis to reflect that Supply Meter Points will likely be moving from one shipper to another; also, Modification 0788 trades need to be accounted for which happen on a day ahead basis.
- It was noted by N Wye that NGG is best placed to understand what the situation is in advance of the Day, they have the best insight and are in the best position to try to acquire the necessary volumes.

Participants discussed at length if they considered NGG to be best placed to procure gas where the following points were raised:

- Transactions feeding into the cash-out mechanism could be problematic – could look to ring fence the activity that is being done
- There might be options for others to assume the role based on information from NGG.
- Consider a pseudo standing Shipper role – so that NGG are left with their normal Residual Balancer role.
- Ofgem noted that NGG as a Gas Transporter cannot be a granted a Shipper licence.
- There will need to be rules on how you balance the demand on the day.
- NGG will be able to identify what was purchased as Residual Balancer and what was purchased for this purpose.
- Creation of the principle that if NGG are given the tools to carry out the process, it must be made clear that when they act, they act it is in the best interests of the market
- Anything procured in addition to what is needed for this purpose is purchased as part of the Residual Balancer role.
- Make it a separate role and make it clear exactly what it is.
- Ring fence the volume so that it doesn't mix with the volume as Residual Balancer

In conclusion, a participant noted that Modification 0789 seeks to push responsibility towards Shippers; Modification 0789A pushes that responsibility back to NGG. Sought an indication of how NGG feel about taking on this role.

P Hobbins clarified that NGG are open to the possibility for this being a NGG fulfilled function. If this was a sizeable demand needing to procure daily, the time lag between cost and recovery is important and questioned if there may be a way to ensure cost recovery sooner than within the Residual Balancer process. P Hobbins further explained that if this is a NGG function, it would be better served outside of the Residual Balancer role. Need to further reflect on what has been heard today in relation to Shippers not being best placed to procure this, will consider over the next day or so before Workshop reconvenes.

11. Potential alternative solution (2)

R Fairholme was invited to share his thoughts on other potential solutions and talked through an onscreen review of his presentation. He advised that these are just timescales and initial ideas and possibly the sort of thing that could be covered in a Review Group, he clarified he is not intending to raise an alternative to Modification 0789 but just sharing some thoughts:

R Fairholme clarified that many of the concerns he has presented have already been raised and recognised during the Workshop.

Our Concerns with UNC 0789 (as drafted)

R Fairholme shared his thoughts and concerns on Modification 0789.

Potential Alternative 1 – For Discussion

R Fairholme advised a suggestion could be to use the model for failed Suppliers and apply it to Shippers. To allow those Shippers that can manage the risk, (who are best placed), the opportunity to do so.

Potential Alternative 2 – For Discussion

R Fairholme advised this potential alternative is a variation on the Gazprom Energy Alternative and utilises the preference to maintain the Residual Balancer role for NGG but take measures to increase liquidity for On-the-Day Commodity Market (OCM).

Workshop participants discussed the proposals put forward, the content of which are noted here:

- It is worth pointing out the CMA and Ofgem have procedures in place to deal with this type of scenario and the penalties for getting it wrong are severe.
- N Wye highlighted what the difference between a Shipper of Last Resort and Supplier of Last Resort is: a Supplier of Last Resort = the Supplier enters its own contract direct with the customer; A Shipper of Last Resort is open to whatever the additional demand is.
- P Hobbins noted, in terms of going forward, there is a reasonable amount of support towards a NGG facilitated role which needs some work and needs to be reflected on.
- DL advised NGG have requested a data set from Xoserve that provides a Seasonal Normal Demand with a portfolio of 2 million supply points for the analysis.
- Participants were asked to consider if this method would be robust if it were applied to a large sized Shipper.
- A participant asked, in the case of an emergency, what happens with daily metered sites. D Lond advised it would depend on where they are connected and if they are NTS connected.
- A participant asked, in terms of the model ring-fencing activities, to what extent does the Licence restrict NGG?
- A participant highlighted that Workshop conclusions should not be constrained to only making UNC change recommendations; as an Industry, they need to at least be able to recommend a Licence change.
- Next meeting review of Licence restrictions in terms of ring fencing; balancing

12. Pros and cons of potential solutions

This item was generally covered as part of the Workshop discussions under each agenda item.

13. Summary of actions

Action 01-0511: 0789 Process: Model volumes that shippers would need to buy under 0789 if a medium and large size shipper were to fail, including application of trigger points

Action 02-0511: 0789 Scenarios: Model cashflow impact on neutrality account for next meeting

Action 03-0511: 0789 Scenarios: NGG to produce a timeline of when trades occur and the impacts on neutrality as it happens further down the line with and without any bad debt

Action 04-0511: If National Grid were to buy the additional volumes, how can trading costs be recovered more quickly than under neutrality for the Residual Balancer role.

Action 05-0511: NGG to check compliance with National Grid procurement activity with the EU Balancing Code

Action 06-0511: Review of any Licence restrictions to NGG undertaking the procurement role

Action 07-0511: 0789 Alternative: Proposer to review the solution and work with NGG in terms of the Residual Balancing role and the new ring-fenced role

Action 08-0511: Consider the interaction with the GDE; what is being proposed and the worsening of the market situation.
Demand Side interruption, if the volume has been given to shippers to procure and then NGG interrupts supply.

14. Agenda for Workshop 2

P Hobbins confirmed the considerations for Workshop 2 on 09 November 2021:

- Review the summary from this meeting
- An update on the actions taken at this Workshop
- Consideration of trigger points – if this is a modest impact, could residual balancing pick up and what the trigger point could be
- Credit impacts
- Consider the approach to the separation from Residual Balancer towards this new role:
 - Timeline and when the switch would be made
 - Tools that might be used – OCM transactions feed into the price mechanism
 - NGG procurement as a ring-fenced operation – check with Balancing Code
- The interaction with the GDE what is being proposed and the worsening of the market situation. Demand Side interruption, if the volume has been given to shippers to procure and then NG interrupts supply.
- Review of Licence restrictions in terms of ring fencing; balancing

Actions

The Actions recorded above will be available in the Action Log at: <http://www.gasgovernance.co.uk/0789>

Next Meeting

The next meeting will be held on Tuesday 09 November 2021 via Microsoft Teams.

Agenda and papers: <http://www.gasgovernance.co.uk/0789/091121>

Please note meetings will start at 9:30am and are scheduled to finish at 5:00pm.

Agenda Summary

Time / Date	Venue	Proposed Subject Area	Purpose of the session
09:30 Tuesday 09 November 2021	Microsoft Teams	Impact on the market	Workshop 2 <ol style="list-style-type: none">1) Present cost/benefit analysis of proposals2) Impact of proposals on different market participants3) Assess credit impacts of proposals
09:30 Thursday 11 November 2021	Microsoft Teams	Consumer Impacts, UNC Relevant Objectives, Implementation	Workshop 3 <ol style="list-style-type: none">1) Consider consumer impacts of proposals2) Consider proposals against UNC relevant objectives3) Consider the operational process by which proposals could be implemented
09:30 Friday 12 November 2021	Microsoft Teams	Contingency Day	Workshop 4 Contingency Day