

UNC Workgroup 0669R Minutes

Review of the Gas Deficit Warning (GDW) and Margins Notice (MN) Arrangements

Thursday 02 May 2019

At Elexon, 350 Euston Road, London, NW1 3AW

Attendees

| | | |
|----------------------------|------|--------------------------|
| Rebecca Hailes (Chair) | (RH) | Joint Office |
| Karen Visgarda (Secretary) | (KV) | Joint Office |
| Andrew Pearce | (AP) | BP |
| Angharad Williams | (AW) | National Grid NTS |
| Anna Shrigley | (AS) | Eni Trading & Shipping |
| Bill Reed | (BR) | RWE |
| Chris Wright | (CR) | Exxon Mobil |
| David Cox* | (DC) | London Energy Consulting |
| Edd Fyfe | (EF) | SGN |
| Gareth Evans | (GE) | Waters Wye Associates |
| Graham Jack | (GJ) | Centrica |
| Jeff Chandler* | (JF) | SSE |
| John Costa | (JC) | EDF Energy |
| Kamla Rhodes | (KR) | Conoco Phillips |
| Lea Slokar* | (LS) | Ofgem |
| Mark Carolan* | (MC) | Ofgem |
| Phil Hobbins | (PH) | National Grid NTS |
| Shiv Singh* | (SS) | Cadent |
| Sinead Obeng* | (SO) | Gazprom |
| Steve Britton* | (SB) | Cornwall Insight |
| Steve Pownall | (SP) | Xoserve |

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0669/020519>

1. Introduction and Status Review

1.1. Approval of Minutes (15 April 2019)

All changes submitted by Angharad Williams (AW) were reviewed by Workgroup and approved. A change marked and clean version of the amended minutes are published here: <http://www.gasgovernance.co.uk/0669/150419>

2. Review of Outstanding Actions

Action 0106: *Reference (draft) Request Workgroup Report development* - National Grid NTS (AW) to provide a view as to whether or not the additional areas requested by the Workgroup would have made a difference to the 01 March 2018 emergency event approach.

Update: The change noted by AW was accepted. More detail will be provided in the next couple of Workgroups. Once the Margins Notice calculation and Interconnector Methodology is finalised an update will be provided to the May/June 2019 Workgroup. **Carried forward**

Action 0301: South Hook Gas (AB) to discuss the LNG stocks in the tanks with the operations team in relation to D-1 nominations process and how this would work.

Update: Discussions are ongoing with the Operational Team and AW requested this action be carried forward, AB was not present at the meeting. **Carried forward**

Action 0401: *Forecasting Interconnector Flows using Inter-hub Spreads* - National Grid to provide clarification on what the hub price actually includes and whether commodity charges are or can be included – slide 14 of the National Grid presentation.

Update: AW explained that the Hub Price was market driven, so National Grid NTS would not be able to clarify what the hub price actually included and if the commodity charges were included in the price. It was then agreed this action could be closed. **Closed.**

Action 0402: National Grid to provide more average days data (for D-1 Nominations as a predictor of flow for Interconnector and LNG)

Update: AW explained that more information could be accessed by viewing the information on Report Explorer as detailed below:

Locating D-1 Nomination Data on the National Grid Website

- Sufficient information should be available via the Report Explorer: <http://mip-prod-web.azurewebsites.net/ReportExplorer/Index>
- Navigation to the relevant report is: 'Energy – Daily Reports' > 'Pre Day – Within Day' > 'Nomination Report', and select the Gas Day you want to see the data for at the bottom of the window
- If slightly more granular data is needed, this is available via the Data Item Explorer: <http://mip-prod-web.azurewebsites.net/DataItemExplorer>
- Navigation to the relevant data items is: 'Balancing' > 'Nominations', then select whichever option is of interest, and whichever Gas Day you want the data for
- Ensure the 'Latest Values' box at the bottom of the window is unchecked, and select the 'Applicable For' option.

AW then confirmed this action could now be closed. **Closed.**

3. Consideration of Amended Request

AW confirmed the Request had not been amended.

