

Gas Day Change Open Meeting Minutes 18 September 2013

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| Second Ofgem ¹ open meeting on aligning the Gas Day in Great Britain ("GB") with Europe. | 18 September 2013 Ofgem, 9 Millbank, London SW1P 3GE 14:15-16:15 | 15 October 2013 |
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1. Welcome and Introduction

- 1.1. The chair opened the meeting under the Chatham House Rule, set out the running order for the afternoon and welcomed participants.
- 1.2. The purpose of the meeting was to update attendees on Ofgem and the Department of Energy and Climate Change's ("DECC's") current thinking regarding the change to Great Britain's ("GB's") gas day, and to continue to provide an open forum for attendees' views.
- 1.3. Ofgem's Head of European Wholesale Markets also welcomed attendees, and observed that Ofgem is currently gathering information about industry reactions and concerns, and will update industry on its current thinking in due course. Ofgem encourages industry to share any comments and feedback with us at its convenience.

2. DECC Recap on Gas Day Change

- 2.1. DECC recapped the process of negotiation and comitology for the Capacity Allocation Management ("CAM") network code. In order to comply with the CAM and Gas Balancing in Transmission Systems ("Balancing") network codes, GB must alter its gas day across the whole network to run from 5:00 to 5:00 UTC the following day in winter time (and from 4:00 to 4:00 UTC the following day when daylight saving is applied) instead of GB's present system of 6:00 to 6:00 the following day.
- 2.2. Negotiations relating to the Third Energy Package took place under both the current and previous Government. The consensus is that overall the Third Energy Package is a good thing. A 2009 impact assessment estimated that the benefits of the network codes element would be between £1.5 and £1.9 billion over 20 years, and their effects would be felt in areas including greater efficiency and competition in the market, a downward pressure on prices and improved security of supply.
- 2.3. Comitology agreement is reached among member states through a Qualified Majority Voting process. There is no ability for individual member states to veto particular aspects of the network codes. The final version of CAM was the result of an extensive negotiation process, which lasted two years and included ongoing consultation with industry stakeholders, such as trade bodies, providing plenty of opportunity to get involved. CAM was finalised in 2012.
- 2.4. At the time of negotiation, there was strong industry support for CAM, as it, and the overall European Third Energy Package, are intended to create a strong single energy market across the European Union ("EU"). A number of parties pushed for a harmonised gas day and there was some lobbying by sections of industry, as this is currently a barrier to cross-border trade between GB and mainland Europe.

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.

- 2.5. GB will be implementing a change to the gas day at interconnection points because this is required and is needed to facilitate cross-border products and this needs to be moved forward.
- 2.6. Balancing will go through comitology on 1-2 October 2013 and will likely adopt the same definition of the gas day. CAM only requires changes at interconnection points, but most of the wider transmission and downstream changes to the gas day will be required as an aspect of Balancing. The Government does not consider it feasible to operate two different gas days at interconnection points and in the National Transmission System ("NTS") and downstream.
- 2.7. This leaves parties in the wider industry who are not directly obliged to change their gas day through CAM or Balancing with an open question of what their best options are for interacting with the proposed changes.

3. Update: Legislation

- 3.1. Ofgem gave an update regarding potential domestic legislative changes to comply with a revised gas day.
- 3.2. The chair recapped the current view that it would be necessary to revise the definition of gas day in the Gas (Calculation of Thermal Energy) Regulations 1996 (as amended). It was noted that the timing of this change will attempt to coincide with industry changes.
- 3.3. DECC is considering whether consequential changes will be necessary to two exemption orders:
 - 3.3.1. Gas (Exemptions) Order 2005 (SI No. 16/2005) – Article 4(4): *"day" means the period beginning at 6 a.m. on one day and ending immediately before 6 a.m. on the next following day"*
 - 3.3.2. Gas (Exemptions) Order 2011 (SI No. 232/2011) – Article 12(4): *"... the reference to a day is a reference to the period of twenty-four hours beginning at 6 o'clock in the morning on that day"*
- 3.4. Industry was invited to express views on these possible changes and the chair noted that industry would be updated should it be concluded that a change to these exemption orders would be necessary.

