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Notes

Wider Industry Impacts Open Meeting (Gas Day Change)

Ofgem[1]-hosted industry open meeting on the wider industry impacts of aligning the Gas Day in Great Britain ("GB") with Europe.	11 September 2013 9:00-11:30am Ofgem, 9 Millbank, London SW1P 3GE	07 October 2013

1. Welcome and introduction

1.1. The chair opened the meeting under the Chatham House Rule, set out the running order for the morning, and welcomed participants.

1.2. The purpose of the meeting was to facilitate industry stakeholders' discussion of the impacts of changing the GB Gas Day to align with Europe.

1.3. Presentations were made by industry participants and industry bodies. Copies of the slides are available on Ofgem's website: https://www.ofgem.gov.uk/gas/wholesale-market/european-market. This note summarises the main areas of these industry presentations and surrounding discussion.

2. Updates on Recent Industry Discussions (Gas Forum presentation)

2.1. The first presentation provided feedback from the Gas Forum and Oil & Gas UK following their recent meeting (29 August 2013) on the change to the gas day. This presentation may be viewed in full on Ofgem's website at: https://www.ofgem.gov.uk/ofgem-publications/83219/gasforumupdateonrecentindustrydiscussions.pdf.

2.2. The presenter outlined industry views of the legal obligations that CAM and Balancing will impose, and noted that the Interoperability and Data Exchange network code refers to the "gas day" without explicitly defining it. He noted that the ultimate aim of the Third Package is to further progress to an internal European gas market, which industry as a whole would welcome.

2.3. The presenter also noted the following:

2.3.1. GB already operates a highly developed and competitive gas market, and is a market leader within Europe. The Third Package is designed to improve market performance in European Union ("EU") countries with less developed markets than GB's.

2.3.2. GB has historically operated under a 6:00-6:00 gas day, and industry arrangements have developed based on this operational day. This extends to a large number of offshore parties both in and out of the EU. GB has operated on a different time zone from "connected markets" for many years, particularly since the commencement of the Interconnector (UK) ("I(UK)") interconnector.

2.3.3. The gas day change is considered by industry to be aimed at improving less well developed markets. Some consider there is not likely to be a direct improvement in GB by changing the gas day, as it is a well functioning market, but there may be an

[1] In this document, the terms "Ofgem" and "Authority" are used interchangeably. The "Authority" means the Gas and Electricity Markets Authority. "Ofgem" is the Office of the Authority.

indirect benefit due to improvement in the flow and movement of gas on the continent and therefore there should be a positive effect on security of supply. Some of industry still feel unclear on the benefits to the GB market and consumers of changing the GB gas day whilst noting potentially significant costs to industry.

2.3.4. With the expected introduction of bundled products at the Bacton and Zeebrugge entry/exit points, the basis on which I(UK) manages commercial arrangements wouldn't need to change.

2.4. Views were presented that downstream costs may be more limited than upstream as most shippers' systems hook into central XoServe systems, so once it is clear what central changes are being made, shippers can plan their changes. It is estimated that such shipper IT changes may be in the region of tens of thousands per shipper. It was also noted that opening contractual renegotiations to take account of a change in the gas day may prove costly if counterparties wish to revisit other areas of contracts.

2.4.1. It was noted that storage arrangements may require change and would incur costs, but that costs for storage operators and relating to liquefied natural gas ("LNG") were not known.

2.4.2. Views were presented that Upstream costs are more complex and varied, as many arrangements are bespoke. Rough indications (based on a limited sample) suggest that overall IT costs will fall in a range of £50 million to £100 million. Alterations to hundreds of contracts with varying appetites for change may also be a lengthy and potentially costly process. Contracts may include bilateral sales agreements; balancing agreements; allocation arrangements; and transportation agreements. It was also noted that meters will require manual modification, which involves considerations, such as, a limited amount of manpower, limited offshore access, and a legal requirement for DECC personnel to check meters and "approve" any modifications.

2.5. The presenter noted that it was believed that the BBL interconnector's implementation of the Capacity Allocation Mechanism ("CAM") network code would be similar to that of the I(UK) interconnector and therefore could allow a difference in times.

2.6. It was discussed whether upstream could continue on a 6am to 6am gas day whilst downstream moved to a 5am to 5am gas day. Some meeting participants suggested this would result in a risk of potential errors/costs and safety issues.