AW talked the Workgroup through the presentation provided which covered:

- Recap of proposal for new process for Margins Notice calculation
- D-1 Nominations
- Interconnector Methodology
- LNG Methodology
- Next Steps

During a recap of the Review Proposal, AW confirmed that a new process for Margins Notice calculation had now been produced and highlighted that directly connected customers would benefit from this; as overviewed below:

Margins Notice triggered if: Total Max Use (*NSS Assumption* + Storage Max Use + *LNG Assumption* + *Interconnectors Assumption*) < Demand Forecast

- *NSS [Monthly review] – Just UKCS & Norway, with LNG & Interconnectors removed*
- *Storage [Daily process] – Current process to remain*
- *LNG [Daily process] – New methodology*
- *Interconnectors [Daily process] – New methodology*

- *And an ANS to be issued when a certain percentage of the Margins Notice trigger is reached.*
- *National Grid NTS propose to include in UNC these changes to the methodology, and the frequency of these processes and reviews.*

Rebecca Hailes (RH) said that she thought the word 'use' in the context of 'Total Max Use' was misleading, and Phil Hobbins (PH) said it was a fair comment, but that was how it was referred to in all the existing documentation.

AW said the alternative proposal, as detailed above, was to use average flows and price differential data to calculate the interconnectors figure for the Margins Notice on a daily basis. John Costa (JC) questioned whether the Margins Notices were definitely published on a daily basis and the PH confirmed this to be the case.

AW explained that there would be 'ad hoc' reviews undertaken in relation to the NSS and UKCS and PH said these concepts were being further explored in relation to the reviews. JC said that in relation to what happened to the UKCS supplies on 01 March 2018, that the process should be more dynamic and accurate, including a daily day ahead assessment, as the UKCS was so unpredictable now. PH said the major focus was currently in relation to the LNG and Interconnectors.

Bill Reed (BR) suggested that a de-rating procedure should be initiated regarding the UKCS numbers and he wanted to know how the de-rating process could be applied. PH said this proposal could be explored as a stage 2 in the future.

Both Graham Jack (GJ) and BR said they were impressed with the work that had been undertaken by National Grid NTS so far and that this would be a vast improvement to get the Modification in place for this winter period, even if it was not initially the full solution. BR added that for any proposed stage 2, further triggers could be explored to invite a change in behaviour, especially regarding fundamental data that should already be available, JC agreed that the producers should be providing information, including offshore data.

JC asked Mark Carolan (MC) if Ofgem were looking into the issue that occurred on 01 March 2018 from a Remit Team perspective, and if this information was going to be available. MC said he would investigate this further with the Remit Team and provide an update.

New Action 0501: Ofgem (MC) to report on the investigations being undertaken by the Remit Team in relation to 01 March 2018 if possible, including outcomes and next steps.

Anna Shrigley (AS) said that the monthly forecast was a good idea, together with the 'ad hoc' reviews, but she said that the Norwegian forecast operated on different patterns with differing dynamics (with the option to flow to the UK or TTF hubs) and so could not be addressed in the same manner as the UKCS forecast.

LNG Methodology

AW explained that at the last meeting National Grid NTS illustrated that, for the last 3 winters, the Composite Weather Variable did not provide sufficient correlation with LNG flows for use in the Margins Notice methodology, and in view of this fact, she said National Grid NTS had proposed to investigate an LNG methodology based on usable stock and that discussions were taking place regarding the challenges this would present, as detailed below:

LNG=Min(Maximum Technical Capability, Usable Stock)

With a proposed usable stock calculation of:

Usable Stock=(Stock Level–Minimum Storage Tank Level)

AW said that this equation had been applied to recent winters and that the output was consistently the maximum capability, which was a problem as using this would provide a much higher figure for LNG for the Margins Notice, and triggering it would be less likely than using current arrangements. She said the alternative option was to use the n th percentile (perhaps 80th) of historic winter period LNG flow data to establish an 'expected cold weather capability' at the start of a winter, which could then potentially be fed with new data as the winter progresses to reflect changes to LNG flow behaviours. National Grid is still assessing this option.

JC said he thought the LNG levels would be much easier to predict due to the tracking of the ships and delivering unloading etc. and that this would be better than historical flows which have been very erratic. AW said that this data was not reliable enough to base the methodology on; the data is fallible and ships get redirected due to trading whilst they are underway. Deliveries may be expected but not arrive and the reverse is also true. BR asked in relation to the amount of gas, whether this was based on flow or capacity and PH said it was based on the deliverability of the flow only.

