Energy Balancing During Operation of a Supplier Undertaking
Summary of Outcomes
Tuesday 09 November 2021
via Microsoft Teams

P Hobbins (Chair)	National Grid
H Bennett (Secretary)	Joint Office
A Bates	South Hook Gas
A Clasper	Cadent
A Lucas	EDF Energy
A Pearce	BP
A Shrigley	ENI
C Aguirre	Pavilion Energy
C Wright	Exxon Mobil
D Fittock	Corona Energy
D Hawkins	TPA Solutions
D Lond	National Grid
D Morley	Ovo Energy
D Wilkinson	EDF Energy
E Rogers	Xoserve
F Cottam	Correla on behalf of Xoserve
G Hoggan	ScottishPower
H Moss	Cornwall Insight
H Seaton	Ofgem
J Oyinlola	Ofgem
J Wilson	Crown Gas
K Rhodes	ConocoPhillips
L Jauss	RWE
L Hellyer	Totalenergies Gas & Power
M Jones	SSE
N Sisman	Sisman Energy Consultancy
N Webb	Petronas Energy
N Wye	Waters Wye Associates
P Lucas	National Grid
R Fairholme	Uniper
R Hailes	Joint Office
R Hill	Centrica
R Johnstone	Utilita
S Blackett	E.ON Energy
S Blackler	E (Gas and Electricity) Ltd
S Brentnall	ENSEK
S Dunn	Interconnector
S Mulinganie	Gazprom Energy

S Repetto	Gazprom Marketing & Trading
T Burke	Equinor
T Hammond	United Gas & Power

Key Points/Decisions

1. Welcome

P Hobbins welcomed all to the Workshop and provided an overview of the planned agenda.

2. Review of minutes and actions from Workshop 1

P Hobbins provided an overview of the minutes taken for the Workshop held on 05 November 2021 and asked for participants approval.

One participant noted that a comment and action mentioned at the Workshop held on 05 November 2021 had not been captured which was in relation to the likelihood of volume of Suppliers that service the same Shipper which would assist in understanding the level of risk around this process.

D Lond advised that National Grid Gas (NGG) do not know how individual Shippers conduct their business and this would be classed as sensitive data.

It was noted that this would be difficult to determine and questioned if it is appropriate to share commercially sensitive information.

A participant commented that the general concept is that there are so many different structures in place and portfolios are not transparent.

It was suggested that Ofgem may consider with the Energy Balancing Credit Committee (EBCC) some high-level data that could be shared such as the high-level indicative risk analysis recently shared at the committee.

The minutes from the previous meeting were accepted.

3. Balancing Neutrality cashflow timeline

P Hobbins provided an update to **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:

The Timeline provided on slide 3 of the NGG presentation shows when NGG would take a Residual Balancing Trade and when invoicing subsequently takes place.

When a participant sought clarification that the information provided is all of the cashflow from Shippers to NGG for settlement, P Hobbins confirmed this would be settlement through neutrality and sets out the overall timeline.

Action 03-0511 Closed

4. Procurement volume scenarios & cashflow impacts under 0789

D Lond explained that NGG recognise that a full cost benefit is difficult to provide due to the pace at which NGG are working to and the uncertainty of future Shipper / supplier failures.

In the absence of a full and detailed Cost Benefit Analysis, NGG provided a cost illustration on two portfolio sizes:

- Shipper x demand portfolio of ~1.2m Supply Points
- Shipper y demand portfolio of ~2m Supply points

The high-level illustration details:

- The potential impact upon neutrality and Shippers in the absence of a solution being implemented
- The 0789 impact: additional cost/impact to Shippers based upon smearing Shipper x and Shipper y's demand to all other Shippers.

Neutrality Impact

D Lond explained the assumptions that have been considered and applied to the scenarios being presented in this section of the agenda.

When asked D Lond advised that recent NGG experience has been used to inform the Shipper x scenarios.

It was noted by a participant that the fundamental problem is the need move meter points to a new shipper more quickly, large sums of money can continue to build over several months.

Clarification was provided that Shippers do have to provide credit security which should cover debt.

D Lond proceeded to explain the four Shipper 'x' scenarios as follows:

Scenario 1

D Lond advised this scenario assumes no migration of supply points away from the failed Shipper.