4. Update: Licences

- 4.1. The chair outlined Ofgem's progress with identifying potential changes to transportation licences, shipper licences and supplier licences.
- 4.2. Transportation licences:
 - 4.2.1. Ofgem has considered the Standard Conditions, Special Standard Conditions and Special Conditions. Some areas which likely require changes to reflect the new gas day have been identified, and Ofgem will discuss these with affected licensees before any formal or informal consultations begin.
 - 4.2.2. The Standard Conditions contain two references to "6am" that may require changes.
 - 4.2.3. The Standard Special Conditions may require the following changes:
 - 4.2.3.1. Part A (NTS and DNs): one reference to 06:00 and one reference to 6am that may require change

- 4.2.3.2. Part B (NTS): no changes currently identified
- 4.2.3.3. Part D (DNs): considering whether or not a change to reference to 5pm may be necessary
- 4.2.4. The Special Conditions contain 11 references to 06:00 that may require change. Ofgem is additionally considering whether or not changes to the three references to 14:00 and three references to 16:00 may be necessary.
- 4.3. The only potential change so far identified to the shipper licences is that the definition of "day" in the Standard Licence Conditions is likely to require change, as this currently refers to a day beginning at 6am.
- 4.4. Ofgem does not currently anticipate changes being necessary to the interconnector licence to reflect the revised definition of gas day.
- 4.5. In response to a question, Ofgem stated that it has not yet analysed potential changes to the supplier licence, but it intends to do so in due course, and will inform licensees of any identified changes.
- 4.6. An attendee asked when these changes were likely to take effect. Ofgem stated that its current intention is for the licence changes to align with the Uniform Network Codes ("UNC") modification, which is currently proposed to take effect on 1 October 2015.

5. Uniform Network Code ("UNC") Update

- 5.1. NGG began its presentation with a brief recap of the status of Modification 461, which has been raised by NGG NTS to develop changes required in the UNC and associated documents to accommodate the change to the Gas Day.
- 5.2. The proposal was introduced on 4 July 2013, and the Work Group ("WG") for the Modification has met four times, most recently on 13 September 2013. The most recent update to the Modification was published on 15 August 2013. NGG's view is that so far, the WG process has been smooth and NGG has been pleased with its progress.
- 5.3. The WG for the Modification has agreed to apply a minimum impact approach – only changing times that can no longer operate at their current time. The WG has so far identified three broad levels of change which are necessary and that no change to the physical regime is required.
- 5.4. UNC current definitions and related terms:
 - 5.4.1. NGG has reviewed the General Terms of the UNC, and there is agreement from the WG that time references contained within the listed definitions should be changed from 06:00 to 05:00. These definitions may be found in Transition Document Part 1 – General ("first day" and "last day") and General Terms Section C – Interpretation ("day," "business day," "calendar day," "week," "month," "calendar month" and "year").
- 5.5. UNC times that define start/end of the Gas Day and UNC times linked to processes:
 - 5.5.1. The WG has reviewed all times associated with the start/end of the day and times associated with processes in the Transportation Principal Document (TPD) and Offtake Arrangements Document (OAD). The greatest area of impact is Section B Capacity of the TPD, for which numerous changes will need to be made. There are no identified changes to the OAD (Physical Regime).

- 5.6. The next Modification 461 WG meeting will take place on 7 November 2013, and proposed agenda items include a review of all associated documents, an update on XoServe's initial impact assessment for Gemini, and the early stages of developing a WG Report for the UNC Panel on 19 December 2013. The Modification has developed more quickly than NGG originally expected, so the expected date for Ofgem's final decision has been brought forward from August 2014 to April 2014.

6. Independent Gas Transporters' (iGT) UNC Update

- 6.1. The chair of the iGT UNC panel provided an update on progress with necessary modifications to accommodate the new gas day. At present, no formal modification has been introduced, as the panel is waiting for the outcome of UNC Modification 461.
- 6.2. The iGT UNC is intended to interface between iGTs and shippers, such as ensuring accurate transportation charges, and does not include Balancing or Nominations aspects.
- 6.3. A "day" for iGTs is most often a "business day," so the only expected change is to the definition of "gas day," which is currently 6am-6am.
- 6.4. The panel is waiting for the impact assessment from XoServe to identify any issues relating to information interchanges, and then it will raise a modification to the iGT UNC.
- 6.5. There are no direct references to the gas day change in the National Exit Agreement ("NExA") and Connected System Entry Point ("CSEP") NExA.