2.7. The presenter concluded that a robust case for changing the GB gas day has not been made and that the GB gas market could continue to operate on a different gas day to the continent with no detrimental effect on the EU's internal gas market. The GB gas market will implement all other aspects of the network codes. The costs of changes will not be insignificant. There is limited appetite for change among offshore parties, and the timetable is challenging/unrealistic. A recommendation was then made that DECC should seek a derogation or change to the CAM network code to remove the obligation for GB to change its gas day, or to defer the implementation date until a benefit to GB consumers has been shown.

2.8. Following the presentation, there was an opportunity for further industry discussion.

2.8.1. An attendee mentioned that operators have a greater scope to misunderstand how much flow is necessary to meet respective obligations for each gas day (if dealing with different ones downstream and upstream), which could result in potential safety issues and possible over- or under-pressuring of the system or changes to demand forecasts, and suggested that they would want health and safety people to look at this further.

2.8.2. An attendee observed that renegotiation of a contract could cost in the region of thousands of pounds and become an open ended cost/time factor as counterparties may wish to renegotiate lock, stock and barrel.

2.8.3. An attendee asked whether different timings could deter companies from importing gas to the UK and therefore pose a security of supply risk. The presenter commented that the earlier reference to security of supply was in an EU-wide context, as the interconnectors handle the different operational days. The Third Package, furthermore, is intended to open up the internal European market, which should improve GB's security of supply. An attendee noted that no decision had yet been made on whether there would be a two- or three-way transmission system operator ("TSO") split as part of CAM implementation. Another attendee commented that the most practical solution from his company's perspective was two-way bundling in addition to short-term products under CAM.

2.8.4. An attendee asked how the gas day change has affected Norway. The presenter commented that his understanding was that Norway's IT systems are capable of running a dual gas day, but they could make the changes necessary, although the costs of any changes are unknown.

2.8.5. A question was raised about the possibility of seeking a derogation from implementing this aspect of CAM. DECC commented that this would be politically challenging, given that industry members/bodies and various EU member states lobbied in support of the gas day change, as it was not originally part of CAM and there was no industry opposition to changing the gas day when CAM went through comitology.

2.8.6. An industry member said he was unaware someone had spoken on his behalf in the EU and that lobbying may have been from a cross-border perspective.

2.8.7. An attendee commented that industry is looking for a pragmatic solution to the gas day change and is not trying to embarrass the government. DECC agreed that a pragmatic solution was appropriate, but observed that a derogation is extremely unlikely.

2.8.8. An attendee commented that the GB market has many features which distinguish it from the continental European market, including the fact that the Commission considers the I(UK) interconnector to be unique because it operates on CAM principles, but is not a continuous pipeline. The presenter concurred with this comment.

2.8.9. An attendee commented that the CAM and Balancing network codes contain different requirements relating to the gas day, and wondered whether it would therefore be possible to maintain a Balancing day of 6:00-6:00 while making changes to interconnection points to comply with CAM. Another attendee expressed operational concerns about that approach, if interconnection points ran one gas day and the remainder of the network another.

2.8.10. An attendee asked how wide the ramifications of changing the Gas (Calculation of Thermal Energy) Regulations would be. Ofgem and DECC agreed to consider this point.

2.8.11. The chair asked for an example of how, in practice, the presenter's recommendation to implement all of the network codes except the gas day might work. The presenter responded that bundled products at Bacton would be in line with CAM, but there would be no change in the gas day as they could rely on linepack in the interconnector to deal with the time difference.

2.8.12. In response to a question, DECC highlighted that in an impact assessment on the Third Energy Package it was estimated that the gas elements of the Third Package would produce between £1.5 billion and £1.9 billion of benefits over 20 years and that no individual member state had a veto over component parts of legislation being adopted via the comitology process.

3. Updates on Recent Industry Discussions

3.1. A representative of the European Federation of Energy Traders ("EFET") presented on EFET's approach to the gas day change. EFET's presentation, which includes background material on EFET's vision, role and members, may be viewed in full on Ofgem's website at: https://www.ofgem.gov.uk/ofgem-publications/83217/efetupdateonrecentindustrydiscussions.pdf.