Information to note when considering the chart presented:

- The saw tooth effect shown on the chart is where the National Grid residual Balancing actions are credited back into neutrality through shipper EB neutrality payments
- At its peak, a £500m+ neutrality deficit occurs, likely leading to consequences for residual balancing
- If 0789 was implemented, then effectively the line would be flat at, or around, zero.
- Assumption all operating under the DOU pay in full –if not paid then an extended lag in the account.
- Costs could be higher e.g. it could be that the failed shipper shortfall would mean National Grid set SMP more regularly and trade at higher than market prices.

No questions

Scenario 2:

D Lond advised this scenario assumes steady migration of supply points to solvent Shippers and it assumes that everyone pays their bills in full.

Information to note when considering the chart presented:

- The saw tooth effect is where the National Grid residual Balancing actions are credited back into neutrality through shipper EB neutrality payments
- At its peak, a £90m+ neutrality deficit occurs, likely leading to consequences for residual balancing
- If 0789 was implemented, then effectively the line would be flat at, or around, zero.
- Assumption all operating under the DOU pay in full –if not paid then an extended lag in the account.
- Costs could be higher e.g. it could be that the failed shipper shortfall would mean National Grid set SMP more regularly and trade at higher than market prices.

No questions

Scenario 3:

D Lond advised this scenario is as per Scenario 1, but also assumes UNC modification 0788 (Urgent) - Minimising the market impacts of 'Supplier Undertaking' operation, is in place and has an 80% of unsupplied demand being delivered.

Information to note when considering the chart presented:

- The saw tooth effect is where the National Grid residual Balancing actions are credited back into neutrality through shipper EB neutrality payments
- At its peak, a £100m+ neutrality deficit occurs (compared to £500m+ in the absence of mod 788) likely leading to consequences for residual balancing
- If 789 was implemented, then effectively the line would be flat at, or around, zero.

- Assumption all operating under the DOU pay in full –if not paid then an extended lag in the account.
- Costs could be higher e.g. it could be that the failed shipper shortfall would mean National Grid set SMP more regularly and trade at higher than market prices.

Questions/Comments:

A participant asked if a shipper can just stop nominating gas without being terminated? D Lond clarified that the Shipper is only incentivised to balance, this is a scenario that could happen in BAU today. D Lond clarified that Modification 0789 is using the Deed of Undertaking procedure as a trigger to start the process.

R Hailes provided clarification that if a Shipper stopped nominating, the Energy Balancing Credit rules would be triggered, which is not a scenario covered in this Modification.

When a participant asked with regards to Cash Flows D Lond clarified that Cash Flow in neutrality is a driver for this Modification along with the volatility in the market.

A participant further asked if there is an indicative cash flow set aside to manage balancing arrangements, D Lond advised that would be the Neutrality Bank Account adding that, in the past, NGG have funded the Neutrality Bank Account temporarily but that the scenarios presented are far in excess of the position then.

Scenario 4:

D Lond advised this scenario is as per 2, but also assumes Modification 0788 is in place and [80%] of unsupplied demand is up taken.

Information to note when considering the chart presented:

- The saw tooth effect is where the National Grid residual Balancing actions are credited back into neutrality through shipper EB neutrality payments
- At its peak, a £19m+ neutrality deficit occurs (compared to £90m+ in the absence of mod 788) likely leading to consequences for residual balancing
- If 0789 was implemented, then effectively the line would be flat at, or around, zero.
- Costs could be higher e.g. it could be that the failed shipper shortfall would mean National Grid set SMP more regularly and trade at higher than market prices.

No questions

Shipper x 0789 solution (1of2)

D Lond provided an example of what the costs would be if the demand was smeared based on Scenario 1.

Information to note when considering the chart presented

- Using real data (see previous slide), we have quantified the smearing of Shipper ‘x’ demand to all other shippers
- Assumes an average daily demand of ~ 100 GWh/d and smeared based upon Shippers average monthly market share (throughout).
- Assumes a gas price of £2.00 per therm
- Propose those <0.1GWh don’t get a smear –min OCM trade size
- The histogram shows the distribution of the apportionment of that demand in 0.1 GWh/d increments.
- 15 shippers with smear higher than 50k therms.
- ~50 Shippers with smear between 4k therms and 46k therms(average of 21.5kth)

Questions/Comments

A concern was expressed that some Shippers could be caught out and unable to acquire the gas needed. Some Shippers may be put under undue stress because of the allocation of demand.

D Lond acknowledged the comments made and suggested that debate may need to focus on the risk to one party or many together.

A participant asked would the Shipper be holding their liability for 3-4 months rather than 1-2 months like NGG and how quickly does payment come back. D Lond advised this would depend on how each shipper sources the gas.