7. Wider Industry Impacts Update

- 7.1. The chair summarised the industry meeting facilitated by Ofgem on 11 September 2013. Full details of that meeting, including the agenda, slides, and minutes, are available at: <https://www.ofgem.gov.uk/publications-and-updates/gas-day-change-industry-impacts-open-meeting-11th-september-2013>.
- 7.2. Industry has raised several concerns about changes to the gas day. These focus on questions of resourcing, costs, and timescales for implementing the change; a debate about the benefits to GB consumers of the change; and a question of how to ensure that all necessary EU and non-EU parties make the changes.
- 7.3. The chair stated that Ofgem is considering these concerns, along with the discussion at today's open meeting, and will set out our updated thinking on next steps as soon as practicable.
- 7.4. An attendee commented that the industry impacts workstream is best driven by industry, not Ofgem, and the gas day change had been extensively discussed at an industry meeting on 29 August 2013. Industry proposed that Oil and Gas UK should chair this workstream. The chair was supportive of the proposal that industry take this workstream forward, and expressed Ofgem's interest in being kept informed of developments.
- 7.5. The same attendee added that resourcing and costs for the gas day change are significant and problematic, and likened it to the planning for the feared Y2K breakdown. The gas day affects all onshore and offshore industry players, and has historically been based on a 6am time. The attendee questioned whether the change has benefits for GB consumers, and expressed concern about offshore's reporting abilities after the change. He predicted that this could impact claims validation, beach processes, and the National Balancing Point ("NBP"). As the GB market is considered to

be the most liquid in Europe, he wondered whether these changes were worth implementing. It was noted that Ofgem is considering these concerns.

- 7.6. An attendee observed that, so far, all of the proposed changes have focused on industry players who are affected by the UNC. There has been no attention paid to offshore, and he observed that many offshore entities do not know or care about the UNC. Regarding claims validation, the attendee expressed concern about prejudicing the system, as this currently works smoothly, and there is no engagement with offshore producers about changing it. He concluded that it was unfair to drop this issue in Claims Validation Services Limited's ("CVSL's") lap due to resourcing limitations. It was noted that there is an industry workstream looking at wider impacts.
- 7.7. An attendee commented that there is a belief that it is possible to implement CAM without changing the gas day. They are currently exploring mechanisms that make the market work at the moment, and will propose an alternative solution that will work and be more constructive as well as cheaper. The current estimated costs of changing the gas day are up to £50 million, and the attendee observed that this money could pay to develop a new oil or gas field that would directly benefit GB consumers in a way that the gas day change does not. He added that he would support a one-year delay to the 1 November 2015 implementation deadline, as this would allow more time to ensure that the change happens smoothly.
- 7.8. The attendee continued that the industry workstream is pursuing two parallel approaches. The first is to explore whether the changes are truly necessary, particularly as the BBL and I(UK) interconnectors could continue to work as they are. Another question relates to the distinction between the gas day and the gas flow day, and whether both will be affected by the changes. It may be possible to only change downstream and carve out upstream, as this is the most problematic area of industry. Another aspect of this first approach involves raising awareness across industry of the changes, especially offshore players who may not otherwise be aware.
- 7.9. The attendee also commented that industry wished to lobby against including further references to gas day changes in the text of Balancing.
- 7.10. The attendee concluded that not everyone at the 11 September meeting opposed the change, so the second approach is to develop a plan for implementing the gas day changes if these do prove to be unavoidable.
- 7.11. An attendee observed that, from the point of view of traders, running separate gas days for balancing and capacity would not be ideal within different parts of Europe.
- 7.12. The chair asked if industry would be able to provide more specific data on costs, and an attendee said that this data had not yet been produced. The attendee had no further comments on the practicalities of implementing the gas day changes.