3.2. EFET believes that the problems the Third Package is designed to address (such as access between countries) are found mostly in mainland European markets, and it has been largely happy with the performance of the UK market.

3.3. The gas day is important because it is a fundamental unit of time for the gas business, used for daily balancing, Day-Ahead commodity markets, and daily capacity products, among other. At some locations, market participants have faced up to three different gas days, and as national markets liberalise, gas day differences can become a significant barrier to new entrants, trade and competition.

3.4. The new EU network codes are drafted by TSOs and go through a political process in which market participants are not represented and the influence of individual member states is limited. The presenter noted that useful bundled capacity products at an interconnection point are more or less impossible without the same gas day. He observed that innovative solutions should encourage an active market and avoid over-regulation. He concluded that a standardised gas day in GB has undoubted benefits for gas trade in continental Europe.

3.5. An attendee asked if EFET was in favour of capacity bundling. The presenter observed that difficulties arise when two existing contracts are bundled into a single arrangement without first ensuring that the main terms and conditions are consistent.

4. Claims Validation Services Limited

4.1. A representative of Claims Validation Services Limited ("CVSL") presented on how the gas day changes would affect claims validation services. CVSL's presentation notes may be viewed on Ofgem's website at: https://www.ofgem.gov.uk/ofgem-publications/83214/davideastlakeclaimsvalidationserviceslimitednotes.pdf.

4.2. The presenter explained that the Uniform Network Code ("UNC") and shipper licences require shippers to deliver timely and accurate entry allocation statements to National Grid Gas ("NGG") for each gas day. Since 1996, this has happened in collaboration with CVSL, acting on behalf of all shippers by virtue of the Claims Validation Services Agreement ("CVSA"), with the mission of ensuring that shippers receive all the gas they are validly entitled to. CVSL is a non-profit making company (limited by guarantee) whose membership body is made up of shippers.

4.3. The CVSA is a set of rules for each sub-terminal, designed as a means of dealing with any discrepancies between the gas claimed by shippers and producers and the Daily Quantity ("DQ") provided by NGG. It provides CVSL with the ability, if necessary, to scale back shipper and producer claims to align with the DQ.

4.4. The CVSA could easily be amended to reflect a change to a 5:00 start to the gas day in the UNC. CVSL does not expect this to be problematic if the UNC should change.

4.5. The presenter explained that the quality of allocation statements delivered to NGG is also dependant on the Claims Validation Information Agreement ("CVIA"), which binds producers to submit data to CVSL. The agreement has more than 250 parties, including CVSL, entry point operators, shippers and producers (from gas fields, LNG importers and interconnectors). Many of them are not GB-based, and some, such as Norwegian interests, are not members of the EU. The CVIA specifically requires data to be submitted to CVSL with a gas day commencing at 6:00.

4.6. Between 1996 and 1998 (when the CVIA was implemented), shippers couldn't claim more gas than producers validated. Producers were reluctant to provide data for claims validation for two reasons: 1) concerns about confidentiality in their contracts; 2) risk of liability if the information turned out to be incorrect.

4.7. The CVIA was designed to address the two problems of confidentiality and liability for producers. It states that providing data to CVSL is not considered a breach of confidentiality, nor does it entail a risk of liability (other than wilful misconduct). Nonetheless, producers were reluctant to sign the CVIA, and only did so because the ongoing loss of gas incentivised them to sign. The CVIA would need to change in step with every other upstream contract, which is a practical concern.

4.8. An additional aspect of claims validation concerns non-beach trades, which are trades occurring offshore between producers and shippers. The trades are made on a volumetric basis, rather than thermal as in the UNC. Producers in most cases are parties to the CVIA, but there are a few exceptions who are not signatories. Shippers are signatories of both agreements. These transfers are all based around a 6:00-6:00 gas day.

4.9. The presenter explained that due to the unique circumstances surrounding its adoption, the CVIA was intended to be a permanent agreement, hence the mechanism for amending the terms of the agreement is onerous. Amending the CVIA to reflect a 5:00-5:00 gas day requires the unanimous consent of all signatories, which in practice may be impossible to obtain.

4.10. There is no provision for signatories to leave the CVIA after they have initially consented to it, so many entities remain parties to the agreement despite significant changes in their circumstances since 1998. Some of the CVIA signatories are in administration (eg Enron, Lehman Brothers), so it is unclear how to address this concern.