It was noted that Modification 0788 provides another tool for the Supplier to mitigate the risk.

A participant asked, in the context of this series of Workshops taking place outside of normal practice, is it possible that the solution does not change UNC, rather with supplier arrangements?

Ofgem are committed to reviewing the regulatory arrangements for suppliers, changes to supplier Licence may require a legislative change. While industry has committed to review the UNC processes, Ofgem has committed to review the regulatory arrangements.

A participant asked if there has been any consideration to ask Shippers to make more frequent payments? D Lond advised this has not been done formerly, and that NGG will consider.

Shipper x 0789 solution (2of2)

D Lond provided an example of what the costs would be if the demand was smeared impact based on Scenario 3 day of 25GWh.

Information to note when considering the chart presented

- Using scenario data we have quantified the smearing of Shipper 'x' demand to all other shippers
- Assumes a daily demand of ~25 GWh/d which is the max in this scenario and smeared based upon Shippers average monthly market share (throughout).
- Assumes a gas price of £2.00 per therm
- Propose those <0.1GWh don't get a smear –min OCM trade size
- The histogram shows the distribution of the apportionment of that demand in 0.1 GWh/d increments.
- 4 shippers with smear higher than 50k therms.
- ~40 Shippers with smear between 4k therms and 46k therms(average of 12kth)

D Lond added that this shows the volumes are much less if the application of Modification 0788 is successful.

Shipper 'y' Scenarios

D Lond provided a view of 4 Shipper y scenarios as follows:

Scenario 1
Residual Balancing actions and assumes no migration of supply points from the failed Shipper.

Scenario 2

Assumes steady migration of supply points to solvent Shippers.

Scenario 3
As per scenario 1, but also assumes UNC modification 788 is in place and [80%] of unsupplied demand is up taken.

Scenario 4
As per scenario 2, but also assumes UNC modification 788 is in place and [80%] of unsupplied demand is up taken.

Questions/Comments

Clarification was sought if NGG have considered any trigger points at this stage, adding is there an upper threshold where Modification 0789/A stops becoming reasonable.

NGG advised that a trigger point for entry into the process requires further internal discussion.

It was noted that the trigger for exit out of the process also needs to be considered.

A participant asked if there is a point where the volume gets so large where Modification 0789 would not work (upper limit), D Lond advised this has not been considered as yet.

A participant commented that cashflow management and default on payments should be considered as separate issues.

Shipper y 0789 solution (1of2)

D Lond advised this assumes the demand is smeared impact based on Scenario 1 day of 180GWh.

Information to note when considering the chart presented

- Using Shipper Y forecasts we have quantified the smearing of that demand to all other shippers.
- Assumes a daily demand of ~180 GWh/d which is the max in this scenario and smeared based upon Shippers average monthly market share (throughout).
- Assumes a gas price of £2.00 per therm.
- Propose those <0.1GWh don't get a smear min OCM trade size.
- The histogram shows the distribution of the apportionment of that demand in 0.5 GWh/d increments.
- ~30 shippers with smear higher than 50k therms.
- ~41 Shippers with smear between 4k therms and 46k therms (average of 20kth).

No questions

Shipper y 0789 solution (2of2)

D Lond advised this assumes the demand smeared impact based on Scenario 3 day of 35GWh

- Using Shipper Y forecasts we have quantified the smearing of that demand to all other shippers
- Assumes a daily demand of ~ 35 GWh/d which is the max in this scenario and smeared based upon Shippers average monthly market share (throughout).
- Assumes a gas price of £2.00 per therm
- Propose those <0.1GWh don't get a smear –min OCM trade size
- The histogram shows the distribution of the apportionment of that demand in 0.3 GWh/d increments.
- ~7 shippers with smear higher than 50k therms.
- ~42 Shippers with smear between 4k therms and 46k therms(average of 13kth)

Questions/Comments

On behalf of the Proposer of the alternative solution, it was confirmed that discussions are ongoing with NGG and clarification was provided that the solution has to be volume based. There is no precise way of doing this, the graphs shown on slides 22 and 23 are showing that once the demand is smeared it is diluted but the cost could be high and damaging to some Shippers. It was further clarified that if the attempt is made to smear the demand across Shippers it may be incumbering to some Shippers with high cost, hence the alternative solution for Modification 0789A.

5. NGG ringfenced role: Licence impacts

P Hobbins provided an update to Actions 05-0511 and 06-0511:

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.

Both actions are now closed.