8. Open Floor

- 8.1. This section summarises the main points raised during the open floor discussion.
- 8.2. An attendee asked if Ofgem was working with the Irish and Northern Irish regulators to coordinate the changes. The chair replied that Ofgem is working with its counterparts. An attendee added that he had heard some concerns relating to cost on the Irish side, and the chair noted that there would be ongoing dialogue with other regulators.
- 8.3. An attendee commented that he had been in contact with Gassco, who had been unaware of the changes until he had told them about it. Norway is likely to be unaffected, as their systems have the capability to operate with two gas days, and the technical changes required to adjust for the new gas day in GB would be minor.

- 8.4. An attendee asked how Ofgem intends to engage with offshore producers and non-EU parties. The chair commented that industry is best placed to understand the full impacts of the changes and to lead in the dialogue with offshore.
- 8.5. The chair stated that Ofgem welcomes Oil and Gas UK's proposal for them to chair the wider industry impacts workstream, and looks forward to ongoing discussions with industry. Ofgem would like to understand industry's thinking as much as possible, so any supporting data on costs or timescales would be helpful to inform our thinking.
- 8.6. An attendee commented that, from the perspective of an offshore/upstream producer, she shares the concerns previously mentioned. She wished to see a clear, final impact estimate of the changes, and requested some realistic implementation options to discuss, as it is important to move forward if this change does need to happen. The chair suggested that she should coordinate with Oil and Gas UK to attend the next industry meeting.
- 8.7. An attendee observed that the gas day is not the only major change on the horizon for industry, considering the issues of CAM bundling, the Bacton split, and Balancing. She asked which issue should be prioritised, given the limits on resources. The chair replied that Ofgem is considering industry's concerns.
- 8.8. An attendee stated that industry will do more work to gather costs, as the current estimates have a margin of error of approximately 50%, which will likely be reduced to 20% after additional work. Industry is concerned about double-counting impacts, as some workstreams are running in parallel. The chair welcomed this comment and any further information.
- 8.9. An attendee requested that DECC release the impact assessment it referred to in its earlier statement.
- 8.10. An attendee asked when and how Ofgem and DECC would prefer to receive feedback. The chair replied that Ofgem and DECC are equally happy to continue holding open meetings, or working offline if that is industry's preference. An attendee stated that the Oil and Gas UK-chaired workstream would prefer to hold a trilateral meeting with DECC and Ofgem before the Balancing comitology meetings on 1-2 October 2013, and then hold one or more subsequent wider meetings. The chair welcomed this suggestion and agreed that Ofgem and DECC would be happy to participate in a trilateral.
- 8.11. The chair suggested that it would make sense to hold future meetings as a combined general update about the licence/legislation/industry codes, and to also discuss the industry impacts at the same time, rather than separating the meetings. Attendees expressed support for this idea.
- 8.12. An attendee asked whether his understanding of industry's approach to the wider impacts workstream was correct: to 1) consider industry's options if NGG does implement Modification 461, and 2) explore whether it is possible for GB not to have to change its gas day while still complying with CAM. An attendee confirmed that this was correct, and added that he viewed it as an issue of both legal questions and practical ones of resourcing/costs/timing. The first attendee observed that this approach seemed like a leading question, as the opposition to the changes is implicit in industry's response.
- 8.13. An attendee commented that NGG is keen to work alongside industry to make these changes. Another attendee agreed that industry would be unable to move forward without support from NGG.

9. Next Steps

- 9.1. The chair invited attendees to share any additional comments with Ofgem and/or DECC. Comments can be sent to Ofgem at clare.cameron@ofgem.gov.uk, jessica.housden@ofgem.gov.uk, and vanessa.sturman@ofgem.gov.uk. She advised that notes and the slides would be sent out following the meeting.
- 9.2. Ofgem and DECC will consider the outcomes from the two recent meetings, and will update industry on thinking in due course. She looked forward to further work with industry, and expressed her thanks to all attendees for coming.
- 9.3. Ofgem's Head of European Wholesale commented that he had listened closely to the discussion and found it informative. He supported the industry initiative to lead on the wider impacts workstream, and he understands the complex costing assumptions that the gas day change requires. He added that Ofgem will continue to listen to attendees' concerns, and encouraged everyone to remain in ongoing contact about the gas day.