

**Energy Balancing During Operation of a Supplier Undertaking
Summary of Outcomes
Thursday 11 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 Blckett	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 2

P Hobbins highlighted to Workshop participants that, due to the pace at which the Workshops are progressing, there is a risk of conversations being mis-quoted, and, due to the sensitivity of the topic, participants are reminded that the summary minutes are being produced within a short time frame and are published in a public domain.

With this in mind P Hobbins asked participants if they would prefer the minutes not to be attributable to individuals, a participant suggested using a similar format that is used for UNC Panel meetings where the minutes reflect participants views rather than individuals. This was agreed as the approach to take and agreement that the minutes for Workshop 2 would be anonymised as such and re-published.

It was noted there were no members of the press on the call.

P Hobbins provided an overview of the minutes taken for the Workshop held on 09 November 2021 and sought participants acceptance.

P Hobbins went on to inform Workshop of the proposed agenda.

R Hailes noted that what is being referred to as Modification 0789A (the alternative solution) has not been formally submitted as a Modification yet and is still in draft status.

When a participant sought further clarity, D Lond confirmed that all costs incurred are smeared back to the community via the neutrality.

H Seaton provided clarification with regards to the review of regulatory arrangements and requested an amendment to the minutes.

Post meeting note: the minutes from Workshop 2 have been amended to incorporate the anonymisation and the amendment requested from Ofgem.

Actions update

01-0511 – P Hobbins confirmed this was included in the scenarios presented in Workshop 2. **Closed**

08-0511 – P Hobbins confirmed this was included in Workshop 2. **Closed**

It was suggested that when referring to the Entry and Exit of the new arrangements, this should be referred to as what starts the arrangement under Modification 0789 (both proposals) and what stops it (on and off).

3. 0789A EU Balancing Code Compliance: update on NGG View

P Hobbins advised that no issues with compliance have been identified with the EU Balancing Code, provided that it was done as a ringfenced role separate from residual balancing. Were this not the case, then if NGG wish to conduct any trading ahead of D-1, that would not be compliant.

P Hobbins went on to advise that if the role is separated out and is seen as a ringfenced activity, defined in its own right, the tools other than OCM could be permitted subject to the licence condition SC9.14; Ofgem consent and a UNC Modification. Either an alternative proposal or an adjustment to Modification 0789A would be required.

A participant advised, if this is to be a separate activity to the Residual Balancing role that NGG perform what is different needs to be made clear.

P Hobbins clarified the Residual Balancing role is well defined, the difference with the ringfenced role is that it would be triggered when there is a mismatch between supply and demand caused by a specific

event, therefore it can be determined it is very different to the Residual Balancing role and warrants different tools. D Lond added this is not an enduring process, it will be used for a specific period (short term).

A participant mentioned that Balancing Neutrality is structured in the Code to reflect Balancing Activities, if this role is going to be a different role to that of the Residual Balancing role there needs to be consideration as to how recovery of costs can be done without utilising Balancing Neutrality.

P Hobbins advised that the NGG view is that there is nothing that precludes the inclusion of other costs being pushed through the same mechanism.

P Hobbins explained that if NGG take on the procurement activity, a preference has been established through the Workshops for this to be a separate function to residual balancing and therefore not contributing to cash-out prices, this would be excluded from the scope of the EU Balancing Code in a similar way to which shrinkage is (see definition of 'balancing action' in Art 3).

4. 0789A Solution

Current understanding of 0789A proposal

D Lond introduced this section of the agenda and advised it aims to confirm the common understanding of the 0789A proposal.

Core Principles

D Lond suggested the ringfenced role for NGG could be labelled as 'Contingency Supplier Demand Matching' to differentiate it from the NGG Residual Balancing role. He confirmed this role would not be designed for every occurrence of failure only where a Last Resort User is not appointed.

D Lond clarified that this would be a transitional arrangement until a more enduring solution can be implemented, he added that discussions have highlighted there are challenges within this role and that whichever way forward is chosen, it would be for the interim period until the new shipper is appointed.

D Lond advised that a key element of the ringfenced role is that it will not be able to set marginal prices as it will not have the same power as the Residual Balancing role.

Further thought is needed into the presentation of the role; how it is termed.

Questions

P Hobbins noted that Modification 0789A does not currently reflect that this would be a ringfenced role.

On behalf of the proposer for the alternative Modification 0789A, N Wye advised that, common to both proposals, the threshold/trigger for starting the activity could be 10GWh which would be a trigger volume and represents a fair number of domestic points, the opening trigger will remain open until the volume that is unserved falls below and reflects the minimum trade size of 100,000 kwh.

When asked it was clarified that there needs to be an understanding of how the market moves, the volume is based on consideration of standard needs in which NGG should act.

The terminology of switching on and off rather than entry and exit as the trigger was agreed.

Workshop participants were advised that the off criteria would be when the problem goes away, which is when the volume that NGG are required to buy, falls below the min of 100,000 kwh.

A participant suggested looking over a period of days that the threshold has fallen below as well as the on trigger and off trigger, maybe a period of consistency before the trigger is switched off. This could be a rolling 7-days so that it is not a hard cut off at below 100,000.

A participant requested a definition in the Modification that defines Shipperless sites that makes it different to that of *Modification 0788 - (Urgent) - Minimising the market impacts of 'Supplier Undertaking' operation*.

A participant mentioned their concern that the role should not be time-limited and that it needs to be available as a tool in the absence of a strategic enduring alternative being implemented.

Other participants suggested that if it is not a time-limited role that it would be the default solution; the suggestion of a 'Sunset Clause' was also made.

When asked, Joint Office clarified that the Urgent Modification process includes UNC Panel assessing the Modification for any other actions that may need to be considered.