BR said that de-rating the LNG would give the flow and dynamic calculation of the de-rating analysis. He cautioned that if this de-rating analysis was to be used, there was a risk of information which is not normally available to the market having an effect on the liquid market offshore. He added that it would be more sensible to fix the de-rating factor prior to the winter, using less commercially sensitive data. PH agreed the de-rating concept needed greater and more in-depth discussion, he also noted that the data would be aggregated for the three points. Graham Jack (GJ) highlighted that more strategic gas storage areas would help, but this was not a market based solution.

BR and JC commended National Grid on the work completed so far. Workgroup agreed.

AW said from a next steps perspective that the proposal which will form the draft Modification are already developed from the work already undertaken in the 0699R Review and that the Draft Modification would be available for the June Workgroup meeting, ready for submission to the July Panel, at which point the Review Group would be closed. She added that her aspiration was for all the principal documents to be completed for the June meeting in readiness for the Modification to go straight out to consultation once it has been to Panel, with the Legal Text being completed in July, prior to submission.

RH said due to the amount of work that was yet to be completed that she would propose seeking an extension from Panel for 0669R to July. The Modification is aiming to be implemented by 01 October 2019 for this winter.

4. Development of Request Workgroup Report

RH made an update to the Workgroup Report to capture discussions held within Workgroup.

5. Next Steps

In conclusion RH confirmed the Next Steps as follows:

- The Joint Office will seek extension to July for 0669R at the May Panel.
- The Workgroup will be expecting to see the final set of proposals to go forward into a Modification at next meeting in June if possible.
- The Workgroup is to capture at the next meeting other areas for future improvement, recognising that if 0669R is closed in July, that these will be revisited under a new review later ('stage 2').
- The Workgroup is aiming to get the new Modification in place for Winter 19/20.
- The aim is to have the draft Modification and draft Legal Text for workgroup to review for the July meeting.
- National Grid NTS to further develop and quantify the LNG methodology/Margins Notice/Interconnector methodology.

- National Grid NTS to provide a fully detailed methodology document (not in a presentation format)
- Consideration of Central Systems and Implementation costs.

6. Any Other Business

None.

7. Diary Planning

Further details of planned meetings are available at:

<https://www.gasgovernance.co.uk/events-calendar/month>

| Time / Date | Venue | Workgroup Programme |
|------------------------------|--|--|
| 10.00, Thursday 06 June 2019 | Radcliffe House, Blenheim Court, Warwick Road, Solihull, B91 2AA | Standard Agenda plus <ul style="list-style-type: none"> • Consideration of amended request, if any • Development of Workgroup Report |

Action Table (as at 02 May 2019)

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|------------|--------------|------------|---|------------------------|------------------------|
| 0106 | 21/01/19 | 4. | <i>Reference (draft) Request Workgroup Report development</i> - National Grid NTS (AW) to provide a view as to whether or not the additional areas requested by the Workgroup would have made a difference to the 01 March 2018 emergency event approach. | National Grid NTS (AW) | Carried forward |
| 0301 | 07/03/19 | 3. | South Hook Gas (AB) to discuss the LNG stocks in the tanks with the operations team in relation to D-1 nominations process and how this would work. | South Hook Gas (AB) | Carried forward |
| 0401 | 15/04/19 | 3. | <i>Forecasting Interconnector Flows using Inter-hub Spreads</i> - National Grid to provide clarification on what the hub price actually includes and whether commodity charges are or can be included – slide 14 of the National Grid presentation. | National Grid NTS (AW) | Closed |
| 0402 | 15/04/19 | 4. | National Grid to provide more average days data (for D-1 Nominations as a predictor of flow for Interconnector and LNG) | National Grid NTS (AW) | Closed |

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|------|----------|----|--|------------------------|----------------|
| 0501 | 02/05/19 | 3. | Ofgem (MC) to report on the investigations being undertaken by the Remit Team in relation to 01 March 2018 if possible, including outcomes and next steps. | National Grid NTS (MC) | Pending |
|------|----------|----|--|------------------------|----------------|