6. NGG ringfenced role: EU Balancing Code impacts

P Hobbins provided a brief update and advised that he has reviewed the EU Balancing Code and cannot trace anything that expressly prohibits a TSO from purchasing gas for purposes other than residual balancing.

If NGG were to procure this gas, it should be treated separately from NGG balancing activity and cashout as it would not fit within the parameters for residual balancing.

Ofgem noted this is still an area of concern and asked if NGG have anything more in depth on the Balancing Code outside of the information provided. P Hobbins advised he will liaise offline with Ofgem.

It was confirmed, for Modification 0789A he performed a similar exercise and arrived at similar conclusions, however, the System Management Statement may need focusing on.

P Hobbins advised that the System Management Statement is subject to a periodic review, if any changes are identified they can be included in that general review.

When asked, P Hobbins confirmed that this alternative solution Modification 0789A, similar to Shrinkage procurement, is contemplating a specific scenario whereby a Shipper is terminated, gas is not procured for a period of time and the procurement is completed by NGG under a specific set of rules.

New Action 01-0911: NGG and Ofgem to perform a more in-depth review of the EU Balancing Code.

New Action 02-0911: NGG to consider the System Management Principles and Procurement Guidelines

7. NGG ringfenced role: revenue recovery

P Lucas provided an update to Action 04-511:

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.

P Lucas explained that the boxes on the diagram in black text represent the existing processes.

The example of shortening the period of cost recovery, shown in red text, P Lucas has been in discussions with Xoserve to see if moving that period closer to the [ ] cost accrual can be done. Initial assessment suggests this can be done.

When asked what the leadtime to recover costs would be, P Lucas advised it would be around 6 weeks, in terms of cash at risk, compared to ~8 weeks currently.

When asked, P Lucas clarified that the billing period would cover half of the previous month and half of the next month, but this has not been confirmed yet.

8. 0789A Update

An update was provided on the progression of alternative solution Modification 0789A and advised he is working with NGG in order to ensure consistency in terms of volume triggers. He advised that the preference to keep the role outside of the NGG Residual Balancer role appears to be popular and right for inclusion in his Modification and that he hopes to update the Modification quite quickly in terms of its solution once the right way forward is determined given the time periods he is working to.

A participant commented that the implications of apportionment should be on the day, P Lucas advised that the reconciliation activity cannot be completed until M+4.

A participant asked if the saving is worth the impact on the complexity of the invoicing process. A 2-week saving is the most that can be achieved, balanced against complexity.

9. Credit impacts of 0789 and 0789A

In terms of credit impacts, P Hobbins advised that NGG have nothing specific to add to this particular part of the agenda other than to summarise that from a NGG point of view the potential exposure that takes NGG into debt position on the Neutrality Account that NGG would not be comfortable in.

A participant added, from a Shipper point of view, the current market conditions achieving credit for different situations is not easy.

A participant noted the credit risk is low risk for NGG and a commercial risk for Shippers.

10. Summary of actions and agenda for next meeting

P Hobbins summarised the actions taken:

New Action 01-0911: NGG and Ofgem to perform a more in-depth review of the EU Balancing Code.

New Action 02-0911: NGG to consider the System Management Principles and Procurement guidelines

New Action 03-0911: NGG to consider the entry and exit triggers for the process

The next Workshop will focus on Consumer Impacts; Relative Objectives and Implementation.

When R Hailes asked when any alternative Modifications will be submitted, she was advised that once text that is common to both Modifications have been agreed, of which a timeline is difficult to assess.

When asked, Ofgem advised that the timetable is open-ended based on what factors change.

When asked a participant advised that after Workshop 1 it appeared the Industry was warming towards the alternative proposal (Modification 0789A), it was if NGG would consider adopting 0789A and suggested it is not realistic develop both Modifications.

P Hobbins advised that NGG still has the view that Shippers are better placed generally to procure gas than NGG and will continue to consider over the next couple of days.

A participant said it is crucial to understand the role definition and it is not clear what the boundaries are in terms of the timeline and what tools they would use.

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 Thursday 11 November 2021 via Microsoft Teams.

Agenda and papers: http://www.gasgovernance.co.uk/0789/111121

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 Thursday 11 November 2021	Microsoft Teams	Consumer Impacts, UNC Relevant Objectives, Implementation	Workshop 3 1) Consider consumer impacts of proposals 2) Consider proposals against UNC relevant objectives

			3) Consider the operational process by which proposals could be implemented
09:30 Friday 12 November 2021	Microsoft Teams	Contingency Day	Workshop 4 Contingency Day