4.11. The presenter concluded that securing unanimous agreement would be a daunting task to the point of potential impracticability, particularly as there is a minimal business incentive for producers to accept an amendment, and a strong likelihood of incurring costs associated with changing to a 5:00-5:00 gas day.

4.12. The presenter did not wish to comment on the gas day change as a whole, but did wish to highlight some of the practical considerations of implementing the change.

4.13. An attendee asked if CVSL had considered whether running a split gas day might be a possible solution for this issue. The presenter replied that this proposal had not yet been considered, but he struggled to see how it would be feasible.

4.14. An attendee asked whether CVSL's gas day change would have to happen in one big switchover, or if it could be implemented gradually. The presenter replied that one big switchover was the most likely scenario. In the event that some entities or systems were unprepared to make the change on time, it is unclear what would happen.

4.15. An attendee asked whether the CVSA or CVIA contained a clause requiring signatories to comply with UK law which could perhaps be invoked. The presenter

replied that signatories are required to cooperate regarding the network codes, but this has never been tested. An attendee observed that there is no boilerplate text in the CVIA requiring adherence to UK law.

5. National Transmission System ("NTS") Gas Day Change Impacts Beyond Changes to the UNC

5.1. National Grid Gas ("NGG") is addressing many impacts of the gas day change through Modification 461 to the UNC, but it has identified additional impacts on the NTS from the change which are outside the scope of the UNC modification. These impacts affect both upstream and downstream parties. NGG's presentation may be viewed on Ofgem's website at: https://www.ofgem.gov.uk/ofgem-publications/83220/ntsgasdaychangeimpactsbeyondchangestotheuncnationalgrid.pdf. The list of changes so far identified by NGG is not exhaustive.

5.2. The change will affect over 100 customer contracts, such as the National Entry Agreement ("NEA"), National Exit Agreement ("NExA"), Storage Connection Agreement ("SCA"), Connected System Entry Point ("CSEP"), Diversion Agreements, Legacy Agreements, and Interconnection Agreements. There is a need to reach agreement with adjacent Transmission System Operators ("TSOs") on the best approach for implementing changes to Interconnection Agreements, as these agreements are likely to be affected by changes required for other EU network codes. These changes can begin when the text for Modification 461 is finalised.

5.3. An impact for the NTS and the Gas Distribution Networks ("GDNs") is on Gas Quality ("GQ") measuring equipment, particularly regarding the timing of collection files created by the Flow-Weighted Average Calorific Value ("FWACV") equipment. This question is subject to discussion at the Calorific Value liaison meeting with Ofgem and the GDNs, and is pending further analysis for other GQ systems.

5.4. There will be significant and widespread impacts on the Integrated Gas Management System (iGMS), the system used to control the safety of the NTS. These will be noticed in the user interface, calculations, other interfaces, scheduled tasks, reporting, and management information. Affected parties include GDNs, shippers, delivery facility operators, Xoserve, and wider industry users. A particular concern lies with the hourly profile functions. iGMS has numerous interfaces with upstream and downstream systems, so the system-wide changes will require extensive regression and scenario testing, and full connected system testing with other parties' systems. Additional functionality will be needed for historical data.

5.5. Other affected systems include MIPI, Aggregator, Forecaster, and High Pressure Metering Information System ("HPMIS"). NGG's initial view of areas affected at this stage includes data reporting, publication, and interface scheduling. There will be a need for complex integration testing between systems, and additional functionality for historical data.

5.6. In addition to the additional functionality mentioned above, historical data is likely to be affected by the gas day change in other ways. Industry will need to reach an agreement on whether to retain the 6:00-6:00 timestamps from prior to the cutover date (currently proposed as 1 October 2015) or whether to convert it to a 5:00-5:00 timestamp to align with future data. The Modification 461 work group has expressed an initial view to retain data on a 6:00-6:00 basis prior to the cutover date, and believes a consistent approach across industry systems will be beneficial. This decision will affect the presentation of historical data on all systems, especially iGMS, potentially requiring new functionality in areas such as screens, calculations, and processes that span a number of gas days. Furthermore, the cutover to 5:00-5:00 will create a single non-24 hour gas day (in addition to the biannual ones which occur in March and October).