D Lond noted the scope of the role and how far ahead of the Day NGG could be trading.

D Lond opened discussion on the Trading strategy and how mechanistic it should be, advising there are many options. If this is to be an additional role a more mechanistic approach would provide some form of clarity to the market of what NGG does and when. A participant suggested that by capping the volume at which NGG can buy or sell would be a mechanistic approach.

In terms of transparency, it was mentioned that the first information to the Industry will be when NGG enables this activity (when it hits the trigger), it is not anticipated that NGG would report how much gas it has acquired or sold. After the event when NGG exits the arrangements, additional reporting could then occur, this process should be giving NGG the opportunity to manage the situation at the best price it can achieve.

When other views were sought it was suggested that a daily cap on the volume could be administered, equal to the maximum volume that NGG would contract for when the process was triggered. A participant queried that this volume could increase if another shipper were to fail afterwards.

In terms of an announcement being made that the process has been triggered, participants discussed the options:

- NGG can only reflect the situation at that time
- How will the Industry know which gas is purchased for the unserved demand and which for Residual Balancing role?
- Telling the market, the process has been instigated, just advising trigger is hit “the ringfenced role has been triggered and the activity will be undertaken for a volume that has been triggered in accordance with the rules”.
- The announcement could be tied to some of the Ofgem notifications around terminations
- It needs to be a separate notification – on and off notification
- Does the notification have to be in advance or can it be post the trigger?

5. 0789A NGG Cost Recovery

Diagram Slide 9

D Lond introduced the diagram shown on Slide 9 of the NGG presentation and advised that NGG have had some discussion with Xoserve who have advised that the version presented at Workshop 2 is possible and could be implemented, however, more time is required to understand what the process could be and what other options might be available.

A Correla representative explained that the initial recovery can be done using existing the neutrality process, but the difficulty is how the costs can be reapportioned, this potentially will need to be done using an adhoc offline process. Further assessment is being carried out to work up the best approach and how quickly that can be put in place.

It was confirmed that, referring to the diagram which shows Stage 1 and Stage 2, it is Stage 2 (reapportionment) that provides the certainty around accuracy, but adds complexity.

New Action 01-1111: NGG to investigate history materiality of difference between stage 1 and 2

New Action 02-1111: Xoserve and Correla (ER and DD) to consider how stage 2 could work

New Action 03-1111: Xoserve/Correla to confirm what the credit arrangement is for Suppliers within the deed of undertaking process.

Impact on Procurement Guidelines and System Management Principles Statement – NGG Views

P Hobbins provide a brief overview of his review of the document and advised Workshop that he has not identified any barriers within the Procurement Guidelines and the System Management Principles Statement, rather it has been recognised that additional text to reference the procurement activity and the means of deployment may be beneficial.

When asked, P Hobbins clarified that NGG have an obligation to review the Procurement Guidelines and the System Management Principles Statement on an annual basis and depending on where NGG are within the annual cycle, a view will be taken of when to implement the change.

6. Implementation matters

P Hobbins provided an explanation of how the solution in Modification 0789 would be applied if it were implemented:

- *Increase the output side of a Shipper's daily imbalance*
 - *incentivises increase of input side*
 - *matching increased output minimises exposure to cash-out at marginal price*
- *Additional Daily Quantity (ADQ_d) added to output side of Shipper's daily imbalance*
- *ADQ_d is a proportion of the forecast demand of the Supplier/s acting under the Supplier Deed (FDRS_d)*
 - *Communicated to Users twice for each day (estimate on D-1, finalised value on D)*
- *Proportion is equal to the Shippers throughput share from M-2 (being the most recent closed out throughput data)*

Participants agreed it would be useful to have the information articulated within the Modification.

A participant noted their concern that there are many inputs and outputs of neutrality which are also complex and would like to see how costs that Shippers are incurring would be recovered.

P Hobbins advised in principle that could smooth out anomalies, but it also adds complexity.

P Hobbins provided an explanation of how the Additional Daily Quantity (ADQ_d) (shown on diagram slide 16) would be added to the output side of the Shipper's daily imbalance. The diagram shows the current inputs and outputs that feed in currently to the neutrality determination and the additional daily quantity.

Participants agreed they would like to see this detail included within the Modification.

7. Consumer impacts of proposals

No discussed

8. Consideration of proposals against UNC relevant objectives

Not discussed

9. Summary of actions and agenda for next meeting

P Hobbins summarised the actions taken:

New Action 01-1111: NGG to investigate history materiality of difference between stage 1 and 2

New Action 02-1111: Xoserve and Correla (ER and DD) to consider how stage 2 could work

New Action 03-1111: Xoserve/Correla to confirm what the credit arrangement is for Suppliers within the deed of undertaking process.

P Hobbins advised it is his intention to now reflect internally within National Grid on the progress made throughout the Workshops.

There are several actions that are still outstanding that need to be worked through.

Consideration will be given as to how best Workshop reconvenes and in what format.

Ofgem acknowledged the Workshops were put this outside of normal process and welcomed views on how to steer it back to normal process.

A participant highlighted that discussions at the last UNC Panel in October noted that it is possible for this Modification could run under a normal governance process and panel could apply a much shorter timescale; it was noted that the urgent process is far from ideal, but the preference is that it should follow normal governance process.

A participant asked if NGG were considering amending Modification 0789 or withdrawing it. If an amendment is required at this stage, it is probably better to withdraw and resubmit.

In conclusion, P Hobbins closed the Workshop and confirmed that NGG have some thinking to do in relation to what to do with Modification 0789 and will inform parties of decision on way forward and thanked all participants for their attendance and input.

Actions

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