5.7. References to the 6:00 gas day are found in the NBP97 terms (originally drafted by BP in the 90s), which underpin the GB gas market's trading arrangements. This would affect shippers and traders, though there is no owner of the contract and no formalised method of amending it. Any timescale for change is dependent on how industry decides to accommodate the gas day change in the NBP97 terms.

5.8. An attendee asked about impacts on the back-office functions of NGG. The presenter confirmed that these impacts are being considered, but the presentation was intended to highlight other impacts.

5.9. An attendee asked when NGG will be in a position to publish a full list of its planned changes, as other affected parties need the maximum possible lead time to implement their own changes. The presenter responded that there is no definite timescale yet. XoServe is planning to issue a report by October 2013. An attendee added that the purpose of the meeting is to keep people informed and raise issues well in advance of the deadline.

5.10. An attendee asked whether there was a possibility of recovering any costs incurred as a result of the gas day change, as costs currently look significant, and when the cost data is expected to be published. The presenter replied that this is still in the early stages of consideration by NGG and Ofgem and that an initial impact assessment is underway, and details will be shared as and when they have been discussed with Ofgem. An attendee also noted that the price control allowed a certain amount for market facilitation.

6. GDN Control Centre High Level Analysis of Gas Day Change

6.1. A representative of the GDNs presented an overview of the impacts the gas day change will have on the GDNs. The presentation may be viewed in full on Ofgem's website at: https://www.ofgem.gov.uk/ofgem-publications/83218/gdncontrolcentrehighlevelanalysisofgasdaychange.pdf.

6.2. The presenter noted that the purpose was to highlight the complexity of the changes and to stimulate debate. The presenter identified several areas of impact for the GDNs:

6.2.1. Critical National Infrastructure ("CNI") systems (high impact). Affected systems include Supervisory Control And Data Acquisition ("SCADA"), telemetry, fiscal measurement, and CNI SCADA to CNI SCADA links testing. An example impact is that, in SCADA, the gas day definition is the reference point for multiple algorithms and gas day rules, such as Daily Demand/Intake and Flex. CNI systems require more lead time and cost to change than do other systems, for example, as sites need to be visited with permitry.

6.2.2. Gas Balancing Systems are also a high-impact area. Considerations include business applications and the need to realign five years of historical data for use with the Demand Management System ("DMS") and CosMos. Algorithms must also be modified to estimate demand over the new gas day within the Demand Estimation System ("DES").

6.2.3. A third area of high impact is the external system interface and relationships, e.g. with the UKT iGMS (CNI), UKT Aggregator, Gemini and XoServe. Concerns include access to test environments, file transfer time changes, file content modified to gas day, energy reconciliation process impact, and reporting and report content.

6.2.4. Capacity planning tools will also be affected, but this area is considered low-impact. The main concern is modifying demand profiles in the Synergee and Graphical Falcon systems, and resulting impacts on analysis and documentation of models and capacity requirements.

6.3. The presenter outlined several wider issues faced by the GDNs in the areas of systems/testing, resources, and potential issues. The gas day change will require significant changes to, and testing of, existing and new computer systems, particularly if the cutover occurs simultaneously rather than on a staggered basis, as this would require development of a parallel environment. Access to these test environments may be difficult (e.g. for remote CNI test systems), and there may be congestion or conflicts with existing programmes. There may additionally be resource constraints on many of these areas of work. Other potential issues may include the winter change freeze period (October to March), NRO development, collaboration agreements, XoServe testing into GDNs, and governance.

6.4. The presenter explained that the cost of implementing the changes is likely to be significant, though at this stage only broad cost estimates may be provided. The GDNs' current cost analysis was conducted solely in relation to control centre systems changes, and further costs are likely once other systems have been taken into account. Systems used by the GDNs and wider industry, such as XoServe, NExAs and NEAs, are also likely to be impacted.

6.5. The presenter concluded that changing the gas day is a significant piece of work, which will affect numerous systems and involve a considerable cost. High levels of resources will be needed for impact analysis, testing and implementation, on an extremely challenging proposed timescale. If the changes are to be successful, work on implementing the project must start now.

6.6. An attendee asked if the GDNs believe that the proposed timescale is truly viable given the scale of the changes required, and when there might be a definitive estimate of whether it is or is not possible to complete by the proposed deadline of 1 October 2015. The presenter responded that this change is uncharted territory, so analysis is still being conducted on the extent of necessary changes, and the associated risks and costs. The GDNs' preferred approach is to change only essential areas to minimise cost as much as possible.

6.7. An attendee asked if the GDNs were concerned about implications of any of the other European network codes and their potential impacts. The presenter responded that the GDNs have no formal concerns at this point.

7. Open Discussion

7.1. Following the presentations, there was an opportunity for further discussion about the impacts of the gas day change on industry.

7.2. An attendee asked about the potential impacts of the Interoperability and Data Exchange network code. Another attendee confirmed that this code, as well as CAM and Balancing, is likely to have impacts on industry, especially as they are all due to be implemented in late 2015.

7.3. An attendee commented that industry reaction to the changes appeared to be split, with some stakeholders wondering how best to implement the changes, while others were questioning whether it would be possible to avoid making the changes at all. He added that if there were other considerations that would add momentum to the need to make the changes, that could determine industry's approach.

7.4. An attendee commented that it would be worthwhile to compare the costs of implementing the changes to any potential fines that would be incurred by ignoring the changes.

7.5. An attendee commented that members of industry have been exploring what would be involved if the changes must be implemented, but are also considering what would be

a reasonable way not to implement the changes. The chair welcomed industry's work to explore how the changes can be implemented.

7.6. An attendee commented that the DECC-Ofgem impact analysis on CAM was, in their view, poor, as it disregarded the impacts of the gas day on the wider networks rather than just interconnection points. He urged that impact assessments for future network codes be robust.

7.7. An attendee thanked all the presenters for their useful contributions. He observed that it was useful to hear about the changes from the perspective of those who are operationally involved, and that there is a danger when people remote from the operational side propose changes. He speculated that if this project were to begin again, DECC and Ofgem might take a different approach. He added that it was clear that there would be significant costs for changing the gas day, and observed that the benefits for GB remained unclear. He questioned whether changing the gas day would improve liquidity in the GB market, and whether or not changing it would damage liquidity. He urged DECC and Ofgem to listen to industry, look at the complexity involved, and find a workaround to implement CAM in practice without the gas day. He observed that the GB market is unique, and the gas day change would be a waste of time as there is no need for it in a GB context.

7.8. An attendee agreed with the previous statement. He added that resource constraints should be considered, as there is a limited number of technically-skilled people to make the required changes, particularly for small operators. He commented that there are bigger issues in the GB gas market, such as declining production, health and safety, and drilling programmes, and the gas day was too much to impose in addition to those issues. He added that the gas day is a sideshow to important questions about wealth creation, jobs, and GDP. The chair commented that Ofgem has heard those concerns, and would welcome additional details about projected costs as industry develops it further. She added that Ofgem welcomes explorations of how to implement the changes, given that they are a legal requirement under the network codes. She observed that, given the relatively short lead time until the proposed implementation deadline of 1 October 2015, industry might find it valuable to begin planning as soon as possible how to implement the changes.

7.9. An attendee commented that the longer the gas day was debated, the less time would be available to implement the changes. He asked how to avoid a situation in which no one made any changes in the absence of a firm decision? The chair asked how industry could suggest is it compliant with CAM if it did not implement a change to the gas day.

7.10. An attendee observed that industry members and their legal teams are considering whether the gas day is a mandatory component of the overall CAM implementation. He observed that if stakeholders closed their minds, they would see no alternative to what has already been proposed. The chair observed that it was difficult to see how industry members might claim to be in compliance with CAM without changing the gas day, given that CAM specifically requires a 5:00 gas day.

7.11. An attendee commented that the gas day would only apply widely when Balancing comes into force.

8. Next Steps and Summary

8.1. The chair thanked presenters and attendees for their contributions and attention. She observed that a further gas day change meeting would be held at Ofgem's offices on 18 September 2013, and that attendees from today were invited to attend that meeting as well.

8.2. The chair invited attendees to send any written comments to Ofgem, and advised that notes and the slides would be sent out following the meeting. Comments can be sent to clare.cameron@ofgem.gov.uk, jessica.housden@ofgem.gov.uk and vanessa.sturman@ofgem.gov.uk.